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Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

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

FEBRUARY 25, 26, AND 27, 1930

VOLUME 1

Part 1

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON: 1930

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BRANCH, CHAIN, AND GROUP BANKING

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Tuesday, February 25, 1930.

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

The CHAIRMAN. The committee will come to order.

This is the beginning of the hearings on the subjects of branch, group, and chain banking, authorized under House Resolution 141, reported by the Committee on Rules February 3, 1930, and passed by the House on February 10, 1930. So that the record may be clear, the clerk will insert this particular resolution in the minutes at this point unless there is objection.

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

Resolved, That for the purpose of obtaining information necessary as a basis for legislation the Committee on Banking and Currency, as a whole or by subcommittee, is authorized to make a study and investigate group, chain, and branch banking during the present session of Congress. The committee shall report to the House the results of its investigation, including such recommendations for legislation as it deems advisable.

For such purposes the committee, or any subcommittee thereof, is authorized to sit and act at such times and places in the District of Columbia, whether or not the House is in session, to hold such hearings, to employ such experts and such clerical, stenographic, and other assistants, to require the attendance of such witnesses and the production of such books, papers, and documents, to take such testimony, to have such printing and binding done, and to make such expenditures as it deems necessary.

The CHAIRMAN. I would like to say at the outset that this is an important study, and a valuable amount of material will be accumulated during the course of these hearings, and the chairman would like, so far as possible, to keep out extraneous matter and to keep the course of the hearings along the lines of the subjects immediately before the committee.

Of course, as the hearings go along they can not be indexed, but when completed I hope to have a proper index made as to both subjects and persons so that any one who reads or wants to study these hearings may do so with very little trouble as to reference.

I would like to say also at the outset of these hearings that I am going to invoke the rules of the House in the conduct of these hearings and, so far as possible, as the various witnesses appear, I am going to suggest that they be permitted to make an uninterrupted statement of their position, and then, with the cooperation of the committee, I am going to try to work out a plan of questioning by the members in regular order. In that connection, after each member has had an opportunity to interrogate the witness, I am going to suggest that we have more of an open forum if additional questions are necessary. I hope that when the members of the committee

want to interrupt a witness they will first address the chairman of the committee and secure such permission. I think that program will tend to smoothen procedure in the committee and make clearer what is taking place, and, so far as possible, I wish the members of the committee would make notes as the witnesses bring questions to their minds, and then propound those questions when they have the opportunity.

I wish it were possible for us to have agenda prepared in advance, of the subjects to be covered, but this matter is pretty well defined and under the rule we are kept strictly to the subject, so that the probabilities are we will be able to get along nicely without that.

Now, if any members of the committee have any suggestions that will tend to make these hearings run along smoothly, I would be very glad to have them at the outset.

Mr. LUCE. In support of the program that the chairman suggested, I want to ask the permission of the committee to read two or three sentences from a letter that I received from ex-Governor Benjamin Strong, of the New York Federal Reserve Bank.

Governor Strong not only had a most beautiful character, but he was one of the most efficient men that ever came before this committee, and I think we all came to trust and admire his judgment.

In one of his periods of convalescence, he wrote me a letter regarding his own experiences before this committee, in which he made certain suggestions, and one of the things he said is this:

> It has seemed to me in all cases where I have appeared before a committee of Congress that much time was wasted and the opportunity to obtain much valuable material was missed by the failure to have agenda in the hands of both members of the committee and those appearing before the committee, so that the witnesses' statements would be consecutive and comprehensive on the one hand, and so that questions by the members of the committee would be directed at the particular part of the subject being discussed. Repeatedly at these hearings questions have been asked me relating to subjects other than those which were in my mind to discuss but for which I had already made preparation, thus interrupting the narrative, so that once or twice it has only been resumed at a later hearing, sometimes a day or two deferred.

Governor Strong then went on to contrast that with the method used in an intricate and important hearing in London, where he appeared before nine members of a commission, the chairman being a member of the House of Commons. In the course of this, he said:

> As there were three of us appearing at the same time, we specified just when questions would be asked, in order that consecutive statements might not be interrupted, and when the question period arrived, the chairman first completed all the questions which he desired to ask and for which he had made notes, and then in turn called on each member of the commission to ask his questions for which he had made notes. At the conclusion of these nine series of questions a somewhat more informal discussion took place when questions were asked promiscuously, all however directed to the particular subject we had just discussed, and under the control of the chairman there was no interruption until the particular line of questioning then under way had been concluded.

Then he says that—

> This particular hearing involved a subject of great complexity; in fact, some very obscure monetary questions indeed, and yet our appearance, which involved hearing three people, was certainly concluded in less than half the time required for my own statement alone at the hearing in Washington, and I confidently believe that the results in the more compact form in which they were so produced were of greater value than when interlarded with a vast amount of immaterial and irrelevant discussion.

I present this consideration, sir, from a man of wide experience in these matters, from the point of view of the witness; and the value of such procedure to the committee and to others is apparent.

So I express my own gratification that your program is to be as announced.

The CHAIRMAN. Are there any other comments by the members of the committee?

Mr. BEEDY. As long as we have witnesses before the committee, I shall not make any further suggestions, but I had mapped out a plan of segregating and grouping our witnesses which I should like to submit to the committee; but perhaps we can do that later in executive session.

The CHAIRMAN. We now have before the committee Hon. J. W. Pole, the Comptroller of the Currency, as the first witness. In accordance with my previous statement, I understand that the comptroller has prepared himself to make an uninterrupted statement, after which he will submit to questioning.

Now, Mr. Comptroller, make yourself comfortable and entirely informal, and be not afraid.

STATEMENT OF HON. JOHN W. POLE, COMPTROLLER OF THE CURRENCY

Mr. POLE. Thank you. I appreciate the action of the committee in permitting me to make this statement uninterruptedly, and, in view of its length, I will beg the committee's indulgence, but by reason of the great importance of the subject I feel that I could not say less.

The CHAIRMAN. Before you proceed with your statement, may I ask if you will embody in your statement a repetition of your recommendations contained in your last report to Congress?

Mr. POLE. There will be a reference to them, but not a repetition.

The CHAIRMAN. I am going to suggest, because of the importance of that recommendation, that it be placed in the record at this point.

Mr. POLE. That is my first suggestion, Mr. Chairman.

The CHAIRMAN. All right, sir.

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

LEGISLATION RECOMMENDED

The experience of the postwar period has been of sufficient duration to permit a comprehensive appraisal of the effect of the new economic and social conditions upon our system of banking. Briefly stated, it may be said that banking is following in the wake of the trend of business in general toward larger operating units with stronger capital funds and more experienced and highly trained management. The natural result has been that the larger cities are being favored with banking organizations of great financial stability with the capacity to render a better and more diversified type of service.

In the principal cities, therefore, in various parts of the country, there have grown up through mergers and through increases in the variety and volume of business banking institutions which for strength of capital and management technique were unknown in the pre-war period. There have been no failures of any of these types of metropolitan banks. They are giving the general public a safer and higher type of banking service than has hitherto been known. Their stability rests upon the great diversity of banking business to which they have access and to the further fact that they are able to secure the most highly trained and experienced talent. These banks comprise both unit and branch banking institutions.

The aggregate of all the banking resources in the United States is about $72,000,000,000, held by a little more than 25,000 banks (as of June 29, 1929), but 250 banks hold resources to the aggregate amount of approximately $33,400,000,000.

While the largest and strongest banks with the bulk of the banking resources are in the large cities, about three-fourths of all the banks in number are in the smaller towns and cities and may be classed as country banks. It is these banks which serve directly the agricultural communities. They operate with small capital funds and are very much limited in their ability to employ a trained management. The economic developments of the postwar period have had the effect of decreasing the opportunities of these banks to operate with profit and it is this situation to which I should like to direct your most serious consideration.

We are faced with the fact that during the 9-year period from July 1, 1920, to June 30, 1929, inclusive, about 5,000 banks, nearly all in the agricultural communities, closed their doors and tied up deposits of approximately $1,500,000,000.[1] These failures have not been limited to any one section of the country, although they have been most prevalent in the agricultural districts. Up to November 1, 521 banks with deposits of about $200,000,000 had suspended during the year 1929. The number of failures by States during the fiscal years ending June 30, 1921 to 1929, inclusive, is as follows:

	State and private	National		State and private	National
Maine	3		Indiana	78	13
New Hampshire	1		Illinois	68	13
Vermont	1		Michigan	63	2
Massachusetts	15	1	Wisconsin	57	8
Rhode Island	1	1	Minnesota	320	58
Connecticut	2	1	Iowa	386	81
			Missouri	241	5
Total New England States	23	3	Total Middle Western States	1,241	188
New York	10	2			
New Jersey			North Dakota	385	59
Pennsylvania	26	11	South Dakota	264	51
Delaware		1	Nebraska	279	28
Maryland	5	1	Kansas	182	12
District of Columbia		1	Montana	136	55
			Wyoming	52	11
Total Eastern States	41	16	Colorado	60	16
			New Mexico	40	20
Virginia	29	2	Oklahoma	174	53
West Virginia	21	4			
North Carolina	98	12	Total Western States	1,572	305
South Carolina	170	21			
Georgia	293	12	Washington	41	8
Florida	110	13	Oregon	36	7
Alabama	22	4	California	13	16
Mississippi	40	3	Idaho	48	25
Louisiana	33	1	Utah	13	4
Texas	178	39	Nevada	2	
Arkansas	80	8	Arizona	27	3
Kentucky	40				
Tennessee	56	3	Total Pacific States	180	63
Total Southern States	1,170	122	The Territory of Hawaii	1	
Ohio	28	8	Total United States	4,228	697

As will be observed from the foregoing table the failures of State chartered banks greatly outnumber those of the national banks, but small national banks have not been immune to the conditions which are causing the failures of small country banks generally. As an illustration of the wide scope of this economic condition, it may be said that in seven States over 40 per cent of all the banks in existence in 1920 have failed and in six States between 25 and 40 per cent. In 26 States, or more than one-half the total, over 10 per cent of the banks that were in operation in 1920 have since failed. When it is considered that no

[1] These figures embrace only those banks which actually went into the hands of receivers. They do not include about 500 banks which suspended business but were later reopened after reorganization, often resulting in depositors and shareholders voluntarily suffering some loss.

important failures have occurred among banks in the larger cities, the ratio of failures in the country districts is even higher.

We have, therefore, a strong contrast between city and country bank operations. Whereas the depositor in a large city bank, whether a wage earner or a business man, has had full protection, the depositor in the small country bank has suffered severely from the inability of so many of these banks to meet their deposit liabilities. The farming communities have not been afforded the protection for their savings which has been available to depositors in the large cities.

It is cause for immediate concern that the operating conditions faced by the country banks show no prospect of improvement under the present system. There are many country banks now operated at a loss and many others operating upon earnings insufficient to justify their capital investment. There is not available to me the earning statements of State banks, but taking the national banks as an illustration and the year 1927 as a typical year (later earning figures not being compiled) 966 national banks operated at a loss and an additional 2,000 earned less than 5 per cent. These constituted about 38 per cent of all national banks in the United States.

Comprehensive study of the banking situation for the past nine years clearly indicates that the system of banking in the rural communities has broken down through causes beyond the control of the individual banker or the local community. These causes are of a basic nature and have many ramifications throughout the great economic and social changes which have occurred in the United States since 1914. I shall not attempt in this report a detailed analysis of this situation except to say that the economic movement away from a large number of independent local utility and industrial operating units toward a stronger and more centralized form of operation in the large cities has curtailed the opportunities of the country bank for diversity and extension of business while broadening those opportunities for the large city bank.

Any attempt to maintain the present country bank system by force of legislation in the nature of guaranty of deposits or the like, would be economically unsound and would not accomplish the purpose intended. If in the free course of business the country bank can not successfully operate as an independent banking corporation, affording ample protection to its depositors and its stockholders, the obligation and responsibility is upon the Government of the United States, at least so far as the national banks are concerned, to set up a system of national banking which will insure the rural communities against the continuing disastrous effects of local bank failures.

There have been no general financial panics in this country since the war—thanks to the Federal reserve system. Any bank can have access, directly or indirectly, to the benefits of the Federal reserve system to the extent of its sound commercial and business loans and the decline of the country banks has taken place notwithstanding the valuable assistance rendered by the Federal reserve system. A Federal reserve bank is not charged with the responsibility of preventing bank failures. It is beyond the power of the Federal reserve system, as it is beyond the power of any governmental agency, to stand between these banks and insolvency.

In the absence of legislation to remedy the conditions above described, private enterprise has within recent months undertaken to meet the economic situation presented by the growing isolation of the country banks. Local holding companies have been formed in many sections of the country for the purpose of bringing together a number of banks into a single operating group. The usual procedure is for the holding company, a State corporation, to purchase a majority of the stock of several banks, one of which would be a large city bank which in effect becomes the parent bank of the group. The management personnel of the central bank becomes in practice the responsible management for the entire group. Through such a group system it appears to be possible to make a close approach to a form of branch banking whereby each operating unit leans for support upon the central bank, or upon the holding company, and receives the benefits of its moral and financial support; its prestige and good will; its extension of the wider type of banking service; and the benefits of its highly trained management.

This holding-company movement is of such recent development that complete statistics are not yet available as to the number of companies in operation or the number of banks taken over. It appears that in many cases some of the most responsible bankers and business men of the community have been instrumental in the organization of these holding companies and this it would seem is a sufficient indication of the seriousness of the purpose behind the movement. However, these holding companies are attempting to do under the sanction of

existing laws, which are crudely adapted to the purpose, what should be made possible in a simpler manner by new legislation. If branch banking were permitted to be extended from the adequately capitalized large city banks to the outlying communities within the economic zone of operations of such banks, there would be no logical reason for the existence of the local holding company and it would give way to a system of branches operated directly by the central bank of the group.

These conditions would seem to warrant a further amendment of section 5155 of the Revised Statutes of the United States as amended by the act of February 25, 1927 (U. S. Code, title 12, sec. 36), known as the McFadden Act, to permit national banks, with the approval of the Comptroller of the Currency, to establish branches within the trade areas of the cities in which such banks may be situated. These trade areas may in some cases be coextensive with Federal reserve district lines; in other cases they may be of a more limited extent, but in my judgment they should not extend beyond Federal reserve district boundaries, except to take care of a few exceptional cases where a trade area may extend from one Federal reserve district into another, nor should a bank be permitted to establish a branch in another city in which there is a Federal reserve bank or a branch thereof.

Under such a system of branches there would gradually be extended to the agricultural communities from the large city banks a safe and sound system of banking which would render remote the possibility of bank failures. There would, however, be no compulsion upon unit banks to enter a branch organization. The two systems of banking—unit banking and branch banking—would no doubt operate side by side for an indefinite length of time; that is to say, there would be in every rural section some unit banks well organized, competently managed, and held in high esteem by the community which would continue to operate advantageously.

These suggestions for branch banking are made not with the intention primarily to deal with the question of the decline in the number of national banks through defection from the national to the State systems, but rather as a remedy for what appears to be a serious and fundamental weakness in our systems of banking both national and State. Such a grant of power to the national banks would, however, give them such an outstanding operating advantage that it would seem reasonable to expect that the exodus of banks from the national system would practically cease and that many now under State supervision would return to the national charter which they have forsaken.

Any such legislation, based not upon the theory of equalizing the national with the State bank charter powers but giving a real advantage to the national charter, would be fully justified under existing conditions which seriously jeopardize the maintenance of the national banking system. The State legislatures have for years given to the State banks operating advantages which the national banks did not possess and it is in this situation that we find the motive for the abandonment of national charters. There is appended hereto a list of 127 large national banks which have within the past 10 years given up their national charters for the purpose of operating under State charters.

Name and location of bank	State	Capital	Resources
Year ended Oct. 31, 1920			
Third National Bank of Atlanta	Georgia	$1,000,000	$27,053,000
Merchants National Bank of the City of New York	New York	3,000,000	49,942,000
Security National Bank of Los Angeles	California	600,000	8,358,000
Farmers National Bank of Fresno	do	300,000	6,985,000
Mercantile National Bank of San Francisco	do	2,000,000	20,224,000
Year ended Oct. 31, 1921			
National Reserve Bank of Kansas City	Missouri	1,000,000	11,534,000
Midwest National Bank & Trust Co. of Kansas City	do	1,000,000	12,542,000
Lincoln National Bank of Rochester	New York	1,000,000	22,272,000
First National Bank of Cleveland	Ohio	2,500,000	101,524,000
Union National Bank of Newark	New Jersey	1,500,000	31,372,000
Union Commerce National Bank of Cleveland	Ohio	4,000,000	78,323,000
Canal-Commercial National Bank of New Orleans	Louisiana	500,000	11,863,000
National Bank of Commerce of Toledo	Ohio	1,000,000	16,781,000
Central National Bank of St. Louis	Missouri	1,000,000	27,629,000
National Commercial Bank of Cleveland	Ohio	1,500,000	14,765,000
Liberty National Bank of New York	New York	5,000,000	121,642,000
National Bank of Commerce of Kansas City	Missouri	4,000,000	68,613,000
Union National Bank of Pasadena	California	375,000	5,404,000
Ridgewood National Bank, Ridgewood	New York	300,000	9,224,000
National Bank & Trust Co. of Pasadena	California	300,000	5,490,000

Name and location of bank	State	Capital	Resources
Year ended Oct. 31, 1922			
First National Bank of Fresno	California	$500,000	$9,771,000
First National Bank of Berkeley	do	300,000	6,717,000
First National Bank of Bakersfield	do	400,000	7,127,000
Atlantic National Bank of the City of New York	New York	1,000,000	21,776,000
Bank of New York National Banking Association	do	2,000,000	76,135,000
National State & City Bank of Richmond	Virginia	1,000,000	15,854,000
Year ended Oct. 31, 1923			
Merchants National Bank of San Diego	California	250,000	5,108,000
Lowry National Bank of Atlanta	Georgia	1,000,000	21,350,000
Irving National Bank, New York	New York	12,500,000	297,935,000
Bank of North America, Philadelphia	Pennsylvania	2,000,000	31,490,000
Merchants National Bank of San Francisco	California	1,500,000	15,052,000
First-Second National Bank of Akron	Ohio	1,500,000	22,603,000
Importers and Traders National Bank of New York	New York	1,500,000	43,550,000
Merchants National Bank of Raleigh	North Carolina	300,000	5,576,000
Luzerne County National Bank of Wilkes-Barre	Pennsylvania	400,000	5,018,000
Battery Park National Bank of New York	New York	1,500,000	12,962,000
American National Bank of San Francisco	California	2,000,000	25,623,000
Ninth National Bank of Philadelphia	Pennsylvania	500,000	14,527,000
Year ended Oct. 31, 1924			
Fourth National Bank of Cincinnati	Ohio	500,000	12,418,000
Wells Fargo National Bank of San Francisco	California	6,000,000	93,806,000
National Exchange Bank of Baltimore	Maryland	1,500,000	17,532,000
Lafayette National Bank of Buffalo	New York	1,000,000	9,128,000
Continental National Bank & Trust Co. of Kansas City	Missouri	500,000	6,499,000
Northern National Bank of Toledo	Ohio	1,000,000	15,692,000
Long Beach National Bank, Long Beach	California	200,000	7,112,000
Second National Bank of Toledo	Ohio	1,000,000	16,477,000
Corn Exchange National Bank of Chicago	Illinois	5,000,000	132,302,000
Year ended Oct. 31, 1925			
First National Bank of Oakland	California	1,000,000	11,953,000
Fifth National Bank of the City of New York	New York	1,200,000	25,302,000
Gotham National Bank of New York	do	1,500,000	19,371,900
National Union Bank of Boston	Massachusetts	1,000,000	17,129,000
Year ended Oct. 31, 1926			
Manufacturers & Traders National Bank of Buffalo	New York	2,000,000	61,935,000
Coal & Iron National Bank of the City of New York	do	1,500,000	25,778,000
First National Bank of Hammond	Indiana	250,000	5,433,000
Planters National Bank of Richmond	Virginia	1,000,000	17,547,000
Norwood National Bank of Greenville	South Carolina	250,000	7,085,000
National Exchange Bank of Providence	Rhode Island	1,250,000	20,871,000
First National Bank of Jamaica	New York	200,000	9,862,000
City National Bank of Plainfield	New Jersey	150,000	7,198,000
State National Bank of North Tonawanda	New York	600,000	8,007,000
Pheonix National Bank of Hartford	Connecticut	1,000,000	17,714,000
National Exchange Bank of Lockport	New York	300,000	6,655,000
Second National Bank of Hoboken	New Jersey	700,000	6,653,000
First National Bank & Trust Co. of Utica	New York	1,250,000	19,821,000
National American Bank of New York	do	1,000,000	12,576,000
National Butchers & Drovers Bank of the City of New York.	do	2,000,000	14,447,000
Year ended Oct, 31, 1927			
American Exchange-Pacific National Bank of New York	New York	7,500,000	264,212,000
First National Bank of Albany	do	600,000	15,154,000
West Branch National Bank of Williamsport	Pennsylvania	500,000	9,657,000
Citizens National Bank & Trust Co. of Cincinnati	Ohio	2,000,000	20,330,000
Fifth-third National Bank of Cincinnati	do	3,000,000	53,527,000
Merchants & Manufacturers National Bank of Newark	New Jersey	1,350,000	20,458,000
Commercial National Trust & Savings Bank of Los Angeles	California	2,000,000	25,116,000
Griswold National Bank of Detroit	Michigan	2,000,000	22,733,000
American National Bank of Newark	New Jersey	500,000	17,662,000
Franklin National Bank in New York	New York	800,000	7,263,000
Year ended October 31, 1928			
Union National Bank of Philadelphia	Pennsylvania	1,000,000	23,044,000
City National Bank of Holyoke	Massachusetts	500,000	5,893,000
National Bank of Commerce in Chicago	Illinois	800,000	7,717,000
National Bank of Commerce in Philadelphia	Pennsylvania	500,000	10,732,000
Hamilton National Bank of New York	New York	1,500,000	19,216,000
Bronx National Bank of the City of New York	do	300,000	9,986,000
First National Bank of Bangor	Maine	400,000	8,308,000
Liberty National Bank of Covington	Kentucky	350,000	5,676,000

Name and location of bank	State	Capital	Resources
Year ended October 31, 1928—Continued			
First National Bank in Columbus	Ohio	$500,000	$14,071,000
Massasoit-Pocasset National Bank of Fall River	Massachusetts	650,000	6,752,000
United Capitol National Bank & Trust Co. of New York	New York	5,000,000	53,144,000
Flushing National Bank, Flushing	do	200,000	5,070,000
National Bank of Rochester	do	1,200,000	22,558,000
Broad Street National Bank of Philadelphia	Pennsylvania	500,000	12,293,000
National Bank of North Philadelphia	do	700,000	6,872,000
National City Bank of Los Angeles	California	1,000,000	10,898,000
Year ended Oct. 31, 1929			
First National Bank of Brooklyn	New York	1,000,000	23,025,000
Seventh National Bank of New York	do	1,500,000	14,524,000
American National Bank of Richmond	Virginia	2,000,000	21,774,000
Merchants National Trust & Savings Bank of Los Angeles	California	4,000,000	164,645,000
Northern National Bank of Philadelphia	Pennsylvania	400,000	10,256,000
National Union Bank of Maryland at Baltimore	Maryland	1,000,000	11,052,000
Mercantile National Bank in Dallas	Texas	1,000,000	13,950,000
First National Bank of Long Beach	California	200,000	6,916,000
National Bank of Commerce in New York	New York	25,000,000	684,456,000
First National Trust & Savings Bank of Whittier	California	250,000	5,639,000
Bloomfield National Bank, Bloomfield	New Jersey	300,000	7,457,000
Old National Bank of Grand Rapids	Michigan	800,000	16,666,000
Manover National Bank of the City of New York	New York	10,000,000	209,026,000
Third National Bank of Syracuse	do	300,000	5,508,000
Liberty National Bank & Trust Co. of Syracuse	do	400,000	5,002,000
Chemical National Bank of New York	do	6,000,000	233,708,000
Chapman National Bank of Portland	Maine	400,000	9,750,000
Louisville National Bank & Trust Co., Louisville	Kentucky	750,000	14,679,000
Merchants National Bank of Detroit	Michigan	2,000,000	26,780,000
Arcadia National Bank & Trust Co. of Newark	New York	200,000	5,666,000
Seaboard National Bank of the City of New York	do	11,000,000	286,954,000
Merchants-Laclede National Bank of St. Louis	Missouri	1,700,000	23,751,000
State National Bank of St. Louis	do	2,000,000	21,667,000
Tenth National Bank of Philadelphia	Pennsylvania	1,000,000	10,746,000
Community National Bank of Buffalo	New York	1,000,000	23,596,000
Fordham National Bank in New York	do	500,000	5,616,000
Thamet National Bank, Norwich	Connecticut	1,000,000	5,218,000
Norwood National Bank	Ohio	200,000	5,157,000
City National Bank of San Antonio	Texas	1,000,000	14,040,000
National City Bank of Akron	Ohio	1,000,000	15,461,000
National Bank of Niagara & Trust Co., Niagara Falls	New York	1,200,000	13,492,000
Citizens National Bank of Raleigh	North Carolina	750,000	8,679,000
Murchison National Bank of Wilmington	do	1,000,000	12,285,000
American National Bank & Trust Co. of Greensboro	do	1,000,000	11,297,000
City National Bank & Trust Co. of Bridgeport	Connecticut	1,000,000	18,351,000

Recapitulation by years

	Number	Capital	Resources		Number	Capital	Resources
1920	5	$6,900,000	$112,562,000	1926	15	$13,450,000	$241,582,000
1921	15	24,075,000	538,978,000	1927	10	20,250,000	456,112,000
1922	6	5,200,000	137,380,000	1928	16	15,100,000	222,230,000
1923	12	24,950,000	500,794,000	1929	35	82,850,000	1,966,789,000
1924	9	16,700,000	310,956,000				
1925	4	4,700,000	73,755,000	Total	127	215,075,000	4,561,148,000

Many smaller national banks during this period also relinquished their charters to go into the State system, but the foregoing list includes only banks of the metropolitan class.

Following the approval of the McFadden Act (act of February 25, 1927) several large State banks were converted into national banks, but this gain has been far more than offset by the recent great loss of national charters. Boards of directors of banks and their stockholders, in giving consideration to the question of whether the corporation should operate under the national or the State charter, are not moved by questions of sentiment or patriotism. The fact that a national bank is an instrumentality of the Federal Government designed to fulfill certain public purposes does not seem to be considered an operating advantage to the bank. The corporation must in the nature of the case be moved almost solely by consideration of the most profitable use of the capital invested in the enterprise. In other words, the question of the choice of charter presents to the corporation a

business proposition. In the history of banking in the United States since 1863 banking corporations have switched from State to national and from national to State charters as the business advantages lay with the one or the other. From the standpoint, therefore, of the operating banker the grant of the wider branch banking powers to national banks would be considered by him as an invitation to enlarge the sphere of his business operations to the greater advantage of his stockholders.

The Government of the United States, as distinguished from the national banking corporation, would be concerned primarily with the question of strengthening the national banks as Federal instrumentalities and with the establishment of a sound system of banking throughout the United States. Under the existing trend with the operating advantage in favor of the State banks the development is in the direction of 48 separate and distinct systems of commercial banking each under the supervision, control, and direction of a separate State government with a corresponding disappearance of the national banks from the field.

It has been said that this situation does not present any cause for concern for the reason that the Federal reserve system which embraces State banks in its membership has made the national banking system unnecessary. The Federal reserve act, however, did not set up a system of banks in the United States. It did set up a system of coordination of bank reserves and a flexible currency, which operate advantageously for all banks. The approach to equalization between the State and national banks afforded by the Federal reserve system does not involve a rearrangement of charter powers but an extension of the privileges and the benefits of the Federal system to State chartered banks. If therefore, in addition to these privileges which they derive from the Federal Government, they secure from their respective legislatures charter powers giving them certain operating advantages over national banks, the Federal reserve system thus becomes indirectly the means of forcing national banks to take out State charters.

The announced legislative policy of the so-called McFadden Bank Act of February 25, 1927, was parity between the national and State systems. The purpose of the bill was to make the charter powers of national banks approximately equal in operating advantage to those of the State banks. Nearly three years of operation under that act has demonstrated that it has failed of its purpose in this respect.

The theory of parity between the two systems of banks is, in my opinion, economically unsound. Commerce is interstate and is recognized by the Constitution of the United States as being fundamentally a national question. One of the primary purposes of the national bank act of 1863 was to establish a sound and uniform system of commercial banking throughout the country in order that commercial transactions growing out of the production, the manufacture, and the transportation of goods and commodities from one section of the country to the other might not be hampered by local banking legislation but should have access to a system of banks operating under Federal authority and supervision under a single set of rules and regulations and statutory enactments in order that the free flow of commerce should not be embarrassed by a multiplicity of restrictions having their origin in local political conditions.

The proposal for the extension of branch banking which is here made would have the direct effect of establishing a strong system of banks in the rural districts and indirectly it would lead to the gradual restoration of the national banks as the primary system of commercial banking in the country.

While it would seem to be to the interest of the local bank holding companies to convert their groups of banks into branches after the enactment of legislation as above outlined, there might possibly still remain in operation some of these local companies and some of a wider regional operation. In view of the fact that such companies are outside of all jurisdiction of the Federal Government and that they would be in a position to dictate the policies and operations of such national banks as they controlled through stock ownership, I further recommend to the Congress an amendment to the national banking laws which will bring the operations of such bank holding companies under some degree of Federal supervision where they own the majority of the stock of more than one national bank and a further amendment to safeguard the additional shareholders' liability which each such bank holding company incurs through the ownership of the shares of national-bank stock.

The CHAIRMAN. I understand that my recent annual report to Congress will be placed in the record and I shall attempt to refrain from repeating the data given therein. In that report attention was

drawn to a condition in our system of bank organization which appears to require legislation to protect the interest of the public. It should, however, be said at the outset that there seems to be no need for emergency legislation but rather for an attempt to reach a normal and fundamental solution.

I will submit for the information of the committee copies of three formal addresses which were made by me last year, namely, the Demand for Professional Bank Management, delivered before the Ohio Bankers' Association, Columbus, Ohio, February 12, 1929; Banking and the New Finance Era, before the Maryland Bankers' Association, Atlantic City, May 23, 1929; and The Need of a New Banking Policy, delivered before the convention of the American Bankers' Association, San Francisco, October 2, 1929. These are marked "Exhibit A," "Exhibit B," and "Exhibit C," respectively.

I shall not attempt to elaborate further the facts which I have given relative to bank failures except to bring some of the figures down to date. In several parts of the country more than one-half of all of the banks in existence in 1920 have closed their doors and many of those which are left have little likelihood of success under present conditions. If such a condition of affairs were localized, that is to say, were confined to one particular section or subject to the conditions of one particular industry, general conclusions would no doubt be unjustified, but such is not the case. During the last 10 years and continuing at the present time bank failures have been a blight in the Mississippi Valley, the South, the Southwest, and Northwest. There are agricultural counties in which every bank has failed. In many cases it has been necessary to assess shareholders in order to keep banks alive and it has often happened that a failure occurred after as many as three such assessments had been paid in vain. The hardship which these failures have imposed upon depositors and upon those who invest their money in country bank stocks, over such a wide geographical area, is an indication that there is something seriously wrong with the system of banking in the rural districts. Surely a great country like ours should not permit the continuation of this suffering on the part of that element of the population least able to bear it if it lies within the power of the National Government to provide a remedy.

The views which I bring before this committee are not primarily the result of recent research and the collection of information. I was myself a country banker. Later, as a national-bank examiner and as chief national-bank examiner, it became my duty to examine the affairs of hundreds of country national banks. For more than 20 years I have been in daily and intimate contact with the operations of our banking system. No one knows any better than I do that there are still strong and profitable country banks, and if I had any prejudices they would naturally be in favor of the system of unit banking to the sustenance of which I have been devoted for so many years. It is with great reluctance that I have slowly come to the conclusion that our small independent unit country banks are no longer fulfilling the purposes of their creation and that there is need for a better, sounder, and stronger system.

In order to avoid the impression that I am interested only in the national banks in this discussion, may I take this occasion to emphasize the fact that the statements I have made with reference to bank fail-

ures apply with equal if not greater force to State banks? The conditions which rural banking faces in the United States are the same for both national and State banks, and, as between the two, the statistics will show that the national banks have shown the stronger resistance in the ratio of approximately 3 to 1 during the last nine years. I am confident that your committee will have before it in the course of these hearings ample information which will lead to the conclusion that notwithstanding the fact that it is still possible for many country banks to operate successfully, the system under which rural banking as a whole is carried on does not provide a sufficient safeguard either to the depositors or to the shareholders nor does it offer a type of banking service adequate for modern conditions.

Many of the strong and well-managed country banks have found it necessary at times to discontinue making loans and to build up and carry large cash reserves for long periods of time. Due to the fear of "lack of confidence" and in their efforts to be prepared to withstand sudden withdrawals, some of these banks have restricted their operations to such an extent that they are of little benefit to the community in which they are located, and in some communities have practically ceased to function. Such banks are necessarily experiencing difficulty in earning a sufficient amount to cover operating expenses.

We are faced with a banking situation which applies almost entirely to the rural districts, although it should be borne in mind that there are also a considerable number of small banks in the larger cities, particularly in the outlying districts. There were on June 30, 1929, in the United States, 24,912 incorporated banks. Of this number 20,008 were situated in cities of 10,000 population or less. In other words, more than four-fifths of all the banks in the United States are situated in small towns. The average capital of these banks is about $44,000 and their aggregate capital about $881,000,000. They are all small banks.

I shall submit in this connection, marked "Exhibit D," a statistical table by States showing the distribution of banks in cities of 10,000 population or less as of June 30, 1929.

It is among these small banks that most of the failures have occurred. Figures have not been compiled for the entire decade but for the eight-year period, ending with 1927, 71 per cent of the banks that failed, national and State, were capitalized below $50,000 each and 88 per cent under $100,000. By far the largest number of failures occurred among banks having $25,000 capital or less, these constituting 63 per cent of the failures. The number of failures for this period was 4,513. These figures are embodied in a chart which I shall submit, marked "Exhibit E."

As to the places in which these failures occurred, 2,039—that is to say, a little over 40 per cent—were situated in towns and villages of population less than 500 persons; an additional 1,006, or 20 per cent, failed in towns having between 500 and 1,000 population; an additional 964 banks, or about 20 per cent, failed in towns of from 1,000 to 2,500 population; an additional 584 failures occurred in towns from 2,500 to 10,000 population. In other words, about 92 per cent of the failures were in places having less than 10,000 population. Reference is again made to the fact that there are also a number of banks of

small capital in cities above 10,000 population, failures among which go largely to make up the remaining 8 per cent of the total failures.

I feel quite certain that the figures for 1928 and 1929 will upon analysis disclose a situation equally as unfavorable as that of the previous eight years.

I have a charter, "Exhibit F," showing these figures.

During the last decade there were no failures in that class of banks known as metropolitan banks having a capital of more than $2,000,000. There were three failures of State banks and one national bank in the million-dollar-capital class, namely, the Trement Trust Co., Boston, Mass., capital $1,309,000, deposits $15,472,000, which suspended in 1921; the Citizens Bank & Trust Co., Tampa, Fla., capital $1,000,000, deposits $13,737,000, which suspended in 1929; the City Trust Co., New York, N. Y., capital $1,225,000, deposits $7,482,000, which suspended in 1929; and the Exchange National Bank, Spokane, Wash., capital $1,000,000 and deposits $11,717,000, which failed in 1928.

In this connection I desire to state that I am using the term "failure" as synonymous with the term "suspension," although these two terms are not always so used. The statistics of the Federal Reserve Board for bank failures are based upon suspensions; that is to say, a bank suspends when it is unable or unwilling longer to keep open its doors for carrying on the business of banking. It sometimes happens that such a suspension is followed by a reorganization of the bank or a rejuvenation of its capital structure with the result that the bank is able to resume business. However, in many such cases both the shareholders and the depositors are called upon to make voluntary sacrifices in order to avoid a receivership with a resulting burden of loss as great as in some other cases where a receiver is appointed. On the other hand, the office of the Comptroller of the Currency many years ago adopted the practice of listing as a failed bank only those for which receivers have been appointed and leaving out those which have been restored to operations after suspension.

For the purpose of this discussion the Federal reserve figures present a more accurate description of the situation. The two systems of statistics, however, cause certain variations in figures compiled by the Federal Reserve Board and by the Comptroller of the Currency, respectively.

Attention is particularly directed to the circumstances that the failures of country banks is not embraced in a period of time which has been closed and upon which we may look only in retrospect. This error has been made by many writers in making reference to the 5,000 bank failures as though the failures arose out of some past condition, the chief significance of which is to furnish an argument for or against a system of banking. It is true that this period had a somewhat definite beginning which appears to be coterminus with the war period and is no doubt related to many of the changes in our social and economic life caused directly or indirectly by the war. Unfortunately, the period in which these failures have occurred and are occurring has not been brought to a close. In the year 1929 there were 640 bank failures in the United States causing the tying up of about $234,000,000 of deposits, the greatest of any year in the decade except 1926. During the first seven weeks of 1930, there have been

155 additional failures. In other words more than 10 years after the war we are still in the midst of a continuation of a condition which is causing small banks to fail. The 9-year period ending with December 31, 1929, witnessed 5,640 bank failures with aggregate deposits of $1,721,000,000—scattered very largely throughout those small cities of less than 10,000 population to which reference has been made. Of this number 4,877 were State banks and 763 were National banks. I have not the figures for the actual and final losses to the depositors in these banks. Many of them are still in process of liquidation.

I shall submit as a part of my statement a table compiled by the Federal Reserve Board, January 28, 1930, marked "Exhibit G," which gives the bank suspensions by Federal reserve districts, 1921–1929, showing the number of banks, by districts, each year and the deposits of each.

There has been prepared for the use of the committee a chart showing the operating profit and loss of all national banks in the United States, by States, for the year 1927, and there are in course of preparation other charts which will be submitted within a few days, giving the operating profit and loss of all national banks for the year 1928. I have made a study of these preliminary figures and they will undoubetdly emphasize the operating difficulites confronting the small banks.

Your committee knows that a supervisory bank official is always reluctant to close a bank. He would naturally like to see no bank failures. The Comptroller of the Currency goes to the utmost lengths within his power and responsibility—having regard first for the depositors of the bank—to prevent a national bank from failing, and the State bank supervisors naturally have the same attitude toward State banks. Were this not the case and did the Comptroller of the Currency simply as a matter of machine routine permit national banks in bad condition to drift into insolvency, and did the State supervisors take the same attitude, there would, or course, be a great many more failures added to those already recorded than we have seen.

In considering the great flood of statistical information which must be studied in order to discover the causes and effects of bank failures there is the danger of losing sight of the human and social aspect of the situation. Every bank failure presents a distinct phenomenon to the local community. It is a local dramatic event. Whereas the supervising official may in many cases not be surprised that the bank has failed and the executive officers of the bank and perhaps the local board of directors have been struggling for months or years to keep the bank open, the actual failure comes as a complete surprise and a shock to the depositors and in most cases to those shareholders who are not officers or directors of the bank.

There is no more distressing sight than a group of citizens, men and women, clamoring before the closed doors of a bank bewailing the loss of their savings. These losses fall upon the best and most substantial citizens in the community and many of them never recover their previous financial condition. Multiply this local event by nearly 6,000 and scatter it throughout the great agricultural States of the Union and the magnitude of its effect reaches astounding proportions.

It is estimated that 7,264,957 depositors have contributed to the great total of more than $1,700,000,000 of deposits in failed banks during the past nine years and that no less than 114,000 shareholders have suffered losses through these suspensions.

A similar adverse effect is had upon the borrowers of a bank which fails. When a receiver is appointed his duty is to wind up the affairs of the bank and to enforce liquidation. Many of the borrowers may have been doing business with the bank for years and may have been upon intimate terms with the officers of the bank. This is especially true of the so-called character loans where the bank takes an interest in a person who has good character and good prospects but weak in collateral and who is accommodated each year or from time to time covering a considerable period. The character and reputation of such person may be unknown to other banks; therefore, the credit standing of this class of borrower for the time being is destroyed. The receiver must demand payment and if payment is not made he must institute suit and prosecute the case to judgment in order to gain as much as he can for the depositors. Notwithstanding every means is employed to soften the blow which the community has sustained, this enforced liquidation in country banks works a bitter hardship upon the borrowers—the very type of borrowers which it has been claimed the unit system of banking is particularly designed to protect. Failed banks in the United States have caused within the last nine years the enforced liquidation of approximately two billions dollars of loans—chiefly small loans.

Many causes have been assigned for these bank failures; in one section droughts, in another insect pests, in another failure of the cattle market, in another a drop in the price of wheat, and so on. A great many failures have been attributed to mismanagement, incompetent management, or criminal management; some banks have been closed on account of single cases of defalcation and robbery; another cause assigned is that too many rural bank charters have been granted.

While these various factors may have been the immediate occasion for the closing of these banks they do not indicate the basic cause. If one observes the same type of small country bank, situated in various sections of the country, unable to keep open its doors one naturally would seek the reason for the general condition. Can not the basic cause be found in the great economic and social changes which have come over this country within the past 15 years—the war period and the postwar period? We have witnessed a revolution in the method of transportation and communication in the rural districts. Local communities which were at one time economically and socially independent have been put upon arterial highways which have drawn them close to the larger cities. It is now impossible for the country bank to gain that diversification in the banking business which was possible a few decades ago. The business of the small city is becoming more and more an adjunct of the business of the larger commercial centers. Opportunities for independent local financing are becoming fewer and fewer. The commercial business and the trust business are going to the large city bank. The country bank is left largely with real estate and small local loans.

If therefore these fundamental conditions have caused the business of the small bank to shrink to the point where it becomes unprofitable

for the bank to operate we are met with a basic condition which can not be cured by palliatives. Several remedies have been proposed to meet these conditions, the principal of which I shall here discuss.

The remedy most frequently suggested as a protection to the depositor is some form of guarantee of bank deposits. This guarantee may take the form of compulsory insurance for the payment of deposits or compulsory contribution on the part of all banks to pay deposit losses in failed banks or a direct governmental guarantee under which the taxing power of the State would be used to pay losses to depositors in failed banks. Several of the States in the Union have enacted guarantee of deposit laws but in every case the operation of the law has proven unsuccessful.

A system of banking with a deposit guarantee superimposed upon the local bank by governmental authority under which some other instrumentality than the bank itself undertakes to insure the safety of deposits, will not prevent the local bank from failing if it can not maintain a successful operation as a business enterprise. If local economic conditions are unfavorable to such a bank and if the loans are not properly made or become frozen after they are made with reasonable care, the bank will have to close its doors. No system of guarantee of deposits under such conditions will serve to keep the bank open. In other words, whereas a system of guarantee of bank deposits might theoretically give the depositor a 100 per cent protection against loss in case of the failure of the bank such a system can not be said to be a remedy for the failure itself.

In the case where the burden of the system of guarantee of bank deposits has been carried by the banks themselves, the result has been that the strong and successfully operated banks have been compelled to assume liability for deposits in weak and unsuccessfully operated banks—a responsibility which the stronger banks were compelled to assume without any power to protect themselves.

It has, I believe, been suggested that the Federal Government, in so far as national banks are concerned, undertake to set up some system of deposit guaranty in order to protect the depositors from the unsuccessful bank administration, either through a governmental subsidy or through a guaranty to be met by the Federal reserve banks. While I have not seen a formulation of such a plan it would appear that any such guaranty would be subject to similar objections to those heretofore adopted by the States. Laws involving the guaranty of deposits of State banks have been in operation in Kansas, Mississippi, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Washington, but, with the exception of Nebraska, I understand, such laws have been repealed.

A member of this committee has introduced a bill providing for compulsory insurance for the shareholders' liability in national banks. This is a different question from the guaranty of deposits and I take it that this measure is designed to meet only one particular weakness in our banking system, namely, the frequent inability of the shareholder to meet the financial liability to the creditors of the bank imposed upon him by law to the extent of 100 per cent of the par value of his stock. I shall not attempt here to enter into a discussion of this measure but I wish to make some general observations on the question of shareholders' liability.

The provisions of the national bank act fixing the individual liability of shareholders were enacted in 1864 as a part of the original act. It fixed the individual liability in an amount equal to the par value of the shares held. In other words, the amount of the liability has no relationship to the question of book value or of market value of the shares. This individual liability therefore is not equivalent to the value of the investment of the shareholder in the stock but simply to the original amount paid in by him.

This additional individual liability was designed as a protection to the creditors of the bank but not as a full protection. For example, where the deposit liability of the bank is in proportion to capital of 10 to 1 it will be readily seen that the additional liability was not designed as a guaranty of the payment of bank deposits. The bank with $100,000 paid-in capital and $1,000,000 of deposit liabilities would carry an additional individual liability upon its shareholders of only $100,000. To take an extreme case, if all of the capital and all of the deposits were wiped out by losses, the individual liability if realized in full would net the depositors only 10 cents to the dollar.

It may have been the presumption of the original framers of the national bank act that all the shareholders of the national banks would be persons of substance fully competent to discharge this individual liability. Otherwise it would seem that the act would have provided some safeguards to preserve and maintain it. Apparently it was not foreseen that the shares of national banks would find their way into the hands of persons who were financially irresponsible. Neither was it foreseen that bank stocks of the large city national banks would be actively traded in on the securities markets by investors who had no personal relationship to the bank and little or no thought of their individual liability when they purchased the shares.

As a practical matter the question of enforcement by the Comptroller of the Currency of this individual liability has been confined during the past 65 years almost entirely against the shareholders in small country banks. Most of the shareholders resided in the rural communities and were small business men or farmers. In winding up the affairs of 815 national banks the records of the comptroller's office show that an average of 48.29 per cent has been collected from shareholders under their individual liability. These figures do not include numerous cases of assessments against shareholders to restore the impaired capital of going national banks.

I may take this occasion to say that the enforcement of the individual liability against national bank shareholders is one of the most disagreeable duties which the Comptroller of the Currency is called upon to perform. These shareholders invest in local bank stocks upon the assumption that it will be a profitable enterprise. Some of them even feel that the Government of the United States is responsible for the operations of national banks. Many of them have no appreciation of the responsiblities which they incur under the individual liability clause. When therefore they have lost their original investment and they are called upon to pay in an amount equal to the par value of their stock a great hardship is incurred. In numbers of cases farms have been sold or mortgaged and whole families driven into bankruptcy through the enforcement of the individual liability.

It would seem therefore that the individual liability of the shareholders of national banks has been an inadequate protection to the depositors and where enforcement has been attempted, a great hardship upon the shareholders. Under a system of national banking created and supervised by the Government of the United States should not both the shareholder and the depositor enjoy a greater security?

Several students of the banking situation, recognizing the difficulties under which the small country bank now operates, have suggested as a remedy for the failure of these banks and the improvement of rural banking conditions a Federal statute requiring a minimum capitalization of $100,000 for national banks and a similar provision by the various States. The theory of this proposal is that such a provision will automatically decrease the number of country banks and will compel the formation of stronger banking institutions. Under this plan if the conventional ratio of 10 to 1 is maintained, there would be no banks in the United States with deposits of less than $1,000,000. This proposal is open to several serious objections.

Such a plan to be successful would require complete legislative cooperation on the part of the State governments as the minimum capitalization of national banks has always been higher than that required as a rule by the State laws. The present minimum capitalization of $25,000 for national banks as now required is too high for State banks in many States. In other words, the present capital requirements for national banks has not had the effect of causing State legislatures to require the State banks to adopt a similar standard. On the contrary, Congress, by the act of March 14, 1900, reduced the minimum capital for national banks from $50,000 to $25,000, thus lowering the standard toward that of the States.

One of the most natural effects of such an increase to a $100,000 minimum for national banks would be to cause hundreds of national banks to take out State charters and thus remain in operation. The operating conditions of the banks in the rural districts are the same for both national and State banks and any comprehensive remedy looking to an improvement of the rural banking situation must embrace directly or indirectly both State and national banks.

There is another feature of this proposal which must be considered. A banking institution from the standpoint of the investing shareholder furnishes a vehicle for the employment of capital. Such a shareholder is not required to make his investment with patriotic motives or with a desire to confer a benefit upon the community. His motives are the same as those who employ capital in other business enterprises. In other words, he invests his money in bank stock with the expectation of a reasonable return in dividends. From the standpoint of the Government, however, a bank possesses certain public responsibilities which the Governments, State and national, have attempted to establish and protect by statutory enactment. If in pursuance of this aim the Government requires a minimum capitalization too high for profitable employment in a given local community no bank would be operative there.

There are thousands of communities in the United States where banks are now operating which would be deprived of all local banking services if the minimum capital for country banks were placed at $100,000. This would mean that these local communities would be

put to the inconvenience of going considerable distances, especially in the less densely populated agricultural States. Such as situation would naturally result in hoarding of funds and this would be a backward step in the development of the country. Banking develops business in a community and every community should have convenient access to banking services. In our desire to create a sound system of rural banking we must guard against the establishment of safety at the expense of the convenience of hundreds of thousands of citizens who ought to have immediate access to banking facilities.

In this connection permit me to survey the distribution of banking capital in the United States. Taking the figures as of June 30, 1929, there were in the United States 5,468 incorporated banks with capital of less than $25,000. There were an additional 5,357 banks of $25,000 capital; 6,031 banks with capital above $25,000 but not exceeding $50,000; and 1,073 banks with capital above $50,000 and up to but not including $100,000. In other words, there were on June 30, 1929, 17,929 banks in the United States capitalized at less than $100,000 each. The total number of banks was 24,912, which leaves only 6,983 banks in the United States having a capital of $100,000 and above, and nearly half of these have only $100,000 capital. As has been shown, practically all of these small banks are in cities and towns having a population of less than 10,000.

The only method by which the minimum capital could be raised to $100,000 would be to bring about the forced merger or consolidation of about 18,000 country banks, probably reducing their number to about 6,000. In the absence of branch banking these new banks would be in widely separated communities and that community would be favored in which the bank was actually situated whereas the other communities would have to suffer the inconvenience of traveling to and from a distant bank or suffer the deprivation of all banking services. I will submit, marked "Exhibit H," a table showing the distribution of banking capital of all banks in the United States.

In discussing the question of the reduction in the number of country banks there should be borne in mind the danger of giving a single local bank a monopoly upon the banking business of an entire community. If we accept the theory that no country bank should possess less than $100,000 paid-in capital we must immediately face the conclusion that in order to provide enough business to support a country bank of that size it would be necessary in many cases for it to be the only bank in the community. Monopoly of bank credit is more easily attained under our banking system upon a small scale than upon a large one. In a large city there is more likely to be several banks in competition, but the condition has already arrived in several of the small cities where there is only one bank left in the community. This condition never operates to the best interests of the community as a whole. Should we, therefore, adopt the expedient of reducing the number of banks by increasing the minimum to $100,000, the credit of hundreds of separate communities would be in the control, respectively, of single independent local banks which would operate without any local competition.

In connection with proposed remedies for the country bank situation it may be appropriate here to mention some of the aspects of the relationship of country banks to large city banks as correspond-

ents. There have been certain proposals put forward within recent months which recognize the difficulties which small country banks face in attempting to operate alone and independently, and which suggest as a remedy an intensification of the correspondent system. Under this suggestion the country bank would through voluntary cooperation draw closer to the large city banks and receive from them through conferences and contact of personnel the proper guidance in the direction of safe and sound banking. The technical banking experience and approved metropolitan banking methods and services would be made available to all the correspondents of a given metropolitan bank in so far as the country bank could and would receive them, and the metropolitan bank would, as compensation, in return gain a greater volume of banking business by virtue of the acceleration of the contacts with their country correspondents.

There has grown up over a long period of years the present system of bank correspondents in the United States. As a general rule the country bank is a correspondent of some New York bank, as well as of other metropolitan banks in the large commercial centers. It is a business relationship which facilitates the interchange of credit and, with respect to New York City, large deposits of country banks are from time to time carried with the New York banks for temporary investment. Disregarding, however, the operation of depositing money on call in New York, the normal relationship between the country bank and its city correspondent may be reduced to about four elements: First, the deposit carried with the city bank upon which interest is paid to the country bank; second, the opportunity afforded to the country bank to purchase securities from or upon the advice of the city bank; third, the privilege given the country bank of borrowing from the city bank; fourth, the opportunity afforded the country bank of seeking the direction and guidance of the city bank in questions of bank policy and bank management.

It is the last of these relationships which it is now proposed should be developed more concretely to the advantage of the country bank. In this connection, however, it should be observed that a single country bank may have city correspondents in several cities. To which of these correspondents should the country bank attach itself—to New York City for example or to St. Louis?

It should also be observed that the correspondent relationship is purely voluntary and therefore not enforceable as a banking policy. There is no responsibility upon the metropolitan bank for the policies and operating methods of its country correspondents. Neither is there any obligation on the country bank to accept the advice of its city correspondent. On the contrary, experience has shown that the country banks feel completely independent of their city correspondents, being free at all times to change from one bank to another. There is more concern upon the part of the city bank to hold the business of its country correspondents than upon the part of country banks to embrace the tutelage of the city bank.

The system of correspondent banks has been in full force and effect throughout the postwar period in which we have witnessed small bank failures at the rate of more than 500 per year. Each of these failed banks was a correspondent of a New York metropolitan bank and of other metropolitan banks. There was no obligation on these city banks to protect the local depositors of their country corre-

spondents and no such efforts were expected to be made. The correspondent relationship is strictly a business transaction in which each party receives some advantage. It can easily be understood how a constructive intensification of this relationship especially upon the side of bank policy and bank management might prove of great benefit to the country banks, but I do not see how the development of such a relationship would prove any positive protection to country bank depositors in case the country correspondent became insolvent. In such a case the burden would have to be borne, as it is borne now, by the community in which the country bank operates. It would not be transferred to the broader shoulders of the metropolitan city correspondent.

The city banks are naturally interested in the policies and management of their country correspondents but the amount of interest taken and the amount of constructive advice given in each case depends upon the value of the account of the country bank. The credit accommodation extended by the city bank is based largely on the credit balance maintained with it by the country bank.

The remedy most frequently suggested for the failure of small banks is the inauguration of better bank management. The principal advocates of this remedy are those familiar with or engaged in banking as it is carried on by the large city banks. Their study of the small bank situation—especially the small country banks—has shown certain weaknesses in management, such as lack of a sound and definite loan policy; the lack of adequate credit information; the failure to build up an adequate liquid secondary reserve of securities; a lack of adequate knowledge of the securities market; the failure to obtain a diversification of loans, that is to say, too great a proportion of the loans are made upon the same class of security or credit.

No one who has made a comprehensive study of small country banks can deny that the above conditions exist. Their chief significance, however, lies in their comparison with the operations of the metropolitan banks. It has never been convincingly pointed out exactly how these small country banks could adopt these more approved methods of banking. Educational campaigns have been suggested as a means of bringing the situation home to the country banker. In fact, discussion of improving country bank management has been going on for the past 10 years with no very gratifying results.

The truth of the matter is that there has been developed in the United States, under the same banking laws, two definite types of banking, namely, that carried on by the small country bank and that of the large city bank. The independent country bank situated in small towns and villages and serving a limited area, rural in character, is necessarily restricted to only a limited type of banking.

On the other hand, the metropolitan city bank has become a most complex instrumentality of finance. It does everything that the country bank could do and engages in a multitude of activities besides. It employs a large personnel and establishes different departments each under the administration of an expert in that field. The president of a metropolitan bank is in the position of an executive of a great business, supervising and directing the operations of its various departments.

A mere mention of the departments of such a bank conveys some idea of the magnitude of its operations and of the great diversification of its business. There is the commercial department embracing commercial deposits and commercial loans with ramifications of management and procedure including the work of the loan committee and the executive committee; the savings department which embraces the operations of a savings bank; the trust department with all of its complicated mechanism for the administration of every type of fiduciary business and which has in recent years become one of the major activities of modern city banking; the securities department through which eligible securities are bought and sold—a business which has grown to tremendous proportions since the war; the publicity department which takes care of advertising and of giving the public news from time to time with respect to the operations of the bank; the new business department which centers its attention on the question of new business for the bank in all of its departments; the foreign department which issues letters of credit, foreign exchange and conducts other foreign business; some banks have a women's department and a school-savings department.

How can we compare the operations of such a bank, with resources above $50,000,000, in addition to its administration of many millions of trust assets, with a country bank of $250,000 of resources in a town of 1,000 population? To invite the small bank to adopt the efficient methods of the large city bank would be to ask it to lift itself by its own boot straps. As a remedy for country-bank failures the establishment of improved banking methods is theoretically sound but impossible practically of general realization. The business is too small in volume, too limited in diversity, and too circumscribed geographically to create a normal motive for the establishment of the high type of management possessed by the city banks.

In most of the discussions of branch banking the depositor seems to have been lost from view. It is said that branch banking will lead to a restriction upon local loans—that the borrowers will suffer. To this theory I do not subscribe. It is unreasonable to suppose that banks will make substantial investments in branches without any expectation of developing the business of the branch. This can not be done by draining the community of its cash. It can be done only by rendering to that community a scientifically balanced banking service including the making of loans as well as the receiving of deposits. Doubtless it will be developed during the course of these hearings that there are many instances where the necessities of a community have been such that the funds supplied by the parent bank for loaning purposes have far exceeded those which have been received in deposits.

Certainly it would be possible for the parent bank to develop a diversified banking business to protect it against economic depression in any one locality or in any one industrial activity or business enterprise. I am, however, more concerned with the depositor, especially the savings depositor, than with the borrower, and have therefore approached the question of branch banking as a remedy from the standpoint of safety to the depositor and to the local shareholder. It is the importance of this phase of the question which I desire to bring before your committee for further study.

There are great commercial centers in the various regions of the United States. In these commercial centers there have been developed great metropolitan banks among which there have been no failures during the period we have under discussion and no depositor in those banks has suffered a loss. The laboring man and the small wage earner in these cities is receiving a stronger protection and a higher and better type of banking service than is possible for the farmers and small business men who must do business with country banks. I have therefore put forward for further investigation and study by your committee the question of the desirability of bringing these country banks into a more direct and closer relationship to city metropolitan banks than is possible under any voluntary extension or intensification of the correspondent relationship. If there is permitted to grow up, through branch banking strong metrolopitan banks in commercial centers outside of New York City with the right to open offices in the rural economically tributary communities, it would naturally follow that in time these small country banks would to a very large extent become branches or offices of such city banks.

In this connection I wish to discuss for a moment the question of the concentration of banking capital in the large cities. Under our present system of banking there has already occurred a concentration of banking capital in the commercial centers and more particularly in New York City. The growth of our cities in population and in commercial importance has naturally led to the growth of larger and stronger banks. But as your committee knows, it is not only in banking that this concentration has taken place, but rather that banking has followed the concentration of capital and centralization of management in other fields.

The modern city itself is in a much closer relationship to the outlying territory than was the case a few decades ago when communication and contact were dependent upon horse or intermittent railroad transportation. Each one of us here to-day has witnessed the complete obsolescence of the slow and painful travel by horse on country roads which have been replaced by paved highways radiating in every direction from our large cities, upon which travel automobiles at high rates of speed. Communication by telephone is now almost universal, having largely displaced the slower methods of communication by mail and messenger. I do not wish to take up the time of the committee with a sociological discussion of municipal development, but in considering the question of concentration of banking capital in the large cities it is necessary to consider the new relationship which exists between the city and the rural districts.

There were on June 30, 1929, 76 banks in the United States, National and State, having each a capitalization above $5,000,000, and there were an additional 335 banks with capital between one million and five millions, making a total of 411 banks above the $1,000,000 capital class. Under a regional system of branch banking the number of banks in this class would increase through the pooling of the capital of the smaller banks.

At the present time, as I pointed out in my annual report, 250 banks in the United States hold resources to the aggregate amount of about $33,400,000,000. This is nearly one-half of all of the banking resources in the United States. Twenty-four banks, National and State, in New York City alone are capitalized at an aggregate of

$677,014,000 and have combined resources of about $10,791,448,000. This capitalization of the New York banks is almost comparable in total to that of the 20,008 country banks situated in towns of 10,000 population or less.

A comparison of the banking situation in 1900 with the present shows with what rapidity the United States has developed in banking resources. In that year there were 10,672 incorporated banks of all classes. The aggregate capital was about $1,150,000,000 and the total resources about $12,000,000,000—the latter figure being less by more than $4,000,000,000 than the resources of all the banks in New York City to-day. Within the short period of three decades the banking resources of the United States have increased by 600 per cent. This great development in banking resources is reflected in two aspects; first, in the increased number of country banks which remained small, and, second, in the growth in size and diversification of business of the large city banks. The latter are more prosperous to-day than ever in the history of the country, whereas the country banks are in a much less favorable position than they were 30 years ago. The acceleration of the flow of trade to the large cities has been one of the chief causes of the development of the modern form of metropolitan banking.

THE TRADE AREA

In my annual report I suggested that it might be found feasible to permit national banks to extend branches into the trade area of the city in which they may be situated. I realize that while the term "trade area" itself is susceptible of definition, there may be found some practical difficulties in mapping out a given trade area. Theoretically of course every city, no matter how small, might be said to have a trade area but it would prove no solution at all to the rural bank situation to permit small country banks to establish branches in such trade areas.

The trade area which I have in mind may be called the metropolitan trade area. Such an area would circumstance the geographical territory which embraces the flow of trade from the rural communities and small cities to a large commercial center. Branch banking extended by metropolitan national banks into such a trade area would natural give to these outlying rural communities and smaller cities a strong metropolitan banking service.

I am not prepared to attempt to arrive at a legislative formula which would automatically delimit all of the trade areas in the United States. It does not seem possible to meet this situation with such a formula. When the Federal reserve act was before Congress a similar situation arose with respect to the Federal reserve districts. In that act Congress did not attempt to define the boundaries of the districts but provided that the districts should be apportioned with due regard to the convenience and customary course of business and that they should not necessarily be coterminus with any State or States. The Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency acting as a committee were empowered to lay out the districts.

The 12 Federal reserve districts thus laid out and the subdistricts within them as established by the Federal Reserve Board constitute

to-day the only areas which have been delimited upon the basis of the relationship of the flow of trade to banking services.

It may be found advisable to adopt a similar procedure with respect to the present situation if it is determined that national banks shall be permitted to have branches in the rural districts. In this connection the question will naturally arise as to how far the Federal reserve districts or subdistricts are applicable to this question of branch banking.

DECENTRALIZED BRANCH BANKING

It has been urged as a consideration against branch banking that legislation permitting its extension to the rural districts would lead to the concentration of all of the banking capital in the United States in the New York banks and under the control of a comparatively small group of financiers.

It might be possible theoretically to conceive of this situation arising if Congress permitted the national banks to engage in nation-wide branch banking at the present time, although many students of banking and many practical bankers are of the opinion that even were nation-wide branch banking permitted by law its spread would be a slow development out from the various commercial centers; that the country is too large and its financial operations on too vast a scale to permit of complete concentration in New York City. The banking resources of the United States are constantly increasing as the country develops industrially and commercially. At the present time they aggregate about $72,000,000,000 and within another decade may approach $100,000,000,000. With great commercial cities developing in various parts of the country outside of New York, it would seem an extravagant prospect to contemplate the control over these resources within a few hands in a single city.

However, the proposal which I have brought for the consideration of your committee would, it seems to me, clearly tend to decentralize banking capital through a system of regional branch banking. The metropolitan banks in the city of New York have always held a pre-eminent position and under any system of banking which would follow the normal course of business they will continue to increase in size and influence. Notwithstanding this aspect of the matter, branch banking emanating from commercial centers outside of New York City into surrounding trade areas would cause the New York banks to decrease in relative importance. There would be concentration of capital but it would be a regional concentration with local characteristics. Banks in Detroit, Cleveland, Boston, Atlanta, New Orleans, St. Louis, Buffalo, Minneapolis, and other such local commercial centers would grow into institutions fully capable of taking care of the financial requirements of their trade area communities. Instead of nearly all of the largest banks being situated in New York City there would be in every such commercial center banks whose resources would approach or exceed a billion dollars. Instead of being a menace would not such banks become a source of pride to the community in which they are situated, bringing prestige and new business to the city and taking out to the rural communities a strong and highly developed banking service with safety to the depositors there? Would not such a system of branch banking lead to an active

competition for business which would naturally result in the local community obtaining cheaper and better banking service?

Some critics of our banking system take the view that we have too many small banks and that one of the chief causes for bank failures has been the issuance of an excessive number of charters by the State and Federal Governments. Theoretically, of course, if no banks were chartered there would be no bank failures. There is no way by which the number of banks can be categorically determined in advance and consequently the laws of all of the States and of the Federal Government have left the discretion to the supervising executive officials. It comes down to a plain question of human judgment. If no more bank charters were issued, for example, in communities where all of the banks had failed the Comptroller of the Currency or the State banking superintendent as the case may be, would have to take the responsibility of denying banking services to such a community even though the new applicants for a charter possess the qualifications required by law and practice to carry on a small bank. In view of this situation it can not be expected of the supervising bank officials to take it into their hands without further legislative sanction to reform the system of banking in the rural communities through the process of denying bank charters. My own point of view is that the rural communities are not supplied with adequate banking facilities. I should like to see the people of every community no matter how small have access to more than one strong bank with the banks competing for business. All persons should have the benefit which comes from a competitive banking service. Our present system of independent unit country banks can not provide it. Would not the system of decentralized branch banking which I have suggested meet this condition?

GOVERNMENT CONTROL

It is recognized that a system of branch banking such as I have suggested would gradually bring about the development of greater banking institutions in the inland commercial centers and in the larger seaports of the country. These banks would be strong enough to resist the ordinary local causes of bank failures on account of the great diversity of their business. The only danger of failure would be in the management personnel and it is conceded that any bank or any sort of business institution can be wrecked through mismanagement and maladministration. There can be no absolute protection by law or otherwise against this condition. It can, however, be so greatly minimized by governmental supervision that the danger of any such failure will be remote.

Should Congress adopt such a branch banking policy there should be an expansion and an intensification of Government supervision. There would have to be a more constant contact with management policies than now obtains. The number of banks would be less and it would be easier for the Government to supervise and examine more closely and more often the operations of such larger institutions. It should be borne in mind that such a bank would have no difficulty in securing capable management and that it would, on account of the great value of good will, be sensitive to public opinion. It would not wish to encounter the just criticism of a Government official.

Congress has always recognized the necessity of maintaining adequate supervision over the national banks. The Comptroller of the Currency now has sufficient power to supervise the national banks in so far as examination into their affairs are concerned. The time and method as to examination is left to his discretion except that he must under the law examine each bank twice a year. What other powers the Government of the United States should exercise over such larger institutions which would come into existence under the extension of branch banking I am not prepared at this time to recommend, but should the committee desire to go further into this question the office of the Comptroller of the Currency will be at its service.

GROUP BANKING

In conclusion I feel it necessary to make some remarks with respect to a comparatively recent banking development which is coming to be known as group banking. Before proceeding further, however, I think that we should attempt to get down to definitions. In current discussions the terms "chain banking" and "group banking" are sometimes used synonymous and sometimes as opposed to one another. Frequently the phrases "chain and group banking" and "chain or group banking" are used.

The term "chain banking" has been in use for many years in this country to describe a condition in which a number of banks were owned or controlled by the same individual or by a group of individuals. These so-called chains were situated very largely in the rural districts and the member banks of the chain were principally small country banks. This condition was and still is quite prevalent in the agricultural regions of the West and South. Many of these chains have come to disaster through the failure of all of the banks which constituted them. During the many years this type of bank ownership has been in existence it was not considered as a trend toward a fundamental change in our banking system nor did it relate itself to the question of branch banking. On account of the failures of several of these chains the term "chain banking" began to carry with it an element of disfavor.

The term "group banking" is of very recent origin and is being used to describe what appears to be a major movement in our banking system. The principal factor in group banking is that each group is centered around a city or metropolitan bank through means of a holding company, which owns the majority of the stock of each bank, thereby creating a system of banks more or less integrated in management with the central bank of the group. Its one common factor with the older type of chain banking is that several country banks may be owned by a single agency. In this discussion, therefore, I shall use the term "group banking" to mean the ownership and some element of operating control of several banks through the medium of a bank holding company.

Official figures have not been compiled which show the number and distribution of these groups. The holding companies are incorporated under State law, and the Government of the United States has no immediate access to information concerning their organization. However, I attach hereto a list of what appears to be the most important corporations which have acquired the stock control of a con-

siderable number of banks and which are operating these banks under a group system. This is marked "Exhibit I."

From the character and standing of the bankers and other business men engaged in some of the principal groups in this new group-banking movement I have no doubt that they will be able to work out a system which will be profitable to the group company and give a safer and better banking service to the communities in which they own banks than was possible under the system of rural unit banking. For reasons heretofore stated, I am not in a position to give to your committee first-hand and authoritative information as to their operations.

I may say, however, that I naturally look upon this movement from the standpoint of a supervising official of the Government rather than from that of an operating banker, that is to say, I am concerned not with the question whether the movement is profitable but rather whether it is desirable from the standpoint of the public as a system of banking. The movement is new—hardly a year old—and your committee may find that it gives promise of better banking than the system of rural banking now generally in force. On the other hand, your committee may find that this new movement may be regarded as a temporary and transitional development, constituting a normal prelude or introduction to branch banking.

While perhaps my views may be immature, in view of the lack of opportunity for an exhaustive study of a movement which is so new, I am inclined to the view that group banking under its existing forms is not desirable as a permanent system of banking. Where a group is composed of both State and national banks, as well as of other types of financial institutions, it becomes practically impossible for any supervising governmental official to ascertain authoritatively and accurately the financial condition of the group as a whole. Each corporation in the group is an independent legal entity, some responsible to State governments, and some, that is, the national banks, to the National Government, while other State bank members of the Federal reserve system are responsible to both State and National Governments, and this creates a situation in which the public is not sufficiently protected, in so far as it can be protected by governmental authority. If a group were all national banks and the holding company were placed under the visitorial powers of the Comptroller of the Currency it would be possible, although difficult, to supervise the operations of the group. I may say, however, that if the Comptroller of the Currency be given visitorial powers over bank holding companies engaged in group banking, the Government would be in a position to obtain information as to their operations and would be in a better position to regulate and control them by subsequent legislation should such action be deemed expedient.

In the case of branch banking the situation is different. Under the regional plan which I have discussed there would be no need of an operating holding company. The parent bank would be the only corporation in operation and it would have offices in various places within the trade area. There would be only one board of directors and one set of corporate minutes. The formulation and initiation of the policy for the bank would be subject to a single responsibility and the Comptroller of the Currency (or the State superintendent

in case of a State branch system) could at any time determine the true financial condition of the bank with all its branches.

This concludes the formal remarks which I wished to make to the committee, and I desire to express my appreciation of your consideration. I shall be glad to respond to any questions members of the committee may desire to ask, and I shall be pleased to return at any time your committee may desire. I wish also to offer to your committee all of the facilities of my office which may aid you in these inquiries.

The CHAIRMAN. I want to express, Mr. Pole, the appreciation of the committee for your splendid statement. I shall tell you now that the members of the committee will be given an opportunity to ask you questions, and in all probability, after we have had an opportunity to study your statement, we may ask you to come before this committee again. In the meantime, we appreciate your offer to continue to cooperate with the committee as the hearings proceed and give us any advice that may be of help to us.

Mr. Strong, have you any questions you desire to ask of the comptroller?

Mr. STRONG. I regret I was detained and could not get in until late and, consequently, did not have an opportunity to hear what the comptroller had to say. I just heard his last remarks. However, Mr. Comptroller, your belief is that in a branch bank, with one or two hundred branches, you could accurately examine that bank with the force that you have now?

Mr. POLE. I think not, Mr. Strong. The force would undoubtedly have to be adjusted, to any new system of banking, which would create branch systems all over the United States. However, we do examine two banks now with over 100 branches each, quite satisfactorily.

Mr. STRONG. What do you mean by "quite satisfactorily"? You mean to get an accurate estimate and knowledge of their condition?

Mr. POLE. Yes, sir.

Mr. STRONG. How many men does it require to do that, where there are 100 branches?

Mr. POLE. That would depend entirely on the resources of the bank. I could not answer the question without referring to a bank which is in operation, as a branch system.

Mr. STRONG. Well, take the Bank of Italy.

Mr. POLE. We examine the Bank of Italy with about 40 men.

Mr. STRONG. How many branches has it now?

Mr. POLE. Approximately 300.

Mr. STRONG. How long does it take those 40 men to exmaine that bank?

Mr. POLE. It is what amounts to a continuous examination.

Mr. STRONG. They are there all the time with that bank and its branches?

Mr. POLE. They are there practically all of the time with the various branches; that is, they go from one branch to another, which practically amounts to a continuous examination.

Mr. STRONG. Do you think that is a satisfactory examination, to have to examine one branch and go to another and then to another?

Mr. POLE. That is only part of it.

Mr. STRONG. What is the rest of it?

Mr. POLE. The rest of it is that when we go to a bank we first send our examiners into the head office and the principal branches and we have a form which is sent out to every branch in that system calling for detailed information as to the operation of that particular branch, which is assembled at the head office, and we use that for the purpose of compiling the main report. Having done that, we visit each branch and check the figures back as of the date of the examination and examine it just as though it were an independent bank. I do not mean to say that it is not difficult. It is difficult to examine an independent bank. But all in all, it must be considered that it is easily possible to examine effectively a bank with 100 branches, but not simultaneously.

Mr. STRONG. Well, you say in order to examine them, you have to keep the examiners continuously on the job, going from one branch to another.

Mr. POLE. Correct.

Mr. STRONG. Suppose the bank was not in good condition: Would there be an opportunity to pass money or credit from one branch to another and back to the parent bank during the time that these examiners were passing from one bank to another, which you say, takes the entire time?

Mr. POLE. You mean to send money to the head office of another bank?

Mr. STRONG. Do anything to cover up those conditions which you would like to discover—passing credits, money, or anything in the way of securities.

Mr. POLE. I would say not in any material amount.

Mr. STRONG. How long does it take one of your men to examine a branch bank?

Mr. POLE. It would depend entirely on the size of the branch. If it were $50,000,000, it would take a great many men and a good long time.

Mr. STRONG. Are there many branches with $50,000,000?

Mr. POLE. Yes, sir.

Mr. STRONG. How many of them?

Mr. POLE. I will say very few.

Mr. STRONG. You know what I am trying to get at. I am trying to find out when your examiner goes to the ordinary branch of the Bank of Italy how long it takes him to examine that branch.

Mr. POLE. It is impossible for me to answer that. I do not know what you call an ordinary branch. Some have $200,000 total resources and some $10,000,000 or more.

Mr. STRONG. You know what you call an ordinary branch, do you not?

Mr. POLE. I do not know what you call an ordinary branch. You mean a small country branch?

Mr. STRONG. Of course, a small branch bank—one of the branch banks of the Bank of Italy which exist all over California—one of the 300 or more.

Mr. POLE. Mr. Strong, I do not know whether I understand you exactly. Of course, the Bank of Italy has branches all over the State of California, but they vary in size from $200,000 up.

Mr. STRONG. How long would it take to examine one of the banks with $200,000?

Mr. POLE. That would depend on its condition.

Mr. STRONG. Then you can not give this committee information as to how long it would take to examine one of those ordinary branches of the Bank of Italy——

Mr. POLE. I shall be glad to give this committee categorical information on how long it has taken to examine any one of these branches.

Mr. STRONG. You say you have 40 men who are occupied on this examination?

Mr. POLE. Used in an examination of the large California branch systems.

Mr. STRONG. Forty men spending their entire time examining the Bank of Italy, in this continuous examination.

Mr. POLE. You misunderstood me. I said when we come to make an examination of the Bank of Italy, we probably employ 40 men at the start.

Mr. STRONG. That is a continuous proposition?

Mr. POLE. Not with the 40 men. May I furnish you with a detailed list of the time it takes to examine each one of the branches and the number of men?

Mr. STRONG. I shall be glad to have it.

The CHAIRMAN. Any figures you furnish on this matter will be inserted in the record.

Mr. STRONG. The number of men and time it takes to examine each branch of which I understand there are about 400. The point I want to inquire into——

Mr. WINGO. May I make the suggestion before he gets away from the statement? The comptroller spoke about the resources of the branches. I think it might be wise to include a statement of what he means by "resources," and just what they are.

The CHAIRMAN. Mr. Comptroller, I should like to suggest, apropos of what Mr. Strong said, that you put in a statement of the plan under which the Bank of Italy is being examined by your department, so that the committee may understand just how the examination of one of these large branch banking groups is handled.

Mr. POLE. I understand perfectly, and I shall be very happy to do that.

The CHAIRMAN. Particularly instruction from your office, which have been set up as a plan for examining these banks.

Mr. WINGO. Might it be well—I do not know whether he wants to do it in response to that statement—but in response to Mr. Strong's question, to show the plan they have perfected; what safeguards they have got, in a practical way, by examining, against, say, a conspiracy of a number of officers or employees—take the Bank of Italy for illustration—covering up a shortage by substitution, or a shifting when you are checking one branch and before the time you get to another branch, and have it there on hand.

Mr. POLE. I understand.

Mr. WINGO. I think possibly a great many men who will read the hearings and a great many of the committee would be interested in knowing, from an economic standpoint, how you have developed a system of examination that guards against that difficulty.

Mr. POLE. Yes, sir.

The CHAIRMAN. Might I further supplement that it would be profitable for the committee if you would make a statement also of your present method of examining other big groups of banks.

Mr. POLE. For instance, the National City Bank of New York.

The CHAIRMAN. Yes.

Mr. POLE. Of course the National City Bank of New York is not one of the groups to which you refer.

The CHAIRMAN. Or a bank similar to that, whose branches are confined to a city, inasmuch as the Bank of Italy is confined to the State.

Mr. POLE. I understand what you would like to have. You would like to have included the method of examination of the National City Bank of New York, whose branches are confined to the city.

The CHAIRMAN. Or the Chase National Bank. Or any other of the large banks with many branches in one of our larger cities, so that the committee will have an opportunity to know how your examinations are carried out.

Mr. POLE. I will be happy to do that.

(The information requested will be inserted in the record at a later date.)

Mr. STRONG. My purpose, Mr. Comptroller, in pursuing this line of questioning, is that it seems to be a rather difficult proposition. To put a force of men into the examining of a bank of 400 branches, which would preclude their passing of credits and funds and securities from one bank to another if it was in bad condition and the same was necessary to cover up lack of funds. I do not think, of course, the Bank of Italy is in such bad condition—at least I hope not.

Mr. POLE. No.

Mr. STRONG. But here: Take a bank that was in failing condition and was perpetrating fraud and doing all kinds of illegal and unjustifiable acts. Now with a big bank of 400 branches, and you go into its examination with, say, 40 men. One bank examiner will take Ine bank and go to another. That would cover but 40 branches. There will be 360 that will not be visited until the 40 are examined. ot seems to me it would be a rather difficult thing to detect any illegal operation of that bank which was going on. That is the reason I am approaching the question, which it would be very interesting to have your conclusions on, together with a statement as to the method of conducting the examinations. I have not had an opportunity to hear your statement and I would like to waive further cross-examination until I have read it. So, with that understanding, Mr. Chairman, I surrender the witness.

The CHAIRMAN. Mr. Wingo.

Mr. WINGO. I have no questions at the present time. However, I might remind the comptroller that the question of a satisfactory examination is one that is of a great deal of concern to some gentlemen. For illustration, one of your predecessors testified that he could not satisfactorily examine a bank of the size of the bank of Italy at that time, which had only about two-thirds as many branches as now, and possibly Mr. Strong had in mind that statement of his.

Mr. STRONG. Yes; Comptroller Dawes.

Mr. WINGO. He went into that situation some years ago when he was comptroller and took the position that it was almost impossible to prevent these shiftings of assets unless you had a simultaneous examination of the branches and an adequate force to check them up. So, I suggest, in discussing this, that you go into that in detail and show how you overcome that difficulty.

Mr. POLE. Of course there is no doubt that should there be a general extension of branch banking in this country, it would be necessary perhaps to adapt a system of examination to it. However, that would be an operating difficulty and I have no hestitation in saying that, with the experience we have already had in the matter of the examination of branches that, to a reasonable degree, we regard them as satisfactory. It is true it is not as simple as examining an independent bank, but, after all, it is an operating difficulty that can be met. It might be necessary to put on 400 men, to use an extreme illustration, but if we did, the bank pays for it. While it is not easy for me to convey to your committee just precisely the technical details in which we proceed with a bank examination, it is a measure which can be met and satisfactorily so.

Mr. WINGO. In other words, you are satisfied, from your experience, that that is an administrative difficulty that may be overcome satisfactorily?

Mr. POLE. I feel that way, and I feel that our examinations are quite satisfactory. Of course, the banks themselves are very vitally interested in our examinations. In addition to the examinations which we make, the banks themselves have a traveling force of experts spot-checking everything that goes on in the system, and I shall be very glad to furnish the committee with any information along those lines that I think will be enlightening.

Mr. WINGO. Another thing. To-day there is not a very clear conception in my mind—and I think that difficulty may be experienced by some others—of the distinction that you make between group banking and chain banking. Do you, at the moment, recall a distinctive illustration of each that you might use or feel free to use without embarrassment in connection with any individual case?

Mr. POLE. Perfectly so. I would say that in the chain—what we call a chain of banks—there is in the State of Arkansas, as an illustration, a chain of some 55 banks, which, I am informed, are actually controlled by a single individual.

Mr. WINGO. Now, you call that a chain. In other words, here are 55 independent banking corporations that have separate local corporate entities and one individual, whom we both have in mind, owns a controlling interest in those 55 separate corporations. You call that a chain?

Mr. POLE. Yes, sir.

Mr. WINGO. Now, give us an illustration of a group bank, as contradistinguished from the chain.

Mr. POLE. An illustration of the group bank is where a holding corporation is formed and that holding corporation proceeds to purchase independent banks, usually within its trade area, either through an exchange of its stock or for cash and the control of each one of those banks is held through stock ownerships by the corporation.

Mr. WINGO. Now, I do not catch that difference. Take, in the first instance, now, the chain bank: That gentleman owns the control through an ownership of the stock of those 55 different corporations?

Mr. POLE. Individually.

Mr. WINGO. If he were to transfer that to the, let us say, A B C Banking Corporation, and that corporation were to take over the

controlling shares of stock of those 55 banks, you would call that a group banking system?

Mr. POLE. Yes, sir; a group banking system.

Mr. WINGO. After all, the mechanics are the same; the ownership is the only difference, in that it is in one individual in one instance or a group of individuals, whereas, in the other instance, the ownership is in the control of a holding corporation?

Mr. POLE. They are similar in characteristics.

Mr. WINGO. Is that the only distinction—that which you have given?

Mr. POLE. That is, I might say, about the only distinction, except as to the methods of operation, which is all important.

Mr. WINGO. What are the differences in methods of operation? Take the banks owned by the individual or controlled by him: What change in the operations of those banks would there be if he would transfer his holdings to a holding corporation and it became, in your definition, a group bank operation? What change would occur?

Mr. POLE. In the case of the individual, who owns as an individual the stock—the controlling stock—of these various banks, these banks are usually—while under his domination to a certain extent—operated independently of each other. In the case of a group-bank system, the holding corporation has usually one main, large metropolitan bank, and the management contact with these various members of the group is very much more vital than in the case of the chain.

Mr. WINGO. Take the case we have in mind: I heard it rumored possibly that the individual had transferred to a corporation that is under his individual control, as a matter of fact—did it not revolve around a Little Rock bank that he controlled and did they not do their business and was not their chief correspondent in Little Rock that he dominated?

Mr. POLE. I think the group to which you have reference did own shares in the bank in Little Rock and probably controlling shares.

Mr. WINGO. As a matter of fact, did not this individual control, with his officers, attorneys, and employees, one big banking corporation in Little Rock—was the president of it?

Mr. POLE. I am not informed as to that.

Mr. WINGO. A trust company?

Mr. POLE. I really do not know.

Mr. WINGO. I think I catch the point of distinction, though. You call it a group system where a corporation, as a holding company, has a metropolitan bank and then controls, through stock ownership, a number of other banks—that while maintaining their separate corporation entities, they also control these other corporations?

Mr. POLE. That is a very nice distinction. The principal difference between a group and a chain is that the group always has some form of central management while the chain has not.

Mr. STEVENSON. And that corporation——

The CHAIRMAN. The gentleman from South Carolina is out of order. He did not address the Chair.

Mr. STEVENSON. Pardon me, Mr. Chairman. May I ask the witness a question?

The CHAIRMAN. You may.

Mr. STEVENSON. The holding corporation maintain a very strong supervisory control by auditors usually which audit at least once

every two weeks the transactions of everyone in the group. Is not that the rule?

Mr. POLE. I think that is generally the rule.

Mr. STEVENSON. Where one man merely owns the controlling stock in a great many, which you describe as a chain, that system is not so rigidly enforced, is it?

Mr. POLE. I think that is more or less correct; they run more or less independently.

Mr. STEVENSON. The stock being held by the corporation, which they get from a State, are those corporations so organized as to be liable for a stockholder's liability? You know, a State can grant a charter and, in a great many cases, limit the things for which the corporation can be liable.

Mr. POLE. Of course the national-bank stock in every case is liable for assessment.

Mr. STEVENSON. The stockholder is.

Mr. POLE. Yes, sir; and if it becomes necessary to assess the stock which is in the hands of a corporation, of course, we would assess the corporation as you would an individual.

Mr. STEVENSON. Yes, sir.

Mr. POLE. If the corporation had no assets other than the stock of the banks assessed of course it would be uncollectible.

Mr. STEVENSON. Yes, sir.

Mr. POLE. But a corporation would probably hold, in addition to bank stocks, other securities, and I think a majority of those corporations which have already been formed could readily meet such liability.

Mr. STEVENSON. I want to ask a question which has been referred to here. You discussed pretty fully the question of putting the limitation on stock in banks to such a large amount as it would give a monopoly in any one community; in other words, they would be able to establish more than one bank. We are met with the same argument in the establishment of these branches, that the very strong metropolitan banks could establish branches in all communities where a unit bank, which was trying to operate, would be run out of business and the metropolitan bank, in that way, could acquire a monopoly. That is the principal argument we meet. What is your view about that? Is there a danger of that?

Mr. POLE. There is no doubt, in my mind, that if branch banking were permitted we would eventually have a branch banking system and not very many unit banks. However, I think that is looking pretty well ahead. Branch banking, under the regional system would develop so gradually that it would take many years before the unit bank was entirely out of existence, if it ever went entirely out of existence.

Mr. STEVENSON. This question arises: When they get out will it be the tendency or will it not—that is the argument that is used entirely almost—to have the territory apportioned among the various institutions that have the branches so that there will be a branch of one bank in community A and no other branch of any other bank would be placed there and the branch of another bank would be established in community B. That is going on and I think the comptroller is entirely familiar with it, in my State. The banks have almost all failed except these banks—group and chain.

Mr. POLE. And branch systems.

Mr. STEVENSON. Yes; branches also. We have them all operating, and but for them a large part of our territory would be utterly bereft of banks. They have apparently divided the State among themselves and group A puts a bank in my town and group B puts a branch in Darlington, 30 or 40 miles away, and so on, and they are leaving each community with one bank, and that is the cry that is going to be made, as I see it. However, unless they had done this, we would have been in a terrible fix. It has done more to commit me to some system of the kind you have described than anything I know of—the practical effect.

Mr. POLE. I do not know what would happen, but I can easily understand that in South Carolina the competition between branch banking systems—and the two to which you have referred are branch banking systems—the thing has not arrived at a point where competition is keen enough for banks to go in, each of them, in the same place, because there are locations without banking facilities where the opportunity is better and banking service is needed. Later on, when South Carolina becomes properly covered with branch banks, if it ever does, the arrangement you referred to might not prove attractive. I know in California branch systems are operating side by side in numbers of towns, and there is no trade arrangement between them, but they are in keen competition to give the best banking service that is possible.

Mr. WINGO. Mr. Chairman——

The CHAIRMAN. Mr. Wingo.

Mr. WINGO. I believe I will defer further questions to a later date. I have really forgotten the line I was on.

Mr. DUNBAR. Mr. Pole, the Bank of Italy is an illustration of the branch banking system. I understood you to state to Mr. Wingo that the operation of those banks in Arkansas was an illustration of the chain banking system?

Mr. POLE. That is correct.

Mr. DUNBAR. Now, then, I gathered the impression, when you were talking about Arkansas, that it was controlled by individuals rather than by a partnership or corporation.

Mr. POLE. By an individual.

Mr. DUNBAR. An individual?

Mr. POLE. Yes, sir.

Mr. DUNBAR. Is the Bank of Italy controlled by an individual?

Mr. POLE. No; it is controlled by, as far as stock ownership is concerned, a corporation.

Mr. DUNBAR. Then, that is an illustration of a chain banking system controlled by a corporation?

Mr. POLE. That is a branch banking system.

Mr. DUNBAR. What is the difference between them?

The CHAIRMAN. Will you yield a moment?

Mr. DUNBAR. Certainly.

The CHAIRMAN. You were not here when we opened the hearings. We are proceeding under a regular order. I mention this so that you may know it. I am calling the members, according to their seniority, to question the witness, and you will come on later. I beg your pardon for interrupting you. I did not wish to interrupt you, but I do want to see this program followed.

Mr. DUNBAR. Then you proceed according to the seniority of the members of the committee?

The CHAIRMAN. Yes.

Now, Mr. Goodwin.

Mr. GOODWIN. Mr. Pole, in the establishment of a branch banking system throughout the country, would you require legislation in the several States so as to make them uniform?

Mr. POLE. I would not.

Mr. GOODWIN. You think the National Congress has authority to establish branch banking systems for the national banks without legislation?

Mr. POLE. I understand from my counsel that is correct.

The CHAIRMAN. Mr. Goldsborough.

Mr. GOLDSBOROUGH. Mr. Pole, I understand from you, your view is if the legislation, such as you have in mind, were adopted by Congress, it would tend to disestablish the great concentration of banking resources in New York and tend to concentrate them in various centers, such as New York, Detroit, St. Louis, Baltimore, San Francisco, and Dallas, and other places. You do think, as I understand, that it will tend to a centralization in those various centers?

Mr. POLE. Unquestionably.

Mr. GOLDSBOROUGH. Now, have you considered this question from any other standpoint than the standpoint of bank technique; in other words, have you considered the political implications which would necessarily arise from the concentration of credit in a great center? Have you considered it from that standpoint at all?

Mr. POLE. I have.

Mr. GOLDSBOROUGH. Let us assume, for the purposes of illustration—because I have no reason to suppose this will happen—but let us assume that, in my own State, for instance, the banks of Baltimore were to get control of the resources and credit structure of the rural communities, such as in southern Maryland, western Maryland, and on the Eastern Shore of Maryland, which is the section that I happen to come from. Did you apprehend that the Members of Congress, for instance—I will take Members of Congress for purposes of illustration. Do you have in mind that the Members of Congress from the rural part of Maryland would not be representative of the genius of their communities but would be dominated and controlled by the financial system, which had its root and base in Baltimore city?

Mr. POLE. Well, I would not think so any more than it is the case now. I think on the Eastern Shore of Maryland you have one of the important systems of group banks.

Mr. GOLDSBOROUGH. I did not ask that question, but I do not want to interrupt you. Just proceed, sir.

Mr. POLE. If I understand you, you mean would the interest in the locality in which a branch might be situated be lost—would the interest be less in that locality—is that what you mean?

Mr. GOLDSBOROUGH. I mean what I attempted to say, but I may not have made myself plain. What I have in mind is this, that all the business in this country is done on credit, of course.

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. You can not do business any other way, because there is not enough money to go around.

Mr. POLE. Yes, sir; at least 90 per cent done on credit.

Mr. GOLDSBOROUGH. Now, if this system, which you have in mind, resulted in the concentration of credit and resources in these centers which I have in mind—would not the political conditions in the rural districts—would not those who are supposed to represent the rural districts be controlled not by the sentiment existing in their own communities, but by the powers in these centers of credit which you spoke of?

Mr. POLE. I should say not at all.

Mr. GOLDSBOROUGH. You think not?

Mr. POLE. I should say not at all.

Mr. GOLDSBOROUGH. Why?

Mr. POLE. Because the local touch in these smaller communities is not lost in any way. I thought that is what you had in mind. In almost all instances where branch banks are operated or where group bank are operated in small sections, there is almost always a lot of interest in that local unit of the group or the branch, and there is usually a local advisory committee consisting of two or three people, and I can not feel that there will be any such state of affairs as you speak of.

Mr. GOLDSBOROUGH. You have never had—I beg your pardon. I thought you had finished.

Mr. POLE. I do not know that I am in a position to speak very intelligently on that point, however.

Mr. GOLDSBOROUGH. You have not given that particular question the same mature though as you have the questions which arise more naturally in the mind of a man who has been a banker and who is primarily concerned in the stability of a banking system?

Mr. POLE. I have given a great deal of thought to that and I reply that I do not think there would be any such condition arising as you suggest.

Mr. GOLDSBOROUGH. Now, you remember that two or three years ago the Senate desired to investigate the public utilities, and that by virtue of the enormous control which the public utilities had of the political forces nationally, they, themselves, were able to direct the course of the investigation and transfer it from the Senate to the Federal Trade Commission. That is, when I say they transferred it, they were able to control the situation in the Senate to such an extent that it was transferred from the Senate to the Federal Trade Commission. I do not know whether you are familiar with that condition or not.

Mr. POLE. I understand your point of view there, but as the group bank or branch bank has been developed up to the present point I do not think it can be said that the interests of the local communities have been in any degree lessened; in fact, I think they have been increased by the upbuilding of an institution which is necessarily one which appeals more to the people of that community by way of local pride.

Mr. GOLDSBOROUGH. Now, would you be surprised if the suggestion were made that the influence of the city correspondent banks—even the city correspondent banks—is felt very sharply by those holding public positions, such as an office as Representative in Congress, in the country? That is the condition. I do not want to say that arbitrarily, but you would be surprised if the suggestion were

made that that condition was felt already even when the relationship is only that of a correspondent bank.

Mr. POLE. Well, I can not conceive of such conditions as that, Mr. Goldsborough, unless it would be through the channel of what might be called controlled deposits.

Mr. GOLDSBOROUGH. Now, what I have in mind is this—that the point of view of the local bank is dominated very largely by the point of view of the city correspondent bank. That is what I have in mind, and that point of view is always reflected out to the legislators.

Mr. POLE. I think that is one of the points that might be cured by branch banking. At the present time the city correspondent is probably the banking connection of a public utility. That public utility has its plants and offices in various small towns in which correspondents of the same bank may be located. The city correspondent, through a contact or through representation on the board of directors of the utility company, would control that deposit and it would reach out to the small community so that if you did not behave, as a small banker, the city correspondent would probably be able to control that deposit you had been receiving from the local utility and place it elsewhere.

Mr. GOLDSBOROUGH. You say if the local banker did not behave.

Mr. POLE. If the local banker did not meet its wishes.

Mr. GOLDSBOROUGH. That is the idea. You hit the nail on the head the first time.

Mr. STRONG. There is no doubt about that.

Mr. POLE. That, however, I think, would be cured largely by the branch banks, Mr. Goldsborough, because the city bank, which controlled this important deposit, would project itself into this community and it would have no independent unit. It would be a matter of indifference, then, whether the deposit were placed at headquarters or distributed among the local banks in the communities from which it arose.

Mr. GOLDSBOROUGH. Mr. Pole, let us assume that, through a given congressional district, you have these branch banks centered in some great city, like Detroit, St. Louis, Baltimore, or New York, as the case may be, and let us assume that your Representative in Congress from that district—his views about finances were controlled by what he deemed to be the best interests of his Congressional district, and rural life in America. Let us assume that he felt that urbanization was progressing too fast in this country; that he felt a large proportion of city population was unassimilated into what we understand to be American life: Now, then, what would happen to him and his independent thought I am discussing——

Mr. POLE. I am not a politician, Congressman.

Mr. GOLDSBOROUGH. I have not finished the question, and I should like to do so because I think it is important—what would happen to him if he persisted in representing what he thought and believed to be the true sentiment of his district; continued to feel it necessary for the rural districts to be independent politically in order to control this condition in the cities I have mentioned? What do you suppose would happen to him if he asserted himself, in view of the fact that the district was covered by branch banks that represented the city point of view?

Mr. POLE. Mr. Goldsborough, that is a hypothetical question which it would be very difficult for me to answer.

Mr. GOLDSBOROUGH. It is not hypothetical. Those of us who have been in politics know it is a very practical question.

Mr. POLE. I really could not answer that question.

Mr. GOLDSBOROUGH. One more question, and then I think I am through. There is evidently pressure coming from various sources for an extension of branch banking, because these things never become politically acute or never become political issues until there is pressure concentrated on Congress from one source or another.

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. You will be surprised when I tell you that at our first meeting—a thing which never happened before since I have been a member of this committee—every member of the committee was in his seat when the gong sounded, and it was all because of this proposed discussion on branch, group, and chain banking. Would you feel that you could freely give your opinion as to where the pressure is coming from for this extension of branch banking in the rural districts?

Mr. POLE. I think I started a great deal of it myself, Mr. Goldsborough. I think, in addition to that, that the bankers associations and the various bankers in the metropolitan centers——

Mr. GOLDSBOROUGH. Exactly.

Mr. POLE. Have realized that something is necessary to protect the small communities against the bank failures which have occurred in such large numbers over a period of years.

Mr. GOLDSBOROUGH. Then, your aspect of the situation is something like this: That this pressure is coming from the metropolitan banks and not from the rural districts themselves and that the point of view of the metropolitan banks is not selfish at all, but simply for the purpose of helping and assisting the rural communities?

Mr. POLE. In a large measure I would say the latter is true in a very large measure.

Mr. GOLDSBOROUGH. You think——

Mr. POLE. May I answer that?

Mr. GOLDSBOROUGH. Yes.

Mr. POLE. At the same time there is considerable pressure coming from the rural communities. There are many country bankers who are in favor of branch banking.

Mr. GOLDSBOROUGH. That I am not prepared to dispute. I do not know. It does not exist in any locality I am familiar with. I would say, Mr. Pole, as far as I am concerned, that since the beginning of the present Congress I have had a vast amount of correspondence on this general situation, and the only opposition to the general position which I have taken has come from large city banks.

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. Now, the difficulty the rural man has is something like this: He realizes when you control the credit of a community, you control all the capital—and that is the answer—and he is unable to feel that the attitude of the city banker is philanthropic. He is forced to feel that the city banker is conducting his business as a business man should—for honest private purposes. That to me is a very controlling interest. All the pressure, as far

as I know, that is significant at all comes from the big metropolitan banks.

Mr. POLE. I think there is pressure from hundreds of country State banks, Mr. Congressman, and also I think if we could take a poll of the number of people interested in a change of the banking system, among those, thousands of people who have lost money in those country banks, it is even more representative than the opinion of the country banker. He is the man who usually bas been lost sight of.

Mr. GOLDSBOROUGH. Don't you think, as a matter of fact, Mr. Pole, there is already too great concentration of bank resources in this country?

Mr. POLE. I would say that there is too much concentration of banking resources. It would be fortunate if it could be decentralized.

Mr. GOLDSBOROUGH. Now, Mr. Pole, I received this morning—I do not want to get into individual cases, because I rather think that is not the standpoint from which I want to approach the subject—but I received this morning from some one in California, a deposit slip which is used by the Bank of Italy and, on the back of it, it says "Bank of Italy covers California," and then it has a map of California with the intersecting lines which show branches that exist in that State. To me that is a very unusual document. I should like the committee to see it, and will you pass it around, please—indicating rather, I am afraid, a position of arrogancy on the part of the Bank of Italy due to its undoubted control of the banking resources of that State. I did not imagine that any institution would have the hardihood to issue a paper of that kind.

The CHAIRMAN. Have you any further questions, Mr. Goldsborough?

Mr. GOLDSBOROUGH. That is all.

The CHAIRMAN. Under the arrangement the committee made the other day, we were to begin these hearings at 10.30 and end at 1 o'clock. It is now 5 minutes to 1. What is the pleasure of the committee?

Mr. FORT. It seems to me before we go on with other witnesses we really ought to finish any questioning by the members of Mr. Pole, and the program on the floor of the House this afternoon is almost insignificant, unless it has been changed since I came out. It is nothing but a bill to change the mileage allowances and per diems allowed witnesses summoned before House committees, and I think the House could get along without us on that, and I wonder if we could not go on this afternoon and get Mr. Pole's views thoroughly developed before we take up the next witness we propose to call?

The CHAIRMAN. There was no intention to take up another witness before the committee until we completed with Mr. Pole. I should like to ask Mr. Pole if it would be convenient for him to come back this afternoon at 2.30 or would he prefer to come back to-morrow morning at 10.30 o'clock.

Mr. POLE. I have some very important engagements this afternoon, Mr. Chairman.

The CHAIRMAN. Under those circumstances, it is probably better to adjourn until to-morrow.

Mr. BEEDY. Mr. Chairman——

The CHAIRMAN. Mr. Beedy.

Mr. BEEDY. Apropos the question asked by the gentleman from Maryland (Mr. Goldsborough) as to where this pressure is coming from for branch banking, do I not understand it to be your position, Mr. Pole, that this pressure is an economic urge, the result of an economic evolution and tendency in all lines of business, which is now being voiced by bankers not only in the cities but in the rural communities as well?

Mr. POLE. Precisely so.

Mr. BEEDY. And referring again to the question about centralization, you say there is already probably too much centralization of credits. I presume you refer to the fact that to-day the great centralization of the credits and financial operations is in the cities of New York and Chicago, possibly.

Mr. POLE. New York, Chicago, and St. Louis.

Mr. BEEDY. And do you not contend that the establishment of other branches by national banks would have a tendency to decentralize the concentration of credits, making more independent of the three centers to which you have referred, the various other natural industrial areas?

Mr. POLE. There is no doubt in my mind that that is what branch banking would result in.

Mr. BEEDY. You would not contend that the policy which you advocate would result in further concentration of power?

Mr. POLE. The policy which I advocate is a policy of further decentralization.

Mr. BEEDY. But whatever you may claim for branch banking, I understand you do not claim for it any guarantee of the reelection of Members of Congress?

Mr. POLE. I think that covers my thought.

Mr. FORT. When will we get the exhibits to which you referred in your testimony?

Mr. POLE. They are not here. I have only the one copy with me.

The CHAIRMAN. In view of the fact that Mr. Pole has only one set of exhibits, which are material to each one of us here, it will be impossible for us, by to-morrow morning, to have an opportunity to look over those exhibits and the fact that to-morrow is Calendar Wednesday and our committee has the call, I want to raise the question with the committee, and I shall be glad to have a suggestion, as to whether or not it would not be better to have the matter go over until Thursday.

(Discussion off the record.)

The CHAIRMAN. Very well; we will adjourn to meet to-morrow morning at 10.30, when the hearings will be resumed and be continued to 12 o'clock.

(Whereupon, at 1 o'clock p. m., the committee adjourned until Wednesday, February 26, 1930, at 10.30 o'clock a. m.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Wednesday, February 26, 1930.

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

The CHAIRMAN. The committee will come to order.

STATEMENT OF JOHN W. POLE—Resumed

The CHAIRMAN. I would like to repeat what was said in the committee the other day as to procedure, before we began the hearings, and also to state now, the Comptroller of the Currency being in the midst of his testimony, that an invitation has been extended to the Secretary of the Treasury to be here, or any members of his department; also the Federal Reserve Board has been notified of these hearings and they perhaps will have the opportunity to appear next, after which the officers and directors of the 12 Federal reserve banks, and after them, persons connected with group, chain, and branch banking operations. I want to make it perfectly clear, of course, that during the hearings the committee will hear all phases of the question.

Mr. SEIBERLING. You mean in the order in which you name them?

Mr. POLE. Group, chain, and branch, in the order named?

The CHAIRMAN. No; all together, collectively. I want to mention that there are on the committee two outstanding antibranch bankers that we have knowledge of—Mr. Strong, of Kansas, and Mr. Goldsborough, of Maryland.

Mr. STRONG. Guilty as charged.

The CHAIRMAN. I presume there are others, and the chairman would be glad if those members will confer with him as to any possible witnesses against any of the branch, chain, or group banking proposals, or any other members of the committee that have suggestions to make, so that we can get word to the witnesses.

Mr. STEAGALL. Let me submit an inquiry.

The CHAIRMAN. I should like to furnish my statement. There are advocates of branch banking, but I do not know whether there are any advocates of chain or group banking on this committee, and if those or any other members know of persons who would like to be heard, the chairman would be glad to confer with those members, so that their witnesses may be invited to appear before the committee.

Mr. STEAGALL. I want to suggest to the chairman that I thought there were a number of members of the committee—and I say this because the chairman seems to want to discuss the attitude of the committee for the record—I thought it was understood there were a number of members of this committee who were against branch banking, and I thought the chairman of the committee was among those members.

Mr. STRONG. I thought there were 15 or 20.

The CHAIRMAN. The chairman was simply trying to arrange this matter so that the members of the committee can confer with one another and the chairman as to witnesses.

Mr. LETTS. I assume no one would undertake to say that the chairman of the committee had polled those mentioned in favor of branch banking—for myself, I want to say that I want to try to maintain an open mind.

The CHAIRMAN. The chairman desires to state that he is not intending to define the attitude of any member of this committee. I am rather in hopes that the entire membership of the committee will maintain a judicial attitude in regard to this whole matter until these hearings are completed.

Mr. HOOPER. I should like to put myself on record in the same way Judge Letts has done. I came here to gain information and possibly act on that information after it is gained.

Mr. STRONG. I shall reserve my decision until after these hearings have closed, and then I shall render it against branch banking.

Mr. LETTS. That is what we call a truly judicial attitude.

Mr. STRONG. That is an attitude in favor of the people.

Mr. STEAGALL. In that connection, just a word: If members declare their attitude—I do not think it is necessary that this all be said—I think the members of the committee who have served with me here for years will agree that I have an open mind in so far as the information and arguments are concerned, and I hope I shall always be that way. This subject of banking and finance, is, of course, one of the most intricate things in the world and if I know myself, I am the last man in the world that wants to deny himself any information that anyone wants to offer.

The CHAIRMAN. I have a letter from the Secretary of the Treasury in answer to the invitation which the chairman sent him in regard to these hearings which I think should be read at this point. It is dated February 24, 1930.

(The letter is as follows:)

DEPARTMENT OF THE TREASURY,
Washington, February 24, 1930.

MY DEAR MR. CHAIRMAN: I have your letter of February 21 in which you inform me that your committee will be pleased to hear my opinions in respect of the study undertaken by your committee in pursuance of the authority granted under House Resolution 141, covering the subject of group, chain, and branch banking.

In this connection I call your attention to the statement contained in my Annual Report to Congress for the fiscal year 1929, which reads as follows:

"In banking, as in other enterprises of this country, there is increasing evidence of a movement toward larger operating units. The number of branches of banks in operation has increased and more recently there has been a growth also in the number of groups in which several independent banks are operated more or less as a single system. Both of these developments reflect changes in the underlying economic situation.

"Branch banking has always existed in this country to a limited extent in one form or another. At the present time the Federal reserve act and the national bank act, as amended in 1927, authorize national member banks to establish branches in foreign countries and in insular possessions of the United States, and all member banks to establish branches within the corporate limits of the center in which the head office of the parent bank is situated and in which State laws permit State banks to operate branches (with certain restrictions as to the size of centers in which branches may be established by national banks.) At the end of June, 1929, State-wide branch banking was permitted in nine States and in the District of Columbia; branch banking in more limited form was specifically permitted in 11 States; and in 23 States the operation of branch systems was specifically prohibited.

"In June, 1929, out of a total of 8,707 member banks in the Federal reserve system, 354 were operating 2,291 branches. This represents an increase of 130 branches during the year. On the same date 818 banks, including both member and nonmember, were operating a total of 3,440 branches, an increase of 210 for the year. The development of branch banking which is permitted by existing legal arrangements has facilitated the adaptation of banking facilities to requirements of urban areas.

"More recently there has been a rapid increase in the organization of group systems of banks. Such groups comprise one or more banks that are brought under unified control and some degree of centralized management through acquisition by an individual or corporation of controlling interest in their stock issues. Although technically each bank in a group is a separate corporation operating with its own capital funds and under the direct supervision of a local board of directors, a certain degree of unity is achieved for the group as a whole.

At the end of June, 1929, it was authoritatively reported that there were in existence at the time 230 group systems of banks in the United States, which embraced about 2,000 banks. Group banking is a means of accomplishing in a measure the objects of more extensive branch banking systems than are permitted under the Federal reserve act or under existing legal arrangements in most States. Although banking groups may be expected in most instances to strengthen the banks which they control, the organization of such groups places great responsibilities upon the controlling interests, and is a matter of vital interest to State and national supervisory agencies.

"In view of the fundamental economic situation which has given impetus to the organization of group banking systems and to the growth in branch banking, it is desirable that these developments be carefully studied. In the meantime it is hoped that any further extension of group and branch banking organizations will proceed with moderation, and that hasty legislation, either to liberalize or to constrict limitations now in effect, will be avoided. Our banking structure, the product of many years of experience, is part of an intricate economic fabric whose parts are closely adjusted to one another, and a too rapid reorganization would be likely to create serious and costly disturbances that would affect the entire country.

"The time has come when it would seem to be wise to undertake a thorough study of the situation with a view to determining the soundness of the present-day tendencies, and more particularly the limits of the economic units within which branch banking may be advantageously permitted."

I may add that because of the more direct concentration of responsibility I believe that branch banking is on the whole sounder than chain or group banking, but that even branch banking should be limited to definite economic areas. As to what those economic areas should be, I am not prepared to state at this time without further study or thought. I should prefer, therefore, to defer my appearance before the committee until I have had an opportunity to study the facts which I hope your committee will develop.

May I add that I think it fortunate that your committee has undertaken this study at this time, and that I am confident that much good will be derived from a careful ascertainment of all the facts in connection with the movement which has been proceeding with great rapidity in the banking field.

Very sincerely yours,

A. W. MELLON,
Secretary of the Treasury.

Hon. LOUIS T. MCFADDEN,
Chairman Committee on Banking and Currency,
House of Representatives.

Mr. STRONG. I think the Secretary misstates the law at present when he says that in States that permit branch banking the national banks are permitted to have branch banks in the communities. That is not the law. The law is that they are permitted to have branch in the cities in which located.

Mr. GOLDSBOROUGH. Mr. Chairman, I move that we proceed in the order outlined at the beginning of the hearings.

The CHAIRMAN. You had finished, Mr. Goldsborough?

Mr. GOLDSBOROUGH. Yes, sir.

The CHAIRMAN. Mr. Busby.

Mr. BUSBY. I had in mind asking a few questions with regard to the effect of the different methods of banking on the people of the country who use the facilities afforded by banks. My questions will not be directed so much to the security of the stockholder and bank operators and to the depositors as they will be to the borrowers and users of the banks.

The statement of the comptroller gives us the information that 24 banks in New York City——

Mr. FORT. Showed $10,791,000,000 of assets or resources.

Mr. BUSBY. Twenty-four banks, national and State, in New York City alone are capitalized at an aggregate of $677,000,000 and have

combined resources of $10,791,000,000. I will ask the comptroller if that is not a considerable concentration of money and banking resources of the country in one center?

Mr. POLE. Very obviously.

Mr. BUSBY. Now, much of the money and much of these resources are gathered into New York City because of the fact that these banks are used as correspondents of the smaller banks throughout the entire Nation, is it not?

Mr. POLE. That is very largely true, Mr. Congressman.

Mr. BUSBY. Most of those funds placed there by banks throughout the country, are used to make what is commonly known as brokers' or call loans by the New York banks, are they not?

Mr. POLE. Not most of them. A very small proportion of the total of the deposits in New York banks is used in brokers' loans. As a matter of fact, I think at the very peak only about two billion dollars of the banks of New York City.

Mr. BUSBY. I find that on October 2, 1929, the brokers' loans in New York City were $6,804,000,000. I find that as the crisis was reached in the bond market or the stock market, that brokers' loans had decreased $3,476,000,000, or 51 per cent of the amount of the loans outstanding in October, 1929. Now I will ask the comptroller if that condition is not due very largely to the fact that the credit and currency of the country is centered at that one point through our system of banking?

Mr. POLE. I would not say that that fact is demonstrated by those figures. It is true that the principal stock market of the country is in New York and necessarily any trading would have to be there; so the six billion of loans you are speaking of, I thank that, as far as my recollection serves me, as much as $3,000,000,000, or 50 per cent of them, were loans for others and loans for others represented funds, of corporations and individuals, which were scattered all over the United States and the world which have found their way to New York for the purpose of being placed by the banks, but not for them, on the stock exchange.

Mr. BUSBY. But for our system of banking and concentrating the money and banking credits in New York City, would it be possible to have the kind of financial catastrophe that we have had in the stock market in recent months?

Mr. POLE. I should say that under any system of banking, it might be possible to have a disastrous calamity on the stock exchange, if the general public were disposed so to invest their funds. I can not imagine that the difference in the system itself, such as I have suggested, would have a great deal of effect on the stock market, because funds may be transferred to New York by corporations and individuals which may represent the major share of funds available, and under any system they may be diverted to any point the holder of such funds may direct them.

Mr. BUSBY. Does not our system of banking, and would not our system of banking, if followed in the course you suggest, tend to funnel the funds of the country into New York City as the center of credit?

Mr. POLE. Our present system of banking, you mean?

Mr. BUSBY. Well, our present system of banking; yes.

Mr. POLE. Yes; I should say that it does, and I have that in mind in suggesting that it might be that this situation would be corrected, if the bank resources of the country were further decentralized through regional branch banking.

Mr. BUSBY. I must say that I can not follow your reasoning in trying to secure the result that you predict from the method that you propose. But to give your proposition due consideration at this point, the branch-banking system or the chain-bank system, which is proposed, and whether these systems, or either of them, suggested by you, would decentralize the currency to several points of the country, and whether or not the situation we are talking about would not be remedied any?

Mr. POLE. I can not imagine that the system of banking would have very much effect on the New York stock market.

Mr. BUSBY. Well, if our system of banking carries money from every bank in the country to the New York banks, it would naturally have a tendency to cause those banks to make broker loans or call loans, and thereby increase the tendency of the people to play the stock market throughout the country.

Mr. POLE. Our present system of banking is conducive to funds flowing to New York, which, of course, is the financial center of the country. My suggestion to the committee in regard to a development of banks in the larger metropolitan centers, would cause the funds in New York to be less concentrated. I would develop very much larger systems all over the country, and the funds would be employed locally.

Mr. BUSBY. Now, another thought: In 1919 to 1921, during the deflating period, Mr. E. H. H. Simmons, in an address before the Chicago Stock Exchange on May 9, 1929, states that the broker loans were deflated to the extent of 60 per cent during that crisis. What I am trying to understand is if the banking system does not tend toward building up those periods of speculation on the New York Stock Exchange, and, through a collapse of the pyramiding of the prices of securities—whether that does not cause the financial situation we find in the country to-day?

Mr. POLE. I should say not, Mr. Busby. I should say it is not the fault of the system of banking which we have at this time.

Mr. BUSBY. I notice that last fall the paper values, within a very short period of time, on the stock exchange depreciated $35,000,000,000. Now, somebody lost that much financial standing, did they not?

Mr. POLE. Not necessarily.

Mr. BUSBY. That is where the little fellows all got out, is it not?

Mr. POLE. You refer to them as paper profits?

Mr. BUSBY. That is, a bookkeeping status.

Mr. POLE. I should say that it made no difference to a man's actual net worth. He might have lost what he had won on the market, but I would not say that he was any worse off in the end than in the beginning through the loss of paper profits.

Mr. BUSBY. The banks did not lose anything during that period; or, if they lost anything, it was very little during that period of deflation in stock, did they? Do you recall?

Mr. POLE. The banks themselves were not speculating in stocks. They were carrying customers, perhaps.

Mr. BUSBY. And they dropped many customers during that period?

Mr. POLE. Well, I think perhaps the customers dropped the banks.

Mr. BUSBY. Well, you put it that way; but the customer is the one who lost the money. Is not that true?

Mr. POLE. In a great many instances.

Mr. BUSBY. This may not appear to have any connection with the subject the committee is considering, but yesterday you told us of a few small losses by country banks. I say "small" in comparison with the great catastrophe we are passing over—the great catastrophe connected with the stock market collapse we are passing over. Does not that situation grow out of the banking arrangements of our country, and was that situation not just as effectively detrimental to the commerce of the Nation as the losses in the small banks you are talking against?

Mr. POLE. No. I should say by no means.

Mr. BUSBY. If you can explain to me why we have come to this period of financial distress not as a result of the New York Stock Market collapse, and yet it does not affect the people as much as the breaking of a few small banks, I shall be much obliged to you.

Mr. POLE. I think you misunderstand me. I did not say it has not arisen from any such cause. It seems to me that the thousands of small failures can not be brushed aside in any such light phrases.

Mr. BUSBY. I said comparatively, or I mean to say "comparatively."

Mr. POLE. Because that is the basis of my belief that a change in our system of banking in this country, both national and State, becomes necessary, by reason of those failures.

Mr. BUSBY. Just a moment on this: You say it is estimated that 7,264,000 depositors have contributed to the great total of more than $1,700,000,000 of deposits in failed banks during the last nine years?

Mr. POLE. Yes.

Mr. BUSBY. And that 114,000 shareholders have suffered losses through the suspension? Do you have any figures to show the amount of the losses that were passed on to the depositors by reason of these failures? You give the amount of the deposits, but not the amount of the losses.

Mr. POLE. Yes. Of course, that is problematical at the present time because the banks are still in process of liquidation and it would be difficult to forecast any percentage of recovery which the depositors might have.

Mr. BUSBY. That would run to the amount of——

Mr. POLE. I could say that liquidation of the national banks—and of course these are not national banks only; there are many more State banks than national banks—our liquidation of the national banks would be probably 65 or 70 per cent.

Mr. BUSBY. Of the amount involved?

Mr. POLE. Of the amount involved; that is, as 763 is to 4,877, for instance, of national to State banks, and I am not advised as to what the liquidation on the State banks is.

Mr. BUSBY. Sixty-five per cent of the deposits involved in both banks would be lost?

Mr. POLE. No; would be recovered over a period of many years.

Mr. BUSBY. I want to get through and I know the rest of you want me to. Another question that I should like to ask is——

Mr. POLE. You understand that those are national banks?

Mr. BUSBY. Yes. A bank takes the depositor's money and the depositor is at the mercy of the management of the bank—I say mercy in the sense that he is bound to accept their judgment and management. What is your idea about its being fair and proper to require banks to insure the people who deposit their money in the banks against the loss of their money?

Mr. POLE. I think the idea is unsound.

Mr. BUSBY. What do you think about a general insurance to the depositors by the banking institutions against loss where they place their money in the bank for safe keeping?

Mr. POLE. Nothing at all.

Mr. BUSBY. You say it is unsound, having entire management of the institution in the hands of the directors and bank officers—why would it be unsound for them to assure the honest depositor that they will honestly return to him that which he has honestly deposited, when called for? I should like to know why it is unsound.

Mr. POLE. I would point to the practical experience of the States of Mississippi, Kansas, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Washington.

Mr. BUSBY. I am not asking about the type of laws they have.

Mr. POLE. It is a form of a guarantee of deposits.

Mr. BUSBY. No; I am not asking about that.

Mr. POLE. The insurance would be a form of guarantee of deposits.

Mr. BUSBY. But not the form we have in my State——

Mr. POLE. I am not speaking particularly of your State. There are no two laws in these States which are similar—yes; similar, but not alike.

Mr. BUSBY. Let me explain the idea that I am trying to convey.

Mr. POLE. And that, without exception the principle has completely fallen down.

Mr. BUSBY. The basis on which these laws were enacted is that the banks, in a body and individually, shall contribute to a central fund which shall be applied to the claims of depositors in failed banks in the order in which the amounts have been adjudged proper claims against the central fund, is it not?

Mr. POLE. A similar law has been in force in some States.

Mr. BUSBY. What I am referring to is a bank capitalized with $50,000 stock and has $200,000 or even a million dollars in deposits, why would it not be perfectly sound for that bank to take out an insurance policy with some reputable insurance company, guaranteeing to the people who put their faith and trust in that bank, that this bank will return to them that which it has received from them? What would be wrong with that type of insurance?

Mr. POLE. What insurance company, in the first place, would insure $57,000,000,000 of deposits? How would you insure the deposits of the Chase National Bank, which has $105,000,000 with $135,000,000 surplus and, roughly figuring, a billion dollars in deposits—you would not discriminate between the large and small banks in regard to the question of additional safeguards.

Mr. BUSBY. You ask a question in answer to my question. I am sure a system could be worked out where the risk would be taken over. But you can not expect people to come up with an insurance proposition before you lay down a plan and provide a premium to carry this, and almost every risk under the sun is being insured, and

the smaller banks especially could be cared for in that way, and an inspection of those banks be had by the insurance companies, and you need not say that each bank should stand on a parity in the rate of the risk that should be applied to that bank to insure it against loss.

Mr. POLE. The systems which have been in force which contemplate the protection of the depositor have been universally unsuccessful. The price has to be paid by the going banks and it has often been such a burden on them as to even put them out of business.

Mr. BUSBY. I know that system has been, but the system I am talking about has never been tried.

Mr. POLE. I would not like to express an opinion on any new system which I had not had an opportunity to study.

Mr. BUSBY. My idea was that we would get new ideas on proper procedure and that is the reason I asked the question.

Mr. POLE. I should say that, in the light of experience, any system of insurance of deposits or guarantee of deposits is, in my opinion, entirely unsound.

Mr. BUSBY. Out of respect for the other members of the committee who want to ask questions, I shall desist.

The CHAIRMAN. The gentleman will have another opportunity to ask questions later on.

Mr. Letts, of Iowa.

Mr. LETTS. Mr. Chairman——

Mr. BRAND. Would you object to my asking two questions at this point?

Mr. LETTS. Certainly not. Go ahead.

Mr. BRAND. I just want to ask Mr. Pole first: You can furnish and will furnish to the committee, the amount of the franchise tax paid by each of the 12 Federal reserve banks since the act was passed and the organizations of the banks established, per year, and showing the amount each one of these banks paid down to and including the year 1929?

Mr. POLE. I shall be glad to do so, Judge.

Mr. BRAND. So that we will know what each bank has paid down to and including the year 1929.

Mr. POLE. Yes, sir.

Mr. BRAND. This is a question I want information about: Of course it is well understood by the big bankers and members of the committee who associate with big banking institutions—but will you define briefly the difference between group banking and chain banking as compared with branch banking—either now or later on?

Mr. POLE. I think perhaps it would be very proper if I might use the same language I used yesterday.

Mr. BRAND. I do not want you to do that. I heard that. Clearly define what is chain banking and group banking as compared with branch banking.

Mr. POLE. Chain banking consists of a number of banks in which an interest, not necessarily a controlling interest, is owned by one or more individuals.

Mr. BRAND. Individuals or individual banks?

Mr. POLE. Individuals. They have their separate corporate entity and operate entirely independently, but there is a greater or less control by reason of the interest which is owned by the individual or

individuals, which more or less directs the policies of this chain of banks.

The group bank is a number of banks. Fifty-one per cent or more, usually, of the stock of each is owned by a holding corporation, and by reason of the ownership the policies of this group are directed by this corporation. In the corporation there is usually one major bank from which the others radiate and the policies are directed or influenced by the heads of those banks, who are usually the chief interested parties in the corporation. Management control is the principal difference.

Mr. BRAND. And these banks which you refer to own, as I understand, the majority of the stock in all the unit banks?

Mr. POLE. They may own the majority or all the stock except the directors' qualifying shares.

Branch banking is different. A metropolitan bank, usually, with branches scattered over its district. A single corporate entity.

Mr. BRAND. I understand what branch banking is. The other two I did not clearly understand.

Mr. POLE. Have I made that clear, Judge?

Mr. BRAND. I think I understand them now.

Mr. STEAGALL. I was not here yesterday, much to my regret, having been called to appear before the hospitalization board on a matter of great interest to my State, and I did not get the benefit of the proceedings yesterday and I am not informed as to the rule which the committee adopted with respect to the manner in which we should proceed. I have no desire to interfere with the rule, whatever it is. It is all right with me. But I have some questions right in connection with the statement which Mr. Pole has just made. If it is desired to go along on the line of subjects under discussion, I shall be glad to proceed or wait, just as the chairman indicates, which would be more in accordance with the rule.

The CHAIRMAN. The rule we are working under is to call on the members of the committee according to their seniority. We are going ahead under that procedure. In accordance with the rule adopted yesterday, you are the next one on your side to be called. Mr. Letts has now been recognized under that rule.

Mr. STEAGALL. That is all right with me.

Mr. STRONG. Will you yield to me for a short question, Mr. Letts?

Mr. LETTS. Yes; but not for long.

Mr. STRONG. Mr. Brand, I want to suggest, in getting information from the comptroller in regard to the amounts paid in excise or franchise taxes by the national banks—I want to inquire whether it would not be well to put in the record the amount of their earnings and expenses.

Mr. BRAND. That would show the net income.

Mr. STRONG. I think that would be helpful to the committee.

Mr. LETTS. I have two or three lines of inquiry which I should like to indulge in. The gentleman from New Jersey—Mr. Fort—has informed me that he must be away to-morrow and would like to go on to-day with his questions. However, there is one matter that I should like to open up because Mr. Fort undoubtedly knows a great deal about the matter and it is something that I think has a pertinent connection.

Yesterday I was very much interested in the line of questioning of the gentleman from Maryland—Mr. Goldsborough—and the answers of the comptroller. The questions indicated that, in the mind of the gentleman from Maryland, the plan to extend branch banking presented some serious political dangers. I understood, from the answers of the comptroller, that he was not greatly concerned about that matter and that perhaps he felt that the dangers suggested were more apparent than real.

But I want to ask now whether or not the comptroller, upon an assumed state of facts—and I want to get his opinion—assuming that the issue in a State should be the control of the appointment of the supervisor of banks, who would have the power of issuing charters and the power of appointing inspectors and examiners and directing the examinations, and that a banking interest might become so powerful that they could control the nominations in the primaries and elections of officers, and, in that way, secure the person desired for the important position of supervisor of banks. Would you then say that the situation presented a political problem that was a menace and ought to be avoided?

Before answering that question, I will say that I have tried to embody in that question a state of facts that I think has existed. I am told that, at the least gubernatorial election in the State of California, the Bank of Italy made a determined fight for Mr. Young, who is now the governor of that State, upon the issue that they should know that the person in whom they are interested would be the superintendent of banks. I understand he gets a salary of $10,000 a year and I understand that they expressed their desire and made the request of every employee of their banks and of every branch that they should see that Mr. Young was nomniated at the Republican primaries for governor. I am told, too, that they went further than that and made the request of their depositors. I am not so sure of it. I think it can also be shown that, at the general election in the fall, they sent out a ticket in which they expressed their preference for every State office and for every congressional office and for Senator in the United States Congress. The ticket that they espoused was elected. Mr. Young was elected governor and the favored candidate was made superintendent of banking.

Now, perhaps you can tell me how accurate those facts are and whether or not, if it is true, it does not, in fact, present a very serious political problem and show that perhaps there is a real danger, in a political sense, such as was indicated by the gentleman from Maryland in his line of inquiry.

Mr. POLE. I have heard, Mr. Letts, that the appointment of a superintendent of banks in some States is regarded as more or less of a political appointment, but I am sorry I can not answer you as to the status quo of the political situation in regard to——

Mr. LETTS. If my facts are substantially correct, would you say that there is presented a serious question as to the advisability of the policy which you advocated toward the extension of the branch banking system?

Mr. POLE. It is a question which would be exceedingly difficult for me to answer.

Mr. LETTS. I will excuse you from that. But now, as I understand the matter, we have been talking of the Bank of Italy. Now, there

is also what is called the Bancitaly Corporation. I do not know that I have a correct understanding of that and so I want to inquire of you—is that a holding company?

Mr. POLE. It might be called a subsidiary company.

Mr. LETTS. I understand that the Bancitaly Co. holds a large part of the stock of the Bank of Italy and of all of the branches.

Mr. POLE. I have no access to the books of the Bancitaly Co.

Mr. LETTS. Is the Bancitaly Co. a banking institution?

Mr. POLE. It is not.

Mr. LETTS. It is a holding company?

Mr. POLE. Yes. I presume it holds certain securities.

Mr. LETTS. Does it do more than hold stock?

Mr. POLE. I think that their charter gives them rather a wide latitude. I, however, am not informed.

Mr. LETTS. They are not subject to examination?

Mr. POLE. No; they are not subject to examination by the Federal Government.

Mr. LETTS. Are the Bank of Italy and the branches of the Bank of Italy under national charter or State charter or both?

Mr. POLE. The branches are under national charter.

Mr. LETTS. How about the Bank of Italy?

Mr. POLE. The Bank of Italy is a national association and, necessarily, the branches are a part of the Bank of Italy—one branch being just as much a part as any other branch.

Mr. LETTS. Is there just one charter?

Mr. POLE. Just one charter.

Mr. LETTS. And covers all branches?

Mr. POLE. Yes, sir; covers all branches.

Mr. LETTS. Now, I understand that more recently the Bank of Italy people have organized the Trans-American Co. Can you tell me anything about that?

Mr. POLE. Yes. I would not say that the Bank of Italy has formed that. The Trans-American Corporation was formed a number of years ago and is, itself, a holding company.

Mr. LETTS. That is organized, however, and operated by the same group of people?

Mr. POLE. I should say not. I should say that it has entirely a different personnel.

Mr. LETTS. Distinct?

Mr. POLE. Distinct from the Trans-America Corporation—the Bank of Italy personnel; yes.

Mr. LETTS. Is that personnel entirely different?

Mr. POLE. As far as its officers are concerned, I think so.

Mr. LETTS. Of course I have no knowledge of it and am asking for information.

Mr. POLE. As far as my knowledge goes.

Mr. LETTS. My understanding is that the Trans-America Co. is a holding company to put into operation the policies of the Bancitaly Co., by extending beyond the State of California; that they intend to reach out and do the same things in other parts of the country that the Bancitaly has done within the State. Am I correctly informed as to that?

Mr. POLE. I think, in the published statement of their assets, which is made periodically, a number of stocks of banks over the

country were included, among them being, for instance, the National City Bank and the Chase National Bank—large banks and small banks in different parts of the country.

The CHAIRMAN. Will you yield to me, Mr. Letts?

Mr. LETTS. Yes.

The CHAIRMAN. I think it might be helpful, at this point, to observe that the Trans-America Corporation is a Delaware Corporation and not only owns sufficient stock of the Bancitaly Corporation, but a sufficient amount of stock in the Bank of America to control the policies of each one of those corporations. The Bank of America includes the Bank of America in New York and the Bank of America in California.

Mr. LETTS. Well, I thank the chairman for that statement, and I want to add this, that I have not very much knowledge about these matters and am seeking information, and I am very happy to have that statement.

The CHAIRMAN. I might add further that my understanding is that the control of these various operations which were formerly vested in the Bancitaly Corporation and the Bank of America, both New York and California, as well as the firm of Blair & Co., are now operated under the Trans-America Corporation or Transamerica-Blair Co. control.

Mr. LETTS. I wonder, Mr. Comptroller, if at some later time you could supply us with the information to show whether or not the personnel in these corporations is the same, or just what the facts are in respect to that.

Mr. POLE. I will be glad to go as far as I can. But may I suggest that perhaps you might wish to call a member of the official family of the Bank of Italy and the Trans-America Corporation, and they will be glad, I am sure, to give you full information on their activities. I have no official information in regard to the corporations.

Mr. LETTS. My only thought was——

Mr. POLE. Except the Bank of Italy which is a national association.

Mr. LETTS. I think it would be desirable to know whether or not these companies are advancing along the same policy and whether or not controlled by the same influences. Those are the things I am interested in knowing.

I do not care, Mr. Chairman, to pursue this further at this time. I do have one or two other things that I should like to go into, but I shall be glad to yield to the gentleman from New Jersey, Mr. Fort.

Mr. FORT. I am sorry to ask the committee to break the standing order, but I have an engagement for to-morrow of a year's standing out of the city.

The CHAIRMAN. You may proceed, Mr. Fort.

Mr. FORT. Mr. Pole, there has been some reference to the size of the aggregation of banking resources in the city of New York. Is it not true that in every major country in the world there is a concentration of banking control and banking resources in what is called the financial capital of the nation, usually the same as the political capital, because it is also the largest city?

Mr. POLE. I should say that that is true of the principal countries of the world, as far as I know.

Mr. FORT. You said this morning the banks were not purchasing stocks. It is true, is it not, that many State banks enjoy the power of purchasing stocks?

Mr. POLE. My reference was only to the national banks.

Mr. FORT. It is also true that many, both State and national, banks have what is called security affiliates through which they purchase stocks.

Mr. POLE. That is largely true.

Mr. FORT. Is it not true that some chains of banks exist in States where banks are permitted to own directly the stock of another bank? It know it is true in my own State and I will make that statement.

Mr. POLE. I have no information on that.

Mr. FORT. With reference to the power aggregated in groups, there is a rumor—I do not care to name the Federal reserve district—but there is a rumor that in one Federal reserve district in this country two bank-stock holding companies to-day own enough banks to give them the voting power to elect the directors of the Federal reserve bank in that district. Do you know whether or not that is a fact?

Mr. POLE. My belief would be that it is not the fact.

Mr. FORT. It is possible, however, under our present loose system of permitting groups and bank-stock holding companies, is it not?

Mr. POLE. It is a potential possibility.

Mr. FORT. You have heard the rumor to which I have referred?

Mr. POLE. I have not. I think I know the locality of which you speak.

Mr. FORT. That, if true, would be a very serious danger, would it not, to confer on one banking group the power to control the board of the Federal reserve bank in any district in this country?

Mr. POLE. I rather doubt it. You know how the Federal reserve directors of a bank are elected?

Mr. FORT. If one group could control the majority of banks in two groups, which elect the directors, they would control, would they not?

Mr. POLE. There might be a possibliity of such a thing.

Mr. FORT. And you would regard it as undesirable that that condition should exist?

Mr. POLE. I would.

Mr. FORT. And, in our general consideration of this situation, we should endeavor to avoid that possibility?

Mr. POLE. I think so.

Mr. FORT. I take it in the great bulk of your discussion, Mr. Pole—which I may say parenthetically is the strongest presentation of your position that I have seen anywhere, and is a very fine one—you are assuming that we have the power to permit national banks to extend their branches throughout an economic area?

Mr. POLE. Yes, sir.

Mr. FORT. But no law we could pass could extend the jurisdiction of State banks beyond the States in which they are chartered?

Mr. POLE. No, sir.

Mr. FORT. So your idea looks to the strengthening of the national bank system?

Mr. POLE. That is my one thought.

Mr. FORT. Your main reasoning is that we need larger and stronger banks? Your main desire for having the branch bank system extended——

Mr. POLE. I would not say that. I would say my main reason for suggesting any change in the system is that we need stronger banks and not necessarily larger banks.

Mr. FORT. I was using the two as almost synonymous. We do not need stronger banks in the major cities, do we?

Mr. POLE. I would say that we do.

Mr. FORT. Still larger and stronger than the institutions known as the National City in New York or the Continental-Commercial in Chicago?

Mr. POLE. Not larger in the central reserve cities. I am speaking of the country as a whole.

Mr. FORT. I am speaking of the central reserve cities. The banks are now adequate to handle the banking needs of those communities?

Mr. POLE. As far as I know.

Mr. FORT. The aggregation—just parenthetically—the aggregation of financial resources in New York is, in large part, due to the enormous foreign balances maintained there?

Mr. POLE. You speak of "foreign" as foreign countries? The large part——

Mr. FORT. A large part?

Mr. POLE. I think so.

Mr. FORT. It has been understood that $2,000,000,000 of foreign money has been out on call during the last——

Mr. WINGO. You do not mean foreign nations?

Mr. FORT. Deposited by persons living in foreign nations.

Mr. WINGO. But you did not mean foreign governments?

Mr. FORT. No. I was in a foreign country last year where I was told very nearly every insurance company and banking company had all its loose money on call in New York City. If a single city is attracting practically the entire mass of this foreign money, it might be wise to divert as much as possible of our domestic moneys elsewhere, might it not?

Mr. POLE. I think a decentralization, as far as possible, would be advisable.

Mr. FORT. In connection with the policy you have advocated, there is no general concurrence among the larger banks of the country, is there?

Mr. POLE. I have not made a sufficient survey, Mr. Fort, to answer that question.

Mr. FORT. I am not saying that that is anything against your policy. Indeed, my own view is that we should legislate at this time before there is any such concurrence and the resultant pressure upon Congress.

Mr. POLE. I understand some New York banks are not expressing themselves favorably toward a branch banking system.

Mr. FORT. But some of them are?

Mr. POLE. I know of no recent expression of opinion of a New York metropolitan bank in favor of rural branch banking, and I think there are a great many others that have not expressed themselves favorably, although, taking the metropolitan banks of the country as a whole, I think there is a very strong feeling that some change in the system of banking is necessary, and as far as I get it, the preponderance of opinion is in favor of some system of branches.

Mr. FORT. In connection with your general idea, which is to strengthen the country's bank systems——

Mr. POLE. Yes.

Mr. FORT. Have you given any thought to the idea of limiting the size of the city where the central institution, which might have branches in the country districts, could have its headquarters?

Mr. POLE. I have not given a great deal of thought to that, Mr. Fort, and have deemed it best to leave that to the discretion of the supervising officer under some general principle laid down by Congress.

Mr. FORT. I have noticed in your remarks that in two or three places you speak of larger commercial banks outside of New York,

Mr. POLE. Yes.

Mr. FORT. As requiring strengthening—as desirable places to centralize further banking power?

Mr. POLE. Yes.

Mr. FORT. Did you make the statement "outside of New York" deliberately to exclude New York, or simply——

Mr. POLE. I have made no particular reference to New York.

Mr. FORT. You used that phrase two or three times.

Mr. POLE. Outside of New York, but not in that connection. My recommendation to Congress was that branch banking should be extended within the trade area of a city in which a bank might be located, the effect of which would be to develop a system around the larger metropolitan centers, including the New York City trade area.

Mr. FORT. My own opposition to branch banking legislation three or four years ago was, in large part, based on this: Rather than to permit banks to have a number of branches in the cities, we should forbid branch banking in the cities, but should extend them through the country sections. It has seemed to me—and I wonder how much thought you have given to it—that we might prevent the concentration of banking power—which we are all afraid of—in a few hands, by adopting your suggestion in part; not by permitting the great metropolitan Federal reserve city banks to have branches out through the country, but by working toward the building of stronger banks in the cities of forty or fifty thousand, which are scattered through practically all the States, by permitting them to have branches throughout their trade areas.

Mr. POLE. I should answer that by stating that the area must be large enough to permit of ample diversification.

Mr. FORT. I agree that it must be large enough for such diversification.

Mr. POLE. And I doubt whether limiting it to the areas which you suggested would in many cases enable the bank properly to diversify its investments.

Mr. FORT. That, after all, is the problem that determines whether a bank is sound or not—diversification of investments?

Mr. POLE. I think so.

Mr. FORT. Is there not a complete shifting of what is regarded as good banking, or rather of banking necessity, in the last 20 years, with the enormous growth of corporate enterprises in place of individual enterprises?

I have seen figures somewhere as of a recent date, that only 18 per cent of the loans of all banks were on name paper.

Mr. POLE. I could not say as to the figures, but I know that the loans on corporate securities have increased.

Mr. FORT. So, the banker must know the value of the securities that are used as collateral in connection with the loans rather than the character of the borrower?

Mr. POLE. That is true in the metropolitan banks.

Mr. FORT. But not in the country banks?

Mr. POLE. No, sir.

Mr. FORT. Have you given any thought to the provision that is applied customarily to insurance companies by many States, which requires a company to have not only its capital but surplus funds proportioned to its capital, before it can start operations?

Mr. POLE. There is no law requiring a national bank to have a surplus when it starts operation. As a practical matter, it is rarely that a bank does start without 10 to 20 per cent surplus.

Mr. FORT. I am getting at that now. If that proportion were made larger and were made mandatory, without increasing the loaning limit of the bank, might that not tend to strengthen the country banks?

Mr. POLE. I think that such increase would tend to strengthen the country banks, but it would be equivalent to saying that a bank shall commence business with a larger capital.

Mr. FORT. Except that the capital controls the loaning limit. I am suggesting a requirement for increasing the capital funds without increasing the individual loan limits.

Mr. POLE. I think, regardless of whether the capital funds are expressed as capital, surplus, or profit, it would be necessary, of course, that a fair return should be made on it. There are many communities where banking services are urgently needed that perhaps could not earn a reasonable income on a larger capitalization.

Mr. FORT. Now, about your shareholders' liability: In some European countries, where they have an uncalled capital system, it is required that the stockholder cover his liability for the balance of the call by collateral, and the uncalled capital is then subject to call by the directors without waiting for receivership. Would not something of that sort reinforce our stockholders' liability provisions in this country?

Mr. POLE. I think it would reinforce the stockholders' liability to that extent.

Mr. FORT. And in many cases would it not avoid suspension if the directors exercised their power to call for the capital the moment they were in trouble?

Mr. POLE. In a comparatively few cases, but not generally, I would say, Mr. Fort. I explained yesterday—and I think you were not here—that if the entire assessment on capital were collected, it would only mean 10 cents on the dollar to creditors.

Mr. FORT. On the liability?

Mr. POLE. On the liability.

Mr. FORT. But not 10 cents on the dollar on the total amount of the losses?

Mr. POLE. We have the right of assessing that——

Mr. FORT. But you have collected only 40 per cent?

Mr. POLE. Fifty per cent average, I think, in the cases of insolvencies.

Mr. FORT. You take the view, do you not, Mr. Pole—well, I will put it this way: It is the correct statement, is it not, that under modern conditions, this Congress, through its control of the Federal Reserve system, really has the power, if it sees fit, to lay down a banking code, and the States would have to follow it?

Mr. POLE. There is no doubt in my mind that that is so.

Mr. FORT. We could do it by denying them membership in the system and in other ways.

Mr. STEVENSON. I did not catch that last. What was it? You stated there were a number of ways and you stated one of them.

Mr. FORT. A number of ways of forcing compliance by State banks with any code we chose to enact.

Mr. STEVENSON. I am much obliged.

Mr. FORT. Has not one of the troubles been overpayment for the purchase of other banks, in order to create branches—payments in excess of value?

Mr. POLE. I know of no trouble that has arisen from that source.

Mr. FORT. No trouble?

Mr. POLE. No.

Mr. FORT. When a bank does buy a branch, through the purchase of stock of another bank, does the comptroller's office require them to write off everything down to the capital and surplus of the purchased bank?

Mr. POLE. When a national bank purchases a State bank?

Mr. FORT. Yes.

Mr. POLE. We do not have the authority to prevent a bank from purchasing the assets and assuming the liabilities of a State bank, but do approve consolidations, and we are always very careful to see that the State bank is reasonably clean before we permit the consolidation.

Mr. FORT. Suppose they purchased a State bank at $500 a share value for its stock? The actual capital and surplus value of that bank is $250 and the balance is good will. Do you require them to write those assets down to $250 instantly?

Mr. POLE. When they purchase the assets we have nothing to say as to the arrangement between the banks. There is nothing to prevent a bank from paying for good will.

Mr. FORT. But do you allow them to carry that good will in any form whatever?

Mr. POLE. Not in any form.

Mr. FORT. But some States still do?

Mr. POLE. I do not know that. It is not true as to national banks.

Mr. FORT. You talked somewhat concerning diversification of the activities of modern banking, and made a very strong presentation—that it is spread out into trust powers and security affiliates, and all the rest of the powers that modern banks exercise. Does not that very diversification of power, involving, as it does, through trusteeships, the control of billions of assets in addition to the bank's own resources, make centralization of the control of our banks an extremely dangerous thing in this Nation?

Mr. POLE. It does tend, of course, to increase the responsibility of the larger banks, because the trust business is growing tremendously. However, with a system of branch banking, where great banks would

grow up in the metropolitan centers, that it tends to decentralize that responsibility to a very large extent.

Mr. FORT. I have only time for about one more question out of the number I wanted to ask.

If we ever authorize the program which you suggest, or any other of the extension of branch banking, as a practical matter can we ever unscramble it if we do not like it afterwards? For instance, if we permit bank a in St. Louis to establish branches throughout its trade area embracing a large part of the State of Missouri, once established, there is no way that that bank, in justice to the stockholders of the bank, can ever be unscrambled?

Mr. POLE. As a practical matter, it would be difficult.

Mr. FORT. So it involves a very major policy which should be settled by the Congress of the United States rather than by the delegation of the authority to someone else? I mean, whether we should have that?

Mr. POLE. I am thoroughly in accord with that.

Mr. FORT. I think, Mr. Chairman, that is all I have time to ask. We have to adjourn in two minutes, if we have the call to-day. I am sorry, as I have some other questions.

The ACTING CHAIRMAN (Mr. Strong in the Chair). You may proceed a little while longer, Mr. Fort.

Mr. FORT. Mr. Pole, in the failures that you spoke of yesterday, I do not recall that you gave the proportion of failures between State and national banks. Is that in any of your exhibits?

Mr. POLE. Not in any of the exhibits, but I made the statement that it was in the ratio of approximately three to one.

Mr. FORT. In favor of which?

Mr. POLE. In favor of the national banks.

Mr. FORT. That is, the national banks were the one or the three?

Mr. POLE. The national banks were the smaller, in ratio, to the number of banks that failed.

Mr. FORT. What is the proportion between national and State banks throughout the country?

Mr. POLE. About 18,000 State banks and 7,500 national banks.

Mr. FORT. Were the failures in the proportion of 3,000 State banks to 1,000 national banks?

Mr. POLE. Yes.

Mr. FORT. So that the failures—the percentage of failures of national banks was as great as the State banks?

Mr. POLE. There were 763 national and 4,877 State bank failures.

Mr. FORT. Now, that is what I am getting at; in other words, the code of banking and the requirements of banking that we have set up for national banks, have proven more efficacious in preventing bank failures than the general codes of the States?

Mr. POLE. By three to one.

Mr. FORT. So that we can start, in any of these proposals regarding branch, group or chain banking, with the knowledge that one thing that should be done for the banking systems of the nation is to tighten up either the supervision or the regulations or the laws under which the State banks operate?

Mr. POLE. That seems to be necessary.

Mr. FORT. Has the matter of the development of branch banking gone far enough so that it is possible for anyone to venture a guess

as to whether the loans made by the branches—that is to say, if a given branch has deposits of 10 per cent of the bank's total resources or deposits, is there any way through which, or could it be discovered whether the depositors in that branch get ten per cent of the loans, or not?

Mr. POLE. Are you including the groups of banks?

Mr. FORT. No; branches.

Mr. POLE. Yes; I should say it has gone far enough to show that. I think the probability is that the California banks will make a very satisfactory showing along that line. In a great many instances, we shall find that there is far more money loaned to the community than it furnishes in deposits, in order to stabilize conditions and advance money to farmers, etc.

Mr. FORT. What would be a way to get at that fact statistically?

Mr. POLE. I should think the way would be to call witnesses from either one of those banks, and I think those statistics will be right on the tips of their fingers.

Mr. FORT. That would be very helpful. Increased capital requirements would accomplish one of the purposes you have in mind, through limiting the number of banks, and thereby reducing overhead and increasing the possibility of profit?

Mr. POLE. Yes.

Mr. FORT. You spoke about the necessity of profit.

Mr. POLE. Limiting the number of banks but increasing the number of banking offices would give the banks a wider opportunity for earnings.

Mr. FORT. And, through the reduction of overhead, enable greater profits. Now, what I have in mind is——

Mr. POLE. Per deposits, for instance.

Mr. FORT. If we have now a small community struggling to keep three $25,000 banks going and, by making the minimum capital limit $50,000 or $75,000—the limit of capital in such a community—the one resulting bank would have a far better chance of profit than the three banks now?

Mr. POLE. Undoubtedly.

Mr. FORT. And, therefore, that would, to some extent, solve this problem?

Mr. POLE. I think to some extent. Of course, those communities would be denied what is very helpful, namely, competitive banking facilities, we should not have a monopoly of the banking business even in the small communities.

Mr. FORT. If we are going to suggest the idea of permitting branch banks all through the trade areas of such a city as St. Louis, should not we simultaneously prevent the consolidation of banks in St. Louis. if you are after competition through the branches?

Mr. POLE. That is a big question, Mr. Fort.

Mr. FORT. I appreciate it, but I am trying to think through these problems. If our object in permitting branch banking through the trade area—and I am not hostile to your proposition—if our object is to produce competitive banking in the smaller towns and cities through having the branches of two different St. Louis banks located there, and decentralizing these resources, should we permit two St. Louis banks having branches in those towns to consolidate in St. Louis?

Mr. POLE. I am inclined to think in that case that the natural economic development should be permitted to find the solution to such a problem. I should like, however, to give further consideration to that question.

Mr. FORT. Mr. Pole, there is a great deal of belief—and I do not know whether there is any real foundation for it; it might only be gossip—that if the stock, market deflation had not come just about when it did the New York banks would have been reduced to approximately five or possibly four groups or individual institutions?

Mr. POLE. Through consolidations?

Mr. FORT. Through consolidations, purchases, mergers, and so forth. I am not ordinarily afraid of large organizations, but would you feel that we ought to, in establishing any such system of branch banking through the trade areas, permit the banking of America, by any chance, to get down into so few hands as that might involve?

Mr. POLE. I doubt very much if that condition would prevail for very many years to come.

Mr. FORT. Should we adopt machinery that would permit it ever to prevail?

Mr. POLE. I am not prepared to go into that at this time. That is too large a question to answer without further study.

Mr. FORT. I appreciate your desire not to commit yourself to a proposition until you have reached a conclusion. I would not want to do it, if I were in your place.

In connection with this matter of setting up branch systems, chains, or whatever they may be, through purchase or absorption of smaller banks by larger banks, have you given any thought to the wisdom of requiring that absorption to be by the exchange of stock and not permitting cash purchases?

Mr. POLE. I think that that might be quite desirable.

Mr. FORT. That would remove the incentive to speculative profit to individual insiders of the larger banks?

Mr. POLE. I think so. Of course, the methods now used are frequently by the exchange of stock.

Mr. FORT. They are frequently, but there is a tendency to consider the possibility of speculative profits to be made out of the smaller banks through a sale for cash.

Mr. POLE. That is true.

Mr. FORT. And it would, in the long run, make those purchases be considered solely from their economic worth, if all speculative deals could be eliminated?

Mr. POLE. Yes, sir; if they could be eliminated.

Mr. FORT. In connection with all of this, does the comptroller's office feel that there should be any distinction between the requirements for the investment of savings deposits from those of commercial deposits?

Mr. POLE. I think that the comptroller's office has never expressed itself on that point. However, my own opinion is that inasmuch as banks are privileged to require of a savings depositor as much as 30 or 60 days' notice of withdrawal, occasionally the 60-day clause is invoked, which has the effect of giving the demand depositor a preference over the savings depositor. My feeling has always been that since the banks are privileged to require 60 days' notice on savings,

that the investment of such savings should be segregated for their benefit.

Mr. FORT. That is my idea, plus the idea that we have educated the American people, in some States, at least, to the idea that a savings bank is the ultimate of responsibility, and where the word "savings" is used, we should not allow it to be depreciated in the public mind by the possibility of savings depositors losing their thrift money.

Mr. POLE. I think that is a very sound theory.

Mr. FORT. Have you given any thought, in connection with this whole thing, to the major question of security affiliates and their propriety in connection with modern banking?

Mr. POLE. A great deal.

Mr. FORT. Have you reached a final conclusion? If not, I do not want to ask you to express any.

Mr. POLE. I have reached the conclusion that the comptroller's office feels that it should have some supervisory powers over affiliated corporations.

Mr. FORT. I have not reached a final conclusion myself, but I am asking this question simply to develop the idea.

Mr. POLE. It is possible that had we visitorial powers, we might suggest some legislation.

Mr. FORT. Is it customarily the fact that the affiliated corporation does its borrowing with the bank which it has the affiliation?

Mr. POLE. I think that is sometimes true.

Mr. FORT. If it is true that modern banking is increasing in loans on collateral, is there not, in the combination of the security affiliate and the bank—is there not danger in that situation of using the national bank's resources for speculation in stock—through the affiliate?

Mr. POLE. By loaning to the securities company?

Mr. FORT. Yes.

Mr. POLE. Of course, the loaning limit of the national bank would be applicable to the securities company as well as to any other corporation or individual.

Mr. FORT. On collateral?

Mr. POLE. On collateral; yes, sir.

Mr. FORT. And that loaning limit would be proportionate to its capital?

Mr. POLE. The capital of the national bank.

Mr. FORT. The thing that is stirring in my mind—and I do not know that I can make it clear—is this: Is there not danger from the consolidation of the security affiliate and the bank, in the fact that the market value of the security affiliate is directly reflected in the market value of the bank stock, quite a tendency psychologically, to transform a banker into a man who considers the fluctuations of the security market?

Mr. POLE. Of course, the bare fact that the stock of a securities company is frequently tied up with the stock of a national bank—the connection, of course, is very close, and I think that the public recognizes that condition.

Mr. FORT. I do not want to talk about myself, but I happen to be the president of a security affiliate owned by certain insurance companies of which I am the manager. Is there not a psychological danger of the bank taking off the security affiliate's hands, perhaps, its syndicated obligations that have not gone very fast to the public?

Mr. POLE. It might be possible.

Mr. FORT. I have seen it happen. You have spoken of the 10–to–1 relation between deposits and capital. In the customary acceptation, that is what it is assumed to be. Is there any necessity for the change of that proportion in the case of branch banks—either way—any necessity or propriety?

Mr. POLE. I should regard that as a fair capital requirement.

Mr. FORT. If your theory of branch banking, through the trade area, is adopted, do you feel that the liability of sudden withdrawals of deposits from a bank is greater or less?

Mr. POLE. I should say that they would be infinitely less.

Mr. FORT. Therefore, it might be possible for the bank properly to increase the total of its deposits in reference to its capital?

Mr. POLE. I would not be in favor of that. I think, as a maximum, 10 per cent of the deposit liabilities should be required as capital funds.

Mr. FORT. Capital and surplus?

Mr. POLE. Capital and surplus; yes, sir.

Mr. FORT. I think that is all.

Mr. STEVENSON. May I ask Mr. Fort to ask just this question on that point—whether it is contemplated in the branch banking organizations, such as he refers to, to segregate a certain amount of capital to each branch, and allocate it so that the capital represents——

Mr. FORT. I do not think that would be possible.

Mr. POLE. That would not be my idea.

Mr. STEVENSON. My own State has that provision. It is not in our national act.

Mr. FORT. I want to apologize for taking so much time.

The ACTING CHAIRMAN (Mr. Strong in the chair). The committee will stand adjourned until to-morrow morning at 10.30 o'clock a. m.

(Whereupon, at 12.20 o'clock p. m., the committee adjourned until Thursday, February 27, 1930, at 10.30 o'clock a. m.)

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Thursday, February 27, 1930.

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

The CHAIRMAN. The committee will come to order.

STATEMENT OF HON. JOHN W. POLE, COMPTROLLER OF THE CURRENCY (Resumed)

The CHAIRMAN. Mr. Pole, you have, I understand, something you want to put into the record in response to questions that were asked of you yesterday.

Mr. POLE. Mr. Brand asked me for the earnings and expenses of each Federal reserve bank and the franchise tax which had been paid to the Government from 1914 to and including 1929.

Mr. STRONG. Is that gross income?

Mr. POLE. Gross income and net income, and the amount of franchise tax which has been paid to the Government.

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

(There was no objection, and the statements referred to are here printed as follows:)

Earnings and expenses of Federal reserve banks—Gross and net earnings of Federal reserve banks, and disposition made of net earnings, 1914–1929

[Figures for each Federal reserve bank are given in Table 83]

Year	Earnings		Disposition of net earnings			
	Gross	Net	Dividends paid	Transferred to surplus [1]	Franchise tax paid to U. S. Government [1]	Profit (+) or loss (−) carried forward
1914–15	$2,173,252	−$141,459	$217,463			−$358,922
1916	5,217,998	2,750,998	1,742,774			+1,008,224
1917	16,128,339	9,579,607	6,801,726	$1,134,234	$1,134,231	+309,413
1918	67,584,417	52,716,310	5,540,684	48,334,341		−1,158,715
1919	102,380,583	78,367,504	5,011,832	70,651,778	2,703,894	
1920	181,296,711	149,294,774	5,654,018	82,916,014	60,724,742	
1921	122,865,866	82,087,225	6,119,673	15,993,086	59,974,430	
1922	50,498,699	16,497,736	6,307,035	−659,904	10,850,605	
1923	50,708,566	12,711,286	6,552,717	2,545,513	3,613,056	
1924	38,340,449	3,718,180	6,682,496	−3,077,962	113,646	
1925	41,800,706	9,449,066	6,915,958	2,473,808	59,309	
1926	47,509,595	16,611,745	7,329,169	8,464,426	818,150	
1927	43,024,484	13,048,249	7,754,539	5,044,119	249,591	
1928	64,052,860	32,122,021	8,458,463	21,078,899	2,584,650	
1929	70,955,496	36,402,740	9,583,912	22,535,597	4,283,231	
Total	904,628,021	515,215,982	90,672,459	277,433,949	147,109,574	

[1] Amounts paid as franchise tax for 1922 includes additional franchise tax payments for prior years withdrawn from surplus account on December 31, 1922, as follows: For 1920, $270,389; for 1921, $3,129,673.

The CHAIRMAN. Mr. Seiberling, you are next on the list.

Mr. LETTS. I had not concluded, Mr. Chairman.

The CHAIRMAN. I beg your pardon. You had yielded to some one.

Mr. LETTS. Yes; I yielded to Mr. Fort.

The CHAIRMAN. Very well; suppose you continue with your questions.

Mr. LETTS. Mr. Pole, yesterday I asked you something about the Bank of Italy and the Bancitaly Co. Do you regard the system out there as a branch system, or is it a group system?

Mr. POLE. Branch system, sir.

Mr. LETTS. How do you distinguish between the two systems?

Mr. POLE. Between the branch and the group systems?

Mr. LETTS. Yes.

Mr. POLE. The group system is a number of individual, separately incorporated institutions, the stock of which is owned by a holding corporation. A branch bank is a bank with branches located at various points over the State, and the entire resources of the parent bank are carried to any point where there may be a branch. These branches are a part of the bank itself.

Mr. LETTS. To make it clear, the group system is composed of separate identities, but the stock is controlled by one holding company—is that correct?

Mr. POLE. That is correct.

Mr. LETTS. Would you say, then, that the system in California is a pure branch system, or is it a mixture? Is it not true that most of the stock, or a large part of the stock, of the Bank of Italy is held by the Bancitaly Co.?

Mr. POLE. I am not informed as to where the stock of the Bank of Italy is, but I think it may be chiefly held by the Trans-America Corporation.

Mr. LETTS. Assume that some considerable part is held by either; assume that the control is held by the Bancitaly Co. or the Trans-America Co., would you not say that it is in effect a group system just as much as if each of these branches were separate entities?

Mr. POLE. I would say not, because the stock of the Bank of Italy may be held by as many as 16,000 or 20,000 different people and in part by the Trans-America Corporation.

Mr. LETTS. I am assuming that the control is so held.

Mr. POLE. That is the control of a single bank.

Mr. LETTS. I understand, but that single bank involves the consideration of many branches.

Mr. POLE. You must regard that as a single bank.

Mr. LETTS. Yes; that is true.

Mr. POLE. A single corporate entity.

Mr. LETTS. But, as to the practical effect, is it not the same as if the branches of the Bank of Italy were separate entities controlled by the policies of the Bancitaly Co.?

Mr. POLE. It might be said that there are some similar characteristics, but different in that a bank, the stock of which is held as a member of a group, has a separate board of directors; it has a separate set of minutes; it has a separate set of officers and is operated to all intents and purposes as an independent unit, whereas the Bank of Italy is a corporation in San Francisco, which has its various offices scattered over the State, but just as much a part of the organization as the head office itself is.

Mr. LETTS. The group system, to be effective, however, would place the control of the stock of the members in the holding company?

Mr. POLE. Yes; usually.

Mr. LETTS. And that places the power, the directing policy, with that holding company?

Mr. POLE. That would not be admitted by the groups, I think. They claim that each group is an independent unit and acts independently through its local directors.

Mr. LETTS. I can see that there would be a great advantage in that, in having the policies of the members controlled as far as possible by those that are familiar with conditions in the country or community, but that independence could only exist so long as it did not come in conflict with the policy of the holding corporation.

Mr. POLE. It could not exist indefinitely. Of course, the board of directors is elected by the shareholders, and if the corporation held the majority of the shares at the annual meeting, they could elect their own directors, who would elect their officers, and their policies would thereby be enforced.

Mr. LETTS. Assuming that the holding corporation buys up the controlling stock, it would always have the power to control the election of directors, would it not?

Mr. POLE. Yes; undoubtedly.

Mr. LETTS. And in that way they get this power.

Mr. POLE. Yes.

Mr. LETTS. And that power could be political, as I indicated yesterday, or it could be economic, and reach out in a great many ways.

Mr. POLE. And be quite effective.

The CHAIRMAN. Would you yield there, Mr. Letts?

Mr. LETTS. Yes.

The CHAIRMAN. I would like to ask Mr. Pole whether there is not an embodiment in this particular situation that you referred to of unit banking, branch banking, chain banking, and holding company banking?

Mr. POLE. There is in what might be called the Trans-America group, Mr. Chairman, but I am speaking of the Bank of Italy as a separate corporation.

The CHAIRMAN. In that you have national banks and you have State banks.

Mr. POLE. In the Trans-America Corporation?

The CHAIRMAN. Yes; and you have international banking as well.

Mr. POLE. I am informed that that is true. Of course, I have no means of knowing officially what the Trans-America Corporation holds in the way of bank stocks.

The CHAIRMAN. In other words, here is an illustration of the different forms of banking which this committee are inquiring into; this is a typical instance where all the elements that enter into our inquiry are embodied in one group.

Mr. POLE. Within the Trans-America Corporation?

The CHAIRMAN. Within the Trans-America Corporation.

Mr. POLE. Yes.

The CHAIRMAN. That is all.

Mr. POLE. That may be correct, but not within the Bank of Italy.

Mr. LETTS. The point I want to make clear is this, that when we see the Bank of Italy and its operations and its policies, we have not seen the whole picture; we still have to go back of the screens and see the Bancitaly Corporation or the Trans-America Co. and understand the policies that control from those sources?

Mr. POLE. There is a picture back of the Bank of Italy, undoubtedly.

Mr. LETTS. You have advocated the extension of the branch-banking system. Would you safeguard that in any way to prevent the policies of the parent bank and the policies of the branches to be controlled by an inner group, somebody back of the screens, in that manner?

Mr. POLE. I would recommend some such authority be given.

Mr. LETTS. And could that be safeguarded in some such way?

Mr. POLE. I think it would be possible to work out a plan.

Mr. LETTS. Is there any way to prevent any stockholder from selling his stock to whom he might wish?

Mr. POLE. There is no way I know of, Mr. Congressman.

Mr. LETTS. Then a holding corporation could acquire it, if the possessor of the stock were willing to sell?

Mr. POLE. Yes.

Mr. LETTS. So at this time at least we have that danger before us. In other words, if there is a danger in group banking, we ought to

avoid that danger if we are going to branch banking as a system to be preferred.

Mr. POLE. I have suggested in my report to Congress that there should be given to the comptroller some supervision over these holding corporations.

Mr. LETTS. The holding corporations are not under national charter.

Mr. POLE. That is true.

Mr. LETTS. And so Congress could not give you that supervision.

Mr. POLE. Well, I think that in so far as they held stocks of a national corporation, it might be possible for Congress to do so.

Mr. LETTS. Now; just to follow that thought a little further, I am aware of the tendencies of the times, I think, toward centralization of power, political, economic, and financial. We see it in the control of the power resources of the country; we see it in the distribution of foodstuffs and merchandise; is it not quite conceivable that some very small group could control the policies of the power corporations, such as the American Gas & Electric Co., for instance, and control the policies of the great food distributing companies and other merchandising corporations? Now, while you feel that the system that you advocate, of extending branch banking, would decentralize banking resources, is it not quite apparent that we are centralizing in a very much greater degree the power to control production, to control distribution and price, and are we not putting the consuming public at the mercy of a comparatively small group of persons that may financially be able to do the very thing that I am speaking of by uniting their forces?

Mr. POLE. Through a branch banking system?

Mr. LETTS. The control of the banking policies of the country, the control of power, the control of the distribution of foods and all that sort of thing always cause me to think back to the time of Roosevelt; he became a great hero because he went out with the "big stick" to break up combinations, which he did in the interests of the consuming public; and, now, are we not drifting very rapidly in the other direction, and is it a wholesome indication?

Mr. POLE. I think, under the plans I have suggested to Congress, that the result of the extension of the branch-banking privilege would cause to spring up all over the country large organizations, and what might be termed local centralization.

Mr. LETTS. I understood that to be your recommendation.

Mr. POLE. I think it would be decentralized as far as the largest cities of this country are concerned.

I do thing, also that consideration might be given to the question of consolidations of these large units after they had been formed.

Mr. LETTS. And to interlock their directorates?

Mr. POLE. And to interlock their directorates. I think it is an important phase of it.

Mr. LETTS. I understand your thought in that connection, but as soon as you have decentralized by encouraging the development in St. Louis, Kansas City, Omaha, and other places over the country, would not some one come forward immediately and combine those large units?

Mr. POLE. That is what I have in mind, that perhaps some restrictions should be put on such consolidations. Of course, that is going on now, in the form of group banking.

Mr. LETTS. Now; can you tell me what the fee system is that is employed by holding companies—if I make that clear by the question?

Mr. POLE. What the fee system is?

Mr. LETTS. Yes. I do not know that I have a clear understanding of it, but I think that some such system as this prevails, that they not only realize upon the stock of their subsidiaries which they hold, but they charge their subsidiaries a fee for service and in that way make the holding companies really profit-taking devices and they can be so operated as to permit the subsidiaries to show only moderate earnings and to make the big money flow into the holding company. I understand that is accomplished by some kind of a fee system. They charge for some kind of service, but what that service is I do not know; I do not know whether it is a convenient device or just what it is, but I would like to have some light on that.

Mr. POLE. I know of no such arrangement, Judge.

Mr. LETTS. Mr. Pole, you have advocated diversification. How is that accomplished among the members of a group or in the branches of a banking system? Is it by shifting the paper from one institution to another?

Mr. POLE. I think that is one way it is done among members of a group; the sale of paper by one bank to another.

Mr. LETTS. Every bank would have a reasonable amount of paper of this character and of the other character so as not be loaded up, as in my part of the country, with real-estate loans entirely, or something of that kind; that would make the paper of the bank more diversified and more liquid?

Mr. POLE. Such funds are shifted in a group system. Of course, there is not much doubt but what the management corporate of these groups would see to it that nothing happened to any member of the group, and in that respect it has something of the protection of the branch banking system.

Mr. LETTS. Now; the members of groups could be both national banks and State banks, and be located in various States?

Mr. POLE. Yes.

Mr. LETTS. And subject to different States' laws?

Mr. POLE. Yes.

Mr. LETTS. And the Comptroller of the Currency would have jurisdiction over some, but not over others?

Mr. POLE. Yes.

Mr. LETTS. Is that a wholesome situation?

Mr. POLE. Quite unwholesome.

Mr. LETTS. Can it be corrected?

Mr. POLE. I think it can not except with difficulty. We do enter into arrangements with the superintendents of banks of the States in which members of a group or chain may be situated, and arrange to examine these banks at the same time with the State authorities. Having done that, we compare notes and arrive at our conclusions after consultation, but it is difficult to make these arrangements.

Mr. LETTS. At least it would be possible to shift good paper from a bank in one State to a weak bank in another State, and perhaps from a national bank to a State bank, or the reverse of that, so that you would not have the power to examine fully nor would a State examiner have the necessary power to do that?

Mr. POLE. That is correct. That is particularly true of the chain banks.

Mr. LETTS. And it could be of the groups?

Mr. POLE. It could be of the groups. If we suspect anything of that kind going on, and there are usually evidences of these things, we arrange to take care of such a situation but it is subject to those very difficulties to which you refer.

Mr. LETTS. And that would operate, in a group system or a chain system, to prevent an examiner, whether from your office or from a State department, really to find that a bank is in fact insolvent?

Mr. POLE. It might operate that way. However, in justice to these important groups, I might say that I think the majority of them endeavor to operate their system either under the national law or the State law, and if they are not all under one system, when they acquire them, they usually have it in mind to convert them so as to operate under a single system as far as possible.

Mr. LETTS. In the conduct of banks under the group system, and the chain system, where paper is shifted from one bank to the other, does the bank which transfers the paper indorse it or not?

Mr. POLE. The custom is not to indorse it. However, there is usually a moral responsibility recognized.

Mr. LETTS. But that is not a responsibility that could be enforced in the interest of creditors?

Mr. POLE. There might be such an arrangement.

Mr. LETTS. You would have to show an agreement, either express or implied, in order to do that?

Mr. POLE. Yes.

Mr. LETTS. Or negotiations of some character if they did indorse?

Mr. POLE. Yes.

Mr. LETTS. Then there would be a contingent liability would there not?

Mr. POLE. Yes.

Mr. LETTS. And what relation would that contingent liability have to the matter of rediscounts?

Mr. POLE. That would be limited—an indorsement of that kind would be limited to the capital stock of the bank under section 5202. The bank could not become liable to another bank in excess of its capital.

Mr. LETTS. Now, in these systems, is it recognized that a member bank will have the power to reject undesirable paper that is offered to it, or would the parent organization have power to thrust that paper upon the member bank?

Mr. POLE. It would have no power to thrust paper onto a bank. It would be within the power of the bank to refuse any paper, because it is a separate corporation and acting under a separate board of directors, and the practice to which you refer is not at all a common practice except under perfectly legitimate proceedings.

Mr. LETTS. I am leading to this point: If in a system of that kind, group system or chain system, it was found that some part of the system was going to fail, that some banks were going to fail, they would have the power of strengthening some and making a selection as to which ones would fail and which would survive. In other words, they would be able to determine what communities would

suffer the loss and what ones would gain by the manipulation, would they not?

Mr. POLE. Technically that is correct.

Mr. LETTS. But you do not apprehend that such a thing would happen?

Mr. POLE. As a matter of practice, I can not conceive of any member of a group failing unless the group as a whole failed.

Mr. LETTS. That would be true of chains, but it is not necessarily true of groups, is it?

Mr. POLE. Not necessarily, but it is quite likely that the group could not permit any of its members to fail without endangering them all.

Mr. LETTS. In other words, is it not possible that the group plan might be a matter of convenience to the strong and result in disadvantage to the weak, and that applies not only to the banks but to the communities which they serve?

Mr. POLE. Of course, the group system of banking is more or less new. I think it has only been in effect not to exceed two years, and nothing like that has so far developed.

Mr. LETTS. That reminds me of something I overlooked. I intended to ask you how long the Bank of Italy has been in building itself up to its present proportions?

Mr. POLE. Oh, 15 years. I reserve the right to correct that.

The CHAIRMAN. Will the gentlemen yield?

Mr. LETTS. Yes.

The CHAIRMAN. Might I suggest that the real coming-out party of the Bank of Italy was at the time of the earthquake disaster in San Francisco, in 1906?

Mr. LETTS. At any rate, it showed a very rapid development, did it not?

Mr. POLE. Quite rapid development.

Mr. LETTS. In the examination of a branch bank, will the public have detailed information with respect to the condition of the branches, or will they get aggregate results of all the branches?

Mr. POLE. The statement which is issued by the Bank of Italy exhibits the condition of the bank as a whole, without reference to any particular branch.

Mr. LETTS. Suppose that the banks out in Iowa were in a system of that kind, a branch bank system; would it be possible for the people to Iowa to know the real condition of the Iowa bank?

Mr. POLE. Of an individual branch?

Mr. LETTS. Yes.

Mr. POLE. No, I think there would be no such information available to the public.

Mr. LETTS. Do you think there would be no occasion for it?

Mr. POLE. I do not think there would be the slightest occasion for it. The full strength of the bank would be carried to the farthest hamlet in Iowa.

Mr. LETTS. In your prepared statement of a few days ago, you in effect made a statement that a supervising bank official is always reluctant to close a bank, and you intimated that your office operated along that line, and that State bank supervisors naturally have the same attitude toward State banks, and further on in your statement

you made the statement that oftentimes supervising officials are surprised that the bank has failed.

Mr. POLE. Did I say that?

Mr. LETTS. No, I am mistaken. You said that "The supervising official may in many cases not be surprised that the bank has failed, and the executive officers of the bank and perhaps the local board of directors have been struggling for months or years to keep the bank open, and the actual failure comes as a complete surprise and a shock to the depositors, and in most cases to the shareholders who are not officers or directors of the bank."

That is some of your language; is it not?

Mr. POLE. Yes.

Mr. LETTS. Now, I think that is the stand taken by banking departments, but I have never been able to see the philosophy of it. I have seen cases where banks have been kept open, where the examiner and the members of the board and the officers of the bank all knew that the bank ought to close, and yet up to the very hour of closing such banks took such deposits as were offered by the public. I have seen cases where it has been found that banks ought to be closed, and yet they were reluctant to do it and struggled along, as you indicate here, for months or years to keep them open. Is this fair treatment to the public?

Mr. Pole, I notice that in some part of your formal statement you stated that your principal concern and interest is in the depositor, but does a policy of this kind operate to the advantage of the depositor? I have seen a number of little banks out in Iowa fail after they had paid two and sometimes three assessments of 100 per cent in the endeavor to keep the bank open, and they finally had to lose them.

Mr. POLE. Yes.

Mr. LETTS (continuing). Very much to the disadvantage of the shareholders, and conducted in a manner that kept the public in ignorance of the condition, and the bank would go on accepting the public's money, to the ruin of the depositors, and I have often wondered how a policy of that kind really can be justified. In other words, why should a banking institution, when it is found by the examiner to be weak and insolvent and unable to go ahead, not be closed? Why is not that the fair thing to do, having in mind the interests both of the shareholder and the public?

Mr. POLE. Of course, if a bank is found insolvent by our department it is closed. However, banks fail through many different causes. It may be that the assets of a bank are in the opinion of the board of directors and in the opinion of the examiners good but slow. The directors will frequently come down in a body to Washington and insist that the examiner is too drastic in his classifications, that these loans are collectible, that they understand the people of the community, that they know all about them and that we do not. That means that the bank is probably in a very frozen condition, but not insolvent. There may be an unusual demand for funds, but by reason of the frozen condition of that bank they are unable to realize fast enough to meet the demands and the bank has to close regardless of the fact that it may be considered by us and by its own board of directors as solvent, as a going institution.

Mr. LETTS. Do your examiners inquire into the policies of banks, or only as to the assets of banks?

Mr. POLE. We go into every phase of the bank's operation.

Mr. LETTS. I am unable to speak concerning national banks, but I know the policy prevailed for many years in my State of State institutions hiring some one to run the bank who could not live on the pay that was given him, and where he was encouraged by the directors to take on every kind of a side line that is imaginable, to write insurance, fire and life, to negotiate loans on land with the insurance companies, to connect himself with some automobile agency, to the point where in a comparatively short time he would have personal transactions that he as a bank official must deal with and where his opportunity for personal gain was entirely at variance with the welfare of the institution that he represented.

In other words, say that a man wanted to buy a farm, and he wished to borrow more than the farm could reasonably carry; he would be permitted first to negotiate a loan with some insurance company, and the bank official would get a commission, doing that as an individual, and then perhaps he would tell the borrower that he did not have security enough and that he ought to have more fire insurance, and then he writes the fire-insurance policy and tells the borrower that he had better carry more life insurance, and he writes that policy and gets fees and commissions all along the line. Some customer of the bank may be buying an automobile, and a bank official finds it convenient to accommodate that customer at the bank if he buys the right kind of an automobile, and all that sort of thing.

Now, is there not some way that we can protect the public against that kind of banking?

Mr. POLE. In the course of our examinations, if we find that the outside duties of any officer interfere with the proper conduct of the bank, it is naturally a matter of criticism, and we try to have those matters of criticism corrected.

Mr. LETTS. Would it not be a wholesome thing if we had something in the law, and also in our State laws, that would prevent officials to pass upon loans and deal with the public who may be engaged in any business that would give them an interest which is contrary to the welfare of the bank?

Mr. POLE. I doubt whether that would be a practical thing in a very small bank. In the more important banks, I think that is a usual policy.

Mr. LETTS. Mr. Chairman, that is all I have to ask at this time. Some time later I may wish to examine Mr. Pole a little with respect to his analysis of land depreciation in the agricultural sections of the country, but I do not care to do that at this time, if I may have that opportunity at some later time.

The CHAIRMAN. Yes; the members will be given a chance to do that after we have carried out this routine.

Mr. Steagall is next.

Mr. STEAGALL. Mr. Pole, the picture drawn by Mr. Letts respecting the small realizations going to depositors in insolvent banks hardly represents the situation as applied to the national system, does it?

Mr. POLE. The liquidation of national banks, I think the report of insolvent division shows, is about 65 per cent.

Does that answer your question?

Mr. STEAGALL. Well, that is the average?

Mr. POLE. Oh, yes, that is the average.

Mr. STEAGALL. So I guess that answers that question.

Somewhere I saw—maybe in one of your recent reports—that the liquidations completed of national banks that were insolvent showed a realization of 79 per cent, leaving a loss of 21 per cent on eight hundred and some odd number of banks liquidated during the past 10 years. Is that right?

Mr. POLE. I do not carry that figure in my mind. I will be glad to insert that in the record, Mr. Steagall.

Mr. STEAGALL. What I was attempting to do is to refresh your memory on that point. I may be in error about it, but somewhere in a hurried looking over of your report or something else—unless I am confused in my recollection—I saw those figures, that the losses in the banks where liquidation had been completed were 21 per cent. It impressed me very much. And, if that is true, 65 per cent would not quite do justice to the situation, would it?

Mr. POLE. On that hypothesis, you are correct.

Mr. STEAGALL. Now, since my reference to your report was made—if it was your report—would you adhere definitely to the statement that only 65 per cent had been realized?

Mr. STEVENSON. Here are the exact figures. It is 70 per cent.

The CHAIRMAN. I would suggest at this point that the statement appearing in the comptroller's report on this matter be placed in the record, and without objection that will be done.

(There was no objection, and the excerpt referred to is reproduced below.)

NATIONAL BANK FAILURES

During the past year receivers were appointed for 79 national banks. Of this number, 72 were failures and 7 appointments of receivers were made in order to enforce stock assessments necessary to be paid under contract to succeeding institutions which purchased the assets of the bank, sold under a guarantee from stockholders, paying creditors in full. Of the 72 actual failures, 2 were restored to solvency, leaving 70 to be liquidated by receivers. This compares with 54 actual failures for the previous year, 2 of which were restored to solvency, and the appointment of receivers for 7 banks to enforce stock assessments. The capitalization of the 79 banks for which receivers were appointed during the past year was $6,575,000, compared with the capitalization of the 61 banks for which receivers were appointed during the previous year of $4,135,000.

The total of assets of the 79 banks for which receivers were appointed during the past year, including additional assets acquired after suspension, was $62,612,500. Stock assessments in the amount of $5,440,000 had been levied as of September 30, 1929, by the comptroller against the shareholders of these banks.

The records of the division of insolvent national banks of the comptroller's office do not show as a failure the suspension of the First National Bank of Lagrange, Tex., with assets of $1,213,812.02. The suspension occurred April 30, 1929, and the bank remained in the hands of an examiner in charge until May 20, 1929, on which date it resumed business.

During the past year two banks, each with assets of over $12,000,000, became insolvent, and the receivers were appointed. Immediately arrangements were made with local institutions for the purchase, at par and interest, of such of the assets of the failed banks as were considered acceptable to the purchasing banks. The results were that in the first institution 50 per cent was made immediately available to its creditors, and in the second 60 per cent was immediately paid, thus relieving the local financial situation at once. Since such sales of assets, funds have been accumulated for payment of additional dividends of 25 per cent to the creditors of the first-mentioned bank, who received a first dividend of 50 per cent, and funds have been accumulated for payment of additional dividends of 30 per cent to the creditors of the second-mentioned bank, who received a first dividend of 60 per cent, thus assuring the payment of 75 per cent and 90 per cent, respectively, to the creditors of these banks within 12 months after their failure.

This new method of liquidation has been followed in several smaller failures, and has proved most effective in relieving at once the acute financial situations which follow bank failures.

From the date of the first failure of a national bank in the year 1865 to October 31, 1929, 1,313 national banks were placed in charge of receivers. Of this number, 72 were restored to solvency and permitted to resume business, leaving 1,241 to be administered by receivers. Of these so administered, 426 (26 less than reported at the close of 1928) are still in process of liquidation and 815 have been entirely liquidated and the trusts closed.

The capital of the 1,313 insolvent national banks at the date of failure was $143,670,420. The capital of the 72 banks that were restored to solvency was $12,180,000. The capital of the 426 banks that are still in receiverships is $32,524,500, and the capital of the 815 banks that have been completely liquidated was $98,965,920.

The book value of the assets of the 1,241 administered receiverships, including assets acquired after suspension, aggregated $853,993,969, in addition to which there were levied against shareholders assessments aggregating $92,315,740. Total collections by receivers to September 30, 1929, from these assets, including offsets together with collections from stock assessments, amounted to 56.01 per cent of the total of such assets and stock assessments. The disposition of such collections was as follows:

Collections:	
Collections from assets, including offsets	$485, 442, 981
Collections from stock assessments	44, 614, 817
Total	530, 057, 798
Disposition of collections:	
Dividends paid to creditors on claims proved aggregating $464,838,227	279, 772, 948
Payments to secured and preferred creditors, including offsets allowed and payments for the protection of assets	200, 336, 130
Payment of receivers' salaries, legal and other expenses	33, 259, 329
Cash returned to shareholders	4, 167, 798
Cash balances with the comptroller and receivers	12, 521, 593
Total	530, 057, 798

In addition to this record of distribution there were returned to shareholders, through their duly elected agents, assets of a book value of $16,211,624.

The 426 banks that were as of October 31, 1929, still in charge of receivers and in process of liquidation had assets, including assets acquired subsequent to their failure, aggregating $339,517,557. The capital of these banks was $32,524,500, and there had been levied by the Comptroller of the Currency to September 30, 1929, stock assessments against their shareholders in the amount of $28,924,500. The collections from these assets, including offsets, together with collections from stock assessments, amounted to 52.24 per cent of such assets and stock assessments as shown by receivers' last quarterly reports under date of September 30, 1929. The disposition of such collections was as follows:

Collections:	
Collections from assets, including offsets	$178, 488, 168
Collections from stock assessments	13, 999, 442
Total	192, 487, 610
Disposition of collections:	
Dividends paid to creditors on claims proved aggregating $189,388,731	86, 493, 085
Payments to secured and preferred creditors, including offsets allowed and payments for the protection of assets	82, 323, 457
Payment of receivers' salaries, legal and other expenses	10, 799, 475
Cash returned to shareholders	350, 000
Cash balances with comptroller and receivers	12, 521, 593
Total	192, 487, 610

From the date of the first failure of a national bank in 1865 to the close of October 31, 1929, 887 receiverships were liquidated and the trusts closed, or the affairs thereof restored to solvency. Included in this number are the 72 banks restored to solvency (2 in 1929) and 103 that were liquidated during the year 1929. These 815 banks had assets, including assets acquired subsequent to their failure, aggregating $514,476,412. The capital of these 815 banks was $98,965,920 and there were levied by the Comptroller of the Currency stock assessments against their shareholders in the amount of $63,391,240. The collections from these assets including offsets, together with collections from stock assessments as shown by receivers' final reports amounted to 58.41 per cent of such assets and stock assessments. The disposition of such collections was as follows:

Collections:	
Collections from assets, including offsets	$306, 954, 813
Collections from stock assessments	30, 615, 375
Total	337, 570, 188
Disposition of collections:	
Dividends paid to creditors on claims proved aggregating $275,449,496	193, 279, 863
Payments to secured and preferred creditors, including offsets allowed and payments for the protection of assets	118, 012, 673
Payment of receivers' salaries, legal and other expense	22, 459, 854
Cash returned to shareholders	3, 817, 798
Total	337, 570, 188

The average percentage of dividends paid on claims proved against the 815 receiverships that have been finally closed, not including the 72 restored to solvency, which paid creditors 100 per cent, was 70.19 per cent. If offsets, loans paid, and other disbursements were included in this calculation, the disbursements to creditors would show an average of 79.13 per cent.

Expenses incident to the administration of the 815 closed trusts, such as receivers' salaries, legal and other expenses, amounted to $22,459,854, or 3.88 per cent of the book value of the assets and stock assessments administered, or 6.65 per cent of collections from assets and stock assessments. The assessments against shareholders averaged 64.05 per cent of their holdings and the total collections from such assessments as were levied were 48.29 per cent of the amount assessed. The outstanding circulation of these closed receiverships was $38,060,477, secured by United States bonds on deposit with the Treasurer of the United States of the par value of $40,506,920.

During the year ended October 31, 1929, 103 receiverships were closed in addition to which 2 banks were restored to solvency. The total assets of the 103 receiverships, including assets acquired subsequent to suspension, aggregated $44,924,790. The capital of these banks was $5,225,000, and the total assessments against shareholders levied by the Comptroller of the Currency aggregated $5,225,000. The collections from these assets, including offsets, together with collections from stock assessments as shown by receivers' final reports, amounted to 54.72 per cent of such assets and stock assessments. The disposition of such collections was as follows:

Collections:	
Collections from assets, including offsets	$24, 911, 473
Collections from stock assessments	2, 532, 490
Total	27, 443, 963
Disposition of collections:	
Dividends paid to creditors on claims proved aggregating $25,714,590	12, 653, 830
Payments to secured and preferred creditors, including offsets allowed and payments for the protection of assets	12, 561, 313
Payment of receivers' salaries, legal and other expenses	2, 224, 420
Cash returned to shareholders	4, 400
Total	27, 443, 963

The average percentage of dividends paid on claims proved against the 103 receiverships that were finally closed in the year ending October 31, 1929, not including the 2 banks restored to solvency which paid creditors 100 per cent, was 49.2 per cent. If offsets, loans paid, and other disbursements were included in this calculation, the payment to creditors would show an average of 65.86 per cent. Expenses incident to the administration of these 103 trusts, such as receivers' salaries, legal, and other expenses, amounted to $2,224,420, or 4.43 per cent of the book value of the assets and stock assessments administered, or 8.1 per cent of collections from assets and stock assessments. The assessments against shareholders averaged 100 per cent of their holdings and the total collections from such assessments as were levied were 48.46 per cent of the amount assessed.

The financial operations of the division of insolvent national banks from September 30, 1928, to September 30, 1929, were as follows:

Collections:	
Cash on hand Sept. 30, 1928	$13, 158, 682
Collections during the year, including offsets	46, 802, 886
Total	59, 961, 568
Disposition of collections:	
Dividends paid	28, 939, 840
Secured and preferred claims paid	15, 863, 280
Expenses paid	2, 632, 455
Returned to shareholders in cash	4, 400
Cash on hand	12, 521, 593
Total	59, 961, 568

Mr. POLE. May I answer categorically? [Reading:]

If offsets, loans paid, and other disbursements were included in this calculation, the payment to creditors would show an average of 65.86 per cent.

Mr. STEVENSON. I read it [reading]:

If offsets, loans paid, and other disbursements were included in this calculation the disbursements to creditors would show an average of 79.13 per cent.

Mr. POLE. What are you reading from?

Mr. STEAGALL. That is in the report of the Comptroller of the Currency for December, 1929. That is where I got my figures. Since seeing this, I remember definitely where it was.

Mr. POLE. What page is that?

Mr. STEAGALL. On page 24, in the third paragraph from the bottom of the page.

Mr. STEVENSON. That includes offsets, and the other excludes them; that is the only difference. The actual payment in cash was 65 per cent.

Mr. POLE. I will be glad to insert the facts in the record. I think we may assume, for the purposes of your inquiry, however, that it is between 65 and 70 per cent.

Mr. STEAGALL. Mr. Pole, I would not for a moment attempt to put my judgment about technical matters of this kind against yours, but I think I was justified in the conclusion I reached from the statement in this report. I suggest that you read it again.

Mr. WINGO. If the gentleman will yield, may I read this statement and possibly it will show where Mr. Steagall got his idea?

On page 24 of the Report of the Comptroller of the Currency of December 2, 1929, about the middle of the page, under that tabulation of figures, there is this statement:

If offsets, loans paid, and other disbursements were included in this calcula on the disbursements to creditors would show an average of 79.13 per cent.

Possibly that is what the gentleman from Alabama has in mind. It illustrates the old story that you can take figures to prove anything.

Mr. STEAGALL. That statement includes everything, and means that the creditors got 79.13 per cent.

Mr. POLE. In 815 banks which have been liquidated, 70.19 per cent was paid to general creditors. If preferred and secured claims are included the average would be 79.13 per cent.

Mr. STEAGALL. That is right.

Mr. POLE. And the other figure which I read has reference to the more recent closing of receiverships during 1929.

Mr. STEAGALL. I am speaking of the 815 banks completely liquidated out of 1,300 and some number?

Mr. POLE. Roughly, yes.

Mr. STEAGALL. The fact is, Mr. Pole, that the best standard or guide that could be found on that question, that is to say, on the question of the amounts realized to creditors of national banks that are insolvent and liquidated, is the actual experience gained in liquidations and so the record shows that national banks, insolvent and liquidated completely, have paid 79.13 per cent.

Mr. POLE. Yes, sir.

Mr. STEAGALL. According to your report.

Mr. POLE. Yes.

Mr. STEAGALL. Of course, that report was carefully compiled?

Mr. POLE. Yes.

Mr. STEAGALL. And is better than off-hand recollection?

Mr. POLE. Yes; of course, that includes offsets, the debtor's own deposit as against his own loan, loans paid, and so forth. Otherwise it would be 70 per cent.

Mr. WINGO. May I interrupt and point out that that statement also includes the payment of receivers' salaries and legal and other expenses of $22,459,854, does it not?

Mr. POLE. That is correct.

Mr. WINGO. Of course, it is fair to say upon the other side that it included a stock assessment of $30,615,375, less cash returned to shareholders of $3,817,798, which I suppose represented the amount of the assessment which was in excess of the actual requirements.

Mr. POLE. That is right.

Mr. STEVENSON. But the creditors themselves got 79.13 per cent. The man who owed $100 and had on deposit $1,000 got the offset; he received $900.

Mr. POLE. In the course of time. In some cases it covered a period of years.

Mr. STEAGALL. In that calculation, the expense of liquidation amounted to 6 per cent plus, did it not?

Mr. POLE. Six per cent plus.

Mr. STEAGALL. So that my statement that the losses were only 21 per cent was correct.

Mr. STEVENSON. Will the gentleman yield?

Mr. STEAGALL. Yes.

Mr. STEVENSON. You mean the loss to the depositors, do you not?

Mr. STEAGALL. Yes. I am not talking about the stockholders. We are talking about those who dealt with these stockholders; and we are not worrying about them.

I want to ask you, first, in order to refresh my own recollection, how far back these liquidations go?

Mr. POLE. That is from the beginning of time.

Mr. STEAGALL. That is my understanding.

Mr. STEVENSON. Since 1865.

Mr. STEAGALL. That is what I understood to be the fact.

Now, how much was the total loss during that time to depositors in the banks completely liquidated?

Mr. POLE. May I supply those figures later?

Mr. STEAGALL. Yes.

(The figures referred to are as follows:)

Dividends paid to creditors on claims proved, aggregating $275,449,496, amounted to $193,279,863, showing a loss to general creditors of $82,169,633.

Mr. STEAGALL. Mr. Pole, I dislike to repeat matters that have been discussed here extensively day before yesterday when I could not be present. I had to attend a meeting of the hospitalization board. I will try to avoid things that I feel sure have been covered and will read the record on those things in the hearings later; but I want to ask you this: There has been an increase in the number of insolvent banks during recent years, has there not?

Mr. POLE. Quite a marked increase. I can give you the exact figures, if you would like to have them.

Mr. STEAGALL. If they have not been inserted in the record, I should very much like to have them. I want to avoid repetition; but if they have not been put in, I would like to have them.

Mr. POLE. They are in the exhibit.

Mr. STEAGALL. If they are, it is not necessary to encumber the record, and I do not desire to do that; but there has been a large increase.

How long has this increase existed or how long since it began?

Mr. POLE. There appeared to be rather a definite beginning, which was about 1920, I should say.

Mr. STEAGALL. Let me ask you this: Do you mean to say there was an increase in 1920 as compared to the entire period of national banking experience prior to that time?

Mr. POLE. Commencing about 1920 to 1921.

Mr. STEAGALL. Yes, sir. How did the percentage of the failures run during the years after the inauguration of the Federal reserve system down to this period of 1920?

Mr. POLE. Before 1920—much less pronounced than since 1920.

Mr. STEAGALL. I do not believe I made myself quite clear in my question. What I was seeking to develop in the question was this: Whether or not there was an immediate increase of insolvencies following the inauguration of the Federal reserve system or was there a decrease for the first six years prior to this period of 1920, in which you say the increase began.

Mr. POLE. I would say there was a normal number of failures up to 1920.

Mr. STEAGALL. And what you mean when you say a normal number is that the national bank system moved along about as usual?

Mr. POLE. Yes, sir.

Mr. STEAGALL. In that regard?

Mr. POLE. Yes, sir. I shall be glad to furnish detached list of failures.

Number of bank failures each year ended June 30, 1904–1920, inclusive

	State and private	National	Total		State and private	National	Total
1904	102	20	122	1914	96	21	117
1905	57	22	79	1915	110	14	124
1906	37	8	45	1916	41	13	54
1907	34	7	41	1917	35	7	42
1908	132	24	156	1918	25	2	27
1909	60	9	69	1919	42	1	43
1910	28	6	34	1920	44	5	49
1911	56	3	59				
1912	55	8	63	Total	994	176	1,170
1913	40	6	46				

Mr. STEAGALL. One of the prime purposes and thoughts back of the enactments of the Federal reserve law was to furnish a reservoir and supply of credit that would make bank failures less frequent, was it not?

Mr. POLE. I do not think that was one of the purposes of the Federal reserve system to make bank failures less frequent. It was to give banks greater latitude in their loaning power and greater ability to serve the needs of the country. As to bank failures, I do not think it contemplated that the Federal reserve banks would undertake to keep the banks from becoming insolvent.

Mr. STEAGALL. No; I do not mean that it was the business of the Federal reserve system to keep banks from becoming insolvent, but it was my understanding always that the philosophy underlying the Federal reserve act was that we would have a credit reservoir to which resort could be had in time of emergency and that one of the benefits to follow would be that a bank in distress would have somewhere to go to get relief and tide over the period of difficulty?

Mr. POLE. It did serve such a purpose.

Mr. STEAGALL. Now, I understood you to say it did not; that following the enactment of the Federal reserve law, things moved along as they had and there had been no effect on the national bank system in that regard.

Mr. POLE. If we had not had the Federal reserve system I do not know what would have happened. There is no doubt the Federal reserve system did render great assistance to banks which, of necessity, would have had to go to their correspondents and there is a question whether they could have been accommodated. The Federal reserve funds were used quite liberally, as I am quite sure you know.

Mr. STEAGALL. That is the thought I had. I have some limited information, I think, regarding the benefits extended by the Federal reserve system in its early operations—cases of emergency, which, as I have thought must have saved banks from failures in many instances which otherwise would have gone to the wall.

Mr. POLE. The Federal reserve banks of the various districts put many banks in funds which enabled them to stay open, whereas, otherwise, they might have closed.

Mr. STEAGALL. It has been one of my reasons for my devotion to the Federal reserve law, that it has granted relief in emergencies,

so often, and, I thought, in a very helpful way. Such was true for a while, I am sure.

Well, that brings us down to this point, that the fact that we had this increase in failures or insolvencies certainly is not due to defects inherent in the Federal reserve system itself?

Mr. POLE. By no means.

Mr. STEAGALL. It has grown out of conditions, whatever they may be, that have brought about these insolvencies, notwithstanding the relief facilities afforded by the Federal reserve banks in time of emergencies.

Mr. POLE. That is true.

Mr. GOLDER. Will you bring out, if you please, the relationship of the failures of the number of banks, other than member banks, compared with State banks, during the same period?

Mr. STEAGALL. That is some information we ought to have in this record. I suppose, in some of these reports somewhere it is to be found. I would imagine that had been developed before now.

The CHAIRMAN. Will you yield to me?

Mr. STEAGALL. Yes, sir.

The CHAIRMAN. Can you furnish that information, Mr. Comptroller?

Mr. POLE. Yes.

The CHAIRMAN. Then, without objection, it will be put in the record at this point.

Number and deposits of all banks in United States[1] at the end of June, 1920, and number and deposits of banks that suspended from January 1, 1921, to December 31, 1929

	Total all banks	Member banks		Nonmember banks
		National	State	
NUMBER OF BANKS				
Total number of banks in operation at the end of June, 1920	30,079	8,025	1,374	20,680
Number of banks that suspended from Jan. 1, 1921, to Dec. 31, 1929	5,640	763	231	4,646
Ratio of banks that suspended during 1921-1929 to total banks in operation in June, 1920 (per cent)	18.8	9.5	16.8	22.5
DEPOSITS				
Total deposits of all banks in operation at the end of June, 1920	$41,445,376,000	$17,148,231,000	$8,224,105,000	$16,073,040,000
Deposits of banks that suspended from Jan. 1, 1921, to Dec. 31, 1929	1,721,402,000	355,780,000	138,450,000	1,227,172,000
Ratio of deposits of banks that suspended during 1921-1929 to deposits of all banks in operation in June, 1920 (per cent)	4.2	2.1	1.7	7.6

[1] Exclusive of Alaska and island possessions (60 banks).

Mr. GOLDER. Mr. Steagall was bringing out the fact that the Federal reserve was in nowise responsible for the increase in failures and I think if we can show an equal number of failures outside of the——

Mr. STEAGALL. I think it properly comes in line with the suggestion you made.

Mr. WINGO. You mean other than member banks?

Mr. GOLDER. Other than those connected with the Federal reserve system.

Mr. STEAGALL. As I remember your testimony yesterday—and I will ask you to repeat it because there is no harm in repeating that—what is the proportion of failures of national banks, in the national system, as compared with the State banks?

Mr. POLE. During the period——

Mr. STEAGALL. Take the last 10-year period, since this failure situation has been so accentuated.

Mr. POLE. There were 750 national banks against 4,700 State banks. The ratio, in proportion to number of banks, was approximately three to one.

Mr. STEAGALL. Now, do you mean to say that the proportion—that the failures would be about one national bank out of seven State banks that failed?

Mr. POLE. Between six and seven. If you do not consider the fact that there are twice as many or nearly three times as many State banks as national banks——

Mr. STEAGALL. I am leaving that out of the first question. There is about one national bank to six or seven State banks to fail?

Mr. POLE. Yes; about one to six or seven.

Mr. STEAGALL. What proportion of the national banks have failed as compared to the proportion of State banks that have failed; in other words, what percentage of the national banks have failed in this 10-year period or 9 years or whatever it is?

Mr. POLE. Approximately 9 per cent over the 9-year period ending 1929.

Mr. STEAGALL. Here is what I am talking about: You have given me the percentage of the national banks that have failed as 9 per cent. That is what I want. What per cent of the State banks have failed during that same period?

Mr. BUSBY. I call your attention to page 4 of your first statement, in which you have that all figured out. The answer is 71 per cent.

Mr. STEAGALL. 71 per cent? No; those figures are not right.

Mr. BUSBY. Seventy-one per cent that failed were State banks.

Mr. WINGO. That is not the question he asked.

Mr. STEAGALL. What I want to know is what per cent of the State banks have failed?

Mr. STEVENSON. That is a very important item.

Mr. POLE. Twenty-two per cent of all State banks in existence June 30, 1920.

Mr. STEAGALL. About twice the percentage of State banks have failed as compared with national banks?

Mr. GOLDSBOROUGH. Will you find out at this point, what percentage of the banking resources failed?

Mr. STEAGALL. I am coming to that. What was the percentage of the resources involved in the national banks that failed as compared with the resources of the State banks that failed? If you can put the figures in the record—I think it would be more direct to ask, What were the resources of the national banks that failed, and what were the resources of the State banks that failed.

Mr. POLE. Your former question—there were 9 per cent of the national banks that failed over the period in question and 22 per cent of the State banks. That is in answer to your former question.

Mr. STEAGALL. My next question is, What were the resources of the national banks to fail first, and next, What were the resources of the State banks that failed?

Mr. POLE. I shall have to furnish that.

Mr. STEAGALL. Then, when you furnish the amount in dollars and cents of resources of the national banks that failed and the State banks that failed, in that connection give also the amount of resources of the entire national system and the entire State system.

Mr. WINGO. And also reduced to a percentage basis in both instances.

Mr. POLE. We have that information but I do not happen to carry it in my head.

Mr. GOLDER. I think on page 28 you will find the requested information in this report.

Mr. STEAGALL. Just let Mr. POLE furnish that information.

Mr. POLE. I will be glad to furnish it.

Mr. STEAGALL. Mr. Pole, we have had, this year, I believe you said, 155 failures.

Mr. POLE. We have had 155 up to February 21. There were three additional national-bank failures this week and several additional State banks.

Mr. STEAGALL. At that rate, how many bank failures will we have this year?

Mr. POLE. Well, that would be about 100 a month, would it not?

Mr. WINGO. I figure, if you take the first seven weeks of the year and continue at that ratio, it would be 1,140 for the year.

Mr. POLE. Yes.

Mr. STEAGALL. What proportion of these failures down to the 21st, I believe you said it was, are national banks? In other words, how many national banks have failed this year up to that time?

Mr. POLE. Twenty-one.

Mr. STEAGALL. How many of these 155 were banks of less than $100,000 capital? Have you those figures?

Mr. POLE. One hundred and thirty of them.

Mr. STEAGALL. We had two in my State of more than $100,000 this year.

Mr. POLE. I will be glad to furnish that information.

Classification of banks suspended during the period January 1 to February 21, 1930, according to capital stock

Number of banks with capital stock of—	Total, all banks	National banks	State bank members	Non-member banks
Less than $100,000	130	14	3	113
$100,000	8	4		4
Over $100,000	15	4	1	10
Not available	[1] 2			[1] 2
Total	155	22	4	129

[1] Private banks.

Mr. WINGO. If the gentleman will yield——

Mr. STEAGALL. Yes.

Mr. WINGO. The fact remains that the great bulk of failures this year, like they have been for the last nine years—for the immediate nine years preceding—are mostly small country banks?

Mr. POLE. Almost entirely small banks.

Mr. WINGO. That is the striking fact that I think would interest us, that the largest part of the failures are among what you class as country banks.

Mr. POLE. Yes.

Mr. WINGO. And very few large banks failed?

Mr. POLE. Very few.

Mr. STEAGALL. I want to ask you where these failures have occurred, speaking geographically?

Mr. POLE. This year, you are speaking of?

Mr. STEAGALL. We are discussing now the whole thing—this nine-year period we are talking about.

Mr. POLE. Taking the total number of banks on June 30, 1920, as a basis, in the State of Vermont, there were no failures.

In the District of Columbia there were no failures.

In the State of New Hampshire there was one failure.

In the State of New Jersey there were three failures.

In the State of Massachusetts there were six failures, or 1.3 per cent.

In the State of Connecticut there were three failures, or 1.4 per cent.

In the State of Maine there were three failures, or 1.9 per cent.

In the State of New York there were 26 failures, or 2.5 per cent.

In the State of Pennsylvania there were 40 failures, or 2.6 per cent.

In the State of Maryland there were 11 failures, or 3.9 per cent.

In the State of California there were 31 failures, or 4.3 per cent.

In the State of Delaware there were two failures, or 4.3 per cent.

In the State of Ohio there were 55 failures, or 4.8 per cent.

Of all the banks which were in existence in 1920 in the State of Rhode Island three banks failed, or 6.3 per cent.

In the State of Kentucky there were 43 failures, or 7.4 per cent.

In the State of Wisconsin there were 75 failures, or 7.7 per cent.

In the State of Illinois there were 138 failures, or 8.6 per cent.

In the State of Alabama there were 32 failures, or 9.1 per cent.

In the State of Nevada there were 3 failures, or 9.1 per cent.

In the State of Virginia there were 45 failures, or 9.2 per cent.

In the State of Michigan there were 66 failures, or 9.4 per cent.

In the State of Mississippi there were 34 failures, or 9.6 per cent.

In the State of West Virginia there were 34 failures, or 10 per cent.

This is of all banks in existence, State and national, June 30, 1920. This number has failed:

In the State of Indiana there were 115 failures, or 10.9 per cent.

In the State of Tennessee there were 66 failures, or 12.1 per cent.

In the State of Louisiana there were 34 failures, or 12.7 per cent.

In the State of Utah there were 18 failures, or 13.5 per cent.

In the State of Washington there were 56 failures, or 14.2 per cent.

In the State of Oregon there were 43 failures, or 15.5 per cent.

In the State of Kansas there were 223 failures, or 16.5 per cent.

In the State of Missouri there were 296 failures, or 17.9 per cent.

In the State of Texas there were 299 failures, or 18.9 per cent.

In the State of Arkansas there were 95 failures, or 19.5 per cent.

In the State of North Carolina there were 125 failures, or 20.1 per cent.

In the State of Colorado there were 89 failures, or 22.1 per cent.

In the State of Minnesota there were 411 failures, or 27 per cent.

In the State of Oklahoma there were 266 failures, or 27.7 per cent.

In the State of Nebraska there were 339 failures, or 29.3 per cent.

In the State of Iowa there were 528 failures, or 29.9 per cent.

In the State of Arizona there were 27 failures, or 31 per cent.

In the State of Idaho there were 72 failures, or 32.4 per cent.

In the State of Wyoming there were 60 failures, or 30.5 per cent.

In the State of Georgia there were 319 failures, or 43.2 per cent.

In the State of Montana there were 203 failures, or 47.1 per cent.

In the State of North Dakota there were 429 failures, or 47.8 per cent.

In the State of South Carolina there were 227 failures, or 49.2 per cent.

In the State of New Mexico there were 62 failures, or 50 per cent.

In the State of South Dakota there were 394 failures, or 56.8 per cent.

In the State of Florida there were 190 failures, or 71.7 per cent, of all the banks which were in existence June 30, 1920 to 1929, inclusive.

Mr. STEAGALL. I do not suppose you are prepared, at the moment, to give the figures on the last year and this year, geographically, and if you will put them in your statement, I will be glad to have them.

Mr. POLE. These figures for the last year?

Mr. STEAGALL. For the last year; yes, sir.

Mr. POLE. I can give you them now.

Mr. STEAGALL. Very well, sir. I did not suppose you had them on hand.

Mr. POLE. Six hundred and forty banks failed in 1929. By Federal reserve districts, none of them failed in the first district; 6 banks failed in district No. 2, 3 banks failed in district No. 3, 14 banks failed in district No. 4, 59 banks failed in district No. 5, 117 banks failed in district No. 6, 93 banks failed in district No. 7, 44 banks failed in district No. 8, 84 banks failed in district No. 9, 193 banks failed in No. 10, 11 banks failed in No. 11, 16 banks failed in the twelfth Federal reserve district, making a total of 640 banks.

Mr. WINGO. May I interrupt the gentleman right there?

Mr. STEAGALL. Certainly.

Mr. WINGO. In connection with these statistics, at this point, I want the record to carry a citation to your exhibits E and F. Exhibit E shows that the bank suspensions during the 8-year period, 1921 to 1928, inclusive—that 88.6 per cent of those failures or suspensions were in banks of $100,000 and less capitalization, and as to sizes of towns in that same period, 87.7 per cent of those failures occurred in towns of 5,000 and less in population; in other words, 88 per cent plus were banks of $100,000 and less capitalization, and 87.7 per cent were in towns of 5,000 and less population.

In other words, the great bulk of failures were small banks in small towns.

Mr. POLE. That is correct.

Mr. GOLDER. I should like to ask if the principal causes of most of these failures were loans—mortgages on land values?

Mr. STEAGALL. The gentleman asks, or desires me to ask, if the principal cause of the failures was loans on land values. You spoke of frozen assets and, of course, we understand to some extent, at least, that is covered by loans on real estate or tied up in real estate.

Mr. POLE. I referred to frozen assets in the particular illustration which I drew at that time.

Mr. STEAGALL. Yes, sir.

Mr. POLE. I would not say that the causes of the bank failures are in large part, or in an important part, on account of real estate loans or loans based on real estate. This is not the controlling factor.

Mr. STEAGALL. Are you familiar—I am sure you are—with the legislation passed two years ago, or about that time—I will not give the date—in which we permitted national banks to increase the amounts of their loans on real estate?

Mr. POLE. That was under the McFadden bill?

Mr. STEAGALL. Yes. Do you remember the increases permitted by that act? The figures escape my mind. Some of us favored it and some did not, but finally the legislation went through. I do not mean to play the rôle of "I told you so," but I was one of those who did not think it was the proper thing to do.

Mr. POLE. There was no change in the law with respect to the appraisals of real estate or its loaning value. There was a difference in the length of time for which a loan on real estate might run and the aggregate amount of loans on real estate which might be made with respect to the savings deposits, the amendment being to allow a bank to loan up to 50 per cent, whereas formerly it was 33⅓ per cent.

Mr. STEAGALL. I though the former amount was 25 per cent, but I am sure you remember the figure better than I do.

Mr. POLE. Yes.

Mr. STEAGALL. So evidently we did not help the situation with that legislation. Mr. Pole, as I understand you, you regard the independent unit banking system, as compared to branch banking, chain banking, or group banking, as the best banking system for our country in so far as the system can function efficiently and meet the demand for banking facilities.

Generally speaking, you think that is the banking system to be desired? If I understand your position, you do not think that the system, as we have it, has worked successfully and you think there should be some changes?

Mr. POLE. That is my recommendation to Congress.

Mr. STEAGALL. Yes; but fundamentally you regard the unit system as the best system, do you not?

Mr. POLE. Not fundamentally. I have a sentimental attachment for it.

Mr. STEAGALL. But so far as it is practicable, that is the system you prefer? In other words, we want to adhere to it and get away from it only so far as developments make it necessary to do so.

Mr. POLE. The reason I want to get away from the present rural banking system is that it does not offer protection to the rural communities.

Mr. STEAGALL. But you would not want to get away from it any further than it is necessary to do so in your judgment, in order to take care of the situation?

Mr. POLE. If it properly took care of the situation I would be in favor of it.

Mr. STEAGALL. Putting it bluntly, if I understand your view—and I am not finding fault with you for that view—but you have certain reasons for your attitude. Whether those reasons are conclusive I do not know, but there are some reasons for the view that you have that the present unit banking system, in the smaller communities, as manifested in our smaller banks, is defective, to say the least, from some cause. I agree with you as to that, and it is to remedy that that you would depart from the system, and, as I understand you, only so far as necessary.

Mr. POLE. That is the basis of my recommendation.

Mr. STEAGALL. That being the case, would not this be the logical course to follow in our legislation—the unit system being the preferable plan—as you suggest, certainly for sentimental reasons among others, it is the system to which we have been accustomed and it is the system we have been taught to believe in and I think everybody agrees, is preferable if it can be kept sound and practicable and made to meet the requirements of the country—but that being true, I agree with you in that there are defects in the present system, but the unit system being preferable, should not we follow this course in our legislation—that of trying, if we can, to perfect the unit system or at least remove its defects and wherever it can be done to cure inefficiencies as far as possible and abandon the system only to the extent that we find ourselves unable to save it and make it operate successfully?

Mr. POLE. I would not be able to answer that question, Mr. Steagall, unless I knew what plan you had in mind for perfecting it.

Mr. STEAGALL. I am not speaking about plans. I do not know that I have any. I have some thought about it, but I should hesitate to say that I have a plan to remedy a situation which is regarded as so difficult. It might be presumptuous. I have some suggestions in that connection which I think might be helpful. I would not say I have a plan that would save it, but if we could eliminate the defects and restore it I should think it the thing to do. Evidently the unit system of banking worked for many years all right, but somehow recent developments have brought about difficulties that did not exist for a long time, certainly difficulties out of proportion to the difficulties encountered for a long period—if we can find these defects and remedy them and get them out of the way, I think we might say that we would all agree that is the preferable thing to do.

Mr. POLE. If we could make the unit system effective——

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

Mr. POLE. I think there would be no reason for any change.

Mr. STEAGALL. Let me ask you this: How do you account for the increase in our difficulties in our unit banking system during this recent period of years, since 1920, about which we have talked?

Mr. POLE. One of the important basic reasons is the fact that the small country bank is not able to earn sufficient to take care of its normal losses, its increasing expenses, and its diminishing business.

Mr. STEAGALL. It is a difficulty, however, that seems to have manifested itself only during these recent years?

Mr. POLE. It has been accentuated since the war.

Mr. STEAGALL. The system worked all right down to the period about which you were talking?

Mr. POLE. I would not say so. I would not say that any system is working all right with the bank failures in any circumstances running into the hundreds. I think the difficulties of earning a proper return on invested banking capital in small communities have greatly increased since the war, but for a number of years before the war, there was a tendency toward diminishing opportunities for the small bank to make earnings. The cost of operations was getting heavier and heavier as time went on and net earnings were decreasing, so that the trend was not in the right direction. If a bank can not earn a fair return on its capital investment, that bank is eventually going to fail.

Mr. STEAGALL. Of course the system which has that inherent difficulty in it will bring trouble.

Mr. POLE. Undoubtedly.

Mr. STEAGALL. Now, you have answered my own thought, in my own language. Unquestionably, generally speaking, the difficulty which has brought about the increase in failures, grows out of the fact that banks have been unable to make the proper earnings—these banks that have failed.

Mr. POLE. Sufficient to pay its increasing operating expenses and its losses.

Mr. STEAGALL. What has brought about that changed condition? How do you account for their inability to make sufficient earnings?

Mr. POLE. Well, there are a great many things.

Mr. STEAGALL. Let us talk about them. That is what I wanted you to discuss.

Mr. POLE. In the first place, rates of interest in country banks have not increased.

Mr. STEAGALL. You mean by that, of course, the interest received by the banks on loans?

Mr. POLE. The interest received by the banks on loans have not increased because, in small country banks, they have, for years, been about as high as they could very well be.

The expenses of operating banks have been materially—very materially—increased. The opportunities of the country banks have diminished in that the small town has become less of a factor by reason of the improvement in roads and the quick transportation which takes people to the cities to do their business and their banking, frequently, instead of doing it in the small town.

Heretofore, in years gone by, a community has been more or less independent, with its locally operated utilities, its light plants, ice plants, and wagon factories, and so forth, all of which have been removed and those things have gone to the cities and now are controlled by large corporations and those opportunities have been removed.

There has been a change in corporate financing within the last 10 years. Heretofore large corporations and small corporations, similarly, would borrow seasonally, whereas now they have financed themselves through reorganization of their capital structures. That has removed the opportunities from the banks and such things as that have made it very difficult for a bank to stay on an even keel.

Mr. STEAGALL. You would not say that the difficulty has grown out of the inability of the banks to make loans?

Mr. POLE. No, sir; they do not have any trouble in making loans, but they generally have to be satisfied with loans of a different quality——

Mr. STEAGALL. That is what you mean—not that they are not able to make loans enough, but the loans they have now are not as satisfactory as previously?

Mr. POLE. Banks in small communities have to be satisfied with small local loans and real-estate loans which frequently are slow and unsatisfactory, resulting in a greater percentage of losses than in years gone by.

Mr. STEAGALL. I remember having discussed with Mr. Williams, who was Comptroller of the Currency, the matter of interest rates which were being received by national banks. He issued some stubborn orders regarding the enforcement of the law which prohibited a national bank from receiving interest in excess of the law of the State in which the bank did business, and that was back at the time of the inauguration of the Federal reserve system.

Mr. POLE. Yes; later than that; about 1918.

Mr. STEAGALL. Mr. Williams did that in 1915. That is a matter about which I have some recollection, because I came to Congress that year and I remember the first time I discussed it. A bank in my district liquidated on account of that order and paid everybody in full, including the stockholders. Many thought it was an unreasonable thing, but it was not. There has been no change in the interest rates that banks receive since that order, as I have been advised. Is not that right? So that that order fixing the limitation on interest charges by the national banks went into effect some years prior to the time that these increased insolvencies developed?

Mr. POLE. I think that order, Mr. Steagall, was not an important factor in the return which a bank receives on its invested capital. I think it had reference, as I recall it—and I do remember it very well—as to whether or not a bank should be permitted to make a minimum charge of $1 or 50 cents.

Mr. STEAGALL. I am speaking about the interest rates. I have not yet reached the matter of charges on collection of checks. He put into effect an order that the banks must observe the law. The law did provide, long before that, that the banks should not charge an interest rate above the interest rate charged in the State in which it was doing business, and it had been discovered that it was violated, and he put that order into effect in 1915.

Mr. STEVENSON. That did not affect State banks at all.

Mr. STEAGALL. No; but it did affect the national banks, all national banks that were members of the Federal reserve system.

Mr. POLE. I would not say that that was a material factor. I do not think the small banks generally observed it, and if they had, I do not think it would have been an important factor.

Mr. STEAGALL. The deposits have substantially increased all along, have they not?

Mr. POLE. They have not materially increased in the rural districts. They have, in the metropolitan districts.

Mr. STEAGALL. But not in the rural districts?

Mr. POLE. No; not anything like the proportion of increase in the larger centers.

Mr. STEAGALL. You referred a moment ago to the matter of charges that the little banks impose for the collection of checks. That right was taken away from the banks about—now, when was it? You remember it better than I do.

Mr. POLE. That was when the par collection system was put into effect by the Federal reserve banks, two or three years after the system went into operation.

Mr. STEVENSON. About 1917.

Mr. STEAGALL. What amount of earnings did that take away? How did that affect the situation? That is certainly one factor entering into this matter of the ability of these banks to make sufficient earnings to succeed properly.

Mr. POLE. I think it was the contention of a great many small banks, Mr. Steagall, that it affected their earnings.

Mr. STEAGALL. That was a considerable item with the little country banks, was it not?

Mr. POLE. It was probably a considerable item.

Mr. STEAGALL. That is what I had always thought. I have had this statement made to me, and I do not say it is true, because I am not sufficiently informed to pass on it, but the statement is often made that many of these little banks get enough out of their collection charges to pay their salary accounts and a big part of their running expenses.

Mr. POLE. I think that would be true in very few instances, and if they did, they were probably making exorbitant charges.

Mr. STEAGALL. I think that was true in some cases. I think that wherever that was the case their charges should be regulated, but evidently the taking away of collection privileges was one of the things that entered into the calculation, out of which grows their ability to make earnings. Personally, I always thought that that right should not have been taken away from the little banks. Maybe I was unduly sympathetic and maybe my views were not always sound, but I thought there should be a statutory regulation of the matter to protect the public against unfair charges but not deny them any aid and make them do the work for nothing, which was generally for larger banks and wholesale houses.

Mr. POLE. Yes.

Mr. STEAGALL. There is a long story in that connection with reference to the legislation which was passed, which finally gave authority to the Federal Reserve Board to enforce its will in that matter, but I do not care to enter into that discussion now. I wanted to ask you this: How much—and this is a matter I should not have to ask you about, but I do not have the figures before me—how much of the earnings of the Federal reserve system have gone in the Federal Treasury since the inauguration of the system?

Mr. POLE. I supplied that information for the record this morning.

Mr. STEAGALL. Did you?

Mr. POLE. Yes.

Mr. STEAGALL. Then, I will not ask you to repeat it. Of course, it will be true, will it not, that the small return that a member bank receives from the Federal reserve bank, which is limited to 6 per cent, on its stock, is one of the items that enters into the matter of their inability to make sufficient earnings?

Mr. POLE. I should say by no means.

Mr. STEAGALL. You think not?

Mr. POLE. I think not. Federal reserve bank stock is one of their securities upon which they get 6 per cent and on which the yield is better probably than the average yield on their total investments.

Mr. STEAGALL. They have to carry, in addition to that stock——

Mr. POLE. That is another matter. I am merely speaking from the standpoint of the investment in the Federal reserve stock.

Mr. STEAGALL. In addition to that, they carry 7 per cent of their demand deposits and 3 per cent of their time deposits——

Mr. POLE. In the Federal reserve banks; that is true.

Mr. STEAGALL. And on which they get nothing?

Mr. POLE. On which they get nothing.

Mr. STEAGALL. That would be one item, or course.

Mr. POLE. Yes.

Mr. STEAGALL. And it ought to be taken into the calculation and in connection with their earnings?

Mr. POLE. Yes; that is a consideration.

Mr. STEAGALL. That, of course, would apply only to banks that are members of the Federal reserve system?

Mr. POLE. Yes, sir.

Mr. STEAGALL. And our greatest failures, of course, are not in the Federal reserve system?

Mr. POLE. The greatest number of failures are of banks not in the Federal reserve system.

Mr. STEAGALL. However, this is true, we are striving—those of us who have responsibilities as legislators or otherwise—for the improvement of the national banking system. Of course we would not attempt to treat the State system as our pattern or anything like that, and we, of course, are pleased that the national system can make a better showing. It has many advantages.

You discussed yesterday, with Mr. Busby, the matter of the guarantee of deposits. I believe he suggested that an insurance method might be advisable, but that did not appeal to your judgment.

Mr. POLE. Not at all.

Mr. STEAGALL. Would there be insurance facilities sufficient to meet the requirements if we should attempt to say to the national banks of the country that they should insure their deposits?

Mr. POLE. I could not say about that.

Mr. STEAGALL. There would be at least some question about that, would there not?

Mr. POLE. I am not informed as to what the insurance companies can do.

Mr. STEAGALL. This difficulty would occur, however, would it not, that if we put a law into effect now—now or six months or a year from now—saying that all national banks must insure their deposits, the practical effect would be to automatically close every bank that was not able to get insurance, would it not?

Mr. POLE. I think that there are many banks over this country which enjoy such confidence on the part of their patrons that it would make no difference to them whether they were insured or not.

Mr. STEAGALL. But if the law should require them to insure and insurance companies would not take them, they would have to go out of business?

Mr. POLE. Yes.

Mr. STEAGALL. There could be no law passed compelling insurance companies to take them. So, the practical effect would be those banks that were unable to pass muster before the insurance companies, would have to go out of business? And in that situation, we would not have the friendly, helpful hand of the Comptroller of the Currency, with his constructive and sympathetic attitude in dealing with banks, to say whether or not a national bank should close or not, but some inexperienced representative of an insurance company in New York would go down to South Carolina or Alabama and look into a bank and decide whether it should be closed or insure its deposits and keep open.

Mr. POLE. They would have to decide whether or not it was a good risk. I imagine there would be a few banks whose risk they might not care to assume.

Mr. STEAGALL. You discussed yesterday the guarantee system as it had been attempted in certain States. I do not care to go into that in detail. I am taking so much of your time and so much of the time of the committee I want to hurry along, but this is true, is it not, that the State, as a unit, would afford much weaker facilities for putting into effect a guarantee system established and borne by the banks themselves, than would be the case if the whole United States should be made the unit and the guarantee system undertaken by the national banks of the whole country with its vast resources; it would necessarily, of course, be stronger and beetter able to undertake that burden and responsibility. That necessarily would be ture, would it not? I am not attempting to commit you to the idea that they should do it. That is another matter, but certainly they would be very much better able to do it than the weak little banks in what some one said in one of the Senate debates—in one of our "backward" States?

Mr. POLE. Yes.

Mr. STEAGALL. Of course, in that event, you would have the entire area of the United States, and a crop failure in one State would not pull down the whole system, which can happen in a small State unit. You would have all the big national banking system back of it which would, of course, make it much less hazardous and burdensome for them than would be the case where it was limited to the individual States.

Mr. POLE. Are you speaking of a guarantee of the funds by the United States Government to cover all the States and all the banks?

Mr. STEAGALL. I am speaking of a guarantee system patterned after those in the States.

Mr. POLE. That would be of the National Government?

Mr. STEAGALL. If the national banks themselves attempted to guarantee their deposits as the State banks have attempted to guarantee their deposits. I am not saying it is a desirable thing. Of course there would be a vast difference with the vast United States as compared with the small banks of small States.

Mr. POLE. I rather doubt that for the reason that if you are going to penalize national banks any further they might go into the State systems.

Mr. STEAGALL. I am not talking about that phase of it.

Mr. GOLDER. What do you mean by "guaranteeing deposits"?

Mr. STEAGALL. A guarantee system patterned after the State systems, and their systems had—and most of them with which I have had any acquaintance—a plan by which each bank was assessed so much annually to set up a fund out of which to realize sufficient to take care of depositors when the bank was closed or something like that. As a rule it seems not to have worked well in some of the States.

Mr. POLE. That is true.

Mr. STEAGALL. I share the view——

The CHAIRMAN. Will you yield to me?

Mr. STEAGALL. Yes.

The CHAIRMAN. I understand the State guarantee plan has failed in every State in which it has been put into operation, and they have discontinued it in every State except Nebraska, and Nebraska's governor is calling a special session of the legislature now to repeal that law.

Mr. STEAGALL. I have never had faith in the guaranty system as the States have adopted it and I am not surprised that it has not worked well. I am not fully informed as to how it has worked in the various States and therefore I do not care to go into details about that.

Mr. STEVENSON. Before you leave that point, would you mind one question? I shall not be able to be in another of these meetings for a couple of weeks.

Mr. STEAGALL. I am glad to yield.

Mr. STEVENSON. On that very question yesterday the comptroller, being asked about depositors requiring or being given security by banks, the comptroller expressed the opinion that it is not a sound policy, with which I agree. But I want to ask the comptroller this: Is it not the rule that the United States Government requires for every one of its deposits, the bank to put up absolute security for its money and pay interest on it?

Mr. POLE. That is true as far as the United States Government is concerned.

Mr. STEVENSON. And we have our Government which supervises this whole business insisting on a preferential provision for itself, which is admittedly unsound for the other depositors. Is not that true?

Mr. POLE. Of course every depositor in every bank is interested in the safety of a Government deposit.

Mr. STEVENSON. To a small extent—a very small extent.

Mr. POLE. If you were to require the banks to give security to its depositors that it would be very impracticable.

Mr. STEVENSON. It would simply force the banks to loan out every bit of their deposits in order to have the securities in order to place the securities; in other words, the bank would simply become a loaning agency for the depositor and take the security and turn it over to him. It is not a sound policy, and I have questioned, for a long time, the justice of the United States Government stepping in here and having an absolute preference over the small depositors when they require absolute gilt-edged security for every deposit they make, and make them pay interest on it.

Mr. POLE. It is the custom to secure public funds of all character—not only the United States Government, but also municipal, State, and county funds.

Mr. STEVENSON. They did not use to. I have been in business for some 44 years, and in connection with the banking business until 15 years ago, when I got out, but they did not use to do that. They have simply all followed the lead of Uncle Sam. Right now, all of the States, counties, and municipalities, require securities for the funds, but they have done it under the inspiration and example of the United States Government.

That is all I wanted to ask and direct attention to. If the thing is unsound, the United States Government is responsible for it, and I think it is unfair for the strongest depositor you have got to have a preference.

Here is man that carries $100,000 on deposits. He makes them put up United States bonds as security. Here, on the other hand, are 100 depositors with $1,000 each, and along comes some trouble that breaks one of the banks. The fellow that has $100,000 on deposit and able to lose it—he steps in and takes the cream and leaves the little fellows with the skimmed milk. That is what happens, and it is not right, but Uncle Sam is the author of that proposition. I do not know when it was inaugurated, but it is wrong.

Mr. STEAGALL. I can see where the Federal Government is in a little different category from the business man or the citizen in the community who deposits funds. I think if I had Government deposits to make I would put them where I could realize on them immediately, in case it was desired.

Mr. GOLDER. Does not the ordinary depositor in the bank get the benefit of the Government deposits? After all, the depositor goes to the bank and borrows from the Government deposits and uses that money in his business.

Mr. STEVENSON. But he gives 200 per cent security.

Mr. GOLDER. But if he fails——

Mr. STEVENSON. The Government does not lose anything.

Mr. SEIBERLING. I move that we proceed with the regular order.

The CHAIRMAN. Proceed, Mr. Steagall.

Mr. STEAGALL. I am willing to have the gentlemen interrupt me. I am taking a lot of time I realize.

Mr. Pole, do you remember the Federal Reserve act as it was originally passed, embodied a provision providing for the guarantee of deposits in the member banks? Are you familiar with that provision?

Mr. POLE. I am not.

Mr. STEAGALL. I mean as it passed the Senate?

Mr. POLE. No; I am not familiar with that.

Mr. STEAGALL. It is a fact that the Federal reserve act, as it originally passed the Senate, had in it a provision for the payment of deposits on the earnings of Federal reserve banks. That provision was stricken out in conference. I have always felt that while we are trying to legislate to protect the banks against one another and to set up safeguards by which other people deal with banks, and while we are trying to take care of, as Brother Stevenson says, the Government itself, we ought, if we could in a sound way, try to find a method of taking care of the citizens who deposit in a bank for which the Government assumes responsibility.

To me it looks hard that an old lady across the country should carry her money to town that she has saved for her old age, and get it out of her stocking in the old trunk in the corner, and takes it to town and sees the bank with a sign "Member of the Federal reserve system" and "National bank, a Government depositary"—the feeling is there, "This is my great Government." The American flag might as well be raised over that bank. She says, "Here is a safe place for my earnings and better than out here where I might get robbed, and I will put them there." The bank fails and she only gets back 79 per cent—and in many cases nothing.

Mr. POLE. While it would be very desirable indeed to have the depositors protected, Mr. Steagall, after all it is not a remedy for preventing failures.

Mr. STEAGALL. Maybe not and maybe so, to some extent. It is unquestionably true, is it not, that a great many bank failures are precipitated by a lack of confidence on the part of the depositing clientele?

Mr. POLE. Yes; in some particular cases that is perfectly true. That is not one of the basic causes for bank failures, however.

Mr. STEAGALL. Yes; I understand it would not remedy the inherent difficulties. We have just passed through this committee, and it is now up in the House, a provision to punish a person who slanders a national bank. It is recognized that an irresponsible person can start a run on a solvent bank and precipitate a failure that would involve the whole community and, of course, consequent loss in a bank, because its assets have a very different value as a going concern from that which it was forced into liquidation. That often happens.

Mr. POLE. Not often, but it does happen.

Mr. STEAGALL. If it were known that the depositors would be protected, of course that would not happen.

Mr. POLE. No; it would not happen.

Mr. STEAGALL. I wanted to ask you this, with reference to the guaranty proposition: If the earnings of the Federal reserve banks that accrue by reason of their operation with their member banks had been maintained as a separate fund, they could have taken care of all these losses to depositors in member banks and still have had large funds to go into the Treasury as a franchise tax, could they not? In other words, have not the Federal reserve banks made enough by reason of the operations with their member banks to much more than pay losses which have accrued finally to depositors in member banks, and still have funds left to go into the Treasury in the form of franchise taxes?

Mr. POLE. I think the figures will show that.

Mr. STEAGALL. If that is true, then the reason the depositor can not get his money back is because the system in which he has deposited it has taken a part of the assets and earnings and paid it as a tax into the Treasury.

Mr. POLE. I do not follow you on that.

Mr. STEAGALL. The Federal reserve banks make these earnings out of the member banks—they raise three-fourths of it on the deposits and stock of the member banks—and operations with them and the assets of member banks consist in larger part of their deposits.

Mr. POLE. Yes, sir.

Mr. STEAGALL. The Federal reserve banks make something like 75 per cent of the earnings by reason of their member banks?

Mr. POLE. On discounts.

Mr. STEAGALL. And they have paid into the Treasury much more than enough to take care of the losses to depositors and still have money left to pay into the Treasury. Mind you, that is money that is made out of these banks in which these deposits have been placed. It is a part of their profits, but instead of going to protect the customers of the banks, it goes into the Federal Treasury.

Mr. POLE. But a small proportion of those profits would go to the banks that failed. If you distribute the profits in proportion to the amount of reserves carried a very large proportion would go to the city banks.

Mr. STEAGALL. Very true; and I appreciate highly what you say, but I am only speaking of the principle involved. To me it is a sounder thing than this proposition of insurance, or to have the banks attempt to impose upon themselves charges out of which to set up a fund to take care of deposits.

I do not attempt to pass on that. I recognize it is a great question and I am open to listen to the views and arguments of men who are better informed than I am, but I have always thought, that we should have a guaranty system for the national banks, and that the practical and sound way to do it would be to get that fund out of the earnings of the Federal reserve banks, the profit of the Federal reserve banks made by reason of their operations with the member banks and I think it should be done.

Mr. POLE. I do not think any guarantee of deposit system would be sound—none that I have ever heard of.

The CHAIRMAN. It is now 1 o'clock.

Mr. STEAGALL. I would like to go along with this discussion, but I am not going to ask Mr. Pole to come back here.

The CHAIRMAN. Mr. Pole is coming back.

Mr. STEAGALL. If I had know that I would have desisted long ago.

The CHAIRMAN. We have not, by any means, finished with Mr. Pole.

Mr. STEAGALL. I meant I did not want to ask him to return for my particular benefit. I know I am in a field that there is no haste in finishing up.

The CHAIRMAN. There are several members of the committee who have not had a chance to question the comptroller.

Mr. STEAGALL. I thought I was the last man, and that is the reason I have taxed Mr. Pole and the committee so long.

The CHAIRMAN. Under our plan, we will adjourn these hearings until next Tuesday, at 10.30 o'clock a. m.

Mr. GOLDSBOROUGH. Will Mr. Pole return on Tuesday?

The CHAIRMAN. Yes; and on Monday, the committee has a hearing on the Federal farm loan act, the Letts bill.

Mr. STEAGALL. I have a bill here I have introduced repeatedly, which represents a crude idea I had, and followed up by a practical suggestion which was made to me by a banker in Kansas City, a man who impressed me very much as a very sound banker and a man of vast information. The bill provides that the Federal reserve banks shall distribute their earnings that accrue by reason of their operations with their member banks, to the member banks after

first having paid all expenses, set aside their dividends and their surplus, and so forth—and instead of paying a franchise tax into the Federal Treasury, covering all of it it shall go back to the banks out of which the money was made. It has occurredto me that that item would be helpful to these smaller banks if they could get this larger share of the returns on their stock in the Federal reserve banks.

Mr. POLE. I would be in favor of something like that.

Mr. STEAGALL. I am very glad to hear you say that. I have a bill here that does that particular thing. It was my own idea, but I did not have so much confidence in it, until after having heard it discussed so much and having a suggestion made by Mr. Goebel in Kansas City—who helped me put that into practical form, and I have always felt that was one piece of legislation that would be helpful to the smaller banks—and now that you agree with me, I am stronger in my view of it. If we are not going to guarantee deposits I think we should give a larger share of the earnings back to these member banks that are being strangled, and rendered unable to function successfully.

Mr. POLE. I am in perfect accord with that.

Mr. STEAGALL. In view of that, I will ask the chairman to let me call up the bill and get it reported favorably and let us have action on it.

The CHAIRMAN. The committee will stand adjourned until 10.30 o'clock, a. m., Monday morning.

(Whereupon, at 1 o'clock, p. m., the committee adjourned until Monday, March 3, 1930, at 10.30 o'clock a. m.)

Branch, Chain, and Group Banking

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HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

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

MARCH 4, 5, AND 6 1930

VOLUME 1

Part 2

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON: 1930

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BRANCH, CHAIN, AND GROUP BANKING

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Tuesday, March 4, 1930.

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

The CHAIRMAN. The committee will come to order.

Mr. Strong moved that, until further change, the hearings on House Resolution 141, beginning March 11, 1930, be held on Tuesdays, Wednesdays, and Fridays instead of on Tuesdays, Wednesdays, and Thursdays as previously provided for, and the motion was agreed to.

Mr. GOODWIN. I make the motion that hearings on H. R. 7752 commence next Monday, when the proponents of the bill may be heard, and that the hearing be continued on the following Monday, when the opponents of the bill may be heard.

The CHAIRMAN. This is a bill proposing to amend section 5219 of the Revised Statutes, which is the statute that permits the taxation of national banks by States.

(The motion was agreed to.)

The CHAIRMAN. We will now resume the hearings on the matter of branch, chain, and group banking. Mr. Pole is here before us this morning.

Mr. STEAGALL. Mr. Pole, I want to ask one or two questions just to complete some things I had in mind and to finish some figures I had asked you to give. I took so much time the other day that I do not intend to prolong the discussion this morning.

The CHAIRMAN. All right.

STATEMENT OF HON. JOHN W. POLE, COMPTROLLER OF THE CURRENCY—Resumed

Mr. STEAGALL. You gave the percentages in connection with the liquidation of banks where liquidation had been completed, giving the amounts realized by creditors, in our discussion at the last session. I want to ask you to give the total amount, in figures, covering the losses sustained by depositors in banks as to which liquidations had been completed. Will you let that appear with your other figures?

Mr. POLE. I have already included that in the record.

Mr. STEAGALL. Very well; I did not know you had.

Then I want to ask you, if you have it convenient, for the same figures with reference to State banks that are members of the Federal reserve system and that have been liquidated.

Mr. POLE. It might be difficult to obtain those figures. I will do the best I can.

Mr. STEAGALL. I do not want to put any undue burden on you, but I imagine the Federal reserve banks could have that easily accessible.

Mr. POLE. But such information with reference to the State nonmember banks are not collected by the Federal reserve.

Mr. STEAGALL. I did not make myself understood.

Mr. POLE. That information would have to be obtained from the State superintendents.

Mr. STEAGALL. I see that I did not make myself understood. The State banks I referred to are those which are members of the Federal reserve system and which have been liquidated.

Mr. POLE. Including national banks?

Mr. STEAGALL. Of course, you have the national banks, but you know that there are many liquidations of State banks that are members of the Federal reserve system. Those liquidations are not handled by your department, but by the State machinery, and it occurred to me that if you do not have it the Federal reserve banks would have the figures showing what had occurred in connection with the discharge of the liabilities, or the amounts realized, in these banks that are members of the Federal reserve system.

Mr. POLE. I will endeavor to obtain that.

Mr. STEAGALL. If it is convenient. I think it would fit very well into the information we now have. The truth is that the figures that we have would not be complete without this information. To illustrate, I imagine that the collections in insolvent State banks are about on a level with those realized in national banks, but I do not know.

(The figures referred to are not available.)

Mr. STEAGALL. I wanted to ask you one other question in connection with our little banks, which of course I am peculiarly interested in.

A question they often raise is in connection with their remittances to the Federal reserve banks and the manner in which remittances are placed to their credit at the Federal reserve banks. What I refer to is this: In my district, for instance, a farming district, where there is an accentuated demand for loans and where the banks are always loaning to the limit as a rule when crop-moving time comes, they find it difficult to keep sufficient balances to meet the demands and they are forever complaining, many of them, that the Federal reserve banks do not give them immediate credit for remittances as was the custom on the part of correspondent banks prior to the inauguration of the Federal reserve system. As I said, they complain a great deal about that. It has been discussed here, but I am wondering if you have any suggestion that you could make about that that would be helpful in that situation.

Mr. POLE. I think the plan that has been worked out by the Federal reserve bank is in crediting to the reserve account of a member bank only collected funds is sound. Formerly banks were usually given credit for checks and drafts immediately upon receipt.

Mr. STEAGALL. That is right.

Mr. POLE. Those drafts, however, were frequently drawn on other cities, and very likely were collected through a circuitous method, and it was very likely days before the funds were actually placed to the credit of the Federal reserve bank there, and therefore I can not

help but feel that the present system of giving credit only as funds are collected is a sound one.

Mr. STEAGALL. Do the Federal reserve banks apply that same rule when the operation is reversed? Is not that out of harmony with their rule requiring member banks to remit without charge and thereby of course giving immediate credit to them?

Mr. POLE. Their reserve account is not charged with those items until the bank has had time to remit for them, so that it is properly balanced in that respect. There is no advantage taken by the Federal reserve bank.

Mr. STEAGALL. It is a technical matter, and I do not attempt to say that I should sit in judgment, but I have always sympathized with these little banks in that connection.

The CHAIRMAN. Will you yield to me?

Mr. STEAGALL. Yes.

The CHAIRMAN. Apropos of this question, my attention was called the other day to a practice in the third Federal reserve district, which seems rather arbitrary in this respect, where I understand that the Federal reserve bank is insisting that all member banks shall give them an order which permits them to charge against their account any items at any time that they see fit so to charge.

Mr. STEAGALL. I am coming to that very situation.

The CHAIRMAN. I was wondering if you were going to cover it, and that is the reason I raised that question.

Mr. STEAGALL. Of course, as I look at the matter, it seems to me that it creates a situation more or less confused. Take a small-town bank that sends a check to the Federal reserve bank. They have got to keep books of some kind, but I do not see how they can keep their books straight with the Federal reserve bank if the payment of those checks is to be deferred indefinitely.

Mr. POLE. They are not deferred indefinitely. They are deferred in accordance with a schedule which is laid down by the Federal reserve banks, and when checks are sent to the Federal reserve bank from a member bank, the account of the Federal reserve bank is charged in a deferred account. When the date arrived for the transfer from the deferred account to the reserve account, such entry is made and the account closed. It is not complicated.

Mr. STEAGALL. Maybe that is a technical matter that is plain to the people who understand the technicalities of banking, but I had thought it was more or less confusing for a bank to have a check placed in its Federal reserve bank and not get credit for it then. I have understood that the Federal reserve bank fixes an arbitrary—and by arbitrary I do not mean that is is unfair; I am not passing on that—standard of dates for different distances as to which these checks are deferred.

Mr. POLE. That is correct. Their plan is to ascertain the exact time which it takes to reach any particular point and the remittance returned to the bank. Pending that time, which is two days, three days or four days, as the case may be, that item is in "float," so that the Federal reserve bank does not take credit when it sends an item to a bank, nor does it give credit when it receives an item from a bank unless it is on the Federal reserve bank itself. In other words, what is known as the "float" is eliminated, and it is a system

which is working all over the United States, and, as far as I know, there is no objection to it.

Mr. WINGO. No objection to it?

Mr. POLE. No serious objection to it.

Mr. WINGO. No objection to the member banks carrying the "float" instead of the Federal reserve banks?

Mr. STEAGALL. There is a great deal of objection.

Mr. WINGO. I have a whole file on it that I will send down to you.

Mr. POLE. The Federal reserve bank carries just as much "float" as the member banks do in the deferred account.

Mr. WINGO. That is one of the things they are objecting to, that it works altogether the other way, that the burden is on the small banks in the small towns. In the cities where the Federal reserve banks and their branches are located, they can step across the street and get immediate credit, and they can clear nearly every day on most of their items—not all, but most of them.

But take a member bank out in a small town. They are protesting all the time that they are discriminated against, for the reason that the percentage of reserve works out heavier on them than it does in a town like, say, Little Rock. Take the banks in my district; the reserve requirement there is heavier on them than it is in a city like Little Rock, because across the street from the bank in Little Rock is a Federal reserve branch bank.

Upon the proposition of carrying the "float," they claim that as a matter of fact the reciprocal burden is such that they carry the load, and I have two letters to-day in my mail on that.

Mr. POLE. I did not wish to be understood as saying that there was no objection to it on the part of the banks. I meant that there is no objection to it as being a scientific method of collection of checks, that the "float" should not be counted as reserve.

Mr. WINGO. Yes; measured by the standard in the Federal reserve system, and that is that the country banks render all the free service to the Federal reserve banks and to manufacturers and wholesalers in the large cities, and they are not even given credit for postage in collecting drafts on bills of lading. Measured by that standard, of course it is scientific. I know a bank that pays one man $1,200 and he does not do a thing on earth except just run around and perform this free service, and Brother Strong's constituents are kicking because we do not make them preferred creditors. They want to be made preferred creditors if the bank fails.

That is one thing that is putting the country banks out of business, the free service that they have to render to the city banks and to the wholesalers and manufacturers getting the benefit of that, whereas they used to pay for it.

Mr. STEAGALL. It virtually took away what might be termed a vested right when they proceeded to require the small banks to remit their checks and incur the expense of making those remittances and making no charge for it. I never could see that it was fair or morally justified. I have introduced bills here requiring the Federal reserve banks to give immediate credit and permitting them to charge a current rate to cover the time between the receipt of checks and their final payment, which would still relieve the burden on little banks in the matter of balances in times of crop marketing, and so forth.

What would you think of that? There could not be any injustice, in that, could there?

Mr. POLE. I would have to think that over.

Mr. STEAGALL. Mr. Pole, I had my attention called several times lately to this kind of a stiuation, and this follows what Mr. McFadden suggested just now. There was a little bank in my district that was closed. There has been a great deal said about the merits of that situation, but I have no personal knowledge of it and no desire to attempt to inject an opinion into that matter. It was a State bank that was a member of the Federal reserve system. I have been informed, on what seems to be reliable authority that that bank, with $50,000 capital and $30,000 surplus, owed only $38,000 to the Federal reserve bank. The bank is situated in a community that suffered very severely last year through floods, which were absolutely unprecedented in that county and in that section of the country. This bank had, of course, in the main, farm paper. It owed the Federal reserve bank maturities due some time around December 1. Some weeks prior to the maturity of the paper, the bank was closed.

A customer of that bank would give a check, or give checks, which would be cashed by the payee through another bank in this county. The bank that cashed the check would send it to its correspondent, and the correspondent send it to the Federal reserve bank, and the Federal reserve bank would send it directly to the bank upon which it was drawn. This bank would charge the checks to the accounts of their customers, and surrender the checks to the customers, and remit by cashier's check to the Federal reserve bank. In the meantime the bank upon which the checks were drawn was closed. The Federal reserve bank took the balances maintained by this little bank and applied them to their notes, which it is claimed were not due. The Federal reserve bank then charged the checks back to the next bank, and that bank to the original bank that paid them, and that bank charged them back to the payees. The payees have surrendered their checks; they have been marked paid; they are in the hands of the makers and those checks are charged to them in their accounts at the bank that failed. So the payee of the check has not got any check, nor any credit from the bank; he is left in mid-air.

There are several cases exactly like that. I have an editorial from a paper published in that county, and, by the way, the editor of that paper is an unusual man in point of ability, and a very conservative man. I think he could write editorials creditable to any paper in the country. I have not that editorial with me; it is in my office, but with the permission of the committee, I will insert it in these hearings in connection with what I am saying right now.

(The editorial referred to is as follows:)

[From the Samson Ledger]

HEADS I WIN, TAILS YOU LOSE

(Whatever you may think of the following thoughts, do not attribute them to a sore editorial toe. We have not been tramped upon beyond having some money tied up in the banks under liquidation.—Editor.)

Some things have been brought home to us with much severity as a sequence of the recent closing of the two old Samson banks. One of them is the apparent fact that the laws or regulations governing banks treat the individual depositor as having no rights whatever, while banks, especially the Federal reserve system,

are given every consideration. In fact, consideration of certain incidents would in our judgment lead to a conclusion that all laws had broken down and it was a case of might making right.

Each bank affiliated with the Federal reserve system is compelled to keep on deposit with that institution 7 per cent of its demand deposits and 3 per cent of its time deposits. This is entirely separate and apart from collateral for any loans the member banks may obtain from the reserve system. Of course, it is understood that any loans granted a member bank must be secured by approximately 200 per cent face value of security.

The purpose of this reserve is supposed by laymen to be to take care of the balances against the member bank which arise through the collection of checks on it. Heavy interest penalties are imposed upon any bank failing to keep its reserve up to the mark.

One would naturally conclude that when a member bank is compelled to close its doors, that items passing through the Federal reserve bank and which have been charged by the failing bank to its depositors' accounts would be paid by the Federal reserve bank from the member bank's reserve so far as the latter would permit.

However, it doesn't work that way. If there is the slightest reason to believe that a member bank is shaky, it is alleged that the Federal reserve bank at once begins charging back checks on that shaky bank to the banks depositing them for collection. It does not use the shaky bank's reserve fund, but seizes this fund as additional protection for the loans it has made the shaky bank.

It is alleged that this has been done in the case of at least one bank for more than a week before the tottering institution actually had to shut up. This course meant that checks which had been drawn by Mr. A and sent to other places might have come back, been charged to his account and a warrant drawn on the bank's reserve fund, eight days before the bank closed up and yet the money would not be transmitted to Mr. A's creditor.

It is well settled law, it is alleged, that in a case like this the creditor has a legal claim against the closed bank and that he has no claim against Mr. A. But here comes in another quirk. Mr. A wanted to transfer some funds from a bank in one city to a bank in another city. He drew a check on a bank we will call X and deposited it with bank Y. Y sent it through the Federal reserve system for collection. Bank X received the check charged it to A's account and sent a remittance order. Due to the belief that bank X was shaky, the Federal reserve charged the check back to bank Y. Bank Y charged Mr. A's account with it with the amount of the check.

Now you see A's predicament. He can't file a claim against bank X, because X has deducted the check from his account. He can't file a claim against bank Y, because that institution simply says it has not received the money. The way A looks at it (and this is an actual case), he has simply been held up and robbed of that much money with absolutely no redress from anyone.

(Next week we will take up another phase of "Heads I win, tails you lose," provided we are not in jail for this one.)

Mr. STEAGALL. Now, Mr. Pole, how does that come about? I am reasonably sure that I have painted this picture correctly, and you can understand how that sort of thing will beget irritation, resentment, and an unhealthy state of mind toward the Federal reserve banks and toward the whole banking world, and I do not think it ought to happen. I think something ought to be done about it.

Mr. POLE. On this state of facts, it would seem that it might be a little unfair to the customer. At the same time, I think those settlements are usually made in accordance with court decisions.

Mr. STEAGALL. Let me ask you this: Would the courts uphold the right of the Federal reserve bank to send these checks directly to this bank that had failed for collection and, when the banks have balances there to take care of the checks, to take those balances and apply them to the payment of paper not due, and then charge those checks back finally to the payee and make him lose that money? I do not think the courts would uphold that. They may have some kind of a contract covering such cases. Is it not regarded as negligence on the

part of the Federal Reserve bank to send checks directly back to the bank on which they are drawn?

Mr. POLE. You are asking legal questions based upon certain sets of fact, which I am not prepared to answer.

Mr. STEAGALL. Maybe I should not have asked you that.

Mr. WINGO. May I interrupt there? There has been a group of complaints based upon the illustration that the gentleman from Alabama (Mr. Steagall) has used. I think it would be helpful to the committee if the comptroller would have his counsel insert in the record at this point any court decision that holds that after the drawer of a check has received it back and it has been cancelled, that then the Federal reserve bank can go back on the indorsers and make them liable. Of course, you can not make the drawer liable. I would like to find some decision of some court that will hold that what the Federal reserve bank has done in at least one instance was legal. Of course, it was not tested in court, because the bank was afraid to. You take the average country bank; it has no more idea of bucking the Federal reserve bank—why, some of them are even afraid to talk. They will talk to you confidentially, but they are "buffaloed"; they are scared to death, most of them, and when one case was brought to my attention I asked them, "Why do you not sue?" The attorney said to me, "I suggested that to the board of directors and they abhorred the very idea of getting into litigation with the Federal reserve bank." They are in a precarious condition now and they are afraid to protest.

Your counsel is familiar with this type of cases, and I would like to have any court decision, either State or Federal, that has sustained the Federal reserve bank in a proposition of this kind.

Mr. AWALT. On the basis of the facts stated by Mr. Steagall?

Mr. WINGO. You know the case I am talking about, where a check was cleared through and subsequently the bank failed and the Federal reserve bank realized on the remittance. There has been at least one case that I know of where the Federal reserve bank went back on the indorsers of that check, and when the first indorser went back to the drawer, he said, "My money has been taken away from me," and, of course, you could not bring suit against him.

The CHAIRMAN. Have you further questions?

Mr. WINGO. And I would like to have the court decisions on that point.

Mr. POLO. I think I understand what you want.

Mr. STEAGALL. That is the case I have in mind, and there are numbers of those cases in this particular bank that I mentioned, which have been called to my attention.

The Federal reserve banks perform an enormous free service in the collection of checks and naturally do not assume any liability except for their own negligence and their guaranty of prior indorsements. Each year they collect nearly 900,000,000 checks amounting to approximately $300,000,000,000; and it would be an intolerable burden to require them to guarantee the collection of all these checks or to absorb any loss which might be incurred without any negligence on their part. They, therefore, act only as agents in the collection of such checks and expressly reserve the right to send them directly to the banks on which they are drawn and to receive remittance drafts in payment. They also reserve the right to charge back to the account of the sending bank the amount of any check for which payment in actually and finally collected funds is not received. Their right to do so has been upheld in the following cases:

Craven Chemical Co. *v.* Federal Reserve Bank of Richmond (C. C. A., 18 F. (2d) 711).

Fergus County *v.* Federal Reserve Bank of Minneapolis (244 Pacific, 833).

Chicago, Milwaukee & St. Paul Railway Co. *v.* Federal Reserve Bank of San Francisco (260 Pacific, 262).

Transcontinental Oil Co. *v.* Federal Reserve Bank of Minneapolis (214 N. W. 918).

The trouble with the present system is a fictitious ruling of law which is very well established but which results in injustice. I refer to the rule, when a check has been charged to the drawer's account, it is deemed to have been paid and the drawer is released, even though the bank on which it is drawn fails without actually paying anybody. This results in a loss to the innocent holder of the check and results in the drawer of the check having his deposit in the failed bank paid in full to the extent of such check, while other depositors have to share the loss ratably.

Where a bank fails without remitting for checks drawn upon it the situation necessarily results in a loss to some innocent party. In such a case the rule of equity should apply, that, where one of two innocent parties must suffer, the one who made the loss possible is the one to suffer. In a case such as this, the drawer of the check made the loss possible by selecting that particular bank to do business with; and he should suffer rather than the man who did not select that bank as his depository. Certainly, neither the Federal reserve bank nor any commercial bank through which the check was sent for collection should have to suffer the loss, unless the loss resulted from its negligence.

Under modern conditions, it is a physical impossibility for all out-of-town checks to be presented across the counter and collected in cash in accordance with the old common law rules, and the present method of sending checks through the mails to the banks on which they are drawn and accepting drafts on other banks in payment is the only way that I know of in which the great volume of checks now used in the United States can be collected.

For the further information of the committee, I desire to call your attention to the fact that the practice of the Federal reserve banks in giving member banks deferred credit for checks which can not be collected on the day they are received by the Federal reserve banks has been upheld by the courts in the case of Pascagoula National Bank *v.* Federal Reserve Bank of Atlanta, 3 Fed. (2d) 465, 269 U. S. 537, 11 Fed. (2d) 866, certiorari denied, 271 U. S. 685.

The CHAIRMAN. Mr. Seiberling.

Mr. WINGO. Before you commence, may I ask Mr. Pole one question, because I have a letter from a bank to-day that I want to answer? What is your definition, or what would be your definition under your proposal of a trade area for a bank? I will tell you what I have in mind. In our country, Memphis, Kansas City, and St. Louis all contend that Oklahoma, Arkansas, and Texas are their trade area. Evidently you do not concur in that broad area?

Mr. POLE. No.

Mr. WINGO. What would be your definition of a trade area? In what trade area would Arkansas be included?

Mr. POLE. The trade areas in my report to Congress were left to the determination of Congress, as to what it considered to be the proper trade area, upon the basis of the natural flow of business to any metropolitan center.

Mr. WINGO. That would make Arkansas in the trade area of both St. Louis and Kansas City.

Mr. POLE. As to how far that should reach out is a question for consideration.

Mr. WINGO. Suppose it were left to you?

The CHAIRMAN. The thought occurs to me; might not Little Rock be considered the center of the trade area for Arkansas?

Mr. POLE. Little Rock would naturally be the center to which trade flowed. There would in each trade area be a point to which it would flow naturally, a metropolitan center.

Mr. WINGO. Do you know that from some points in my district you can go to Kansas City or St. Louis quicker than to Little Rock, and most of our wholesale trading and large banking is done with those two cities. Since we are putting in the highways, we have relieved that to a great extent, but until we developed our highway system, Kansas City and St. Louis were nearer to us than Little Rock for business purposes. Little Rock is growing rapidly as a trade area, but as a matter of fact it is not a metropolitan center. Take the wholesale trade; take the purchasers of shoes, hats, clothing, and the marketing of hogs and cattle and cotton and things like that—they do not go to Little Rock from my district.

Mr. POLE. Of course, Little Rock has a very definite trade area.

Mr. WINGO. Yes; Little Rock, a splendid city, has a very definite trade area, and so has De Queen, and each town has a definite trade area.

The CHAIRMAN. Mr. Pole, in view of the importance of this as an integral part of your recommendation, I believe the committee would appreciate it if you would briefly elucidate your thoughts as regards trade areas. If you will do that I will ask that it be put into the record at this point.

Mr. WINGO. The reason I asked you the question is that I have a letter from a banker who states: "I am interested in knowing what trade area my city would be put in. Would it be put in the Kansas City or St. Louis trade area, and would my bank be taken over by a bank in Kansas City or St. Louis?" He is figuring on the future. I have written him what I thought was going to happen to him.

Mr. POLE. That is a very complex question, but I will be glad to submit something to the committee on it.

(The memorandum on the subject submitted by the comptroller is as follows:)

FURTHER DISCUSSION OF THE TERM "TRADE AREA"

In the written statement which I read before the committee I devoted five paragraphs to the discussion of the question of the trade area to which I had previously referred in my annual report to Congress. Without repeating the previous discussion I may say that it covered the following points:

(1) The trade area of a given city is that geographical territory which embraces its flow of trade.

(2) Every city, no matter how small, has a trade area.

(3) A trade area sufficient to support a sound system of branch banking by a given bank must be of sufficient area or of sufficient economic development to permit of the acquisition of a diversified banking business.

(4) No legislative formula has been prepared which would in itself delimit all of such trade areas in the United States.

(5) A suggestion was made that Congress might find it advisable in determining the actual physical limits of the trade areas to follow a procedure similar to that laid down in the Federal reserve act for the delimitation of the Federal reserve districts.

I have therefore in my previous statement to the committee covered this subject so far as the general principles are concerned. It is recognized that their detailed application may present a multitude of practical questions many of which we can not now foresee; that is to say, questions of boundary limits and adjustments of the boundary lines between trade areas. The fundamental principle, however, seems to me to be absolutely sound that city banks of sufficient ability be permitted in a more convenient manner than is now possible to serve the people in the trade area tributary to the city in which the bank is situated. Mr. Wingo has raised the question of the overlapping of trade areas; that is to say, a small city may be situated within more than one trade area. It seems to me that this does not present a serious difficulty. It would simply mean that in such a city there

might be branches of banks with head offices in different trade areas. This might prove to be an advantage to such a city through increased banking competition.

As to the size of the parent bank, under such a branch banking system as I have suggested, it seems advisable to consider the question of a minimum capitalization as a condition precedent to the establishment of branches in the rural districts in the trade area. In this respect discretion should be allowed the Comptroller of the Currency to require a capitalization higher than the minimum, as he now does with unit banks. Some trade areas are naturally more important and more highly developed financially than others. A bank of one million capitalization in some trade areas might be considered a large enough bank to support a branch system, whereas in other trade areas it might be small by comparison. To support a system of branches within a trade area the bank should be of undoubted strength and prestige in order to discharge the responsibilities which such an undertaking entails. This situation would be met if Congress required a minimum capitalization for a branch banking institution of $1,000,000. Such a provision would automatically determine, to some extent, the size of the trade area for branch banking purposes. They would have to be large enough, at least, to support a bank of that size.

In the exercise of his discretionary power to require a greater capital than the minimum, the situation presented to the comptroller would be relatively the same as it is now. Two hundred thousand dollars is the minimum capital for national banks in large cities, but the actual capital required in some important cities is in excess of that amount. Trade areas would vary in their financial importance in the same manner.

Mr. Wingo, in referring to the city of Little Rock in his State, has brought out two very important considerations bearing upon he question of the extent of trade areas. One was that by reason of the lack of arterial highways the metropolitan centers of Kansas City and St. Louis were more available to many portions of Arkansas than Little Rock, from the standpoint of the flow of trade, but that under a system of modern highways leading from Little Rock that city would become a metropolitan center. This is a clear illustration that what constitutes a given trade area is a question of fact and while it is simple enough to define the term "trade area" by statute, it is an entirely different thing to make a practical application of that definition. It took only a few words to define the principle upon which the Federal reserve districts were laid out, but it took many months of careful study and investigation by executive officials to lay out those districts.

The following is the language from the Federal reserve act:

"The districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed 12 in all. Such districts shall be known as Fedreal reserve districts and may be designated by number."

We may, for example, say that a trade area is that geographical area which embraces the natural flow of trade from an outlying geographical territory to and from a metropolitan center. The term "trade," it seems to me, as Mr. Wingo has already suggested, must embrace the wholesale as well as the retail purchase and distribution of goods and commodities. That is to say, the trade area must have a rather definite economic autonomy.

Having, however, arrived at this definition it seems to me that Congress could not go much further by way of legislative enactment lest too many conditions in the law create a system of trade areas which would lack flexibility. Some executive agency or some agency created by Congress should actually lay out the trade areas.

Again it seems to me that it would not be wise to attempt to use the population figures as a basis for determining the principle of the selection of the metropolitan centers of trade areas. The size of a city may be no indication of its relative economic importance to the surrounding community. Bridgeport, Conn., with a population of 160,000 could not be considered an independent metropolitan center but is tributary to New York City and is within the New York City trade area, whereas Shreveport, La., with a population of 81,300 might be found to be the center of a trade area of the scope above discussed.

In the discussion of the question of the term "trade area" I have several times used the expression that in my opinion the trade area should not be in any case greater or more extensive than the present Federal reserve districts. In saying

this I was attempting to lay down a general rule, the Federal reserve districts being the largest possible regional economic areas which we have established by law. I have no doubt it is a fact that there are many trade areas of less extent than the Federal reserve districts. That is to say, metropolitan centers with a definite area of wholesale and retail trade in the surrounding country but within a Federal reserve district. I realize, however, that there are metropolitan centers situated so near Federal reserve district lines that the surrounding trade area embraces territory in more than one Federal reserve district. In such a case the trade area rather than the Federal reserve district lines should govern. Kansas City is such an example.

Again it seems to me it must be recognized that trade areas and the development of metropolitan centers within them have come about without reference to State lines. Very often the shape of a State may be a great influence in this connection. For example, the State of Tennessee is long and narrow and its three principal cities, namely, Memphis, Nashville, and Chattanooga, all have trade areas extending into other States. The trade area of Spokane, Wash., extends into Idaho and Montana; of Omaha, Nebr., into Iowa and Missouri; of Cincinnati, Ohio, into Kentucky; of Los Angeles into Arizona and Nevada; of Pittsburgh into Ohio and West Virginia.

I wish again to emphasize the consideration that in mentioning the term "trade area" I am not presenting a new idea, but am suggesting that Congress avail itself of an existing condition. The trade areas are already here. They have grown up through years of development but are being more clearly defined under modern conditions of communication and transportation. Metropolitan banking as it exists to-day reckons with the trade area. Rural banks in a trade area are correspondents of the large city banks in the metropolitan center of that area. Residents in the outlying rural communities, both business men and farmers, transact business with such metropolitan banks. Many such inhabitants in the outlying sections of the trade area carry their large deposit accounts with the metropolitan bank and maintain only small balances with the small local bank. The prosperous farmer or country merchant or manufacturer, even under present conditions, deals directly with a metropolitan bank in his trade area with respect to his most important financial transactions. In many cases the loaning limit of the local bank is too small to meet his requirements, and recourse must be had to the stronger city banks. This is particularly true as to corporations dealing in farm commodities, lumber, mining, and the like.

Again, when an individual or a corporation in the rural districts wishes to purchase securities for investment recourse is had to the securities department of the large city bank rather than to the local bank. Also, if he wishes to establish a trust fund of any kind or to leave his estate in trust for his heirs he goes to the trust department of the metropolitan bank of the trade area and appoints that bank as his trustee or executor rather than the small local bank in his particular community. These two great fields of banking, namely, investment securities and fiduciary business, are under our present banking conditions carried on almost exclusively by the large banks in the metropolitan centers, in which respect they serve the entire trade area. The local country bank is not in a position to offer to its community adequate facilities as to these two types of business. Similar examples might be mentioned as to other departments of large city banks which also serve the entire trade area, such as the foreign department dealing in foreign exchange and information about foreign business. It is apparent, therefore, that the existing banking conditions in trade areas, even where no branch banking and no group banking is in operation, are causing the cream of the banking business to go from all points in the trade area to the central metropolitan banks, leaving the small local bank with the smaller, less profitable, and more restricted type of business. The small bank is not acquiring a sound diversification of business even in its own small trade area. Here, in my opinion, is the real cause for the failure of small banks in the rural communities, and every other local, immediate, proximate cause which may be assigned for a given failure must be simply regarded as a secondary cause.

It seems quite clear, therefore, that there is no hostility among the people in the rural communities toward the large city banks in the metropolitan centers of their respective trade areas. On the contrary, the average citizen seems, regardless of the question of the maintenance of a local independent bank, to prefer to do his most responsible banking business with a distant bank of the metropolitan type rather than with the more conveniently situated local community bank. If all of this banking business which now goes from the outlying districts of the trade area to the metropolitan centers could be forced back into

the local independent country banks the country banker might look to the future with complacency. But that is an economic impossibility. It is the local community itself which is expressing a preference for the type of banking which the large city bank can give.

Under the branch banking plan which I have suggested the same metropolitan banks would take their services to these communities through a system of branches and would afford to the entire community adequate banking facilities. In other words the big loans as well as the small loans and the big deposits as well as the little deposits would be made directly in the local rural community. Such a community would also have immediate access to the securities department of the large bank and to its trust and foreign departments in all of their ramifications.

I have therefore attempted to lay before your committee a suggestion which would fit into the present economic trend and which would at the same time preserve the outlying communities in the trade areas from the calamitous effect of local bank failures.

The question has been asked by several members of this committee as to what recommendations for legislation I would make with respect to restrictions upon the consolidation of branch banking systems in order to avoid the danger of monopolistic control of banking within a trade area. In answer to this question I wish to call attention to the statement I made to the committee that the natural economic development would ordinarily continue to create a competitive banking situation within a given trade area. A banking institution must have the support of local public opinion in order to succeed and it would seem natural that under our system of issuing bank charters there would always spring up within a trade area new banking institutions if there be enough business to support more than one bank, such as certainly would be the case in any trade area large enough to give a diversity of business sufficient to support the type of branch banking I have suggested.

We are of course considering a possible future condition and the discussion of the question of undue concentration of banking resources in a given trade area under the plan of branch banking which I have suggested is necessarily academic. However, the theoretical possibility of undue concentration must be admitted. In the event of such branch banking legislation, how far Congress should go or could go in attempting to guard against the possibility of a monopolistic control of banking resources within the trade area I am not prepared definitely to recommend. I shall however, attempt to discuss several aspects of this situation.

The authority which Congress has already exercised over the consolidation of a national bank with another national bank or a national bank with a State bank under national charter would cover only one phase of the question. If the Comptroller of the Currency denied the application of such banks to consolidate under national charter upon the grounds of public policy they could forthwith consolidate or merge under State charter and Congress would thereby be deprived of all supervision and control over the institution so far as the office of the Comptroller of the Currency is concerned. If the State law gave to State banks branch banking privileges in the trade area equivalent to those granted by Congress to the national banks the concentration of banking resources to an undue extent, if such a thing did take place, could be had under the State law if the State as a matter of policy permitted it. If the State bank were a member of the Federal reserve system and if it be true that Congress has the power to impose on State member banks of the Federal reserve system the same restrictions as to consolidations or mergers which may be imposed upon national banks—and I am not prepared to offer an opinion on this legal question but leave that to the Federal reserve authorities—there would still remain the possibility of the consolidation of branch systems outside of the Federal reserve system. In other words, would not such legislation have a tendency to drive the branch banking institutions outside of the Federal reserve system where Congress would have no control over them?

This brings up another important question and that is the desirability of establishing a system of branch banks which would operate solely under the national bank law and which could not escape Federal jurisdiction and the effect of a Federal policy by switching over to State charters. What I have in mind is that if the trade areas were based solely upon economic considerations—such as was done in laying out the Federal reserve districts—and State lines disregarded, would not that be one way of holding branch banking institutions under Federal authority and subject to Federal control. They would remain National banks in order to gain the benefits of operating across State lines. There may, however, be other means of meeting this situation which do not occur to me.

Under any reasonable system, however, it may be found that there will be trade areas entirely within the boundaries of a single State and it is not clear to me how Congress could control consolidations in those areas where the State law had given equal or greater branch banking powers to the State banks. In other words, how could Congress prevent a nonmember State branch banking institution from consolidating with another nonmember State branch banking institution under the authority of the State law?

There have already been mentioned at these hearings three other means by which it might be possible for banking institutions to amalgamate their interests or otherwise attempt to eliminate competition within a trade area.

(1) The purchase of assets and the assumption of liabilities by one bank of another;

(2) The purchase of the control through acquisition of stock by a holding corporation; and

(3) An agreement between banks not to compete within the trade area.

I shall take these up in order. In the matter of the purchase of the assets of a national bank or a State bank by another national bank or the purchase of the assets of a national bank by a State bank the Comptroller of the Currency has nothing to say. It is a matter of contract between the institutions over which no power of control has been conferred upon the comptroller. Under the present state of the law the comptroller would have no way of preventing one branch banking institution from purchasing the assets and assuming the liabilities of another such institution within the same trade area. That control could be given by Congress and that is a matter to which I invite your consideration.

In the matter of the acquisition of control by holding companies a much more difficult situation is presented. It is obvious that in the absence of restrictions to the contrary it might be within the realm of possibility for a holding company to acquire stock control over more than one branch banking system within the same trade area. From a practical standpoint there would, of course, be many factors to be considered, such as whether it would be good business for the holding company to attempt such control; whether the local branch system would be willing to enter into such an arrangement and other such questions, growing out of the local situation. In other words, the local conditions may not favor such a purchase by an outside holding company. Nevertheless, the possibility of such control must be admitted.

This is one of the questions before this committee. It is not a situation created by any position I have taken. It is not a future condition contingent upon the possible enactment of branch banking legislation. It is a present condition and is involved in the present group banking movement. Your committee will no doubt have before it spokesmen from the leading group bank holding companies and will obtain from them first-hand information and views which naturally I am not in a position to give. I am not now prepared to make recommendations to Congress with respect to the ownership of national-bank stock or State member bank stock by holding companies. When the committee has gotten along further in these hearings and there has been developed more complete information with respect to group banking I shall be glad to offer my further services to the committee.

As to the third question, that of a gentlemen's agreement to eliminate competition within the trade area, such as has been mentioned by the gentleman from South Carolina (Mr. Stevenson), I should not anticipate a general resort to any such plan. The natural desire to build up a banking business within the trade area would have the strongest tendency to lead all of the branch banking institutions to compete for business all over the trade area. It must also be borne in mind that under any such national banking plan of branches within a trade area the Comptroler of the Currency would have the discretionary power to permit the establishment of a branch, and I can not think that he would cooperate with any bank in eliminating competition. But assuming the possibility of such a scheme, it might be advisable to consider the application of the antitrust laws in the premises. On this point, however, I am not prepared to make recommendations. The subject is new and largely hypothetical in its application to the plan I have suggested. It might be time enough to deal with such a situation after it may have arisen in any one particular trade area. It would always be within the power of Congress to deal with that situation.

The CHAIRMAN. Now, Mr. Seiberling.

Mr. SEIBERLING. Mr. Pole, in view of the fact that section 8 of the Constitution of the United States provides that the Congress shall have power—

> To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures:
> To provide for the punishment of counterfeiting the securities and current coin of the United States.

And further, in section 10, that—

> No State shall * * * coin money; emit bills of credit; make anything but gold and silver coin a tender in payment of debts.

In view of this, do you think it was intended by the founders of our Government that the National Government should have an absolute monopoly in so far as providing a free circulating medium of the money system of the country is concerned?

Mr. POLE. I understand the courts have so held.

Mr. SEIBERLING. Now, the importance of banking and its relation to the happiness and contentment of the people in general is of greater importance, is it not, than that of any other business of the country?

Mr. POLE. It is extremely important.

Mr. SEIBERLING. As a matter of fact, you can not buy milk for your babies unless you have money or credit, can you?

Mr. POLE. Obviously.

Mr. SEIBERLING. Can you give me the total deposits in the banks of the country at the present time?

Mr. POLE. May I set that out in the record?

Mr. SEIBERLING. Yes.

Mr. POLE. It is about $58,000,000,000. I will correct that for the record.

Mr. SEIBERLING. Can you tell me what part of these deposits are savings deposits and what part postal savings deposits and what part commercial deposits?

Mr. POLE. May I insert those in the record also?

Mr. SEIBERLING. Yes.

(The information referred to is incorporated below:)

Due to banks (demand balances)		$3,629,197
Certified and cashiers' checks (including dividend checks), and cash letters of credit and travelers' checks outstanding		837,430
Demand deposits (other than bank and United States):		
Individual deposits subject to check	$21,427,747	
State, county, and municipal deposits	1,960,543	
Certificates of deposit (other than for money borrowed)	412,593	
Other demand deposits	549,281	
Total		24,350,164
Time deposits (including postal savings):		
State, county, and municipal deposits	418,383	
Deposits of other banks	133,085	
Other time deposits—		
Deposits evidenced by savings pass books	24,029,247	
Certificates of deposit (other than for money borrowed)	3,169,073	
Time deposits, open accounts; Christmas savings accounts, etc	919,877	
Postal savings deposits	117,952	
Total		28,787,617

United States deposits (exclusive of postal savings)	286, 112
Deposits not classified	20, 121
Total deposits	57, 910, 641

Mr. SEIBERLING. Now, in a general way, to what class of people do these savings deposits in the banks belong?

Mr. POLE. Usually to the less affluent members of society.

Mr. SEIBERLING. They are the clerks, the workingmen, and the farmers who have put their money in the banks, saved it for a future emergency if it should arise?

Mr. POLE. That is right.

Mr. SEIBERLING. Now, the banking system in reality provides a great reservoir in which those who have surplus funds deposit them for a rate of interest which the bank is willing to pay, which gives the bank an opportunity to lend these funds to those who have insufficient funds for a rate of interest which the bank is willing to take, is not that right?

Mr. POLE. Yes; subject to the limit of State law.

Mr. SEIBERLING. The banking system, therefore, in a general way fixes the rate of interest to be paid on deposits and also, subject to the usury laws of the various States, fixes the rate which the borrower has to pay?

Mr. POLE. That is true, except that the interest which may be paid on time deposits is frequently fixed by statute.

Mr. SEIBERLING. In some States.

Mr. POLE. Yes.

Mr. SEIBERLING. There are States where the banks pay no interest on deposits at all?

Mr. POLE. I know of none.

Mr. SEIBERLING. I think there are still such banks as that.

Mr. POLE. There may be banks, but they are not all the banks of a State.

Mr. SEIBERLING. I know, but some banks.

Mr. POLE. Possibly some banks which do not take savings.

Mr. SEIBERLING. That depends on competition, does it not, in their localities?

Mr. POLE. Yes, there might be some few banks.

Mr. SEIBERLING. If there is only one bank in a locality, it can decline to pay any interest to the depositors, can it not?

Mr. POLE. They would have the right to do so.

Mr. SEIBERLING. Do you look upon deposits as the raw material of the banking system?

Mr. POLE. Yes, to an extent, if you put it that way; but the deposits are not the property of the bank.

Mr. SEIBERLING. Is there any other business that you know of where the managers of the business subject to local competition pay the prices they wish to pay for the raw material, and sell the use of it at the price they wish to charge to the one that wants it?

Mr. POLE. Banks receive deposits and loan them under highly competitive conditions.

Mr. SEIBERLING. I want to go into the functions which the Government performs in connection with national banks. Will you tell me some of those functions?

I have some of them here, if you want me to assist you?

Mr. POLE. Yes, thank you.

Mr. SEIBERLING. Well, the granting of charters is one, is it not?

Mr. POLE. Yes.

Mr. SEIBERLING. And the coining and printing of money is another?

Mr. POLE. Yes.

Mr. SEIBERLING. And that is done without charge, I understand.

Mr. POLE. Yes.

Mr. SEIBERLING. Who pays for the examination of banks?

Mr. POLE. The banks themselves.

Mr. SEIBERLING. Now, as to the passing of necessary laws for the protection of the banking system, that, of course, is a matter that the Government has to do. The Government has also provided a Federal reserve system for the general benefit of all member banks, whether national or State, has it not?

Mr. POLE. Yes.

Mr. SEIBERLING. And it has to maintain the gold standard so as to secure the stability of money for the benefit of the banks, does it not?

Mr. POLE. That is a governmental function.

Mr. SEIBERLING. In view of all these facts, will you say that banks can properly be classified as quasi-public corporations?

Mr. POLE. I would.

Mr. SEIBERLING. Are they not more so than any other quasi-public corporations that you know anything about?

Mr. POLE. In my opinion; yes.

Mr. SEIBERLING. Then proper facilities for banking are of more importance to the people as a whole than transportation of persons and freight or the proper means of communication—for instance, railroads, express companies, and telegraph and telephone companies?

Mr. POLE. Banks are a most important factor in our economic life.

Mr. SEIBERLING. And, while banks are privately owned the same as other public utilities, is not the nature of their business and the relationship of their business to the Government such that they owe a greater duty to the people at large in the matter of service than any class of corporations which have been mentioned, and is not this especially true since the people themselves, by their deposits, to a large extent furnish the money which is reloaned by the banks to borrowers?

Mr. POLE. That is correct.

Mr. SEIBERLING. Now, the proper and regular supply of money at reasonable rates is necessary to keep industry going and labor employed, and to purchase the products of the farm?

Mr. POLE. Yes.

Mr. SEIBERLING. I want to ask you a question which is somewhat academic, but I am interested in knowing what your judgment is about it, and that is, what percentage of the bank's objective, in your judgment, should be service to the public and what percentage should be profit to stockholders?

Mr. POLE. That is academic, indeed.

Mr. SEIBERLING. Should it all be for the stockholders?

Mr. POLE. No, I think that the one is necessary to the other, that the bank which gives no service probably makes very little profit for the stockholders, because its business is built up on service in large part. The profit to stockholders is so important that if the return

were diminished to any very extraordinary extent, the chances are that the bank stocks would not sell, people would not invest money in bank stocks. In order to build a bank up to a point where it becomes profitable and is able to make a return on its shares it is necessary that that bank extend its facilities and offer every banking service to the public.

Mr. SEIBERLING. I want to make it perfectly plain that I am a director in the largest bank in my city, and have been for many years, and that I am interested in the proper return for capital.

Mr. POLE. Naturally.

Mr. SEIBERLING. And I am here at all times to protect that, but I would like to get your judgment as to what percentage the objective of a banker should be with respect to service to his community, and what the percentage should be with respect to profit gained for stockholders.

Mr. POLE. Each is equally important.

Mr. SEIBERLING. Now, as to the attitude of banks and bankers toward a community, they can either develop a community or can greatly restrict it by their policy, can they not?

Mr. POLE. It is to their interest to develop the community.

Mr. SEIBERLING. Do you think it is possible for this committee or Congress to legislate properly upon the banking system unless it has the whole picture?

Mr. POLE. I think that it is very necessary.

Mr. SEIBERLING. You have painted a very disastrous picture as to the small banks in the South, Southwest, and Northwest, but you omitted to paint the rosy picture in connection with the banking business in the metropolitan centers, especially in the East, and in order that we may have the entire picture, I desire to insert in the record portions of a statement which I have here, but it will be in the form of testimony.

Do you know who Ralph B. Leonard & Co. are, of New York?

Mr. POLE. I understand they are dealers in bank stocks.

Mr. FENN. May I ask what that paper is that Mr. Seiberling has?

Mr. SEIBERLING. I am going to state what it is.

Ralph R. Leonard & Co. are very responsible brokers, are they not, in bank stocks?

Mr. POLE. I do not know as to their standing in New York.

Mr. SEIBERLING. You have heard of them, have you?

Mr. POLE. Yes.

Mr. SEIBERLING. They have a good reputation?

Mr. POLE. As far as I know.

Mr. SEIBERLING. I want to put into your hands here a statement put out by Ralph R. Leonard & Co. dated in January, 1930, called, "A 5-year analysis of New York City bank stocks."

Is it not a fact that this statement shows that the 25 national banks in New York City, in the last five years prior to December 31, 1929, paid dividends to stocksholder at an average rate for all banks of 70 per cent for the period upon their stock?

Mr. GOLDSBOROUGH. On the par value?

Mr. SEIBERLING. Yes.

Mr. POLE. I am not informed.

Mr. SEIBERLING. I will show it to you right here. This is the average for all of the 25 national banks.

Mr. GOODWIN. For a 5-year period?

Mr. SEIBERLING. Yes.

Mr. POLE. According to this statement, those figures seem to be correct.

Mr. STEAGALL. May I interrupt?

Mr. SEIBERLING. No; I do not want an interruption, because I have listened patiently to everybody.

Mr. STEAGALL. I just wanted to ask what date that was.

Mr. SEIBERLING. I gave the date; January, 1930.

Mr. STEAGALL. That covers last year?

Mr. SEIBERLING. Yes.

Mr. STEAGALL. That is what I wanted to get. They are very interesting figures, and I wanted to get them in my mind.

Mr. POLE. The percentage paid in dividends——

Mr. SEIBERLING. The statement gives you the average, at the bottom of it.

Mr. POLE. Average, 70 per cent.

Mr. SEIBERLING. That is for the 5-year period. If you want to get the average paid per year, you divide that average by five.

Mr. POLE. Where does it say it is for the 5-year period?

Mr. SEIBERLING. On the front.

Mr. POLE. I see. Of course, I am not familiar with this.

Mr. SEIBERLING. You have your detailed earnings there for five years.

Mr. POLE. Yes.

Mr. SEIBERLING. But before that you have the average dividend for the period.

Mr. POLE. I see.

Mr. SEIBERLING. Now during the year 1929—and I am speaking now of just the year 1929—these 25 national banks increased their surplus and undivided profits account to the extent of $139,005,500, in addition to an average dividend of $16 per share on the capital stock. That is in the column marked "Average."

Mr. POLE. Yes, the average current rate of dividend was $16.

Mr. SEIBERLING. That does not take into account any stock dividends declared during the entire period of five years and charged against surplus acconut. There were some, but I can not pick out the banks now. That does not take that into account.

Mr. POLE. In a good many instances.

Mr. SIEBERLING. Now, during the same five years ended December 31, 1929, the 34 trust companies paid an average dividend for the period of 61 per cent of the par value of their capital stock, did they not?

Mr. POLE. According to this statement; yes.

Mr. SEIBERLING. During the year 1929—and I am speaking now only of the year 1929—the same trust companies increased their surplus and undivided profit account to the extent of $587,966,300, did they not?

Mr. POLE. I do not know exactly where you get that, but I assume that is correct.

Mr. SEIBERLING. You have in the one column the surplus and undivided profits of the banks for December 31, 1928, and also in the other column for December 31, 1929, and I have had these figures added up on the adding machine.

Mr. POLE. How much did you say?

Mr. SEIBERLING. They have increased their surplus and undivided profit account to the extent of $587,966,300.

Mr. POLE. I do not know that I understand this statement.

Mr. SEIBERLING. It would take you too long to add those columns.

Mr. POLE. Well, I was going by the averages, that the difference between the surplus and undivided profits on December 31, 1928, and those for 1929 was about $10,000,000, and that, multiplied by 34——

Mr. SIEBERLING. Would be $340,000,000.

Mr. POLE. $340,000,000.

Mr. SEIBERLING. That is the computation I made in the beginning, but after adding them up on the adding machine, my secretary tells me that the amount arrived at is the amount I reached.

Mr. POLE. That should be more nearly correct, of course.

Mr. SEIBERLING. This increase in surplus and undivided profits was in addition to the average dividends for the year 1929 of $13.40 per share on the par value of the trust company stock, and this does not include or take into account any stock dividends during the period charged against the surplus account, does it?

Mr. POLE. I accept your statement as to that.

Mr. SEIBERLING. Now, taking that statement, can you give me the capital stock of the National City Bank of New York City, and the par value of its shares?

Mr. POLE. $110,000,000 capital; $20 par.

Mr. SEIBERLING. You divide $110,000,000 capital by $20 par, and you get 5,500,000 shares, do you not?

Mr. POLE. Yes.

Mr. SEIBERLING. Can you tell me what the highest price was that that stock sold for on the stock exchange during the peak of prices?

Mr. POLE. My recollection is something over $500.

Mr. SEIBERLING. It was $575 a share, was it not?

Mr. POLE. Yes.

Mr. SEIBERLING. Now, if you multiply the number of shares by $575, you get a selling price of that stock—aggregate selling price—of $3,162,500,000.

Mr. POLE. Yes.

Mr. SEIBERLING. Now, let us take the statement of the National City Bank of 1929. Take its capital stock of $110,000,000 and surplus of $129,650,200 and add to that the deposits, $1,649,544,300. You get an aggregate total of capital, surplus, and undivided profits and all deposits of $1,889,194,500, so that it appears that, while you were enforcing the double liability against stockholders in many banks of other sections of the country, the capital stock of this large metropolitan bank was selling at an aggregate price equal to almost twice the aggregate amount of its capital, surplus, and deposits. That is correct, is it not?

Mr. POLE. Correct.

Mr. SEIBERLING. For the moment the country forgot the deposits were liabilities of the bank instead of assets, apparently?

Mr. POLE. I did not get that.

Mr. SEIBERLING. For the moment the country must have forgotten that the deposits of banks were liabilities instead of assets?

Mr. POLE. I think that is the case.

Mr. FORT. I wonder if Mr. Seiberling will permit just one statement in the record at this point?

Mr. SEIBERLING. Yes.

Mr. FORT. I think he wants properly to convey the picture. In the market price of the National City Bank stock is included in the market value placed on the National City Bank's companies?

Mr. SEIBERLING. I am going to get to that. These earnings are also——

Mr. FORT. The earnings of the two——

Mr. SEIBERLING. I will get to that a little later. I desire to take up now the individual cases of only three banks—the Chase National Bank, the City National Bank, and the Guaranty Trust Co.

The Chase National Bank has a capital stock, at par, of $20, I believe.

Mr. POLE. According to this statement; yes.

Mr. SEIBERLING. And it had a capital stock on December 31, 1928, of $60,000,000; on December 31, 1929, of $105,000,000——

Mr. POLE. According to this statement.

Mr. SEIBERLING. And it had a surplus and undivided profits as of December 31, 1928, of $77,498,400, and, on December 31, 1929, of $136,364,100.

Mr. POLE. That is in accordance with the statement.

Mr. SEIBERLING. I guess there are 77 cents to be added on there.

Mr. POLE. Yes.

Mr. SEIBERLING. Now, the deposits of the Chase National Bank as of December 31, 1928, were $1,126,781,600, and the deposits as of December 31, 1929, were $1,248,219,400.

They paid, during that year, 1929, $4 dividends. I say the dividend rate is fixed at $4. They are paid in quarterly periods, and I assume that is $4 a year.

Mr. POLE. Yes, sir.

Mr. SEIBERLING. You will note that the deposits of the bank increased only about $126,000,000 and the earnings of the bank, according to the surplus and undivided profits, increased in the neighborhood of $60,000,000. Now, how do you account for such earnings as that, when the increase in deposits was so small?

Mr. POLE. I would not attempt to account for it, Mr. Seiberling.

Mr. WINGO. Possibly through consolidations, Mr. Seiberling.

Mr. SEIBERLING. This statement figures the average on——

Mr. FORT. And the call money.

Mr. SEIBERLING. I will get to the call money pretty soon. This is figured on the average for the banks, whether consolidated or not.

Mr. WINGO. I think a consolidation might account for that change.

Mr. SEIBERLING. Some bank had to make the money, you know. They consolidated their deposits as well as their earnings. Now, you speak of the National City Bank. The capital stock is $20, par?

Mr. POLE. Yes, sir.

Mr. SEIBERLING. Their capital stock as of December 31, 1928 was $90,000,000 and $110,000,000 December 31, 1929. The surplus and undivided profits as of December 31, 1928, were $76,992,900, and on December 31, 1929, were $129,650,200. Its deposits, December 31, 1928, were $1,349,024,400 and on December 31, 1929,

$1,649,554,300. They also paid $4, a share on their 5,500,000 shares of capital stock, which means a dividend of $22,000,000.

They increased their deposits $300,000,000, but increased their surplus and undivided profits—29 plus 24,000,000 would be—$53,000,000 for the year. You can not account for their earnings by the small increase of deposits, can you?

Mr. POLE. I would not attempt to do that except to say that in both of the instances which you mentioned, are included the earnings of their affiliated corporations.

Mr. SEIBERLING. What is that?

Mr. POLE. Included in those earnings are the earnings of the affiliated corporations.

Mr. SEIBERLING. Yes.

Mr. POLE. And, of course, we have no means of knowing what they are. They are certainly very material.

Mr. SEIBERLING. Well, now, we take the Guaranty Trust, that has a par value of its stock of $100.

Mr. POLE. Yes; according to this statement.

Mr. SEIBERLING. And they had a capital of $40,000,000 at the end of 1928 and $90,000,000 at the end of 1929. Their surplus and undivided profits, at the end of 1928, were $63,307,000. At the end of 1929 they were $202,636,000.

Their deposits at the end of 1928 were $842,358,200; at the end of 1929 were $1,309,289,600. They increased their deposits very much more than the other banks did proportionately, but their increase in surplus and undivided profits was approximately $140,000,000 for the year. Is not that correct?

Mr. POLE. That seems to be correct.

Mr. SEIBERLING. What would you say as to whether or not the earnings of the banks in other Federal reserve centers of the country were comparable with the earnings shown by the New York banks?

Mr. POLE. Included in the earnings of the Guaranty Trust Co. are also the earnings, I believe, of the Guaranty Co.

Mr. SEIBERLING. This securities company?

Mr. POLE. Yes.

Mr. SEIBERLING. What do you think of the wisdom of having large banking corporations owning securities companies where a great deal of their attention is given to speculation in stocks where they have a great interest in shoving stocks up on the market instead of attending to legitimate banking business?

Mr. POLE. I think it would be desirable that some supervision over the securities companies should be had in order that we might ascertain the nature of their business by reason of the fact they are so closely allied with the banks.

Mr. SEIBERLING. I want to go to the subject of call money rates. I would like to ask you, if you know, who fixes the call money rate, and how it is determined from day to day?

Mr. POLE. I have very little information on that, Mr. Seiberling. I would not attempt to answer that question.

Mr. SEIBERLING. Do you know that in past panics, the call money rate has gone as high as 1 per cent a day?

Mr. POLE. I recall that it has gone to some fabulous figure.

Mr. SEIBERLING. And in another panic, it went to as high as 150 per cent?

Mr. POLE. Yes.

Mr. SEIBERLING. You do not know who fixes the call money rate?

Mr. POLE. Specifically I would say I do not.

Mr. SEIBERLING. I am very sorry because I wanted to find out. Do you know, as a matter of fact, that New York does not have any usury laws in connection with the call money rate?

Mr. POLE. I do.

Mr. SEIBERLING. The call money rate can go just as high as anybody who has the fixing of it wants to put it?

Mr. POLE. On loans of $5,000 or over.

Mr. SEIBERLING. New York does not have any usury laws in connection with loans to corporations either, does it?

Mr. POLE. I am not familiar with the usury laws of New York, Congressman.

Mr. SEIBERLING. I think their usury law in connection with corporations is the same as the law in Ohio, and that was put through for the purpose of negotiating some loans out there and that is if the directors authorize the loan, the corporation can not, thereafter, set up, as a defense, usury for the benefit of the stockholders. I think that is the New York law. Now, as to whether they have no usury laws in connection with collateral loans as Mr. Fort suggests, I do not know.

Mr. FORT. I know that the lowest rate on even time loans is frequently 9, 10, and 11 per cent—not frequently, but occasionally.

Mr. SEIBERLING. Do you know of many other States that do not have usury laws that cover all kinds of loans?

Mr. POLE. I think recent laws have been passed in Pennsylvania and possibly in Illinois with respect to call rates.

Mr. SEIBERLING. Taking off the usury from call rates?

Mr. POLE. I am under that impression.

Mr. SEIBERLING. Repealing the law so that there is no usury law on call money?

Mr. POLE. There has been some change in the law in that respect.

Mr. SEIBERLING. Now, how high did the call money rate go in New York during the recent stock escapade?

Mr. POLE. I think about 12 per cent, as far as my recollection goes.

Mrs. PRATT. I think it went as high as 15.

Mr. FORT. It was higher before the panic. It was about 15 or 16.

Mr. SEIBERLING. It did not reach its high point until after the stocks commenced to decline, did it?

Mrs. PRATT. I think it was in August or September it was as high as that.

Mr. SEIBERLING. If you know, I should like to have it in the record.

Mrs. PRATT. I will have to check that up.

Mr. SEIBERLING. I thought the call money went to as high as 20 per cent.

Mr. POLE. I do not recall.

The CHAIRMAN. It did go to 22 per cent last spring.

Mr. SEIBERLING. Don't you know, Mr. Pole, that this call money rate affected every man, woman, and child in the United States that had stocks on margin with the brokers, and that there were thousands and hundreds of thousands of them?

Mr. POLE. I would say so.

Mr. SEIBERLING. This call money rate was charged back on these marginal accounts irrespective of the usury laws of the various States?

Mr. POLE. I am not informed as to that, Mr. Seiberling.

Mr. SEIBERLING. As a matter of fact, I will state that they were charged back on the marginal accounts and if you did not like to pay the rate of interest, you could let them sell your stock, but if you wanted to carry it with the broker, you had to pay substantially the call money rate, which varied from day to day—pay the call money rate of New York.

That is, Mr. Pole, they charged you for the month for the average of the call-money rate, whatever it might average. Do you know, from your personal knowledge, whether that is true?

Mr. POLE. I have no knowledge of that.

Mr. SEIBERLING. There are probably others around here who could tell us. That was my experience. How about you, Mr. Fort?

Mr. FORT. I did not have any accounts at the time, but I understand the practice in most legitimate brokers' offices is that they charged the cost of the money to them, plus the commission. That does not necessarily mean the call rate. They took their time money and call money and merged it and fixed the rates that way. Most brokers did that.

Mr. SEIBERLING. The effect of the high call-money rate in New York was to draw immense sums of money out of all banks of the country and transfer them to New York, such withdrawals being made by people who had large sums of money on deposit and corporations with large sums on deposit with banks paying only 2 or 3 per cent on daily balances—they took their money out and withdrew it and sent it to New York to get the call-money rate.

Mr. POLE. I think large amounts were invested that way.

Mr. SEIBERLING. Do you think, out of a city like Cleveland, as much as $100,000,000 would be withdrawn and sent to New York?

Mr. POLE. I have no idea.

Mr. SEIBERLING. The effect of the withdrawal of money from the local banks and sending it to New York to get the high call money rate was to compel all the local banks to go to the Federal reserve to get money, was it not?

Mr. POLE. It had that effect.

Mr. SEIBERLING. And that is what they did to an enormous extent, did they not?

Mr. POLE. To some extent.

Mr. SEIBERLING. Well, then, we have this situation, that the call-money rate caused an influx of tremendous amounts of money into New York to be invested in the New York Stock Exchange at high rates and withdrew it from local banks and the local banks had to go to the Federal reserve to borrow money. What rate did they pay?

Mr. POLE. Money was ranging over last year from 4 to 6 per cent.

Mr. SEIBERLING. But a great part of the time was below 6 per cent?

Mr. POLE. A considerable part of the time.

Mr. SEIBERLING. Is it also true that some banks borrowed money from the Federal reserve, at the low rate of interest and sent it to New York to be used at the call-money rate?

Mr. POLE. I thought that was your question.

Mr. SEIBERLING. No; I was not talking about banks but individuals and corporations.

Mr. POLE. They do not go to the Federal reserve banks.

Mr. SEIBERLING. Not the individuals, but the point I make is this: When the individuals withdrew their money and sent it to New York, then the bank had to go to the Federal reserve in order to get money to run its business?

Mr. POLE. I think that is true in many cases.

Mr. SEIBERLING. Is it not also true that the banks themselves borrowed at the low rate from the Federal reserve and sent to New York and got the high call money rate?

Mr. POLE. I think that also might have been true.

Mr. SEIBERLING. The effect of all that was to take this money out of the legitimate channels of business and many people who needed money for their business needs were refused this money by the banks; because they could not, in good morals and under the usury laws of the States, charge them more than a limited amount when they could take the money and send to New York and get more?

Mr. POLE. There were undoubtedly illustrations of that kind.

Mr. SEIBERLING. You say that even though your the Comptroller of the Currency of the United States, you do not know who fixes the call money rate?

Mr. POLE. I do not know the technical operation of the fixing of the call rate.

Mr. SEIBERLING. Do you know how we could find out who fixes it?

Mr. POLE. Yes.

Mr. SEIBERLING. Where?

Mr. POLE. From any banks that make loans on call in New York.

Mr. SEIBERLING. After it is fixed from day to day that the call money rate was so much, and so forth, who fixes it?

Mr. POLE. I think that is said to be fixed under supply and demand by a committee of the stock exchange.

Mr. SEIBERLING. With the Federal reserve system, there is not any question about the supply of money in this country any more, is there?

Mr. POLE. There is, for speculative purposes.

Mr. SEIBERLING. Well, but you can not safeguard that where individuals and corporations and banks withdraw their money from banks and send it to New York and the banks themselves borrow from the Federal reserve—you can not question a bank when they come to the Federal reserve as to whether they want this for speculative purposes?

Mr. POLE. You can not question the individuals.

Mr. SEIBERLING. Or the banks either?

Mr. POLE. Yes.

Mr. SEIBERLING. If they come to you and give you the proper kind of paper——

Mr. POLE. It is not incumbent upon the Federal reserve bank to make loans if the bank is, at the same time, sending money on call to New York. The Federal reserve bank would inquire into it.

Mr. SEIBERLING. If the bank went to the Federal reserve with good rediscountable paper, they have the right to inquire why they wanted the money?

Mr. POLE. Yes.

Mr. SEIBERLING. You do not think they did inquire?

Mr. POLE. I think they did inquire.

Mr. SEIBERLING. Then you have agreed with me that the banking business is much more of a quasi-public nature than the business of other quasi-public corporations, whose rates are fixed by the public service commissions—whose rates to the public are fixed by the public utility commissions and the Interstate Commerce Commission, then why should not Congress, by the enactment of a Federal usury law, fix the limit which could be charged for the use of money?

Mr. POLE. Congress could do that probably and in respect to national banks certainly.

Mr. SEIBERLING. Can not they also, in respect to member banks, if they want to be members of the Federal Reserve system?

Mr. POLE. Probably that is correct.

Mr. SEIBERLING. And States that do not have such laws could be controlled by the Federal usury laws?

Mr. POLE. I presume so.

Mr. WINGO. You gentlemen are both lawyers, I assume?

Mr. SEIBERLING. Somebody said I was a lawyer once, but I do not know whether I am or not.

Mr. FORT. Mr. Chairman, may I ask a question? Mr. Seiberling says he has no objection.

The CHAIRMAN. Yes.

Mr. FORT. Mr. Pole, is it not a fact that a large part of the funds in the call loan market, which along in October exceeded the total loans of all banks for their own account, was money of so-called outsiders; that is, of corporations and foreign lenders and others, rather than the money of the banks themselves?

Mr. POLE. I think that is correct.

Mr. FORT. And a large part—the very large part of the money—that went at the high rates of interest was not banking money?

Mr. POLE. I think the statements usually show that loans for others exceeded the loans of which you speak.

Mr. SEIBERLING. And the result of the high rate is that the depositor who has a large balance, instead of letting the bank lend it and getting the profit, draws out that balance and becomes, himself, a lender of money?

Mr. POLE. That is correct.

Mr. SEIBERLING. I think this should be made plain, that when the private party or the corporation that lends through private bankers in New York, they have to withdraw that money from some bank in order to send it to a private bank.

Mr. POLE. I think the custom is for the New York banker to place the money for its customer, charging a small commission.

Mr. SEIBERLING. But they have to furnish the money to do that. They have to furnish the money from some place.

Mr. POLE. The customer does.

Mr. SEIBERLING. And he has to take it from the local bank. He does not carry thousands of dollars around in his stocking.

Mr. POLE. He has to take it from wherever it is deposited. The local bank might be in New York.

Mr. SEIBERLING. We know, as a matter of fact, that hundreds of millions of dollars were sent from other parts of the country to New York for the high-money rate.

Mr. POLE. I am sure of that.

Mr. SEIBERLING. What effect, do you think, that had on the legitimate business of the country which is in the shape it is in?

Mr. POLE. I think the effect was bad.

Mr. SEIBERLING. Don't you think it would greatly stimulate business if borrowers could know what the limited interest they would have to pay under any circumstances would be?

Mr. POLE. I think that might be desirable.

Mr. SEIBERLING. Of course the interest rate would always have to be as high as the interest rate of the Bank of England, for instance; in other words, you could not let the foreign banks put the rates so high as to draw money from this country. There is an element there that would have to be protected, is there not?

Mr. POLE. Well, I suppose there naturally would have to be some adjustment between the foreign banks—the central-bank rates and our own Federal reserve rates.

Mr. SEIBERLING. Now, in speaking of the branches—of extending branch banking—there is not any objection to-day to the consolidation of vast public utilities because the rates which they can charge the public are fixed by commissions, are they not?

Mr. POLE. Yes, sir; I understand the rates are so fixed.

Mr. SEIBERLING. And it would not make so very much difference in reference to the form of the bank if we had a limit on what they could charge for the use of the money?

Mr. POLE. I think not.

Mr. SEIBERLING. That is, after all, the protection to the people, and it is vital that those who are entitled to it, either on account of their moral responsibility or financial responsibility, should have money as the necessities demand?

Mr. POLE. Are you referring to the usury laws of the States which fix the maximum amount that it is permissible to charge?

Mr. SEIBERLING. It is very vital, is it not, that those who are entitled to money should have the right and opportunity of getting it at a reasonable rate of interest?

Mr. POLE. Yes, sir.

Mr. SEIBERLING. In reference to this question of extension of branch banking, your proposal would have a tendency, unless there was some regulation as to what banks could do, to greatly increase their domination and control, would it not?

Mr. POLE. There would, in my opinion, always be ample banking competition which would regulate that.

Mr. SEIBERLING. Well, now, the law preventing interlocking directors does not protect the situation at all?

Mr. POLE. I would say not.

Mr. SEIBERLING. It is a question of who the stockholders are, is it not?

Mr. POLE. I do not quite understand the question.

Mr. SEIBERLING. Is it not a fact after all a question of who the stockholders are?

Mr. POLE. I still do not understand the question. In respect to what?

Mr. SEIBERLING. In respect to the control of the stock?

Mr. POLE. As far as monopolies are concerned?

Mr. SEIBERLING. Control clear down the line. The stockholder can put in a dummy director and tell him what to do. The stockholders control the banks?

Mr. POLE. They could in any individual bank; yes.

Mr. SEIBERLING. Assuming that we adopted your suggestion, there would be nothing to prevent a Cleveland bank—and I am taking a Cleveland bank because you were an examiner out there—there would be nothing to prevent a Cleveland bank from making a branch of the Akron bank?

Mr. POLE. That would depend upon what Congress fixed as the Cleveland area.

Mr. SEIBERLING. That is in the Federal reserve district. We are all in that district.

Mr. POLE. I know, but I have not made any suggestion that the whole district should be included. I stated that in no event should it go beyond the district lines.

Mr. SEIBERLING. Here is a city within 35 miles of Cleveland. It would certainly be within the trade area.

Mr. POLE. Yes, sir.

Mr. SEIBERLING. Canton and Massillon would be within the trade area of Akron?

Mr. POLE. It might be said that they would be.

Mr. SEIBERLING. And the Akron bank could make branches of the Canton and Massillon banks?

Mr. POLE. Yes.

Mr. SEIBERLING. If New York banks owned all the stock of the Cleveland bank, they would have branches, then, in Cleveland, Canton, Akron, Massillon, and possibly Warren?

Mr. POLE. If the New York banks could keep on reaching and acquiring the stock, they might obtain control.

Mr. SEIBERLING. And you can not prevent that?

Mr. POLE. I think that Congress might adopt some legislation which would prevent it.

Mr. SEIBERLING. There is another thing: You know the banks and the trust companies have trust departments and vast amounts of stock are willed to them in trust and put in living trusts which the banks vote and control? That is correct, is it not?

Mr. POLE. I think that is correct.

Mr. SEIBERLING. So that, in the course of time, these banks that belong to the parent bank and its branches, might even control large industries in their sections, might they not?

Mr. POLE. They might.

Mr. SEIBERLING. They might say to an industry that was about to start, "If you locate up here in my city"—I am talking about the head bank—"if you locate up in my city, we will lend you the money to start with, but if you do not do that, we do not have enough confidence in your business. We want to have it here to oversee you." They could do that, could they not?

Mr. POLE. Under some circumstances, I imagine that might be possible.

Mr. SEIBERLING. They could also have great political control, could they not?

Mr. POLE. If there were a system of banking through stock ownership, such as you suggest, I think it could have this influence.

Mr. SEIBERLING. Do you know of any more potent influence than a banker has when he says to his borrower that he would like to have some one elected to office?

Mr. POLE. I would call that a rather potent influence.

Mr. SEIBERLING. Do you know that there is great danger of banks and trust companies having so much of their own stock deposited with them by wills and living trusts, that the trust department would finally control and own the bank?

Mr. POLE. I could not conceive of a condition of that kind—not to the point where they would actually control it.

Mr. SEIBERLING. They could easily have a majority of the stock, could they not?

Mr. POLE. It would be possible.

Mr. SEIBERLING. How many shares of stock does a director have to have?

Mr. POLE. In a national bank he has to have $1,000 worth at par value.

Mr. SEIBERLING. A thousand dollars' worth?

Mr. POLE. Yes.

Mr. SEIBERLING. Well, it would be very easy to have 10 or 15 men own sufficient stock to qualify them as directors and have the rest of the stock in the trust department of the bank?

Mr. POLE. Of course it would be much easier in a small bank than in a larger bank.

Mr. SEIBERLING. I am talking about the course of time. It seems to me that you have to look a long ways ahead and we are not only protecting the interests of the people now, but we are protecting them for years to come. Is not that correct?

Mr. POLE. Yes.

Mr. AWALT. Speaking of voting trusts?

Mr. SEIBERLING. I am speaking of stock actually trusteed in the banks under trusts and living wills and banks transferring that stock to them and they vote it. Is not that right?

Mr. POLE. I should think that would be looking some way ahead.

Mr. SEIBERLING. It is the natural thing for a director or a stockholder of a bank to make his own bank his trustee under his will, is it not?

Mr. POLE. Yes.

Mr. SEIBERLING. Do you think it would be wise to permit an extension of the branch privileges to banks unless some restrictions can be formulated, which will obviate these difficulties?

Mr. POLE. I think that question might well be given consideration.

Mr. SEIBERLING. Well, now, I have just one more line that I want to ask you about and this is maybe a rather foolish suggestion, and I want to say it is not original with me, because I read a book on banking that gave the cue.

You are very much interested, I take it, in getting banking facilities to the outlying districts at points where—which would permit the establishment of an individual or unit bank and where there is not sufficient business and yet where the people should have some banking facilities?

Mr. POLE. That is among my suggestions.

Mr. SEIBERLING. You are greatly interested in that?

Mr. POLE. Yes.

Mr. SEIBERLING. There seems to be a great deal of interest around here in reference to guaranteeing deposits also, which I understand you are against?

Mr. POLE. Yes.

Mr. SEIBERLING. And on which point I agree with you absolutely. Now, since we have the Joint Stock Land Bank and the Federal Farm Board to loan money on farms, on real estate, and since we have the Federal Farm Board to which we have appropriated $500,000,000 to lend on grain and intermediate credit banks, and since just the other day we appropriated another $7,000,000 for the Secretary of Agriculture to loan to farmers—a bill that provides specially for loans to buy fertilizers, and for which he will take a lien on the crops—since we have all those instrumentalities, these rural districts would not need a bank for borrowing purposes to any great extent, would they?

Mr. POLE. Oh, I should say so. Customers of banks do not go directly to these corporations that you speak of. They have to form associations, which associations in turn borrow from these corporations except in the case of the Fedral land bank.

Mr. SEIBERLING. The farmer gets the money?

Mr. POLE. Yes; eventually. There are numerous small merchants and small operators that necessarily have to transact banking business outside of type of business which might to go these corporations. I would say that the banking facilities in a small community could not be eliminated without very great inconvenience to that community.

Mr. SEIBERLING. A small community with two or three hundred people who had opportunities to borrow, as I have said, from these various sources, really needs a place to deposit their money and a place to check out more than anything else?

Mr. POLE. That is very important. They have also to borrow and to make such loans as would not be eligible with these other corporations you speak of, for current business.

Mr. SEIBERLING. What plan have you to work that out?

Mr. POLE. I think it might be easily possible that a bank having branches might go into such community and perhaps operate two days or three days a week in order that the community might have banking facilities.

Mr. SEIBERLING. You do not think that——

Mr. POLE. And there is nothing new in that idea.

Mr. SEIBERLING. You do not think that the Postal Savings could be expanded so as to take care of communities of that kind, where the Comptroller of the Currency would designate that it was impossible to establish a unit bank and where there were no banking facilities, because I am just as much opposed to the Government going into business as you are.

Mr. POLE. I think, as a savings bank, the Postal Savings might be of assistance, but I do not think it would take the place of a local commercial bank.

Mr. SEIBERLING. They draw money orders now, do they not; they do a great many things of that kind?

Mr. POLE. They deposit money and draw funds, but I think nothing else.

Mr. SEIBERLING. They have to keep books, of course?

Mr. POLE. Yes.

Mr. SEIBERLING. And you do not think it would be possible to enlarge that so that not only money could be deposited, but also withdrawn by check?

Mr. POLE. No; I do not think the post office could ever take the place of the country bank.

Mr. SEIBERLING. I am talking about sections where it is absolutely impossible to have a bank on account of the business being so small?

Mr. POLE. Of course a community being that small, it might not be necessary to establish a bank there. It is not my idea that branches should be established in every small hamlet in the country.

Mr. WINGO. Might I suggest that in my country there is a possibility of those villages losing even their post offices?

Mr. SEIBERLING. It is very desirable to arrange facilities where money in these rural districts, now in the stockings and other places, might be placed in circulation.

Mr. POLE. Yes, sir.

Mr. SEIBERLING. I think that is all.

Mr. STEAGALL. Just one suggestion there with reference to one statement the gentlemen made—and evidently made under misapprehension: He said that we had appropriated $7,000,000 for the purpose of lending to farmers to purchase seeds and fertilizers. I do not think that act can be properly categorized along with the other loaning facilities, such as Federal land banks, the Farm Board, and intermediate credit banks. This $7,000,000 fund is purely a temporary and an emergency matter to take care of unprecedented conditions created by a flood, something that probably will not happen again, and I do not think anybody had in mind to make that a permanent system.

Mr. SEIBERLING. It included Ohio, and we did not have any flood there that I know anything about.

Mr. STEAGALL. It was done probably as a matter of strategy to get the matter through the other House. I do not advocate that as a permanent policy. It was purely an emergency measure.

Mr. WINGO. In connection with one question that Mr. Seiberling asked Mr. Pole, concerning limited credit under the Federal reserve system, there seems to be a mistaken idea in the country that the Federal reserve system carries unlimited credit.

Is not this true? The first is that you have to have eligible paper before you can get credit. Another is the eligibility and acceptability of the paper itself—that is, the acceptability. First we have eligibility and second, acceptability and, in the circumstances in which it is offered, whether the bank will take the eligible paper and grant credit.

Then after you have gotten by those limitations and handicaps, the question of available gold for the required reserve comes in. So, it is a mistaken idea to think of the Federal reserve as a source of unlimited credit.

Mr. POLE. Absolutely.

Mr. WINGO. There is another question in that connection that I want to ask in reference to branches to take care of small communities. I believe you said the other day, in response to a suggestion, that if you had a small town, say, one of these towns under 10,000, that if you undertook to take care of it by branch banks, they might under-

take to take care of it by one branch and there would be a monopoly and there might be two trade areas that would overlap; for instance, Dallas, Tex., is close to the south end of my district. That is in the trade area of Dallas as well as that of Little Rock. It is about as near to Dallas as to Little Rock. In one of those towns there might be a branch of a bank in Little Rock and also one branch of a bank in Dallas, and you suggested that would give the necessary competition of service there and insure good service. Is that your idea, that you would not be limited to the number of branches except as you are now limited in the discretion of the charter granting authorities which, in the case of the States, is the State commission, and, in the case of the national banks, the Comptroller of the Currency?

Mr. POLE. Yes. I spoke of these small communities being perhaps in a position to monopolize the banking business provided the banks were forced to a higher capital structure. In order to earn a fair return on such capital, it would be necessary that the banks should have a large enough area to attract sufficient business to do that.

Now, that was in connection with the suggestion which had been made that banks should have a minimum capital of $100,000. I feel that in a town like Dallas or a town like Little Rock the chances are that there would be several important banks which would reach out for business from every quarter.

Mr. WINGO. I see your idea. In addition to having two cities that might each one of the have more than one bank—in other words, in addition to having a bank in Dallas and a bank in Little Rock, which might, each one, have a branch in this small city, a town under 10,000, why there might be also two banks in Little Rock and in Dallas and the question of allowing them to have branches would still be one, under your theory, for the supervisory authority to control, as in the issuing of a charter to a national bank?

Mr. POLE. Yes, sir.

Mr. WINGO. In other words, if the banking facilities of that city would be sufficient to meet the public needs——

Mr. POLE. That is my idea, as far as possible, to endeavor to give every community of any size adequate competitive banking service.

Mr. WINGO. As a rule now—you spoke awhile ago of the potent influence of the banker on the borrower—it is my experience that a banker has considerable influence with the borrower.

Mr. POLE. Yes.

Mr. STEAGALL. Somewhere in Proverbs it is stated that the borrower is the slave of the lender.

Mr. WINGO. But, Mr. Pole, how can you answer this question: Mr. Goldsborough touched upon this question and Mr. Seiberling also did. I think we can reasonably assume that even if you did have branches, say, in a town that we will call A, one for each of the two central banks that may be in Little Rock, when you came down to the issues involved in a political campaign, those two banks would have a community of interest. The probabilities are that they would be supporting the same issues or the same candidates.

Now, then, would not this be what could naturally be expected, knowing human nature both by observation as well as experience, that the merchants and other people in that town where these two branches are, would find a very subtle political pressure put on them

to support the candidate or the issue that these central banks wished to have supported? Is not that reasonably to be expected?

Mr. POLE. They might naturally—that is individuals connected with such a bank—take an interest in a political issue. Whether they would exert improper political pressure is another matter.

Mr. WINGO. Now, if the logic of your scheme is sound, the benefits of that character along financial lines, having a tendency to grow—in other words, the institutions having a tendency to grow—would not their influence correspondingly grow?

Mr. POLE. As they grow larger, I would say that their influence would be greater, but it would not necessarily be directed to political channels or be detrimental to the public welfare if so directed.

Mr. WINGO. Is not this the probable outcome to your plan, that at first you would have—as a matter of fact, is it not the virtue of your plan from your standpoint—that probably you would have a bank with $100,000 capital with one or two branches, and have a great many of them scattered around the country, but, ultimately, these banks in turn would be taken over and become nothing but branches of a large bank? You will start out and maybe, we will say, there will be 25, 30, or 35 banks over a State, each one having branches out in the smaller towns in their particular trade areas, but as time goes on there will be a natural tendency—and the arguments in favor of it would be the same as the arguments you make to-day—"Here, we can work out economies, greater security for the depositors and greater benefit and greater service if, instead of having 25 or 30, we have only 4 or 5," and where we have a bank to-day of $100,000 capital, with three or four branches, that bank becomes a branch of a bank, say, located at Little Rock. It not that a natural evolution of your scheme if your theory is correct?

Mr. POLE. I think the size of a branch that would be permitted to operate or, rather, the size of a bank that would be permitted to operate a branch, should be regulated, and not permit branches for the small banks, and my idea is, further, that the banks in the important cities would develop branches around them. They would be gradually reaching out and, in the course of time, probably even those parent banks in such cities might themselves under certain conditions be consolidated and become branches, but I can not conceive of any idea where there would be any banking monopoly there.

I am inclined to think that there should be consideration given, as I have said, to legislation regulating perhaps the consolidation of banks after they get a certain number of branches or reach a certain size.

The CHAIRMAN. Might I suggest here that we proceed in order? Inasmuch as the comptroller is going to file a brief, he will cover that in his brief, so that we can proceed with Mrs. Pratt as the next interrogator.

Mr. WINGO. I beg your pardon. I did not know I was interrupting.

Mr. POLE. That is, my brief in connection with trade areas?

The CHAIRMAN. Yes.

Mr. WINGO. The chairman was not following me very closely. I was going to another phase of the question. However, I will develop that some other time. I beg your pardon, Mrs. Pratt.

Mrs. PRATT. Mr. Chairman, most of the questions that have arisen in my mind have been covered by previous discussions, but there is just one point I should like to have made clear.

The purpose of your proposed legislation, Mr. Pole, as I understand it, is to provide adequate and more substantially reliable banking facilities for the smaller communities?

Mr. POLE. That is one of the outstanding phases of my recommendation.

Mrs. PRATT. Broadly speaking, that is the outstanding phase?

Mr. POLE. Well, yes.

Mrs. PRATT. New York is the greatest money market of the world, is it not?

Mr. POLE. Yes.

Mrs. PRATT. There has been a great deal said here, in the course of the discussion, about the centralization of credit which exists and is probably increasing in New York?

Mr. POLE. Yes.

Mrs. PRATT. I do not know whether you view that with apprehension.

Mr. POLE. No; I do not.

Mrs. PRATT. And what I wished to know is if there might not be two results, with only one purpose, from this proposed legislation; namely, as you establish these branch banks throughout the country, having, as I understand it, parent banks.

Mr. POLE. Yes.

Mrs. PRATT. Eventually these different parent banks, which would be established, I think your purpose is, in trade areas somewhat along the lines of the Federal reserve areas, but not coterminus——

Mr. POLE. Yes.

Mrs. PRATT. Would become more important and greater banking centers.

Mr. POLE. I think so.

Mrs. PRATT. That would lead, would it not, possibly to drawing credit away from New York?

Mr. POLE. That is my thought.

Mrs. PRATT. And you will have, as a result of this legislation, more competitive credit centers throughout the country?

Mr. POLE. More competitive credit and decentralization.

Mrs. PRATT. I assume, because of its size and location, New York will always be, probably, the greatest center of credit, although it might not necessarily be so?

Mr. POLE. In all probability, as far as we would be willing to look ahead.

Mrs. PRATT. Yes. You feel, do you not, that as the result of this legislation there would be a decentralization of credit, and that would be a valuable result?

Mr. POLE. I do indeed.

Mrs. PRATT. To have more decentralization of credit throughout the country?

Mr. POLE. Yes.

Mrs. PRATT. I did not know whether that was partly the purpose of the legislation or whether, as has been brought out in the discussions, that would be a direct result.

Mr. POLE. It might be said to be the indirect result should branch banking limited to trade areas be adopted.

Mrs. PRATT. Just one more question, Mr. Pole. It is true wherever there is a great center for any commodity—calling money a commodity—individuals, and, as has been brought out here, even banks, go to the great center if they have something to purchase or to sell?

Mr. POLE. Quite often that is the case.

Mrs. PRATT. It is nearly always the case, is it not?

Mr. POLE. Yes.

Mrs. PRATT. Unless these centers that would be created by this proposed legislation do develop into large credit centers, you would still have the same conditions as exist to-day, because the large investor would still rather go to New York, would he not?

Mr. POLE. I foresee that if any branch banking might be extended in accordance with my suggestions, there would be no doubt, in my mind, that large banks would grow up all over this country, by reason of the fact they would embrace the capital and resources of probably hundreds of smaller banks which would be in their trade areas.

Mrs. PRATT. And you would have essentially a great many money markets of very large proportions?

Mr. POLE. I should say that that would be the result.

Mrs. PRATT. I think that is all.

Mr. STEAGALL. I want to ask Mr. Pole about one matter developed by Mr. Seiberling in his interesting discussion, and that is in reference to legislation to fix interest rates of national banks and banks of the Federal reserve system. I do not know how Congress can, in any way, regulate or determine interest rates to be charged by any banks outside of the national banking system, except, of course, we could pass legislation, controlling the Federal Reserve Board in the matter of admitting State banks into the Federal reserve system by requiring them to observe certain conditions.

Mr. POLE. I think the conditions of membership are within the discretion of the Federal Reserve Board.

Mr. STEAGALL. I doubt that, in my own mind, except in dealing with the acceptability of the securities of a bank, and the question whether or not it is financially sound—to say that the Federal Reserve Board should arbitrarily deny membership to a State bank that is in condition to come into the system, I should question. Certainly Congress can not pass laws to determine the interest rates charged in the various States?

Mr. POLE. No.

Mr. STEAGALL. If we attempt to fix uniform rates for national banks, and indirectly we could find a way, through State banks becoming members of the Federal reserve system, to fix arbitrary rates throughout the country, of course no national bank, in any circumstances, could charge in excess of that——

Mr. POLE. No.

Mr. STEAGALL. In the present situation, the law simply requires a national bank to observe the law of the State in which it operates as regards the matter of interest rates to be charged?

Mr. POLE. Yes.

Mr. STEAGALL. If we attempted to fix a uniform interest rate throughout the country for national banks, how would it operate as between national banks and State banks? For instance, in the city of New York, if we fixed a uniform rate for national banks, what would be its effect upon the national banks in the city of New York, in attempting to compete with State banks unbridled in fixing interest rates?

Mr. POLE. Do you contemplate fixing the interest rates to be charged by national banks below the State banks?

Mr. STEAGALL. Yes.

Mr. POLE. That would have the effect of driving the national banks into the State systems.

Mr. SEIBERLING. I am not advocating the fixing of uniform interest rates. I am advocating fixing a maximum rate. If you undertake to fix a uniform rate, that would control the rate. I want a maximum fixed beyond which no one can charge.

Mr. STEAGALL. I am in thorough accord with that, if I understand the gentleman. I am only thinking of the difficulties encountered in attempting to do that. It does not make any difference if you make it uniform or we say a national bank nowhere in this country shall charge to exceed 10 per cent per annum, we will be confronted with the situation in New York—and it does not matter what would be the justification for it or lack of justification, these conditions will come about again as they have in the past where this accentuated demand for loans will exist, of course, unless the State of New York steps in and regulates the interest rates—the interest rates will turn toward the skies again, and if the national banks are not permitted to charge those rates, they can not compete in that field with the other banks, and we will be confronted with the proposition that the national banks will leave the national system and go to the State systems. That is the difficulty.

Mr. POLE. That will be the result.

Mr. STEAGALL. I wish we could find a remedy, but I am pointing out the difficulties.

Mr. STRONG. Could we not pass a usury law and bar from the mails and from interstate commerce, any banks that violate that law?

Mr. FORT. We would not have to go that far.

Mr. STEAGALL. There is no difficulty about fixing the rates, but the difficulty is the situation we would place our national banks in in States where there were high rates permitted.

Mr. STRONG. That would put a limitation on them.

Mr. STEAGALL. Congress can not touch the operations of a State bank.

Mr. STRONG. We could bar them from the United States mails.

Mr. FORT. I doubt that, in view of the decision of the Supreme Court in the Insurance Companies' case, where it was held that that was not interstate commerce.

Mr. GOLDSBOROUGH. Mr. Chairman——

The CHAIRMAN. I think in the interest of order that we had better proceed according to our plan.

Mr. GOLDSBOROUGH. Mr. Chairman, I thought we had finished with the questioning by the members.

Mr. FORT. The chairman has not asked any questions yet.

The CHAIRMAN. When all members have asked questions, the purpose was to go around again in a general symposium.

Mr. GOLDSBOROUGH. Mr. Chairman, I move we proceed in order as we have not been doing all morning.

The CHAIRMAN. Have you finished, Mr. Strong?

Mr. STRONG. No; but I will yield to you.

The CHAIRMAN. The chairman is the next on the list. I desired to ask my questions last.

Mr. STEAGALL. I think the chairman should have all the time he needs in his discussion with Mr. Pole, and I suggest to the chairman that it is now close to 1 o'clock and I think he had best begin his discussion when he has plenty of time.

The CHAIRMAN. Under those circumstances, then, suppose we adjourn until to-morrow morning at 10.30 o'clock.

(Whereupon, at 12.50 o'clock, p. m., an adjournment was taken until Wednesday, March 5, 1930, at 10.30 o'clock a. m.)

BRANCH, CHAIN, AND GROUP BANKING

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Wednesday, March 5, 1930.

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

The CHAIRMAN. The committee will come to order.

I desire to call the attention of the committee to a letter from Gov. R. A. Young, of the Federal Reserve Board, in reply to an invitation by the chairman of the committee, for the appearance of the Federal Reserve Board or their designates before this committee.

The letter reads as follows:

Your letter of February 21, inclosing House Resolution 141, with regard to the study of group, chain, and branch banking which your committee is to undertake, and stating that your committee will be pleased to hear from me or whomever the board may designate to speak for the board, upon the subject, has been brought to the attention of the board by me.

In reply I am writing to say that while the board has in the past accumulated information on the subject of group, chain, and branch banking, nevertheless, the rapid strides made by group banking during the past two years particularly has made it extremely difficult for the board to secure information promptly enough to enable it to keep pace with recent developments and the present status of this whole matter. With this in mind, it recently, at the suggestion of the Federal Advisory Council and also of the governors of the Federal reserve banks and the Federal reserve agents, enlarged the membership of its committee prosecuting these investigations, by including representatives of the Federal reserve banks.

The board feels that group, chain, and branch banking presents one of the most important and most difficult problems of our changing banking structure before the country at the present time. It believes that more complete information regarding the forces which have impelled this new development will be necessary before conclusions of value can be arrived at regarding its effects—financial, economic, and social. The board has not yet reached such conclusions and is not, therefore, in a position to designate a representative to appear before your committee and to speak for the board at this time.

I will, of course, be very glad to appear before your body, furnish all the information we have at the present time, and answer any inquiries that I can, as will also any of my colleagues.

In the course of your hearings questioes may arise whereby our research and statistical division may be of service to you and to your committee. I hope you will feel free to command us at any time. I can assure you in advance of our complete cooperation.

STATEMENT OF JOHN W. POLE (resumed)

The CHAIRMAN. Mr. Pole, in answer to a question of Mr. Strong, you said you examined the Bank of Italy with 40 men. This is a plan you worked out to meet the situation which has developed in connection with the examination of these large groups of banks. Is that strictly in accordance with the law? The law, as I understand it, provides that the Comptroller of the Currency, through examiners, shall examine each bank at least two times a year?

Mr. POLE. Yes, sir. I think there would be no question about that.

The CHAIRMAN. You do not think it is necessary to amend the law to cover such situations?

Mr. POLE. I think not. The method of examination is discretionary with the comptroller.

The CHAIRMAN. The law is quite specific, however, in that respect. It says there shall be at least two examinations each year.

Mr. POLE. It is specific as to the number of examinations, but not as to the method.

Mr. FENN. You can make more examinations than that if you care to? It does not restrict you to two examinations? It compels you to make two, but does not restrict you from making any more?

Mr. POLE. No, sir. Our experience with regard to the examination of the very large branch banking systems does not cover a long period of years and we are gradually becoming more and more familiar with it, and I think we shall be even better able to cope with such examinations as time goes on. It is quite likely we will have to materially increase our forces as the banks grow.

The CHAIRMAN. There has been much discussion in regard to the methods of examining these large branch groups?

Mr. POLE. I am preparing, at your suggestion, a brief in that connection and am going to lay down, for the committee, the details of our method of examining the branch bank systems.

The CHAIRMAN. In the past, in regard to these large groups, a serious question was raised as to whether or not there should not be a simultaneous examination of the parent bank with the branches. Of course, under this method that you have worked out, you do not have a man in each one of the branches at the same time the main offices are examined, do you?

Mr. POLE. We do not.

METHODS EMPLOYED IN THE EXAMINATION OF THE LARGE BRANCH BANKING SYSTEMS IN THE TWELFTH FEDERAL RESERVE DISTRICT

Until 1927 there was only one national bank in the twelfth Federal reserve district maintaining branches and that bank and its three branches were examined simultaneously. When a State bank was converted into a national bank with 287 branches the Comptroller of the Currency was confronted with a new and somewhat perplexing problem. If the bank and its branches were to be examined simultaneously, a force of more than 400 men would be required. The State department had found it necessary in making a simultaneous entry to employ temporarily a number of certified public accountants and others for this purpose but this practice was unsatisfactory on account of their lack of knowledge of the State banking laws and the rulings of the banking department; also for the further reason that improper comments were sometimes made of the bank's affairs by their temporary employees.

After careful consideration, and consultations by the chief examiner of the twelfth district with his associates, it was concluded that the best results would be accomplished by considering each branch as a semiindependent unit, for the reason that it would be a practical impossibility to assemble a force of 400 men who had the necessary detailed training and experience to make a simultaneous entry into each of the branches and to submit reports that could be merged into one complete and intelligible consolidated report.

The larger branch-banking systems do not make up a consolidated balance sheet daily, though daily reports are required from the branches so that a balance sheet for the entire system can be made for any given date. Daily computations are made of items necessary to determine required reserves. When an examination of one of these systems is begun the examiners must close the books as of that date and obtain a balance sheet for the entire system, regardless

of the method of examination used. Since branch banking is comparatively new to the chief examiner and his staff in the twelfth district, the method of examination of the larger branch-banking systems has heretofore been varied from time to time. While the method now being employed will be described it is necessary to refer to our experience with at least one other method used.

In one of the earlier examinations of the large branch-banking systems forms were prepared (specimens herewith) to be executed by branch managers, giving a complete inventory of assets of each branch, as of date named, in sufficient detail that a consolidated report could be made therefrom excepting, of course (the most important part of any examination) the valuation of assets and their classification as "Slow," "Doubtful," or "Loss." In this particular examination simultaneous entry was made into the head office and five of the larger branches so that the examiners actually covered and verified approximately 60 per cent of the bank's total assets. As fast as the examiner in charge could release his men from the larger branches they were sent to the remaining branches with a copy of the previous report of examination of the daily statement of the branch as of date of current examination and of the branch manager's own inventory of the assets of his branch as of that date. The examinr was under instructions to examine the branch as of the date he reached it, but to make a sufficient check of the manager's inventory to satisfy himself of its accuracy. Inaccuracies discovered were trivial and largely attributable to carelessness or failure to correctly interpret instructions from the chief examiner. It would be possible to make an audit of the accounts by this method, but this course would be impracticable on account of the time and expense involved. Therefore, the examiners contented themselves with "spot checkings"; that is, tracing out to their final conclusion the larger items involved.

The method above referred to has developed the fact that the same borrower is found in only one branch except in rare instances when a border customer borrows from a second branch without the branch manager's knowledge. This is usually discovered at the head office which arranges for such borrowings to be concentrated at one branch.

Relative to the exchange of loans or other assets between branches it may be said that this is positively prohibited without the consent of the head office. To illustrate, a large branch banking system purchased a bank in a town, which it merged with its existing branch there. The assets purchased included some $300,000 of loans on real estate located in a section much nearer the other branches of the bank and by direction of the head office these loans were sent to other branches where they would receive the closer personal attention from the local manager. Another point of interest here is that branches do not carry accounts with each other. No. 20 will send checks upon No. 40 direct to it, but a copy of the letter of transmittal goes direct to the head office where all interbranch accounting is done. If No. 40 protests important items, of course No. 20 is notified by wire, but that has no effect on the accounting. In theory (of course, not in practice) the branches can be examined from the head office files and records, including all loans for more than $1,000.

An examination of a large branch bank system was begun on December 31, the date on which it was known the bank would obtain from its branches a daily statement and compile a balance sheet for the entire system. The head office only was examined on that date, including, of course, the administration department. The consolidated balance sheet contained assets of the head office verified by the examiners, as well as the assets reported by the branches. Examiners who were later sent to examine the branches were requested to carefully consider important changes between the daily statement of December 31 and the date of their entry into the particular branch, and to follow to a final conclusion any item bearing evidence of suspicion or irregularity. This would seem to be as far as the examiner can go with the individual branch. If irregularity exists it is usually the result of collusion between employees of two or more branches and this, of course, is possible between men in two or more unit banks. The inventory method enables the examiners to audit the period between date of inventory and date of examination of the branch and, therefore, provides protection against the exchange of assets between branches.

Branch bank systems carry their bond and securities investments, brokers' loans, commercial paper, and bankers' acceptances at the head office, so that in an examination the examiners have to consider only those securities which have already been placed under seal and such as may be in transit, the receipt of which they verify by an inspection of the securities upon arrival at the head office.

Interbranch accounts are carried through the head office entirely. For instance, branch No. 10 will send to No. 30 its cash letters, copies of these letters and the replies thereto, whether return items or credits, are sent to the head office where all of the accounting is conducted. The method, of course, reduces the possibilities for any improper transfer of items or fictitious credits between branches.

As a matter of information it may be stated that the larger branch banking systems maintain thorough auditing departments, which report direct to the executive officers and through them to the executive committee and board of directors; they also maintain a comptroller's department and an examining department. The national bank examiners have found these departments usually to be the most efficient of any of the departments of the bank.

If we had the type of branch banking which has been suggested by me there should be developed a continuous contact between the examining force and the executive committee of a branch institution and its board of directors. There is no doubt that in such an institution the initiation of policies which control the management are of great importance and the Government should be in a position to gain immediate first-hand information in order that the public might be protected.

To examiners and assistants:

In the present examination of the bank please observe carefully the following instructions, suggestions, and comments

Branch examinations will be conducted as if each branch were a unit bank. A consolidated balance sheet will be prepared as of the date on which the head office is examined, namely, December 31, 1929. No data will be required from examiners in branches for this balance sheet.

(1) Transcripts of accounts with head office will not be required.

(2) All assets (except accounts, including transit, with head office) should be verified, including cash count, listing of loans and discounts, items for collection sent elsewhere than head office, etc., tracers to be sent by examiners returnable to chief examiner. It will not be necessary to verify the liabilities.

(3) Give date of report on head office on page 1.

(4) Consolidated schedules (except bonds, etc.) will be compiled from your reports of branches. These reports will be compiled on Form 1424–E and references to schedules in these instructions refer to that form.

(5) Give all information in detail called for in Schedule 1, on page 2, and in addition show the following in each instance:

	Secured	Unsecured
Total direct loans to directors, officers, and employees	$	$
Total direct loans to advisory board members	$	$

(6) Give in detail all information called for in Schedule 2, page 2, and in addition show:

	Secured	Unsecured
Total direct loans in which directors, officers, or employees are interested	$	$
Total direct loans in which members of advisory board are interested	$	$

(7) In addition to information called for by Schedule 3, page 2, show par value of national bank stocks pledged as collateral to bank under examination and name or names in which stock is issued, that we may determine whether directors are disqualified.

(8) In schedule of "Overdue paper" please show totals of class A and class B as follows:

A. Total bad debts as defined by sec. 5204, United States Revised Statutes (including real estate loans of $_____)	$
B. Other overdue paper (including real estate loans of $_____)	$

(9) The schedule "slow and doubtful paper and losses on loans" should represent the examiner's opinion after full discussion with officers of the branch (and local directors, where necessary), and if there is a material difference of opinion, that fact should be discussed in detail in the confidential section of the report, and we should be supplied with full information on all important loss items that they may be intelligently discussed with officials at head office.

(10) The schedule of real estate loans requires unusually careful attention. Item 1 thereof (D. P. C.) refers only to those loans acquired since March 1, 1927, date of nationalization, and should include only those loans acquired in

settlement of debts previously contracted in good faith. Nonconforming loans held prior to date of nationalization, or March 1, 1927, or any renewals thereof should be included with other nonconforming loans, total to be shown under item 4, "Nonconforming loans held at date of conversion."

Nonconforming loans acquired since March 1, 1927, should be shown under item 3, as in violation of law.

Detailed schedules must be made of items 1, 3, and 4, and in addition thereto, please recapitulate schedule 4 under the following headings, showing totals: Value, $———; maturity, $———; unimproved, $———.

Totals only need to be shown for item 2.

In classifying nonconforming loans please make careful inquiry of branch managers relative to each and do not rely wholly upon appraisal certificates, for we have found that highly improved, income-producing agricultural land has been reported "Unimproved," the examiner following the synopsis of the appraisers' report, so made because there is no residence on the property. Those classes nonconforming on account of value should also be carefully considered.

(11) Item 2, page 7, should contain a complete schedule of overdrafts of six months duration, showing names, and dates of inception, and those considered uncollectible should be marked "Loss."

(12) Reference is made to page 6, "Other assets." Your report on suspense resources should show date of item, brief description and classification. Total to agree with line 9 of face of report. Please also prepare a separate schedule of suspense liabilities or other liabilities, showing dates, brief description and amounts.

Items carried under city cash collection account and documentary transit account should be carefully scrutinized and totals shown separately on page 1.

All transit items are to be verified.

(13) Accounts maintained by other banks with the individual branches should be verified in the usual manner.

(14) Do not examine trust department. This will be done by an examiner especially designated for this purpose.

(15) Make up a schedule in confidential section showing loans secured by any of the following stocks:

Totals only need be shown, e. g., "Loans on stock of affiliates, $10,000, 100 shares; $35,000, 200 shares."

(16) Omit items 4 and 5, page 7; items 10, 11, 14, and 15, page 8; schedule 1, page A (salaries) and item 5, page B.

(17) Pencil copies of reports of examination of branches in the southern division should be promptly forwarded to examiners for review with credit department, or that he may arrange for such conference in important cases, with the examiner who makes the examination. If for any good reason you desire to personally discuss criticisms with the credit department, please so advise when transmitting your report.

(18) In submitting your monthly budget report, please show expenses as a separate item. (This will be included in the chief examiner's office with subdistrict A).

Respectfully,

T. E. HARRIS.

SAN FRANCISCO, CALIF.

To the manager, Branch ———.

DEAR SIR: In order to facilitate an effective examination of the ——— ——— and its branches as of the close of business ——— you are requested to prepare in triplicate and forward to T. E. Harris, chief national bank examiner, the following schedules in duplicate retaining triplicate for your files. It is important that this data be forwarded at the earliest possible moment and that totals of schedules agree with daily financial statements.

In order that there may be uniformity, all branch managers must use legal size paper in preparing schedules, and place the name of your branch on each sheet of the report. If you do not have a supply of legal paper, purchase a supply locally.

Schedule No. 1.—Statement of assets and liabilities as of above date on the form used in submitting this information to the head office. This includes all departments.

Schedule No. 2.—All loans to directors, officers and employees, including members of the board of directors of the head office, and advisory board of any branch, with detailed list of collateral or security thereto.

Schedule No. 3.—Loans to corporations in which any director, officer, employee or advisory board member is interested, with detailed description of collateral or security thereto, together with name of party interested therein.

Schedule No. 4.—List of all overdrafts of directors, officers or employees showing date of inception. Also list of all other accounts showing overdrafts which are of more than six months' standing. (This schedule will not balance with D. F. S.).

Schedule No. 5.—A detailed list of public funds on deposit, showing name, title and address of officer who controls the account, amount of deposit and rate of interest paid thereon (including deposits of all Government, State, county and municipal authorities.).

Schedule No. 6.—All individual deposits (not including public funds, savings deposits, or certificates of deposit) on which interest is paid, omitting names, but showing aggregate amount for each rate paid. (This schedule will not balance with any account on D. F. S.)

Schedule No. 7.—Schedule of all unsecured loans, showing name of borrower, amount of loan, and, if past due, date to which interest has been paid.

Schedule No. 8.—Schedule of all secured loans, showing name of borrower, amount of loan and, if past due, date to which interest has been paid and an itemized list of collateral or security thereto.

Schedule No. 9.—List in detail all "Suspense resources" showing collateral or security thereto.

Schedule No. 10.—Schedule of all loans secured by real estate mortgage or deed of trust giving details provided for in pro forma schedule attached. In column 8 of the schedule indicate whether secured by improved farm land (I. F.), improved city property (I. C.), or unimproved real estate (unimp.). If mortgage was taken to secure a debt previously contracted in good faith this fact should be indicated by "D. P. C.". Also indicate in column 8 on past due items whether interest is payable semiannually (S. A.), quarterly (Q.), or monthly (M.) and date to which interest has been paid. (Property is within legal boundary if located in Federal reserve district.)

Schedule No. 11.—Schedule all bonds, warrants, and other securities, showing par value, name, maturity, book value, and interest rate.

See specimen schedules attached for your guidance.

Yours very truly,

_____ _____,
Chief National Bank Examiner,
Federal Reserve District.

Branch managers should compile data asked for on legal size paper. The first page of each schedule must bear the columnar headings indicated below; and must bear the name of the branch.

Schedule No. 1.—This must be compiled on your regular form of report to head office (Forms GL, 1x, and GL, 2x):

Schedule No. 2.—Loans to directors, officers, employees, and advisory board members:

Name	Amount	Collateral or security in detail

Schedule No. 3.—Loans to corporations in which directors, officers, employees, of advisory board members are interested:

Name	Amount	Name of party interested	Collateral or security

Schedule No. 4.—Overdrafts:

Name	Amount	Date of inception	If a director, officer, or employee, so state

Schedule No. 5.—Public funds on deposit:

Name of official	Title	Address	Amount	Interest rate

Schedule No. 6.—Interest paid on individual deposits:
Two per cent on deposits aggregating, $———.
Two and five-tenths per cent on deposits aggregating, $———.
Three per cent on deposits aggregating, $———.
Three and five-tenths per cent on deposits aggregating, $———.
Four per cent on deposits aggregating, $———.
Over 4 per cent on deposits aggregating, $———.
Total, $———.

Schedule No. 7.—Unsecured loans. Indicate maturity and date to which interest has been paid only on those that have passed date of maturity, and on demand paper when more than six months' interest is accrued and unpaid. Also indicate on past-due notes whether interest is payable semiannually (S. A.), quarterly (Q.), or monthly (M.):

Name of borrower	Amount	Maturity	Date to which interest is paid and how payable (S. A.) (Q.) (M.)

Schedule No. 8.—Secured loans.

Name of borrower	Amount	Maturity if past due	Date to which interest is paid (if past due)	Collateral or security

Schedule No. 9.—Suspense resources:

Name of debtor	Date taken	Amount	Collateral or security

Schedule No. 10.—List of real estate loans (special form inclosed):

Schedule No. 11.—Bonds, warrants, and other securities:

Par value	Description	Maturity and interest rate	Book value

List of real estate loans (number of bank, ———)

1	2	3	4	5	6	7	8
Name of borrower	Amount of loan	Prior lien	Estimated value of property	Date mortgage taken	Maturity of mortgage	State whether secured by improved farm or other property	Is property located within legal boundary
Total.....							

The CHAIRMAN. Now, referring to the affiliated companies, you have stated that you thought it proper that the comptroller be permitted to examine the affiliated companies—companies affiliated with national banks, and, I am supposing, State member banks of the Federal reserve system?

Mr. POLE. I had no reference to State members banks because we have no supervisory powers over them.

The CHAIRMAN. You are speaking particularly of the national banks?

Mr. POLE. Yes, sir.

The CHAIRMAN. In your examination of national banks, where there are affiliated companies, have you ever had any access to affiliated companies in your examination?

Mr. POLE. We have not, except occasionally banks will voluntarily permit or request us to inspect the assets of an affiliate. We have not legal authority to do so.

The CHAIRMAN. But you have, in certain instances, been permitted to examine the affiliated companies?

Mr. POLE. Yes, sir.

The CHAIRMAN. That is optional, however, with the banks?

Mr. POLE. Yes.

The CHAIRMAN. As to whether you do that or not?

Mr. POLE. Yes.

Mr. FENN. May I ask just one question?

The CHAIRMAN. Yes.

Mr. FENN. Were those inspections of the affiliated companies, so called, at the request of the banks or bank, or were they at your request that you should be allowed to examine them?

Mr. POLE. At our request or even at the request of the bank.

Mr. FENN. Sometimes the bank might think it would be to their benefit to have a certification from you?

Mr. POLE. They feel that way; a great many of them.

Mr. FENN. They think it a good idea to have you check up on them?

Mr. POLE. Yes, sir.

Mr. LETTS. Will you get a definition of the term "affiliated companies" into the record at this point, Mr. Chairman?

The CHAIRMAN. Yes; we will be glad, Mr. Pole, if you will give us the definition of an affiliated company?

Mr. POLE. The stock of an affiliated company is usually held in trust for the benefit of the shareholders of the national bank and is a State corporation with power to deal in stocks and bonds, make investments, and do such other things as are permitted under its State charter.

The CHAIRMAN. In addition to that, would that include the ownership of the State bank?

Mr. POLE. Among its investments might be found the stock of State banks.

The CHAIRMAN. In such a case as that, does your thought extend to the access, for examining purposes, of State banks, where control of such an institution is vested in an affiliated holding company?

Mr. POLE. My thought would hardly extend that far, Mr. Chairman. My particular reason for examination would be that the close affiliation of the stock of the affiliated company with that of the national bank may be such as to affect the national bank should the affiliated company become in anyway involved.

The CHAIRMAN. Where a securities company owns control of a State bank, whose solvency would affect the holding company and the holding company would affect the national bank, should you not have access to an examination of such a State bank?

Mr. POLE. I hardly think it would be necessary to carry it to the point of examining the State bank any more than it would be to examine any other institution whose stock might be carried as an asset of the corporation. It would be possible to determine the value of the assets of the securities company without that.

The CHAIRMAN. Referring to the stock ownership of affiliated companies, I understand some affiliated companies' entire stock is owned by the stockholders of a national bank and there are other companies where they are not the same stockholders, but the stock is scattered, and simply controlled either through control of the officers and management or control of the stock, and the minority control would be in the hands of the public. Is that a fact?

Mr. POLE. As far as I know, I think there may be some such instances.

Mr. LETTS. Do you mean that the stock of the affiliated company is held by the stockholders of the national bank as individuals or held in trust for all of the stockholders of the national bank?

The CHAIRMAN. It might be either way. I am seeking information here. I will be glad to have Mr. Pole answer that.

Mr. POLE. In the case of national banks the stock is usually held in trust for the benefit of the shareholders of the national bank.

The CHAIRMAN. It has happened, has it not, in the past where national banks have declared a dividend and organized an affiliated

company from the dividend, that the entire capital has come as the result of the declaration of the dividend of the bank?

Mr. POLE. That is the case.

The CHAIRMAN. This is done with the approval of the comptroller always?

Mr. POLE. No; I would say not. The comptroller would not have to approve such a thing as that.

The CHAIRMAN. It could proceed without his approval?

Mr. POLE. If a bank declares a dividend, it is entirely a matter for the shareholder to decide what he does with that dividend, whether or not he invests in the stock of a securities company or something else.

The CHAIRMAN. We have these various methods of organization, and control of affiliated companies. The national bank law, as I understand it, forbids the purchase by the bank itself of the stock of the bank. That is correct, is it not?

Mr. POLE. Yes, sir.

The CHAIRMAN. A national bank is not permitted to deal in its own stock in any manner whatsoever?

Mr. POLE. A bank may acquire its own stock to secure a previous indebtedness.

The CHAIRMAN. It has come to my attention that some of these affiliated holding companies, where the entire capital stock is owned by the same stockholders as the national bank, have been buying national-bank stock—the stock of the affiliated national bank. Would you consider that to be legal under the national bank act?

Mr. FORT. Will you state that question over, please?

The CHAIRMAN. I was stating where the stock of a company affiliated with a national bank, is buying the national-bank stock, the purchase of which is forbidden under the law to the bank itself, but is purchased by the holding company——

Mr. FENN. The stock in the parent company?

The CHAIRMAN. In other words, that which is prohibited in the national bank law to a national bank, is being carried on by the purchase and sale by an affiliated company. Is that an evasion of the law, or of the intent of the law, or is it legal?

Mr. POLE. Where a State corporation is permitted to buy stock, I think it would be legal for it to purchase stock in a national bank with which it might be affiliated. As to whether or not I would deem that advisable if carried too far, is of course another question.

The CHAIRMAN. There was one particular case called to my attention—and I do not want to give any arbitrary figures, because I do not know whether they are exact figures—where one of the affiliated companies, the stock being owned entirely by the same interests as owned the national bank, purchased the controlling interest in the stock of the bank at a price of $350 to $400 a share. The fact that they were purchasing the stock ran the stock up to between $700 and $800 per chare—just the mere operation of the demand for the purchase of that stock.

Then I understand other circumstances arose, perhaps through the crash of last fall, where the stock depreciated in value again, and that the control of this national bank now rests entirely in the hands of the affiliated company whose stockholders are exactly the same.

Do you think such a condition as that should be permitted; or should it be denied?

Mr. POLE. I should think any manipulation of national banks would be objectionable.

The CHAIRMAN. Is not that a manipulation, to avoid the law?

Mr. POLE. Such a case as you speak of might be so termed.

The CHAIRMAN. It might be construed as a dummy company, might it not?

Mr. POLE. Yes; it might be so construed.

The CHAIRMAN. Now, in regard to the examination of national banks and trust departments, which are created by national banks, under section 11–K of the Federal reserve act, which I think the national banks are permitted to do—to have trust departments and carry on fiduciary relations—are your examiners equipped to handle that increasing amount of trust business?

Mr. POLE. We are preparing for a more comprehensive examination of the trust departments, Mr. Chairman. That is an extremely technical and difficult operation. We are training the men and are endeavoring to cope with that situation.

The CHAIRMAN. That is an increasing responsibility that comes through the growth of the trust business being conducted by the national banks?

Mr. POLE. Yes.

The CHAIRMAN. Now, as to the method of examinations: I understand that so far as the examination of State banks is concerned, that is done by the Federal reserve and your department has nothing to do with it?

Mr. POLE. Nothing whatever to do with State banks.

The CHAIRMAN. Do the Federal reserve people ever call upon you to examine a State bank?

Mr. POLE. No.

The CHAIRMAN. Now, as to the expense of these examinations. Before I take that up in detail, what arrangement have you with these big banks as to the payment for these continuous examinations? How is that worked out?

Mr. POLE. We assess the bank on the basis of its total resources.

The CHAIRMAN. Well, is the cost of examination under a continuous plan, such as you are now pursuing, more costly to those banks than it would be by making individual examinations of the parent banks and the branches?

Mr. POLE. It is not more costly to the banks, because under the law a bank shall be assessed on its resources.

The CHAIRMAN. So, the same——

Mr. POLE. So, we do not assess each branch separately.

The CHAIRMAN. But the cost of that examination is levied just the same as it is on other banks?

Mr. POLE. Just the same.

The CHAIRMAN. Does that actually cover the cost of examination of these special groups?

Mr. POLE. Practically so. In the large banks, it about covers the cost. However, I have it in mind to recommend an amendment to the law which will permit an additional charge for each branch examined. But we have not done that yet.

The CHAIRMAN. Will you place in the record a statement showing just how you levy and collect the assessments for the examination of banks and show the cost over a period of the last five years—the annual cost. I would also like to have you put in a list of the names and addresses of your national bank examiners now in your service, including their assistants; the chief national bank examiners and their assistants, and the salaries paid?

Mr. STRONG. And the number?

The CHAIRMAN. Including the number. You can do that, Mr. Pole?

Mr. POLE. Oh yes, and we will be glad to.

At the completion of an examination the examiner prepares a bill to cover the cost of the examination. The bill is based upon a minimum charge of $50 on assests amounting to $25,000, the remaining assest are assessed 3 cents on each $1,000.

The following is a statement showing the annual cost of examination of all national banks for the past five years:

1925	$2, 174, 428. 74
1926	2, 195, 709. 69
1927	2, 334, 705. 72
1928	2, 352, 069. 95
1929	2, 499, 657. 68

National-bank examiners and assistants, by Federal reserve districts, March 5, 1930

DISTRICT NO. 1

Name	Address	Salary
F. D. Williams, chief examiner	Federal Reserve Bank Building, Boston, Mass.	$13, 000
Thomas E. Dooley, examiner	Hartford, Conn	4, 500
Otis, M. Freeman, examiner	Providence, R. I	4, 500
Aloysius W. Green, examiner	Manchester, N. H	4, 200
Michael J. Hurley, examiner	Boston, Mass	5, 100
John Isaac, examiner	do	3, 300
W. P. McCall, examiner	Portland, Me	3, 300
Daniel F. Murphy, examiner	Boston, Mass	4, 500
Edward F. Parker, examiner	do	7, 000
Frank J. Ryan, examiner	do	5, 300
George M. Bernier, assistant	Hartford, Conn	1, 900
Clyde A. Campbell, assistant	Portland, Me	2, 000
Francis Carolan, assistant	Boston, Mass	2, 150
Medville L. Clark, assistant	do	2, 000
Henry V. Cunningham, jr., assistant	do	1, 500
Ernest G. Flint, assistant	do	1, 920
W. C. Fridstrom, assistant	do	2, 300
Gerald Griffin, assistant	do	2, 440
Russell A. Hersee, assistant	do	2, 100
Julian R. Hohenstein, assistant	do	3, 000
Griffith Wm. Jones, assistant	Rutland, Vt	2, 040
Daniel P. Miller, assistant	Boston, Mass	1, 620
Gordon I. Miller, assistant	do	1, 620
Harold Wm. Randall, assistant	Providence, R. I	1, 620
George A. Smart, assistant	Boston, Mass	1, 740
Howell B. Voight, assistant	do	2, 700
Allan F. Wright, assistant	Manchester, N. H	2, 100

DISTRICT NO. 2

Owen T. Reeves, jr., chief examiner	525 Federal Reserve Bank Building, New York City, N. Y.	$20, 000
Cecil Ashwood, examiner	Buffalo, N. Y	3, 900
Otis W. Beaton, examiner	New York, N. Y	4, 200
Harold W. Black, examiner	Buffalo, N. Y	6, 000
Francis S. Clarke, examiner	Kingston, N. Y	3, 600
Raymond G. Dann, examiner	Utica, N. Y	4, 000
Carlos B. Dawes, examiner	Albany, N. Y	2, 700
Andrew MacKenzie Douglas, examiner	New York, N. Y	3, 000
C. C. Francis, examiner	do	5, 500

National-bank examiners and assistants, by Federal reserve districts, March 5, 1930—Continued

DISTRICT NO. 2—Continued

Name	Address	Salary
Paul L. Hotchkin, examiner	Watertown, N. Y.	$4,200
Peter J. Lorang, examiner	New York, N. Y.	7,000
Albert P. Luscombe, examiner	do	4,200
A. B. McCans, examiner	do	4,800
Chas. J. Machleid, examiner	do	4,000
Robert Neill, examiner	do	6,500
Thos. J. O'Connor, examiner	Geneva, N. Y.	3,300
Harold P. Robinson, examiner	New York, N. Y.	3,600
J. Oscar Roots, examiner	do	7,000
Lewis A. Shea, examiner	do	4,000
William F. Sheehan, examiner	do	7,000
Raymond R. Shroyer, examiner	do	3,500
H. E. Stewart, examiner	do	3,000
Jesse M. Strong, examiner	Albany, N. Y.	5,000
John L. Watts, examiner	New York, N. Y.	4,200
Edward B. Wilson, examiner	Albany, N. Y.	6,000
Harold C. Adams, assistant	New York, N. Y.	2,620
Ferdinand A. Barg, assistant	do	1,800
John W. Beaton, assistant	do	3,500
David S. Birch, assistant	do	1,500
Edwin C. Boal, assistant	do	2,000
Melvin J. Boe, assistant	Albany, N. Y.	2,100
Edward C. Boyce, assistant	New York, N. Y.	2,620
John Charles Brogan, jr., assistant	do	2,400
Irvin N. Clary, assistant	do	2,520
Arthur H. Coe., assistant	do	1,520
William G. Coe, assistant	Albany, N. Y.	1,800
Donald S. Day, assistant	Watertown, N. Y.	2,220
Wyman C. Donaldson, assistant	New York, N. Y.	1,800
Thorpe G. Drain, assistant	do	2,000
Cauldwell A. Dunham, assistant	do	2,400
Van Wert Ellis, assistant	do	2,400
Walter V. Ferris, assistant	do	1,920
Gilbert W. Gardner, assistant	do	2,160
Edmund J. Graves, assistant	do	2,400
Gordon R. Graves, assistant	do	2,280
Earmon Leon Hensley, assistant	do	2,100
Edw. N. Howland, assistant	do	3,800
John J. Irwin, assistant	do	2,520
Irwin L. Jennings, assistant	do	2,000
Lewellyn A. Jennings, assistant	Buffalo, N. Y.	1,620
Walter Larsen, assistant	New York, N. Y.	2,400
Felix J. McCarthy, assistant	do	1,800
Francis X. McKeone, assistant	do	3,000
Victor M. Meister, assistant	do	2,400
Harry Messer, assistant	do	3,120
G. S. Nichols, assistant	Buffalo, N. Y.	2,000
George W. Nielsen, assistant	New York, N. Y.	2,100
Knud Ott, assistant	do	2,520
Donald Patterson, assistant	do	2,400
Benjamin Peticolas, assistant	do	1,920
Herman L. Pritchard, assistant	do	1,800
Oliver B. Proctor, jr., assistant	do	2,000
Donald E. Pugh, assistant	Albany, N. Y.	1,620
Harold A. Reitz, assistant	New York, N. Y.	3,000
John R. Reynolds, assistant	do	2,220
Richard Sailer, assistant	do	2,520
Joseph A. Sales, assistant	do	3,300
Ernest John Scharpf, assistant	do	2,100
Arnold F. W. Schneider, assistant	Utica, N. Y.	2,680
Harold Jesse Seeley, assistant	Buffalo, N. Y.	2,400
Joseph James Silas, assistant	New York, N. Y.	2,700
Kendrick J. Smith, assistant	Buffalo, N. Y.	1,600
A. Kenneth Spaulding, assistant	Albany, N. Y.	2,200
Francis R. Steyert, assistant	New York, N. Y.	3,000
Charles F. Strenz, assistant	do	2,640
R. B. Stringfellow, assistant	do	2,720
Clarence A. Ulery, assistant	Kingston, N. Y.	2,040
Gerald F. Varnum, assistant	New York, N. Y.	2,520
Chester I. Wenman, assistant	do	2,520
Franklin Parker West, assistant	do	1,620
Adam Wetzel, assistant	do	2,400
Wm. F. Wilkinson, assistant	do	2,240
Herbert G. Wing, assistant	do	1,920
George W. Wood, assistant	do	2,640

National-bank examiners and assistants, by Federal reserve districts, March 5, 1930—Continued

DISTRICT NO. 3

Name	Address	Salary
Stephen L. Newnham, chief examiner	1500 Walnut Street, Room 1503, Philadelphia, Pa.	$15,000
Edward A. Allanson, examiner	Philadelphia, Pa	6,000
William B. Baker, examiner	do	7,000
Alfred Boysen, examiner	Wilkes-Barre, Pa	4,200
Henry B. Davenport, examiner	Lancaster, Pa	6,200
R. Gordon Finney, examiner	Philadelphia, Pa	3,600
Charles H. Hartman, examiner	do	4,800
John H. Ketner, examiner	Reading, Pa	3,900
Francis J. McGinnis, examiner	Philadelphia, Pa	3,600
George L. Medill, examiner	Altoona, Pa	4,200
Frank T. Ransom, examiner	Philadelphia, Pa	5,800
Joseph H. Siebert, examiner	Williamsport, Pa	3,000
George F. Smith, examiner	Harrisburg, Pa	4,200
Vernon G. Snyder, examiner	Sunbury, Pa	4,800
Lloyd W. Stover, examiner	Philadelphia, Pa	3,600
Marshall Abrahamson, assistant	do	2,300
Norman H. Anderson, assistant	Reading, Pa	1,800
Carl B. Baldt, assistant	Philadelphia, Pa	1,800
Norman G. Bloom, assistant	Altoona, Pa	1,620
John Calvin Brachbill, assistant	Philadelphia, Pa	1,500
Albert A. Burford, assistant	do	1,740
Roy F. Cowan, assistant	do	2,040
Howe MacLean Crawford, assistant	do	2,040
Ira L. Hall, assistant	Lancaster, Pa	2,040
Frank B. Hower, assistant	Reading, Pa	1,620
Samuel N. Jones, assistant	Philadelphia, Pa	3,300
J. Elmer Killmond, assistant	do	3,000
William A. Lank, assistant	do	1,500
J. Wesley Little, assistant	do	1,500
B. J. McGilvery, assistant	do	2,160
Joseph A. McLaughlin, assistant	do	2,700
Conrad Melas, assistant	do	1,920
Russell K. Metz, assistant	do	1,860
M. J. Muldowney, assistant	do	1,800
Edward J. O'Rourke, assistant	Sunbury, Pa	1,500
Troy Rhoads, assistant	Philadelphia, Pa	1,740
Raymond W. Scharfenberg, assistant	Williamsport, Pa	1,800
Dwight Andrews Segar, assistant	Harrisburg, Pa	1,740
Ray DuPont Smith, assistant	Philadelphia, Pa	1,860
Leon A. Stanger, assistant	do	1,680
Lenwood M. VanOrsdale, assistant	Wilkes-Barre, Pa	2,040
Richard F. Walsh, assistant	Philadelphia, Pa	2,160

DISTRICT NO. 4

William Taylor, chief examiner	715 Federal Reserve Bank Building, Cleveland, Ohio.	$10,000
Jas. W. Austin, examiner	Cleveland, Ohio	3,300
Ben J. Blaakley, examiner	Wheeling, W. Va	4,200
Addison A. Clarke, examiner	Lima, Ohio	4,200
A. Burton Faris, examiner	Richmond, Ky	4,200
Ira J. Fulton, examiner	Cleveland, Ohio	6,500
George R. Gaskell, examiner	Mansfield, Ohio	4,000
Lester P. Hauschild, examiner	New Castle, Pa	3,000
Floyd P. Hunt, examiner	Cleveland, Ohio	2,700
Harry L. Lanum, examiner	Cincinnati, Ohio	3,300
Louis A. Norman, examiner	do	3,600
Richard Rossman, examiner	Pittsburgh, Pa	3,500
William J. Schechter, examiner	do	7,000
Michael H. Sims, examiner	do	5,000
George H. Smith, examiner	Greensburg, Pa	5,100
Loren Swenson, examiner	Painesville, Ohio	4,500
Frank G. Abbey, assistant	Mansfield, Ohio	1,920
Donald W. Allen, assistant	Pittsburgh, Pa	1,560
Joseph V. Denney, jr., assistant	do	1,320
Chapman C. Fleming, assistant	Cleveland, Ohio	1,620
William B. Frantz, assistant	Pittsburgh, Pa	2,040
Herbert L. Gernandt, assistant	do	1,740
Howell H. Harris, assistant	Columbus, Ohio	2,160
Wilmot Louis Harris, assistant	Cleveland, Ohio	1,500
Clyde Hendrix, jr, assistant	Painesville, Ohio	1,500
Preston P. Kellogg, assistant	Richmond, Ky	2,000
Walter J. Kunzi, assistant	Cincinnati, Ohio	2,120
Marcellus R. Lare, jr., assistant	Pittsburgh, Pa	1,680
Wendell C. Laycock, assistant	Columbus, Ohio	2,160
Paul O. Malone, assistant	Pittsburgh, Pa	2,160

National-bank examiners and assistants, by Federal reserve districts, March 5, 1930—Continued

DISTRICT NO. 4—Continued

Name	Address	Salary
Charles J. Miller, assistant	New Castle, Pa	$1,900
Robert D. O'Grady, assistant	Pittsburgh, Pa	2,160
Ira Paine, assistant	do	2,400
John H. Pole, assistant	Cleveland, Ohio	2,000
Sherman C. Shull, assistant	Greensburgh, Pa	1,860
E. Trimble Smith, assistant	Columbus, Ohio	2,000
Harold N. Smith, assistant	do	1,860
Benjamin D. Staggers, assistant	Wheeling, W. Va	1,860
Gordon E. Starkey, assistant	Lima, Ohio	1,860
Leon F. Stroefer, assistant	Pittsburgh, Pa	1,920
Curtis D. Thomas, assistant	do	1,860
Chelsea E. Underwood, assistant	Painesville, Ohio	1,920
H. M. Walker, assistant	Cleveland, Ohio	2,100

DISTRICT NO. 5

Ralph W. Byers, chief examiner	Washington, D. C	$10,000
Joseph A. Amrhein, examiner	Richmond, Va	4,500
Jennings L. Bailey, examiner	Washington, D. C	4,500
John W. Dalton, examiner	Charlotte, N. C	4,500
Charles W. Green, examiner	Cumberland, Md	4,200
Thos. F. Kane, examiner	Washington, D. C	4,200
John R. McMullan, examiner	do	4,800
Chas. W. Motter, examiner	Raleigh, N. C	3,800
F. C. Ockershausen, examiner	Columbia, S. C	3,900
Paul C. Ramsdell, examiner	Washington, D. C	4,500
Charles A. Stewart, examiner	do	4,200
H. F. Stokes, examiner	Huntington, W. Va	3,300
D. Robertson Wood, examiner	Pulaski, Va	5,000
Maurice L. Barnett, jr., assistant	Washington, D. C	2,040
James P. Benfer, jr., assistant	do	1,860
Wilfred H. Blanz, assistant	do	2,280
Douglas W. Cahill, assistant	Charlotte, N. C	1,680
Francis J. Clark, assistant	Washington, D. C	2,220
Lewis H. Clark, assistant	do	2,000
Earl B. Crabtree, assistant	do	1,320
James S. Ellington, assistant	do	1,860
Hugh W. Folger, assistant	do	1,620
J. Cooke Grayson, assistant	do	3,600
Frank A. Gunther, jr., assistant	do	1,680
James C. Hopkins, assistant	Huntington, W. Va	1,740
William E. Howard, jr., assistant	Pulaski, Va	1,800
Vernon D. Palmer, assistant	Raleigh, N. C	1,920
Garrett A. Pendleton, assistant	Washington, D. C	2,000
Alton L. Powell, assistant	Richmond, Va	1,920
Robert M. Seabury, assistant	Cumberland, Md	2,160
Douglas O. Starr, assistant	Washington, D. C	2,100
William M. Taylor, assistant	do	2,160
William T. Vandoren, assistant	do	1,980
Wm. H. Wheelwright, jr., assistant	do	2,160

DISTRICT NO. 6

Ellis D. Robb, chief examiner	Atlanta, Ga	$12,000
Albert A. Basham, examiner	Knoxville, Tenn	4,800
James J. Byrne, examiner	Montgomery, Ala	3,600
Field F. Cunningham, examiner	Lakeland, Fla	3,600
Clyde J. Evans, examiner	Nashville, Tenn	5,200
W. Morris Lammond, examiner	New Orleans, La	4,700
W. P. Lifsey, examiner	Albany, Ga	4,200
John B. Luiken, examiner	Birmingham, Ala	4,700
James W. S. Aylward, assistant	Atlanta, Ga	1,500
Edward C. Barnes, assistant	Montgomery, Ala	1,920
Wm. A. Cottingham, assistant	Atlanta, Ga	1,500
Reed Dolan, assistant	do	2,220
Lorian C. Hendrix, assistant	do	1,500
Donald F. Houser, assistant	do	1,800
Leonard C. Johnson, assistant	do	1,500
William H. Lewis, jr., assistant	do	1,920
Jefferson S. McClain, assistant	do	2,000
E. P. Medlock, assistant	do	3,600
Hiram C. Miller, assistant	do	1,500
Turner Rice, jr., assistant	Nashville, Tenn	1,800
Wilbur W. Sasser, assistant	Atlanta, Ga	1,500
Aldine K. Snead, jr., assistant	do	1,620
Gilbert M. Stell, assistant	do	1,740
James M. Stooksbury, assistant	do	1,500

National-bank examiners and assistants, by Federal reserve districts, March 5, 1930—Continued

DISTRICT NO. 7

Name	Address	Salary
A. P. Leyburn, chief examiner	164 West Jackson Boulevard, room 1209, Chicago, Ill.	$12,000
Glenn W. Baugh, examiner	Sioux City, Iowa	3,000
Robert S. Beatty, examiner	Decatur, Ill	4,000
Lysle S. Burk, examiner	Des Moines, Iowa	2,700
Willston A. Cutler, examiner	Rock Island, Ill	3,900
Leo D. Donovan, examiner	Chicago, Ill	2,700
Samuel W. Dye, examiner	Peoria, Ill	4,800
Horace S. French, examiner	Chicago, Ill	5,300
Harry R. Fuller, examiner	Indianapolis, Ind	3,900
Raby L. Hopkins, examiner	Detroit, Mich	5,300
E. M. Joseph, examiner	Grand Rapids, Mich	4,100
Harry A. Laird, examiner	Des Moines, Iowa	4,200
Harold E. Laufer, examiner	Chicago, Ill	2,700
William R. Nolan, examiner	Waterloo, Iowa	3,300
Henry F. Quinn, examiner	Chicago, Ill	3,300
David H. Reimers, examiner	Des Moines, Iowa	3,600
J. Lyell Sanders, examiner	Indianapolis, Ind	3,900
Robert K. Stuart, examiner	Milwaukee, Wis	6,200
H. W. Walker, examiner	Wisconsin Rapids, Wis	5,700
Maxwell M. Ward, examiner	Chicago, Ill	3,300
George Robert Wilson, examiner	Danville, Ill	3,000
Chester A. Ackley, assistant	Fort Wayne, Ind	2,000
Edward C. Alderson, assistant	Peoria, Ill	1,500
T. F. Barradell, assistant	Chicago, Ill	2,700
Felix Brodthagen, assistant	Des Moines, Iowa	1,620
Walter F. Busch, assistant	Grand Rapids, Mich	1,800
Orth I. Dains, assistant	Decatur, Ill	1,980
Paul E. Enlow, assistant	Chicago, Ill	2,160
Francis B. Fanning, assistant	do	1,680
Laurence B. Finn, jr, assistant	do	1,620
George J. Fitzgerald, assistant	do	2,000
Theodore Flaska, assistant	do	2,400
Bernard M. Flynn, assistant	Detroit, Mich	2,010
E. L. Gustafson, assistant	Chicago, Ill	2,280
Guy Richard Heflen, assistant	Sioux City, Iowa	1,500
Edward B. Johnson, assistant	Milwaukee, Wis	2,000
Roger A. McLean, assistant	Chicago, Ill	1,740
Francis J. Madden, assistant	do	2,160
Warren F. Miller, assistant	Rock Island, Ill	2,160
Maurice B. Moon, assistant	Chicago, Ill	1,440
Marshall W. Murray, assistant	do	2,500
P. E. Norsen, assistant	do	3,800
William F. O'Meara, assistant	Danville, Ill	1,920
J. C. Patterson, assistant	Indianapolis, Ind	1,620
Ivan L. Potts, assistant	do	1,980
J. C. Remington, assistant	Chicago, Ill	1,620
Franklin F. Robinson, assistant	Des Moines, Iowa	1,620
James F. Rush, assistant	Waterloo, Iowa	2,100
Thomas H. Sayer, assistant	Chicago, Ill	2,400
Joseph W. Sinnott, assistant	do	1,920
Lawrence B. Thurman, assistant	Wisconsin Rapids, Wis	2,040
Max Van Scoy, assistant	Des Moines, Iowa	1,920
Richard J. Wainwright, assistant	Chicago, Ill	1,680
Earl J. Walters, assistant	do	1,800

DISTRICT NO. 8

John S. Wood, chief examiner	1310 Federal Commerce Building, St. Louis, Mo.	$15,000
Lewis R. Elkins, examiner	Evansville, Ind	4,200
Henry Glenn Harrison, examiner	St. Louis, Mo	3,600
Robert K. Hooker, examiner	do	3,300
William W. Kane, jr., examiner	do	4,500
John F. Lilly, examiner	Little Rock, Ark	4,200
Stuart H. Mann, examiner	St. Louis, Mo	5,500
Russell E. Mooney, examiner	Louisville, Ky	3,600
Edward A. Vonarb, examiner	Centralia, Ill	3,900
Hal Woodside, examiner	Springfield, Mo	6,000
William R. Young, examiner	Memphis, Tenn	6,000
Joseph D. Cowan, assistant	do	1,560
Robert R. Dickinson, assistant	Louisville, Ky	1,620
Albert W. Doepke, assistant	St. Louis, Mo	2,160
Martin J. Franey, assistant	do	2,040
Hollis Haggard, assistant	do	1,920
Sterling Hale, assistant	do	1,860
James Parker Hickok, assistant	do	1,620
Harry H. Holekamp, assistant	do	1,200

National-bank examiners and assistants, by Federal reserve districts, March 5, 1930—Continued

DISTRICT NO. 8—Continued

Name	Address	Salary
John D. Spires, assistant	Evansville, Ind	$1,740
Pope James Walker, assistant	St. Louis, Mo	1,500
Fred S. Wetzel, assistant	Springfield, Mo	1,740
Cliff Wood, assistant	Little Rock, Ark	1,620

DISTRICT NO. 9

Irwin D. Wright, chief examiner	1334 First National-Soo Line Building, Minneapolis, Minn.	$11,000
Ole A. Anderson, examiner	Billings, Mont	4,800
James H. Gentry, examiner	Bismarck, N. Dak	2,700
William F. Huck, examiner	Minneapolis, Minn	4,200
Daniel D. McLaren, examiner	Fargo, N. Dak	3,300
Nels Nelson, examiner	Minneapolis, Minn	3,900
Elmer J. O'Bleness, examiner	Sioux Falls, S. Dak	2,700
Louis H. Sedlacek, examiner	do	5,000
Henry Sevison, examiner	Duluth, Minn	4,500
Lyle T. Stevens, examiner	Minneapolis, Minn	4,500
LeRoy J. Van Brunt, examiner	do	3,600
Francis M. von Birgelen, examiner	do	3,000
Harold Lester Wray, examiner	do	3,000
J. Howard Barker, assistant	do	1,680
Lorille J. Boyle, assistant	do	1,800
Marvin B. Chapin, assistant	do	1,800
L. Harold Ickler, assistant	do	1,860
Lester G. Le Fevre, assistant	do	1,800
Robert T. Lincoln, assistant	do	2,100
Reynolds B. North, assistant	do	2,400
Walter W. Olson, assistant	do	2,100
Evan D. Saltzman, assistant	do	1,860
Frank T. Sankovitz, assistant	do	1,980
F. Pinkham Sherman, assistant	do	1,800
E. D. Van Rhee, assistant	do	1,860

DISTRICT NO. 10

Luther K. Roberts, chief examiner	800 Federal Reserve Bank Building, Kansas City, Mo.	$15,000
Edgar F. Allen, examiner	Kansas City, Mo	4,200
Edwin J. Becker, jr., examiner	Clinton, Okla	3,600
Rollin O. Bishop, examiner	Kansas City, Mo	3,900
William H. Donahue, examiner	Muskogee, Okla	4,500
Jesse A. Fraser, examiner	Hutchinson, Kans	3,000
Cecil W. Lyon, examiner	Norfolk, Nebr	3,300
Walter N. Male, examiner	Denver, Colo	3,300
Pleasant V. Miller, examiner	Kansas City, Mo	4,000
Frank S. Nelson, examiner	Grand Island, Nebr	3,600
David V. Penn, examiner	Oklahoma City, Okla	3,600
Charles T. Rafter, examiner	Salina, Kans	3,000
Gerhard F. Roetzel, examiner	Oklahoma City, Okla	3,300
Murdo A. Ross, examiner	Kansas City, Mo	4,500
Claude L. Stout, examiner	Cheyenne, Wyo	3,600
Otis W. White, examiner	Denver, Colo	4,800
Elbert L. Williams, examiner	Kansas City, Mo	3,000
Clarence R. Anderson, assistant	Oklahoma City, Okla	1,740
Glenn E. Anderson, assistant	Kansas City, Mo	1,620
Ralph A. Blackburn, assistant	do	1,500
Charles M. Bowles, assistant	Denver, Colo	1,740
James E. Bradshaw, assistant	Kansas City, Mo	1,500
Ross M. Burt, assistant	do	2,700
Dillard Coggins, assistant	do	2,700
Robert E. Cook, assistant	do	1,920
Merle Cushing, assistant	do	1,920
John C. Faulkner, assistant	do	1,680
Fred Gignilliat, assistant	do	1,740
Richard S. Goodhart, assistant	do	1,320
Howard N. Hardenbrook, assistant	Clinton, Okla	1,560
John S. Head, assistant	Grand Island, Nebr	1,800
Paul T. Henninger, assistant	Norfolk, Nebr	1,740
Charles G. Hout, assistant	Kansas City, Mo	1,500
William N. Hurd, assistant	do	1,500
William B. Knight, assistant	do	1,740
Charles D. Lents, assistant	Oklahoma City, Okla	1,740
Joseph W. Morrisey, assistant	Muskogee, Okla	1,680

National-bank examiners and assistants, by Federal reserve districts, March 5, 1930—Continued

DISTRICT NO. 10—Continued

Name	Address	Salary
Howard O. Murray, assistant	Denver, Colo	$1,440
Frank A. Rees, assistant	Kansas City, Mo	3,000
Fred L. Rees, assistant	do	1,200
Cecil G. Reynolds, assistant	Muskogee, Okla	1,800
Edmond Tomlin Richmond, assistant	Kansas City, Mo	1,440
Hubert S. Robinson, assistant	do	1,620
Leonard H. Smith, assistant	Hutchinson, Kans	1,500
Frank J. Tyliski, assistant	Cheyenne, Wyo	1,800
Louis F. Ward, assistant	Salina, Kans	1,620
Hilary B. West, assistant	Kansas City, Mo	1,740

DISTRICT NO. 11

Richard H. Collier, chief examiner	1706 Republic Bank Building, Dallas, Tex.	$13,000
Jacob Embry, examiner	Dallas, Tex	6,300
Charles W. Foster, examiner	San Antonio, Tex	4,500
Headley B. Gilbert, examiner	Wichita Falls, Tex	4,700
John W. Hawkins, examiner	Abilene, Tex	3,600
Gilbar C. Hedrick, examiner	Dallas, Tex	4,500
Bryan E. Horton, examiner	Waco, Tex	3,300
William Edgar Hutt, examiner	Sherman, Tex	5,000
Ernest Lamb, examiner	Fort Worth, Tex	6,300
F. Raymond Peterson, examiner	Houston, Tex	4,500
William W. Pierce, examiner	Corsicana, Tex	3,000
Walter A. Sandling, examiner	Dallas, Tex	4,000
William L. Sibley, examiner	Shreveport, La	3,600
William N. Whitehurst, examiner	San Antonio, Tex	3,600
Grady T. Witt, examiner	Amarillo, Tex	3,300
Thomas M. Glass, assistant	Dallas, Tex	1,600
Lenode Goldston, assistant	Amarillo, Tex	1,700
Louie L. Harris, assistant	San Antonio, Tex	1,620
J. W. Hudspeth, assistant	do	2,000
Charles Godfrey Lee, assistant	Waco, Tex	1,700
Ernest O'Hearn, jr., assistant	Houston, Tex	1,920
Thomas C. Patterson, assistant	Corsicana, Tex	1,700
Virgil P. Patterson, assistant	Dallas, Tex	1,500
Edwin B. Patton, assistant	do	1,700
Luther K. Roberts, jr., assistant	do	1,980
Clyde Shannon, assistant	Shreveport, La	1,700
Carroll B. Spearman, assistant	Wichita Falls, Tex	1,800
Hunter L. Wilson, assistant	Sherman, Tex	1,800
Leon B. Withers, assistant	Fort Worth, Tex	1,900
Alfred R. Woodson, jr., assistant	Dallas, Tex	1,200

DISTRICT NO. 12

Thomas E. Harris, chief examiner	1103 Alexander Building, San Francisco, Calif.	$15,000
William H. Baldridge, examiner	Spokane, Wash	5,200
Ira I. Chorpening, examiner	Los Angeles, Calif	7,500
G. S. Coffin, examiner	Sacramento, Calif	5,200
Anthony J. Cooke, examiner	Los Angeles, Calif	3,300
Cornelius A. Donahue, examiner	do	3,300
Charles A. Glazier, examiner	Pocatello, Idaho	3,300
William M. Gray, examiner	Portland, Oreg	2,500
Marshall Hooper, examiner	Seattle, Wash	4,300
R. Foster Lamm, examiner	Santa Ana, Calif	5,300
Carvel C. Linden, examiner	Boise, Idaho	3,000
Leland L. Madland, examiner	Seattle, Wash	7,000
Charles Harold McLean, examiner	Los Angeles, Calif	4,500
Clarence E. Morgan, examiner	San Francisco, Calif	3,600
Robert E. A. Palmer, examiner	Seattle, Wash	3,300
Albert E. Price, examiner	San Francisco, Calif	3,900
John T. Rummel, examiner	do	3,300
Leo Shapiro, examiner	Sacramento, Calif	3,900
Orville C. Taylor, examiner	Los Angeles, Calif	3,300
Aubrey F. Tolton, examiner	Fresno, Calif	3,600
Max C. Wilde, examiner	Portland, Oreg	5,800
Thomas B. Williams, examiner	Los Angeles, Calif	3,000
Elmer M. Wright, examiner	Portland, Oreg	3,600
Floyd Andrews, assistant	San Francisco, Calif	2,240
John Kenneth Barnes, assistant	Portland, Oreg	1,500
Leland B. Dunham, assistant	do	1,860

National-bank examiners and assistants, by Federal reserve districts, March 5, 1930—Continued

DISTRICT NO. 12—Continued

Name	Address	Salary
Charles H. Franklin, assistant	Seattle, Wash	$2,100
Edmund H. Galvin, assistant	Santa Ana, Calif	1,800
R. N. Geller, assistant	Los Angeles, Calif	3,240
A. Earl Harris, assistant	do	1,620
Ray A. Hook assistant	San Francisco Calif	2,400
G. W. Jorres, jr., assistant	Los Angeles, Calif	2,300
Francis H. Ketcham, assistant	Seattle, Wash	1,500
H. E. Landis, assistant	Los Angeles, Calif	2,820
Thomas P. McCoy, assistant	San Francisco, Calif	2,340
Arthur J. O'Meara, assistant	Los Angeles, Calif	2,280
James Congdon Osborn, assistant	Portland, Oreg	1,800
E. C. Overton, assistant	Los Angeles, Calif	2,340
W. J. Peters, assistant	do	2,220
Louis I. Rasmussen, assistant	do	2,040
A. W. Scougall, assistant	do	3,480
H. E. Scofield, assistant	San Francisco, Calif	2,340
Max Spendrup assistant	Los Angeles, Calif	2,400
Merton E. Stewart, assistant	San Francisco, Calif	2,280

ASSIGNED TO COMPTROLLER'S OFFICE

William P. Folger, chief examiner	Washington, D. C	$11,000
Gail W. Crossen, assistant chief examiner	do	6,500
Reginald M. Hodgson, assistant chief examiner	do	9,000
W. Waller McBryde, assistant chief examiner	do	9,000
Clarence F. Smith, assistant chief examiner	do	9,000
Charles F. Wilson, assistant chief examiner	do	6,000
Adelia M. Stewart, examiner	do	5,500
Sumner E. Kimball, assistant	do	3,600
W. J. Owens, assistant	do	5,200

RECAPITULATION IN NUMBERS

Examiners	194
Assistant examiners	292
Total	486

The CHAIRMAN. Are you carrying out the system of simultaneous examination of any parent bank and its branches?

Mr. POLE. Yes.

The CHAIRMAN. They do that in the smaller groups?

Mr. POLE. In the smaller groups.

The CHAIRMAN. Of the branch banks?

Mr. POLE. Yes, sir; and as far as possible in the larger groups, by covering the more important offices.

The CHAIRMAN. The reason you do not examine the larger groups is because it is physically impossible to do so with your present force?

Mr. POLE. Yes.

The CHAIRMAN. If you had a large enough force, you would rather make a simultaneous examination of those banks?

Mr. POLE. That would be preferable.

The CHAIRMAN. Referring to the organization of these affiliated companies, I am not just clear as to whether or not, in your judgment, the affiliated companies, whose stocks are owned entirely or in part by stockholders of the parent bank or national banks—do you consider those as legal institutions under the law?

Mr. POLE. As far as I know, Mr. Chairman, they are State chartered institutions and I have no reason to question their legality.

The CHIRMAN. Do your records show the ownership of these companies, where the control of the national banks is vested in the holding companies or these affiliated institutions?

Mr. POLE. Our records shown on July 1 of each year, where the stock of these companies is distributed. .

The CHAIRMAN. Is it the usual practice of these companies to have the stock of a national bank owned in the name of a company or do they have it in dummy names?

Mr. POLE. Are you speaking of the holding corporations?

The CHAIRMAN. Yes.

Mr. POLE. I really am not informed.

The CHAIRMAN. I am speaking of what is shown in the stock list of the national banks as to the ownership of their own stocks—who owns their own stocks. Do the records of the banks show clearly where the holdings of a majority or less than a majority or control of them are in an affiliated company, or do you have to guess at that?

Mr. POLE. If the stock were in the name of another corporation, of course the records would show that. It would be very difficult for us to tell if the stock were held in the name of a dummy—the records, of course, would not show that.

The CHAIRMAN. In some of Mr. Wingo's questions to you the other day, he referred to State examinations, and I have understood from you this morning that you do not have anything to do with the examination of member banks?

Mr. POLE. That is correct as to State member banks.

The CHAIRMAN. Are you furnished with the examination sheets of any of these examinations of State member banks which are held entirely by the Federal Reserve Board?

Mr. POLE. They are held entirely by the Federal Reserve Board.

The CHAIRMAN. In connection with these examinations, what part of the cost of the maintenance of your office or examinations is paid by the Federal reserve banks?

Mr. POLE. None of it.

The CHAIRMAN. None of it?

Mr. POLE. No, sir.

The CHAIRMAN. Do you furnish the Federal reserve system with any information as regards your examination of national banks?

Mr. POLE. Copies of reports of our examination are sent to the Federal reserve banks.

The CHAIRMAN. Each of the 12 banks?

Mr. POLE. Yes.

The CHAIRMAN. Do they pay anything now for that?

Mr. POLE. The actual cost of typing that report.

The CHAIRMAN. What is that specific charge?

Mr. POLE. I think it is $4.50 or $5 now.

The CHAIRMAN. Will you put into the record the total receipts from the Federal reserve to your department covering payments to you for any part of the examination which you have rendered?

Mr. POLE. Yes. The total amount received from such source for the year 1929 was $77,559.75.

The CHAIRMAN. Do you make any use of the examiners of the Federal reserve?

Mr. POLE. We do, Mr. Chairman.

The CHAIRMAN. In what manner?

Mr. POLE. We enlist their assistance in the examination of the branch-banking systems.

The CHAIRMAN. They are always responsive to your calls to assist in these examinations?

Mr. POLE. Quite so.

The CHAIRMAN. How many examiners do the Federal reserve have—do you recall?

Mr. POLE. I really do not.

The CHAIRMAN. How many chief and assistant chief examiners have you at the present time? My understanding is that you have a chief examiner for each Federal reserve district.

Mr. POLE. That is correct.

The CHAIRMAN. That is correct, is it?

Mr. POLE. Yes.

The CHAIRMAN. And each one of those chief examiners has an assistant, does he?

Mr. POLE. There are examiners who usually act in their stead, when they are away for any purpose. There is not such a title in the field as assistant chief national-bank examiner.

The CHAIRMAN. One of the regular examiners assigned to that district acts as chief when the chief examiner is away?

Mr. POLE. Yes, sir; during his absence.

The CHAIRMAN. In your statement of the names and salaries, and so forth, of examiners, I wish you would also include such attorneys as may be regularly employed by your department, their names and addresses and the amount of salaries or compensation paid and also information pertaining to those attorneys employed in connection with failed national banks; and we will also like to have you put in a brief as to how you handle the business in connection with failed national banks. You have a department, I believe, that handles that?

Mr. POLE. Yes.

The CHAIRMAN. If you will give us a statement as to how that business is handled, we will appreciate it.

Mr. POLE. I shall be glad to do so.

(The statement referred to as being furnished by Mr. Pole is as follows:)

When a national bank is insolvent, the Comptroller of the Currency, in accordance with the statute, appoints a receiver for such bank; and if there is no possibility of reopening the bank as a going concern, the receiver thus appointed by the comptroller proceeds to liquidate the bank and pay its creditors to the limit which may be obtained from the realization on its assets. These receivers are usually appointed from men of experience in this line of work and who may be termed trained receivers, since they are shifted from receivership to receivership in accordance with the demands of the work. Such receivers are not paid on a commission basis, as was done in the earlier days of receiverships, but are paid on a flat salary basis.

As of December 31, 1929, there were 424 insolvent national banks being administered by 172 receivers, some receivers in the interest of economy having charge of more than one bank. The average yearly salary paid these receivers on the basis of 424 banks was $1,681 per bank; or, on the basis of 172 receivers, $4,144 per year per receiver. Under the law, the liquidation of national banks by receivers is made under the supervision of the Comptroller of the Currency. As an example, all compromises of debts and all sales of assets are approved by the comptroller; all stock assessments are levied by the comptroller, and all dividends are paid by the comptroller through the issuance of checks. To maintain this supervision it is necessary for the comptroller to have in his office a division giving attention entirely to insolvent matters.

There is attached hereto a chart showing the personnel of this division as of December 31, 1929, at which date there were 73 employees, 2 field examiners, and 4 employees in the office of the general receiver, the general receiver being a receiver who takes over the liquidation of these receiverships which have been practically closed out, with the exception of certain miscellaneous assets and unfinished litigation which would not justify the expense of the continuance of a resident receiver.

In this division the supervising receiver, the two assistant supervising receivers, and the receivers shown on the chart as district receivers are all men of experience from the field, who have been detailed to the comptroller's office by virtue of their wide knowledge of conditions, their training, and their experience in liquidation work. These men have been brought from various sections of the country and give direct attention to the receiverships in the sections, the conditions of which they are familiar. As of December 31, 1929, the total amount of resources of the insolvent national banks then in liquidation being supervised by the comptroller's office through the insolvent division was, as of the date of the failure of the various banks, in the aggregate sum of $344,486,598.

It can be readily appreciated that in these failed banks almost every question of law can arise. In view of the complexity of these various questions and the large amount of litigation, with numerous cases going to the Supreme Court of the United States, it has been necessary to maintain a legal staff in connection with this insolvent work. At the present time this staff consists of the general counsel and two assistants; and in accordance with the chairman's request, their salaries are as follows:

General counsel	$9,000
One assistant general counsel	6,000
One assistant general counsel	5,000

The CHAIRMAN. I would like to ask, if in your judgment, national bank examiners and their assistants are properly compensated?

Mr. POLE. I should say the scale of salaries of examiners is quite low.

Mr. STEAGALL. Does not the comptroller's office fix those salaries?

Mr. POLE. Yes.

Mr. STEAGALL. That is my recollection of the law.

Mr. POLE. With the approval of the Federal Reserve Board.

The CHAIRMAN. You are speaking now of examiners. How about the assistant examiners?

Mr. POLE. I think, as a general thing, the assistants are better paid than the national bank examiners.

The CHAIRMAN. At what salary do you start examiners and assistant examiners?

Mr. POLE. Assistant examiners are usually started at $1,500 or $1,600 a year and given the usual per diem in addition to their expenses while away from headquarters.

The CHAIRMAN. $6 a day?

Mr. POLE. Yes, sir. Examiners quite often start as low as $3,000, in accordance with their experience and aptitude for the position. They also receive their regular per diem and expenses when away from headquarters.

The CHAIRMAN. Some examiners are drawing less than $3,000, are they not?

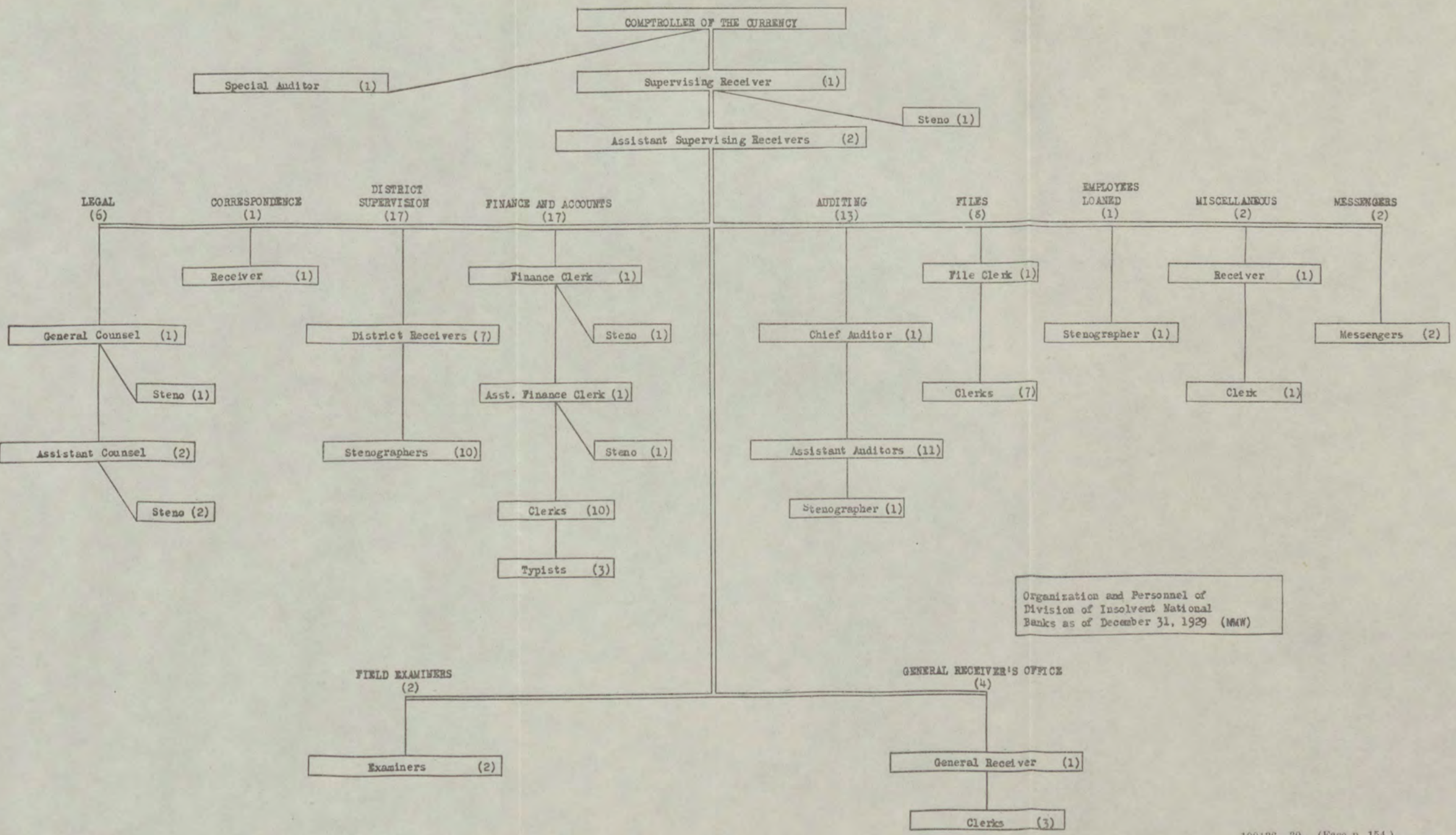
Mr. POLE. Some of the examiners of the junior grade.

The CHAIRMAN. At what salary do you start them?

Mr. POLE. There is no fixed salary for them, but it is usually $2,700—$2,500 or $2,700.

The CHAIRMAN. What is your experience as to the turnover among your examiners?

Mr. POLE. It is quite large.



Organization and Personnel of Division of Insolvent National Banks as of December 31, 1929 (MWW)

The CHAIRMAN. What is the reason for that?

Mr. POLE. An examiner develops perhaps to the point where he attracts the attention of a bank and they offer him a position which is much more remunerative than we can pay.

The CHAIRMAN. Taking into consideration the importance of the position of national bank examiners, clothed with the authority they have, as well as their assistants, do you not think that the quality of men employed could be improved a great deal by paying them higher salaries? In other words, it seems to me that we should have a very high type of man to be charged with the responsibility of examining these important banking institutions. I am not intending in this statement, to reflect upon your present corps of examiners. I think they are a splendid lot of men—at least those that I have come in contact with—but I am under the impression that they are greatly underpaid for the type of work they are doing.

Mr. POLE. Yes.

The CHAIRMAN. I believe you are losing a great many men in your department to-day because of the fact they are underpaid, and I believe that you would greatly improve your service if you would pay them a higher wage. The type of service they render certainly entitles them to a better salary than they are now getting.

Mr. POLE. I think you are right, Mr. Chairman.

The CHAIRMAN. I say that because I am deeply impressed with the importance of improving these examinations because of the rapid and diversified development of the banking systems.

I believe that you have a problem on your hands and I believe it is most important that you should have the right type of men and that they should be better paid because they are coming into contact with the highest officers and managers of national banks; in other words, they must sustain a certain standard of living to enable them to meet men drawing salaries of from $10,000 to $50,000 a year in the management of banks. For that reason, it seems to me—and I am glad you agree with me—that the service could probably be improved by paying these men a higher wage.

Mr. POLE. I think there is no doubt of what you say. I think, however, it would be extremely difficult for us ever to compete in the matter of salaries with commercial banks. Men getting $5,000 a year walk into positions of $15,000 a year and men who are getting $7,500 a year now and then $15,000 or $20,000 a year. It is extremely difficult to compete with commercial banks in matters of salary.

Mr. FENN. Is it not a fact that your ablest men are drawn away from you by the commercial banks?

Mr. POLE. Yes.

Mr. FENN. The ability shown by them attracts the attention of the commercial banks and their large salaries take them away from you?

Mr. POLE. Yes, sir; those are the men we lose.

Mr. FENN. Is it not really a training school?

Mr. POLE. For the examiners; yes. We usually consider it such.

Mr. FENN. They go to work at these low salaries with the expectation of getting higher salaries from commercial banks?

The CHAIRMAN. Mr. Pole, have there been any complaints by the banks as to the amount of charges levied against them for these examinations?

Mr. POLE. No complaints, Mr. Chairman. I might qualify that by saying that some time ago there was a feeling expressed upon the part of some of the larger banks that they were paying the loss which was entailed in the examination of the smaller banks in the country. They felt they were paying a little more than their share.

The CHAIRMAN. Am I correct in saying that a year or two ago, or during the period of Mr. McIntosh's term, that out of the funds collected, under the workings of the budget system put in operation in each Federal reserve district, under a chief national bank examiner, a surplus accumulated over and above that, which was paid back to the banks?

Mr. POLE. Yes, ir.

The CHAIRMAN. How was that disposed of?

Mr. POLE. Returned to the banks, Mr. Chairman, by making a round of examinations—one examination for each bank at a greatly reduced rate.

The CHAIRMAN. What was the amount of that accumulation so reimbursed to the banks?

Mr. POLE. May I insert that in the record, as I have not the figures in mind.

The CHAIRMAN. Put it in at this point, if you will, please.

Mr. POLE. The amount of accumulation of funds that was reimbursed to the banks was $577,118.21, which represented reduction in fee of 2½ cents per thousand of resources.

Mr. WINGO. Mr. Chairman, did you not ascertain—Mr. Pole suggested that some of the larger banks complained about paying for the smaller banks—I expected you to follow that up by asking if those banks were the ones mentioned by Mr. Seiberling that were having so much difficulty in making their expenses.

The CHAIRMAN. Do you put that in the form of a question?

Mr. WINGO. No; I did not, exactly.

The CHAIRMAN. It should be put in the form of a question. Mr. Wingo, will you restate your question?

Mr. WINGO. Whether or not those who complained were these larger banks that Mr. Seiberling and you went over their earnings yesterday—these banks that have such difficulty in meeting expenses, were they the ones complaining about these examination expenses——

Mr. POLE. As I recall it the only complaints that have ever been recorded in our officers are complaints from the New York banks.

Mr. WINGO. They were only making about 16 per cent a year and they were probably trying to find some economics to increase their earnings.

The CHAIRMAN. You appoint all national-bank examiners and assistant national-bank examiners and chief national-bank examiners?

Mr. POLE. In the case of the national-bank examiners, with the approval of the Secretary.

The CHAIRMAN. Secretary of the Treasury?

Mr. POLE. Yes, sir.

The CHAIRMAN. Now if branch banking is permitted in the country as you suggest, limited to trade areas, such laws as are passed here would only apply to national banks. Is that correct? Also member banks of the Federal reserve system.

Mr. POLE. I assume that is correct.

The CHAIRMAN. Well, would not such a plan then favor national banks to the exclusion of State banks?

Mr. POLE. I should hope it would favor the national banks. I do not know whether it would to the point of exclusion of the State banks, since the privilege of applying for membership or converting into national banks would be open to them.

The CHAIRMAN. If a national bank, for instance, operating in a trade area was permitted to have branches and a State bank operating in that particular trade area was not permitted to have branches, would not that tend to nationalize those State banks in that community in order to enable them to compete?

Mr. POLE. The probability is that the States would pass similar legislation. However, if their trade area should extend beyond the State lines, it would be a decided advantage to the national banks and would probably attract a great number of State banks into the national system.

The CHAIRMAN. Because the State banks could not go outside of State lines?

Mr. POLE. Yes.

The CHAIRMAN. Some allegation was made the other day as to trade areas. Take, for instance, Jersey City, Newark, New York City, Kansas City, Mo., and so forth. Under your plan of not permitting branches to cross Federal reserve district lines and State lines——

Mr. POLE. District lines, Mr. Chairman.

The CHAIRMAN. You mean district lines there?

Mr. POLE. Yes, sir.

The CHAIRMAN. Would not there be many troubles in defining trade areas through the Federal reserve districts; would not some State banks be discriminated against definitely under that plan? I wish you would, in the brief covering that, elucidate very clearly as to how you would restrict chain banking to certain areas.

Mr. POLE. I will try to do that. You mean chain banking or group banking?

The CHAIRMAN. I have particular reference, in that last question, to your statement wherein you indicated there should be some restriction as to control through chain banking or holding companies of those groups developed in certain trade areas.

In other words, it was indicated there that you were of the opinion that New York should not control eventually these several independent trade areas by controlling the branches or the parent banks which had branches in these trade areas?

Mr. POLE. Yes.

The CHAIRMAN. It is not clear to me just how control of that situation could be worked out and if, in your statement, you can clarify that, the committee, I think, would be very glad to have you do so.

In that connection, you rather indicated you thought it desirable to decentralize New York financially. Did I understand you correctly that you are in favor of building these units throughout the territory, in these trade areas, and decentralizing the financial situation in New York, by that operation?

Mr. POLE. The building up of larger groups of banks all over the country generally might result in a greater decentralization away from New York.

The CHAIRMAN. But it would tend to centralize in these trade areas, would it not?

Mr. POLE. What might be termed a more local centralization. It would centralize the funds which properly belonged to that particular trade area or locality.

The CHAIRMAN. Mr. Busby, the other day, in his questions to you, referred to the flow of money into the stock market. I should like to ask you a question in connection with that.

Do you not think we might restrict the flow of money into the stock-market operations by regulating the amount that a bank can lend on certain stocks?

Mr. POLE. That possibly might be done. It is rather difficult to answer that question offhand.

Mr. WINGO. Do the banks not do that now, Mr. Chairman?

Mr. FORT. No.

The CHAIRMAN. Are there restrictions on the amount now?

Mr. POLE. There is a legal restriction with regard to the amount which an individual may borrow from a bank. Of course any number of individuals may borrow whatever the bank's limit might be.

The CHAIRMAN. I was referring to the amount loaned on the par value or market value of stocks back of the loans.

Mr. POLE. Oh.

The CHAIRMAN. Do you not think that the flow may be checked by allowing a less amount, a safer amount, than the practice has been heretofore?

Mr. POLE. Possibly something like that could be worked out. I could not very well answer that offhand.

The CHAIRMAN. Mr. Letts asked you concerning the Bank of Italy and affiliated companies. I wish you would tell us in detail the make-up of this group in all its known ramifications over which your department has jurisdiction. Just describe to us the make-up of this particular group.

Mr. POLE. Our department has jurisdiction only over the Bank of Italy, which is a national association, operating in California with something like 300 branches.

The CHAIRMAN. How about the Bank of America in New York? Is that a national bank?

Mr. POLE. The Bank of America in New York is a national association.

The CHAIRMAN. You have jurisdiction over them?

Mr. POLE. We have jurisdiction over them.

The CHAIRMAN. But the Bank of America in Los Angeles is a State bank?

Mr. POLE. A State bank.

The CHAIRMAN. Your jurisdiction, then, over the trans-American group is confined entirely to the Bank of Italy in California and the Bank of America in New York?

Mr. POLE. That is correct.

The CHAIRMAN. You have no access to any other of the affiliated companies?

Mr. POLE. None at all.

Mr. LETTS. I wonder if it may be shown how many affiliated companies there are?

The CHAIRMAN. I wish that you would put into the record how many branches the Bank of Italy has and their location and the number of branches of the Bank of America. Have you any knowledge as to the other affiliated companies in these particular groups?

Mr. POLE. I have no official knowledge, Mr. Chairman.

The CHAIRMAN. As I understood you to say, national banks were not permitted to own their own stocks or the stocks of other State or national banks. Is that correct?

Mr. POLE. Correct.

The CHAIRMAN. Nor are they permitted to own directly stocks of affiliated companies?

Mr. POLE. That is correct, except such companies as might be formed for the purpose of holding real estate for the accommodation of the bank's own business.

The CHAIRMAN. Well, has the Bank of Italy or the Bank of America such a company?

Mr. POLE. If it has the stock of such a company is not owned by the Bank of Italy.

The CHAIRMAN. Well, it would be owned by one of the affiliated companies?

Mr. POLE. It might be owned by the Trans-America Corporation or one of its affiliates.

The CHAIRMAN. Are the bank buildings and equipment and main offices and branches owned by the Bank of Italy or the Bank of America, or owned by the affiliated companies?

Mr. POLE. My recollection is that they are owned by the affiliated company.

The CHAIRMAN. These various groups of banks are either owned by the Bank of Italy, the Bank of America, the Bancitaly, Trans-American Co., or the Trans-American-Blair Co.—in other words, there is a centralized control of the management, is there not?

Mr. POLE. I am not able to answer that. I know that those companies are affiliated with one another, except possibly the Bancitaly Co., which I understand has been absorbed by the Bank of America-Blair Corporation. But as to how the corporations are controlled, I am not able to answer.

The CHAIRMAN. The make-up of officers and directors of these various companies does not indicate anything so far as control is concerned, of these big groups; in other words, there is a management group outside of the officers and directors of these various individual institutions that has the real control, is there not?

Mr. POLE. I could not definitely answer that, Mr. Chairman. I have no official knowledge of the workings of these various corporations except those which are of national charter. I am quite sure, however, that any officer of any of those companies would be very glad to furnish you all the information. I presume you may call them to testify before your committee.

The CHAIRMAN. In that connection, it is the function of your office, is it not, in small national banks, in communities, to know who controls the institutions or who its stockholders and officers are?

Mr. POLE. We usually do.

The CHAIRMAN. Whether they are dummies or some one man or group controls and dominates the situation.

Mr. POLE. That is true.

The CHAIRMAN. Should any different rule apply as to large groups than as to smaller ones?

Mr. POLE. It would be very difficult for us to trace out the ramifications of a corporation like the Trans-America Corporation and as to whether or not the stock of the bank may be held by it or one of its affiliates. It is a matter that we would hardly be posted on, inasmuch as we have no jurisdiction.

The CHAIRMAN. This is one added reason you should have authority to examine these affiliated companies?

Mr. POLE. I think it is important that we should have an insight into to the affairs of corporations which own considerable amounts of national-bank stocks.

The CHAIRMAN. In other words, you find, in the conduct of your examinations, it is rather difficult to examine and know the full facts as to the companies, because you are prohibited from examining the affiliated institutons?

Mr. POLE. Yes.

The CHAIRMAN. Now, Mr. Fort asked you concerning the ownership of bank stocks by banks and affiliated companies. I think you pretty well covered that this morning.

Mr. POLE. Yes.

The CHAIRMAN. Were you here this morning, Mr. Fort, to hear the answers which Mr. Pole made?

Mr. FORT. I was here most of the time.

The CHAIRMAN. Have you covered all the questions you wanted to ask in regard to that particular phase?

Mr. FORT. Not quite; no, sir. I have had some others that have come to my mind during the examination of the comptroller by yourself and others.

The CHAIRMAN. I wish you would make note of them.

Mr. FORT. I am doing that. We are to go ahead, are we not, Mr. Chairman, after you, with a sort of recapitulation examination of the witness?

The CHAIRMAN. Yes. Mr. Pole, you said in answer to Mr. Fort the other day that two holding companies in one Federal reserve district do not now hold enough stock of member banks to give them control of the election of the directors of the Federal reserve bank of that district. Would you not say that those influences would determine an election because of the preponderance of control of banks in that district; that it might control the election of directors in the Federal reserve district?

Mr. POLE. I said that I was not sure that that was the case. I might insert in the record, if you will permit me, a memorandum on that question, Mr. Chairman.

The CHAIRMAN. Well it is perfectly clear that this question pertains to the district in which the Minneapolis Federal Reserve Bank is located.

Mr. POLE. Yes.

The CHAIRMAN. And I hope that you have in that brief you are submitting there a list of just how many banks are controlled by these two groups in St. Paul and Minneapolis, and I would like to

ask you, in that connection, whether or not your office was consulted by either one of these holding companies as to the organization and control of these several banks.

Mr. POLE. They have consulted us with respect to organizations of new national banks and with the taking over of certain national banks, and we have been very much delighted, in some instances, when they have gone into a community and have assisted us in correcting a bad situation. As to the number of banks which they have in their groups, I could probably furnish that.

Mr. WINGO. Mr. Chairman, may I suggest that I intended, at the proper time, to suggest that we get a list of the names and locations of these different groups and chains where more than 10 banks were involved, and the names of the banks in the chain and where located, and the names of individuals that dominated them or the holding company or central bank that dominated them. We had a great many conflicting statements as to the extent of this and where it is located and I had intended suggesting to the committee that we call for that, and if you are going to go into that question, why not prepare that and get it into the record? It may take a couple of weeks to get it.

The CHAIRMAN. Is that available and can it be furnished to the committee?

Mr. POLE. The information was compiled up to December 31 by the Federal Reserve Board, and possibly by the American Bankers Association. It has not been compiled by our office. I feel quite sure the records of the Federal Reserve Board would be available.

Mr. WINGO. It does not make any difference what source it comes from. It is public information.

Mr. FORT. If you are going to get that information and have it in the record, is there any special necessity for restricting it to, say, 10 banks? There may be groups of 5 banks that would far exceed in importance a group of 10 or even 100 banks.

Mr. WINGO. I see the force of your suggestion as to putting a limit on the number.

Mr. FORT. Why not get all?

Mr. WINGO. The trouble is that possibly there would be some where only one or two extra hands are involved. I think we should have the outstanding ones. Of course if it is thought necessary to have all of them, let us have them.

The CHAIRMAN. While this is not under the jurisdiction of the comptroller, the comptroller is ex officio a member of the Federal Reserve Board, and I am going to suggest to you, if that is available through the Federal Reserve Board, that you present it to the committee and it will be inserted in the record here.

Mr. POLE. I shall be glad to obtain that for the record if it is available.

Mr. WINGO. He would not only have to have the cooperation of the Federal Reserve Board, but the State banking commissions. However, I think they can give you this.

Mr. POLE. It has been compiled in connection with information received from the State banking commissions.

Mr. WINGO. If it is available in the States, I have an idea you can easily get it.

Mr. POLE. It is a very difficult thing to get.

The CHAIRMAN. Governor Young stated in his letter this morning the willingness of his research department to cooperate with the committee. If Mr. Pole has not got that information, I think he can get it.

Mr. POLE. I think so.

The CHAIRMAN. We would like to have it in the record at this point.

CHAIN OR GROUP BANKING AT THE END OF DECEMBER AND JUNE, 1929

The attached list of bank groups or chains is based on information collected for the Federal Reserve Board by the Federal reserve agents and includes those systems in which any person, group of persons, partnership, association, or corporation has actual or potential control over the operations or policies of three or more banking units, each working on its own capital and under its own personnel. The sources of the information include State banking departments, national bank examiners, the management or controlling interest of some of the groups, press reports, etc. While the information obtained is believed to be reasonably correct it may omit a few small chains for which no information is available and may not include all the banks in some of the groups or chains listed. It is also possible that the controlling interests do not regard some of the banks included in the attached statement as constituting group or chain systems.

Number and loans and investments of banks in each chain or group

[All banks are located in the same State as the management or controlling interest in the chain or group, unless otherwise noted. Figures of loans and investments for both December and June are based largely on June, 1929, Bankers' Directory, and are in thousands of dollars]

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Alabama (December, 4 groups; June, 3 groups)	26	23	15	12	.....	.....	11	11	$39,188	$14,368	$37,490	$12,670	.....	.....	$1,698	$1,698
First National Bank (Grimsley, A. M.), Clanton	10	10	2	2	.....	.....	8	8	2,086	2,086	1,263	1,263	.....	.....	823	823
First National Bank, Dothan	8	8	5	5	.....	.....	3	3	8,686	8,686	7,811	7,811	.....	.....	875	875
Alabama	5	5	4	4	.....	.....	1	1	3,267	3,267	3,194	3,194	.....	.....	73	73
Florida	3	3	1	1	.....	.....	2	2	5,419	5,419	4,617	4,617	.....	.....	802	802
Dothan National Bank, Dothan	5	5	5	5	.....	.....	.....	.....	3,596	3,596	3,596	3,596	.....	.....	.....	.....
Alabama	4	4	4	4	.....	.....	.....	.....	2,118	2,118	2,118	2,118	.....	.....	.....	.....
Florida	1	1	1	1	.....	.....	.....	.....	1,478	1,478	1,478	1,478	.....	.....	.....	.....
American-Traders Security Co., Birmingham	3	.....	3	.....	.....	.....	.....	.....	24,820	.....	24,820	.....	.....	.....	.....	.....
Arizona, Brophy, F. C., and associates, Phoenix	6	6	1	1	.....	.....	5	5	17,646	17,646	5,833	5,833	.....	.....	11,813	11,813
Arkansas, December, 3 groups; June, 4 groups	24	62	9	12	2	3	13	47	16,768	41,624	14,085	15,837	$234	$11,374	2,449	14,413
Banks, A. B., et al., Little Rock	[1]	38	.....	3	.....	1	.....	34	.....	24,856	.....	1,752	.....	11,140	.....	11,964
Hudspeth, A. T., Harrison	11	11	1	1	1	1	9	9	2,626	2,626	424	424	158	158	2,044	2,044
Nakdimen, I. H., Fort Smith	8	8	6	6	.....	.....	2	2	4,585	4,585	4,287	4,287	.....	.....	298	298
Arkansas	5	5	5	5	.....	.....	.....	.....	4,154	4,154	4,154	4,154	.....	.....	.....	.....
Oklahoma	3	3	1	1	.....	.....	2	2	431	431	133	133	.....	.....	298	298

[1] Taken over by Rogers Caldwell Group, Nashville, Tenn.

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Arkansas—Continued.																
Sims, Neil, Fort Smith	5	5	2	2	1	1	2	2	$9,557	$9,557	$9,374	$9,374	$76	$76	$107	$107
Arkansas	1	1	1	1	.....	.....	.....	.....	9,083	9,083	9,083	9,083	.....	.....	.....	.....
Oklahoma	4	4	1	1	1	1	2	2	474	474	291	291	76	76	107	107
California (December, 5 groups; June, 4 groups)	36	31	24	22	.....	.....	12	9	170,252	173,875	156,640	162,153	.....	.....	13,612	11,722
Anglo-National Corporation, San Francisco	17	15	14	12	.....	.....	3	3	146,138	144,040	137,121	135,023	.....	.....	9,017	9,017
California	16	14	13	11	.....	.....	3	3	145,066	142,968	136,049	133,951	.....	.....	9,017	9,017
Washington	1	1	1	1	.....	.....	.....	.....	1,072	1,072	1,072	1,072	.....	.....	.....	.....
Calitalo Investment Corporation, San Francisco	6	.....	3	.....	.....	.....	3	.....	7,776	.....	6,435	.....	.....	.....	1,341	.....
California	3	.....	1	.....	.....	.....	2	.....	2,147	.....	1,711	.....	.....	.....	436	.....
Oregon	1	.....	1	.....	.....	.....	.....	.....	2,293	.....	2,293	.....	.....	.....	.....	.....
Washington	2	.....	1	.....	.....	.....	1	.....	3,336	.....	2,431	.....	.....	.....	905	.....
Howard, Mr. & Mrs. W. B., Pasadena	6	6	2	2	.....	.....	4	4	4,403	4,403	2,247	2,247	.....	.....	2,156	2,156
McCook, R. D., and Nelson, San Bernardino	4	4	4	4	.....	.....	.....	.....	9,914	9,914	9,914	9,914	.....	.....	.....	.....
California	3	3	3	3	.....	.....	.....	.....	8,984	8,984	8,984	8,984	.....	.....	.....	.....
Iowa	1	1	1	1	.....	.....	.....	.....	930	930	930	930	.....	.....	.....	.....
Pacific National Co., Los Angeles	(1)	6	.....	4	.....	.....	.....	2	.....	15,518	.....	14,969	.....	.....	.....	549
Sebastopol National Securities Co., Sebastopol	3	.....	1	.....	.....	.....	2	.....	2,021	.....	923	.....	.....	.....	1,098	.....
Colorado (December, 3 groups; June, 3 groups)	15	15	10	10	.....	.....	5	5	29,505	29,505	22,405	22,405	.....	.....	7,100	7,100

Thatcher, M. D., et al,, Pueblo	8	8	6	6	.....	.....	2	2	26,588	26,588	19,700	19,700	.....	.....	6,888	6,888
Parks, C. C., et al., Denver	4	4	2	2	.....	.....	2	2	2,296	2,296	2,184	2,184	.....	.....	112	112
Holland, M. B., Denver	3	3	2	2	.....	.....	1	1	621	621	521	521	.....	.....	100	100
Colorado	2	2	2	2	.....	.....	.....	.....	521	521	521	521	.....	.....	.....	.....
Wyoming	1	1	.....	.....	.....	.....	1	1	100	100	.....	.....	.....	.....	100	100
Connecticut, Hartford (Conn.) Trust Co., Hartford	7	.....	4	.....	.....	.....	3	.....	37,186	.....	4,261	.....	.....	.....	32,925	.....
Delaware, Vinton, Benj., and Associates, St. George	3	3	.....	.....	.....	.....	3	3	1,141	1,141	.....	.....	.....	.....	1,141	1,141
Florida (December, 6 groups; June, 5 groups)	36	39	17	12	.....	.....	19	27	127,282	122,034	114,402	87,469	.....	.....	12,880	34,565
Atlanta Trust Co., Jacksonville	7	7	4	4	.....	.....	3	3	31,153	31,153	29,933	29,933	.....	.....	1,220	1,220
First National Bank, Tampa	8	8	2	2	.....	.....	6	6	21,682	21,682	17,188	17,188	.....	.....	4,494	4,494
Exchange National Bank, Tampa	7	4	1	1	.....	.....	6	3	13,735	13,027	9,505	9,505	.....	.....	4,230	3,522
First National Bank, Miami	6	6	3	3	.....	.....	3	3	25,796	25,796	23,367	23,367	.....	.....	2,429	2,429
Barnett National Bank, Jacksonville	4	.....	4	.....	.....	.....	.....	.....	15,771	.....	15,771	.....	.....	.....	.....	.....
Citizens Bank & Trust Co., Tampa	(3)	14	.....	2	.....	.....	.....	12	.....	30,376	.....	7,476	.....	.....	.....	22,900
Florida National Bank, Jacksonville	4	.....	3	.....	.....	.....	1	.....	19,145	.....	18,638	.....	.....	.....	507	.....
Georgia (December, 5 groups; June, 6 groups)	24	22	10	9	5	4	9	9	174,033	165,219	146,971	146,063	20,763	13,827	6,299	5,329
The First National Bank of Atlanta, Atlanta	7	.....	4	.....	3	.....	.....	.....	104,954	.....	84,502	.....	20,452	.....	.....	.....
Citizens & Southern Holding Co., Savannah	7	4	4	2	.....	.....	3	2	67,683	62,658	61,913	57,964	.....	.....	5,770	4,694
Georgia	5	2	3	1	.....	.....	2	1	59,951	54,926	58,458	54,509	.....	.....	[1] 1,493	417
South Carolina	2	2	1	1	.....	.....	1	1	7,732	7,732	3,455	3,455	.....	.....	4,277	4,277
Ethridge, F. S., Atlanta	[4] 4	5	1	1	1	1	2	3	603	709	200	200	251	251	152	258
Fourth National Bank, Atlanta	(5)	4	.....	4	.....	.....	.....	.....	.....	39,869	.....	39,869	.....	.....	.....	.....
Atlanta & Lowry National Bank, Atlanta	(5)	3	.....	1	.....	2	.....	.....	.....	61,190	.....	47,674	.....	13,516	.....	.....
Benton, L. O., Monticello	3	3	1	1	1	1	1	1	467	467	356	356	60	60	51	51
Holden, Jonathan F., Crawfordville	3	3	.....	.....	.....	.....	3	3	326	326	.....	.....	.....	.....	326	326

[1] Constituent banks taken over by Transamerica Corporation group.
[2] 10 banks suspended during July, 1929, and group dissolved.
[4] One bank suspended Dec. 31, 1929.
[5] Atlanta & Lowry National and Fourth National merged to form the First National.

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Idaho (December, 3 groups; June, 3 groups)	22	23	6	7			16	16	$20,589	$21,431	$11,814	$12,656			$8,775	$8,775
First National Investment Co. (Crawford-Moore chain), Boise	10	10	3	3			7	7	11,820	11,820	7,351	7,351			4,469	4,469
Idaho	8	8	1	1			7	7	11,090	11,090	6,621	6,621			4,469	4,469
Oregon	2	2	2	2					730	730	730	730				
Vollmer Clearwater Co., Lewistown	9	9	2	2			7	7	5,145	5,149	3,756	3,756			1,389	1,389
Idaho	7	7	2	2			5	5	4,508	4,508	3,756	3,756			752	752
Washington	2	2					2	2	637	637					637	637
Hemingway, H. E., Burley	[6]3	4	1	2			2	2	3,624	4,466	707	1,549			2,917	2,917
Idaho	2	2	1	1			1	1	1,132	1,132	707	707			425	425
Nevada		1		1						842		842				
Utah	1	1					1	1	2,492	2,492					2,492	2,492
Illinois (December, 12 groups; June, 11 groups)	87	82	21	20	10	9	56	53	1,205,290	989,238	724,331	658,871	$191,272	$61,747	289,687	268,620
John Bain & Lewis Co., Chicago	16	14					16	14	28,059	25,580					28,059	25,580
Foreman Family, Chicago	14	14	3	3	2	2	9	9	270,719	189,475	176,961	111,501	24,262	24,262	69,496	53,712
Ballou, Ralph N., et al., Chicago	8	8	2	2	1	1	5	5	23,366	23,366	6,193	6,193	1,522	1,522	15,651	15,651
Craig, C. C., Galesburg	8	8	1	1			7	7	6,275	6,275	1,222	1,222			5,053	5,053
Baetz, A. W., East St. Louis	7	7	3	3			4	4	11,478	11,478	10,055	10,055			1,423	1,423
First National Bank, Chicago	7	7	1	1	3	3	3	3	512,669	512,669	342,066	342,066	25,811	25,811	144,792	144,792
Schmidt, W. B., Chicago	6	6	1	1			5	5	17,283	17,283	5,381	5,381			11,902	11,902
Clay, John, Chicago	5	5	2	2	1	1	2	2	5,857	5,857	4,132	4,132	950	950	775	775

Nebraska	1	1	1	1					680	680	680	680				
South Dakota	1	1			1	1			950	950			950	950		
Wyoming	3	3	1	1			2	2	4,227	4,227	3,452	3,452			775	775
Carroll, John A., Chicago	4	4	2	2			2	2	13,825	13,825	11,622	11,622			2,203	2,203
Central Trust Co., Chicago	3		1		1		1		132,329				129,525		2,804	
McLeod Murray, Chicago	4	4	3	3			1	1	11,977	11,977	10,738	10,738			1,239	1,239
National Bank of the Republic, Chicago	5	5	2	2	2	2	1	1	171,453	171,453	155,961	155,961	9,020	9,202	6,290	6,290
Indiana (December, 3 groups; June, 2 groups	17	10	3	2	1	1	13	7	40,576	29,620	4,323	3,931	22,291	22,291	13,962	3,398
First and Tri-State Corporation, Fort Wayne	7		1				6		10,956		392				10,564	
Riley, Walter J., East Chicago	3	3	2	2			1	1	5,694	5,694	3,931	3,931			1,763	1,763
Fletcher, Savings & Trust Co., Indianapolis	7	7			1	1	6	6	23,926	23,926			22,291	22,291	1,635	1,635
Iowa: December, 12 groups; June, 12 groups	88	87	32	32	1	1	55	54	60,999	60,999	37,059	37,059	910	910	23,030	23,030
Toy, James F., Sioux City	17	16	10	10			7	6	13,056	13,056	9,163	9,163			3,893	3,893
Iowa	13	12	6	6			7	6	11,579	11,579	7,686	7,686			3,893	3,893
Nebraska	3	3	3	3					1,044	1,044	1,044	1,044				
South Dakota	1	1	1	1					433	433	433	433				
Bradley Bros., Centerville	13	13	3	3			10	10	4,996	4,996	1,878	1,878			3,118	3,118
Rich, E. H., Fort Dodge	12	12	2	2			10	10	8,651	8,651	3,165	3,165			5,486	5,486
Iowa	11	11	2	2			9	9	7,726	7,726	3,165	3,165			4,561	4,561
Minnesota	1	1					1	1	925	925					925	925
Weiser, C. J., and Algier, R., Decorah	11	11	1	1			10	10	5,733	5,733	660	660			5,073	5,073
Iowa	7	7					7	7	3,882	3,882					3,882	3,882
Minnesota	3	3	1	1			2	2	1,404	1,404	660	660			744	744
Washington	1	1					1	1	447	447					447	447
Benton Bros., Des Moines	9	9	2	2			7	7	18,102	18,102	15,168	15,168			2,934	2,934
Haugen, G. N., Northwood	4	4	2	2			2	2	1,336	1,336	855	855			481	481
Chamberlain, Park, Anamosa	4	4	2	2			2	2	1,637	1,637	1,236	1,236			401	401
Shade, Charles, Rock Rapids	4	4	2	2			2	2	1,076	1,076	652	652			424	424
Taylor, Henry C., Bloomfield	4	4	2	2			2	2	1,161	1,161	959	959			202	202
Foster, John W., Guthrie Center	3	3	2	2			1	1	991	991	894	894			97	97
Dufer, E. T., Diagonal	3	3	3	3					881	881	881	881				
Johnson, Brush & Annis, Osage	4	4	1	1	1	1	2	2	3,379	3,379	1,548	1,548	910	910	921	921
Iowa	3	3	1	1	1	1	1	1	3,056	3,056	1,548	1,548	910	910	598	598
North Dakota	1	1					1	1	323	323					323	323

[6] Disposed of stock in one bank.

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Kansas (December, 19 groups; June, groups)	89	86	23	21	1	1	65	64	$46,291	$41,923	$24,476	$20,179	$1,445	$1,445	$20,370	$20,299
Benton, G. D. and H. O., Oberlin	7	7	2	2	------	------	5	5	1,769	1,769	1,030	1,030	------	------	739	739
Burrow, J. R., and family, Topeka	7	7	2	2	------	------	5	5	8,309	8,309	5,575	5,575	------	------	2,734	2,734
Atwood, F. J., Concordia	6	6	1	1	------	------	5	5	1,135	1,135	479	479	------	------	656	656
Burks, W. H., Wellington	6	6	1	1	------	------	5	5	3,341	3,341	1,259	1,259	------	------	2,082	2,082
Kansas	4	4	------	------	------	------	4	4	1,939	1,939	------	------	------	------	1,939	1,939
Oklahoma	2	2	1	1	------	------	1	1	1,402	1,402	1,259	1,259	------	------	143	143
Collingwood, J. H., and family, Topeka	6	6	1	1	1	1	4	4	3,199	3,199	906	908	1,445	1,445	846	846
Lemon, G. W., Pratt	6	6	3	3	------	------	3	3	2,569	2,569	2,145	2,145	------	------	424	424
Gardiner, J. G., Wichita	5	5	1	1	------	------	4	4	3,243	3,243	1,385	1,385	------	------	1,858	1,858
Gray, George M., et al., Kansas City	5	5	------	------	------	------	5	5	4,339	4,339	------	------	------	------	4,339	4,339
Moffett, A. H., Larned	5	5	1	1	------	------	4	4	1,322	1,322	935	935	------	------	387	387
Docking, Wm., Topeka	4	4	------	------	------	------	4	4	1,962	1,962	------	------	------	------	1,962	1,962
Jellison, A. D., Junction City	4	4	1	1	------	------	3	3	2,212	2,212	980	980	------	------	1,232	1,232
Mermis, J. A., Hays	4	4	1	1	------	------	3	3	871	871	426	426	------	------	445	445
Sponable, F. W., Paola	4	4	1	1	------	------	3	3	2,770	2,770	1,975	1,975	------	------	795	795
Stewart Estate, Wellington	4	4	1	1	------	------	3	3	945	945	353	353	------	------	592	592
Kansas	2	2	------	------	------	------	2	2	424	424	------	------	------	------	424	424
Oklahoma	2	2	1	1	------	------	1	1	521	521	353	353	------	------	168	168
Womer, W. D., and family, Manhattan	4	4	3	3	------	------	1	1	2,448	2,448	2,267	2,267	------	------	181	181
Benjamin, J. J., Cambridge	3	3	------	------	------	------	3	3	233	233	------	------	------	------	233	233
Flack, B. A., Enterprise	3	3	1	1	------	------	2	2	733	733	237	237	------	------	496	496
Frazier, Linn, Fouber	3	3	1	1	------	------	2	2	523	523	225	225	------	------	298	298
Limbocker, M. A., Emporia	3	------	2	------	------	------	1	------	4,368	------	4,297	------	------	------	71	------

Kentucky, December, 3 groups; June, 1 group	18	4	10	4	4	.....	4	.....	149,372	8,120	77,710	8,120	65,115	.....	6,547	.....
First National Corporation, Louisville	9	.....	5	.....	1	.....	3	.....	43,823	.....	21,656	.....	17,642	.....	4,525	.....
Banco Kentucky, Louisville	5	.....	1	.....	3	.....	1	.....	97,429	.....	47,934	.....	47,473	.....	2,022	.....
Ohio	2	.....	.....	.....	2	.....	.....	.....	25,088	.....	.....	.....	25,088	.....	.....	.....
Kentucky	3	.....	1	.....	1	.....	1	.....	72,341	.....	47,934	.....	22,385	.....	2,022	.....
Ashland National Bank, Ashland	4	4	4	4	.....	.....	.....	.....	8,120	8,120	8,120	8,120	.....	.....	.....	.....
Louisiana, December, 2 groups; June, 2 groups	10	10	6	6	.....	.....	4	4	33,078	33,078	29,842	29,842	.....	.....	3,236	3,236
Calcasieu National Bank of southwest Louisiana, Lake Charles	6	6	5	5	.....	.....	1	1	14,644	14,644	14,294	14,294	.....	.....	350	350
Commercial National Bank Shreveport	4	4	1	1	.....	.....	3	3	18,434	18,434	15,548	15,548	.....	.....	2,886	2,886
Maine, December, 2 groups; June, 1 group	12	5	5	2	.....	.....	7	3	69,635	53,267	14,583	10,033	.....	.....	55,052	43,234
Financial institutions, Augusta	9	5	5	2	.....	.....	4	3	59,576	53,267	14,583	10,033	.....	.....	44,993	43,234
Eastern Trust & Banking Co, Bangor	3	.....	.....	.....	.....	.....	3	.....	10,059	.....	.....	.....	.....	.....	10,059	.....
Massachusetts (December, 5 groups; June, 4 groups)	45	33	27	19	7	6	11	8	870,871	530,104	761,556	280,558	73,461	224,929	35,854	24,617
First National—Old Colony Corporation, Boston	20	17	12	9	5	5	3	3	568,312	275,980	492,815	45,229	65,134	220,388	10,363	10,363
Federal National Bank (through Federal National Investment Trust), Boston	8	6	4	4	1	.....	3	2	55,785	45,787	42,601	42,601	3,786	.....	9,398	3,186
National Shawmut Bank (through Shawmut Association), Boston	6	6	4	4	.....	.....	2	2	194,642	194,642	190,388	190,388	.....	.....	4,254	4,254
Worcester County National, Worcester	6	.....	5	.....	.....	.....	1	.....	37,287	.....	33,412	.....	.....	.....	3,875	.....
Makepeace, J. C., and family, Wareham	5	4	2	2	1	1	2	1	14,845	13,695	2,340	2,340	4,541	4,541	7,964	6,814

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Michigan (December, 11 groups; June, 12 groups)	126	80	20	4	24	11	82	65	$1,243,488	$418,628	$348,162	$12,153	$707,123	$347,145	$188,203	$59,330
Guardian Detroit Union Group (Inc.), Detroit	35	------	10	------	7	------	18	------	403,996	----------	167,360	----------	154,218	----------	82,418	----------
First National-Peoples, Wayne group, Detroit	21	6	5	------	8	1	8	5	705,032	284,071	167,482	----------	479,253	273,176	58,297	10,895
Sleeper, A. E., Bad Axe	16	16	1	1	1	1	14	14	5,612	5,612	465	465	419	419	4,728	4,728
American State Bank group, Detroit	13	8	2	------	5	2	6	6	61,701	53,186	2,308	----------	51,104	44,897	8,289	8,289
McPhail, C. W., Central Lake	12	12	------	------	------	------	12	12	2,954	2,954	----------	----------	----------	----------	2,954	2,954
Wolf, Frank, Detroit	7	7	1	1	------	------	6	6	32,686	32,686	10,140	10,140	----------	----------	22,546	22,546
Gerber, Cornelius, Fremont	5	5	------	------	1	1	4	4	2,975	2,975	----------	----------	1,290	1,290	1,685	1,685
Merrick, Frank W., Saginaw	5	5	------	------	1	1	4	4	2,522	2,522	----------	----------	626	626	1,896	1,896
Smith, Wm. A., Grand Rapids	5	5	------	------	1	1	4	4	23,531	23,531	----------	----------	20,213	20,213	3,318	3,318
Hicks, John C., St. Johns	4	4	1	1	------	------	3	3	1,881	1,881	407	407	----------	----------	1,474	1,474
Hudson, John R., Middleton	[7] 3	4	------	------	------	------	3	4	598	992	----------	----------	----------	----------	598	992
McGill, H. J., Mount Clemens	([8])	4	------	1	------	3	------	------	----------	7,370	----------	1,141	----------	6,229	----------	----------
Orr, Andrew W., Blanchard	([9])	4	------	------	------	1	------	3	----------	848	----------	----------	----------	295	----------	553
Minnesota (December, 37 groups; June, 37 groups)	472	362	223	146	7	2	242	214	836,699	356,715	660,155	265,999	38,749	1,805	137,795	88,911
Northwest Bancorporation, Minneapolis	92	20	59	17	3	------	30	3	339,754	147,674	288,356	128,204	17,664	----------	33,734	19,470
Minnesota	46	10	27	7	------	------	19	3	208,180	109,758	182,039	90,288	----------	----------	26,141	19,470
Montana	7	------	2	------	2	------	3	------	15,116	----------	5,610	----------	6,963	----------	2,543	----------
North Dakota	9	2	7	2	------	------	2	------	14,875	8,099	14,706	8,099	----------	----------	169	----------
South Dakota	10	6	10	6	------	------	------	------	22,213	16,178	22,213	16,178	----------	----------	----------	----------
Nebraska	8	------	4	------	------	------	4	------	35,358	----------	31,445	----------	----------	----------	3,913	----------
Iowa	4	1	3	1	------	------	1	------	24,338	7,871	24,338	7,871	----------	----------	----------	----------
Wisconsin	7	1	6	1	------	------	1	------	8,973	5,768	8,005	5,768	----------	----------	968	----------
Washington	1	------	------	------	1	------	------	------	10,701	----------	----------	----------	10,701	----------	----------	----------
First Bank Stock Corporation, Minneapolis	78	12	63	11	2	------	13	1	339,267	21,550	282,646	20,836	19,280	----------	37,341	714

Minnesota	36	5	26	5			10		252,785	10,379	217,297	10,379			35,488	
Montana	13		10		2		1		53,496		33,802		19,280		414	
North Dakota	15	4	15	4					14,378	5,731	14,378	5,731				
South Dakota	11	3	9	2			2	1	9,727	5,440	8,288	4,726			1,439	714
Michigan	3		3						8,881		8,881					
Bremer, Otto, et al., St. Paul	71	71	12	12	1	1	58	58	52,932	52,932	27,434	27,434	1,315	1,315	24,183	24,183
Minnesota	30	30	6	6	1	1	23	23	32,919	32,919	17,685	17,685	1,315	1,315	13,919	13,919
Montana	1	1					1	1	1,893	1,893					1,893	1,893
North Dakota	32	32	5	5			27	27	15,233	15,233	9,349	9,349			5,884	5,884
Wisconsin	8	8	1	1			7	7	2,887	2,887	400	400			2,487	2,487
Union Investment Co. (J. F. Millard) Minneapolis	[10]	31	[10]	16			[10]	15	[10]	15,143	[10]	9,658			[10]	5,485
Minnesota		23		11				12		11,769		7,421				4,348
Wisconsin		6		5				1		3,205		2,237				968
North Dakota		2						2		169						169
Hazlett, Isaac, et al., Minneaplis	19	19	13	13			6	6	5,361	5,361	4,434	4,434			927	927
Minnesota	18	18	12	12			6	6	5,224	5,224	4,297	4,297			927	927
Montana	1	1	1	1					137	137	137	137				
Black, J. W., Co., Minneapolis	13	13	7	7			6	6	7,139	7,139	3,742	3,742			3,397	3,397
Minnesota	8	8	4	4			4	4	4,513	4,513	1,727	1,727			2,786	2,786
Michigan	2	2	2	2					1,462	1,462	1,462	1,462				
Wisconsin	3	3	1	1			2	2	1,164	1,164	553	553			611	611
Lewison, Samuel, Swenson, Carl C., and Fries, J. F., Canby	12	12	7	7			5	5	5,440	5,440	2,600	2,600			2,840	2,840
Minnesota	9	9	4	4			5	5	4,427	4,427	1,587	1,587			2,840	2,840
South Dakota	3	3	3	3					1,013	1,013	1,013	1,013				
Sheldon, F. P., Sheldon Bros., Minneapolis	11	11	5	5			6	6	3,728	3,728	2,950	2,950			778	778
Mealey, S. J., et al., Monticello	9	9	1	1			8	8	4,110	4,110	2,023	2,023			2,087	2,087
Johnson, A. J., Granite Falls	8	8					8	8	2,503	2,503					2,503	2,503
Minnesota	2	2					2	2	1,659	1,659					1,659	1,659
North Dakota	5	5					5	5	636	636					636	636
Montana	1	1					1	1	208	208					208	208

[7] 1 bank sold to Guardian Detroit Union group, Detroit.
[8] Taken over by American State Bank group, Detroit.
[9] Taken over by Guardian Detroit Union group, Detroit.
[10] Now a part of the Northwest Bancorporation group.

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Minnesota—Continued.																
J. Lampert Co., St. Paul	8	8	3	3			5	5	$2,431	$2,431	$1,451	$1,451			$980	$980
Minnesota	7	7	3	3			4	4	2,096	2,096	1,451	1,451			645	645
Wisconsin	1	1					1	1	335	335					335	335
St. Olaf College and Holland, P. O., Northfield	8	8	2	2			6	6	2,396	2,396	616	616			1,780	1,780
Minnesota	3	3					3	3	1,062	1,062					1,062	1,062
North Dakota	5	5	2	2			3	3	1,334	1,334	616	616			718	718
Brickson, Edwin, Adrian	7	7	2	2			5	5	1,375	1,375	259	259			1,116	1,116
Carlson, John C., Rush City	7	7	1	1			6	6	3,104	3,104	618	618			2,486	2,486
Lofgren, C. J., Ada	7	7	3	3			4	4	1,635	1,635	898	898			737	737
Minnesota	4	4	2	2			2	2	1,146	1,146	805	805			341	341
North Dakota	2	2	1	1			1	1	294	294	93	93			201	201
Montana	1	1					1	1	195	195					195	195
March, C. H., Litchfield	7	7	2	2			5	5	4,151	4,151	2,716	2,716			1,435	1,435
Tillemans, H. J., Minnesota	7	7	2	2			5	5	2,661	2,661	1,745	1,745			916	916
Christopherson, Alfred, Albert Lea	[11] 6	7	1	2			5	5	980	3,167	267	2,454			713	713
Minnesota	5	6	1	2			4	4	802	2,989	267	2,454			535	535
Iowa	1	1					1	1	178	178					178	178
Gunn, D. M., King, F. E., King, Alexander, Grand Rapids	6	6	4	4			2	2	1,602	1,602	1,345	1,345			257	257
Lee, Harry, Long Prairie	6	6	3	3			3	3	2,223	2,223	969	969			1,254	1,254
Mills, C. B., General Securities Co., Minneapolis	[11] 6	7	4	5			2	2	8,530	27,935	8,021	27,426			509	509
Minnesota	2	3	1	2			1	1	384	19,789	193	19,598			191	191
North Dakota	1	1	1	1					215	215	215	215				

Iowa	*3*	*3*	*2*	*2*			*1*	*1*	*7,931*	*7,931*	*7,613*	*7,613*			*318*	*318*
Ponsford, J. J., Watertown	6	6					6	6	1,313	1,313					1,313	1,313
Simons, L. C., St. Paul	6	6	2	2			4	4	4,302	4,302	3,417	3,417			885	885
Towle, Geo. E., et al., Minneapolis	6	6	4	4			2	2	1,392	1,392	1,065	1,065			327	327
North Dakota	3	3	2	2			1	1	576	576	415	415			161	161
Montana	3	3	2	2			1	1	816	816	650	650			166	166
Ward, A. L., Fairmont	6	6	5	5			1	1	2,826	2,826	2,647	2,647			179	179
Paulson, C. E., et al., Albert Lea	6	6					6	6	971	971					971	971
Bank Shares Corporation, Minneapolis	5		1				4		6,922		3,444				3,478	
Du Toit, D. W., and Lundsten, O. W., Chaska and Excelsior	5	5	1	1	1	1	3	3	2,582	2,582	113	113	490	490	1,979	1,979
Glemmestad, M., Tyler	5	5	2	2			3	3	1,789	1,789	1,109	1,109			680	680
Klein, C. H., Chaska	5	5	3	3			2	2	3,202	3,202	2,570	2,570			632	632
Sampson, H., Elbow Lake	5	5					5	5	1,410	1,410					1,410	1,410
Schmidt, J. G., Northfield	5	5	2	2			3	3	1,994	1,994	1,410	1,410			584	584
Warner, H. A., White Bear Lake	5	5					5	5	1,215	1,215					1,215	1,215
Minnesota	3	3					3	3	649	649					649	649
South Dakota	1	1					1	1	187	187					187	187
Wisconsin	1	1					1	1	379	379					379	379
Andrisen, H. P., Clarksfield	4	4					4	4	805	805					805	805
Minnesota	2	2					2	2	576	576					576	576
South Dakota	2	2					2	2	229	229					229	229
Davies, E. W., Pipestone	4	4	4	4					1,666	1,666	1,666	1,666				
Minnesota	2	2	2	2					1,165	1,165	1,165	1,165				
South Dakota	2	2	2	2					501	501	501	501				
McClure, T. F., Litchfield	4	4					4	4	2,431	2,431					2,431	2,431
Atlas Realty Co., Minneapolis	3	3	2	2			1	1	2,714	2,714	1,825	1,825			889	889
Castle, L. G., Duluth	4	4	3	3			1	1	7,843	7,843	7,799	7,799			44	44
Mississippi (December, 3 groups; June, 3 groups)	21	21	2	2			19	19	15,119	15,119	7,584	7,584			7,535	7,535
High, S. J., and associates, Tupelo	10	10					10	10	4,547	4,547					4,547	4,547
Holland, Mr. and Mrs. W. P. et al., Clarksdale	7	7	1	1			6	6	4,953	4,953	2,794	2,794			2,159	2,159
First National Bank, Hattiesburg	4	4	1	1			3	3	5,619	5,619	4,790	4,790			829	829

[1] 1 bank taken over by Northwest Bancorporation.

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Missouri (December, 7 groups; June, 7 groups)	41	40	11	12	5	5	25	23	$158,374	$160,887	$26,406	$29,531	$111,188	$111,188	$20,780	$20,168
Ford, F. L. and associates St. Joseph	9	9	1	1	.....	.....	8	8	10,018	10,018	5,188	5,188	.....	.....	4,830	4,830
Missouri	8	8	1	1	.....	.....	7	7	9,799	9,799	5,188	5,188	.....	.....	4,611	4,611
Nebraska	1	1	.....	.....	.....	.....	1	1	219	219	.....	.....	.....	.....	219	219
Kemper, J. M. et al. Kansas City	[12] 8	9	3	4	.....	.....	5	5	10,810	13,935	1,358	4,483	.....	.....	9,452	9,452
Missouri	4	4	1	1	.....	.....	3	3	10,160	10,160	938	938	.....	.....	9,222	9,222
Oklahoma	3	3	1	1	.....	.....	2	2	363	363	133	133	.....	.....	230	230
Kansas	1	2	1	2	.....	.....	.....	.....	287	3,412	287	3,412	.....	.....	.....	.....
The Keystone Corp. (affiliate of Commerce Trust Co.) Kansas City	5	5	1	1	1	1	3	3	82,025	82,025	3,052	3,052	75,106	75,106	3,867	3,867
Meyers, A. C. F., St. Louis	7	7	3	3	4	4	.....	.....	47,294	47,294	11,212	11,212	36,082	36,082	.....	.....
Harty, A. L., Cape Girard	5	3	1	1	.....	.....	4	2	2,429	1,817	546	546	.....	.....	1,883	1,271
Speer, A. A., Jefferson City	4	4	1	1	.....	.....	3	3	4,959	4,959	4,404	4,404	.....	.....	555	555
Marshall, N. B., Unionville	3	3	1	1	.....	.....	2	2	839	839	646	646	.....	.....	193	193
Montana (December, 2 groups; June, 3 groups)	14	21	.....	4	1	3	13	14	7,370	40,537	.....	12,136	2,412	23,189	4,958	5,212
Woehner, Fred A., Great Falls	8	8	.....	.....	.....	.....	8	8	3,527	3,527	.....	.....	.....	.....	3,527	3,527
Johnson, A. C., Helena	[12] 6	7	.....	1	1	1	5	5	3,843	7,796	.....	3,953	2,412	2,412	1,431	1,431
Marlow, T. A., Helena	[14]	6	.....	3	.....	2	.....	1	.....	29,214	.....	8,183	.....	20,777	.....	254
Nebraska (December, 10 groups; June, 10 groups)	62	65	15	15	.....	.....	47	50	25,044	25,544	12,740	12,740	.....	.....	12,304	12,804
McCloud, C. A., et al., York	10	10	3	3	.....	.....	7	7	3,375	3,375	1,944	1,944	.....	.....	1,431	1,431
Weil, M., and family, Lincoln	10	10	1	1	.....	.....	9	9	6,708	6,708	4,335	4,335	.....	.....	2,373	2,373

Kirchman, F. J., et al., Wahoo	[13] 8	9	1	1			7	8	2,404	2,738	605	605			1,799	2,133
Nebraska	7	8	1	1			6	7	2,071	2,405	605	605			1,466	1,800
South Dakota	1	1					1	1	333	333					333	333
Gund, C. F., and family, Blue Hill	7	7	1	1			6	6	1,779	1,779	240	240			1,539	1,539
Southwick, L. E., H. J., and P. O., friend	6	6	1	1			5	5	1,824	1,824	834	834			990	990
Folda, E. F., and family, Schuyler	5	5					5	5	3,275	3,275					3,275	3,275
Barber, R. H., Kearney	4	4					4	4	321	321					321	321
Coffee, C. F., sr., chadron	4	4	4	4					2,761	2,761	2,761	2,761				
Hansen, T. J. and C. C., Omaha	[16] 4	6	1	1			3	5	588	754	120	120			468	634
Colorado	1	1	1	1					120	120	120	120				
Nebraska	3	5					3	5	468	634					468	634
Titus, G. H., Holdrege	4	4	3	3			1	1	2,009	2,009	1,901	1,901			108	108
Nevada, December, 1 group; June, 2 groups	12	14	2	2			10	12	18,911	20,799	6,811	6,811			12,100	13,988
Wingfield, Geo., Reno	12	11	2	2			10	9	18,911	18,911	6,811	6,811			12,100	12,100
Scheeline, H. S., Reno	[17]	3						3		1,888						1,888
New Jersey (December, 15 groups; June, 14 groups)	59	55	25	24	14	14	20	17	391,089	353,198	92,274	92,479	109,210	76,228	189,605	184,491
Peoples Trust & Guaranty Co., Hackensack	9	9	2	2	7	7			25,427	25,427	570	570	24,857	24,857		
Bankers Securities (Inc.), Hackensack	7	7	5	5	1	1	1	1	8,592	8,592	7,377	7,377	169	169	1,046	1,046
Montclair Trust Co., Montclair	5	5	2	2	1	1	2	2	25,862	25,862	2,326	2,326	14,380	14,380	9,156	9,156
Kean family, Elizabeth	4	4	3	3			1	1	34,636	34,636	24,086	24,086			10,550	10,550
Peoples Bank & Trust Co., Passaic	4	3	2	1	1	1	1	1	20,276	18,013	3,372	1,109	9,869	9,869	7,035	7,035
Doremus, Cornelius, Ridgewood	[18]	3		2		1				11,159		8,086		3,073		
Everett, J. D., and Holmes, H. L., Orange	3	3	2	2			1	1	11,583	11,583	9,920	9,920			1,663	1,663
First-Mechanics National Bank, Trenton	3	3	1	1			2	2	35,374	35,374	32,880	32,880			2,494	2,494
Heppenheimer, Wm. C., Jersey City	3	3					3	3	94,382	94,382					94,382	94,382

[12] Disposed of stock in one bank.
[13] 1 bank taken over by First Bank Stock Corporation.
[14] Group taken over by First Bank Stock Corporation.
[15] Sold interest in 1 bank.
[16] 2 banks suspended.
[17] Controlling interest in 1 bank sold; no longer constitutes a chain.
[18] 2 banks merged; no longer considered a chain.

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
New Jersey—Continued.																
Mechanics Trust Co., Bayonne	3	3	2	2			1	1	$10,745	$10,745	$1,725	$1,725			$9,020	$9,020
New Jersey Title Guaranty Trust Co., Jersey City	3				1		2		38,440				$36,055		2,385	
Plainfield Trust Co., Plainfield	3	3	1	1	2	2			22,984	22,984	495	495	22,489	$22,489		
Sutton, Frank W., et al., Tom's River	3		2				1		8,347		5,618				2,729	
Union County Trust Co., Elizabeth	3	3	1	1	1	1	1	1	16,450	16,450	1,078	1,078	1,391	1,391	13,981	13,981
United States Trust Co., Paterson	3	3					3	3	24,758	24,758					24,758	24,758
West Side Trust Co., Newark	3	3	2	2			1	1	13,233	13,233	2,827	2,827			10,406	10,406
New Mexico (December, 2 groups; June, 2 groups)	8	8	4	4			4	4	2,902	2,902	2,071	2,071			831	831
Jones, H. B., Roy	5	5	3	3			2	2	1,475	1,475	1,218	1,218			257	257
First National Investment Corporation, Gallup	3	3	1	1			2	2	1,427	1,427	853	853			574	574
Colorado	1	1					1	1	452	452					452	452
New Mexico	2	2	1	1			1	1	975	975	853	853			122	122
New York, December, 20 groups; June, 17 groups	126	107	64	57	20	20	42	30	3,434,166	2,931,994	1,441,508	1,277,595	1,502,279	1,126,785	490,379	527,614
Marine-Midland Corporation, Buffalo	19	15	5	5	6	5	8	5	425,436	372,496	57,071	37,663	256,660	237,781	111,705	97,052
Trans-America Corporation, New York	[19] 18	22	10	11		2	8	9	1,418,361	1,357,342	1,080,930	965,920		1,218	337,431	390,204
California	17	21	9	10		2	8	9	1,139,879	1,078,860	802,448	687,438		1,218	337,431	390,204
New York	1	1	1	1					278,482	278,482	278,482	278,482				

First Securities Corporation, Syracuse	14	7	6	3	1	1	7	3	115,559	77,618	6,999	4,137	100,025	67,499	8,535	5,982
American & Foreign Shares Corporation, Albany	9	5	9	5					18,102	10,949	18,102	10,949				
New York	8	5	8	5					16,992	10,949	16,992	10,949				
Vermont	1		1						1,110		1,110					
Humphrey, W. J. & F. J., Warsaw	8	7	4	4			4	3	12,427	10,557	8,844	8,844			3,583	1,713
Goldman Sachs Trading Corporation, New York City	5	5	1	1	4	4			815,684	815,684	149,995	149,995	665,689	665,689		
New York	3	3	1	1	2	2			550,911	550,911	149,995	149,995	400,916	400,916		
California	1	1			1	1			225,072	225,072			225,072	225,072		
Pennsylvania	1	1			1	1			39,701	39,701			39,701	39,701		
Northern New York Trust Co., Watertown	[20] 6	7	2	3	2	2	2	2	21,083	21,392	7,641	7,950	12,666	12,666	776	776
Globe Financial Corporation, Brooklyn	5	6	4	4	1	2			21,871	22,009	10,615	10,615	11,256	11,394		
Interbank Investors Co., Buffalo	5		2				3		9,013		5,473				3,540	
Crandall Family, Westfield	4	4	2	2	2	2			8,116	8,116	4,291	4,291	3,825	3,825		
Hulbert, C. E., and associates, Downsville	4	4	4	4					5,082	5,082	5,082	5,082				
Murray family, Goshen	4	4	4	4					4,431	4,431	4,431	4,431				
Palmer, Leslie R., Irvington	[20] 4	5	3	3			1	2	31,070	32,704	27,606	16,976			3,464	15,728
Bank Shares Corporation of United States, New York City	3	3	2	2		1	1		6,083	9,246	5,902	5,902		3,344	181	
New York	1	2	1	1		1			878	4,222	878	878		3,344		
New Jersey	1	1	1	1					5,024	5,024	5,024	5,024				
Connecticut	1						1		181						181	
Buchner, P. C., et al., Geneseo	3	3	1	1			2	2	5,040	4,252	2,150	1,362			2,890	2,890
First National Bank & Trust Co., Elmira	[21] 3	4	2	3			1	1	17,234	15,697	16,672	15,135			562	562
Straus, S. W., & Co., New York City	3	3	2	2			1	1	31,942	31,942	28,343	28,343			3,599	3,599
New York	1	1	1	1					19,609	19,609	19,609	19,609				
Illinois	2	2	1	1			1	1	12,333	12,333	8,734	8,734			3,599	3,599
Western New York Investors, Buffalo	3	3			1	1	2	2	132,477	132,477			123,369	123,369	9,108	9,108
American Shares (Inc.), New York City	3		1				2		6,366		1,361				5,005	
Manhattan Co., New York City	3				3				328,789				328,789			

[19] Seven banks converted into or merged with existing branches and 3 banks added to the group. [20] 2 banks consolidated. [21] Two banks merged.

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
North Dakota (December, 6 groups; June, 6 groups)	48	50	14	16	.....	.....	34	34	$12,673	$13,901	$4,921	$6,149	.....	.....	$7,752	$7,752
Hanson, O. S., et al., Grand Forks	14	14	5	5	.....	.....	9	9	3,303	3,303	1,640	1,640	.....	.....	1,663	1,663
North Dakota	12	12	3	3	.....	.....	9	9	2,687	2,687	1,024	1,024	.....	.....	1,663	1,663
Minnesota	2	2	2	2	.....	.....	.....	.....	616	616	616	616	.....	.....	.....	.....
Sishek, J. H., Ashby	11	11	.....	.....	.....	.....	11	11	2,639	2,639	.....	.....	.....	.....	2,639	2,639
North Dakota	9	9	.....	.....	.....	.....	9	9	2,134	2,134	.....	.....	.....	.....	2,134	2,134
Montana	1	1	.....	.....	.....	.....	1	1	131	131	.....	.....	.....	.....	131	131
South Dakota	1	1	.....	.....	.....	.....	1	1	374	374	.....	.....	.....	.....	374	374
Peterson, Akin, estate, et al., Harvey	[2] 9	11	6	8	.....	.....	3	3	1,390	2,618	1,152	2,380	.....	.....	238	238
Robinson, Harve, Medora	6	6	1	1	.....	.....	5	5	2,136	2,136	413	413	.....	.....	1,723	1,723
North Dakota	3	3	.....	.....	.....	.....	3	3	572	572	.....	.....	.....	.....	572	572
Montana	3	3	1	1	.....	.....	2	2	1,564	1,564	413	413	.....	.....	1,151	1,151
Bischof, John, Zeland	5	5	1	1	.....	.....	4	4	1,677	1,677	376	376	.....	.....	1,301	1,301
Graves, H. T., et al., Jamestown	3	3	1	1	.....	.....	2	2	1,528	1,528	1,340	1,340	.....	.....	188	188
Ohio (December, 2 groups; June, 1 group)	8	4	5	3	2	1	1	.....	69,230	7,928	38,231	7,538	$29,152	$390	1,847	.....
Bane Ohio Corporation, Columbus	4	.....	2	.....	1	.....	1	.....	61,302	.....	30,693	.....	28,762	.....	1,847	.....
Mather, W. G., Cleveland—Michigan	4	4	3	3	1	1	.....	.....	7,928	7,928	7,538	7,538	390	390	.....	.....

Oklahoma (December, 8 groups; June, 9 groups)	73	69	52	41			21	28	101,152	92,775	96,768	86,896			4,384	5,879
Southwest Corporation,[23] Tulsa	21	5	16	5			5		77,753	66,638	76,510	66,638			1,243	
Oklahoma	19	5	14	5			5		76,181	66,638	74,938	66,638			1,243	
Kansas	1		1						915		915					
Texas	1		1						657		657					
Thurmond Bros., Oklahoma City	15	15	9	9			6	6	4,664	4,664	3,568	3,568			1,096	1,096
McCauley, H. A., Sapulpa	[24]	12						12		2,738						2,738
Douglas, H. T., et al., Shawnee	9	9	6	6			3	3	5,233	5,233	4,149	4,149			1,084	1,084
Johnson Bros., Shawnee Mounds	9	9	4	4			5	5	4,407	4,407	3,553	3,553			854	854
Wooten, H. K., Chickesha	6	6	6	6					3,139	3,139	3,139	3,139				
Mullendore, E. C., and family, Cleveland	5	5	4	4			1	1	3,158	3,158	3,082	3,082			76	76
Myers, W. D., Alva	5	5	4	4			1	1	1,909	1,909	1,878	1,878			31	31
Kansas	1	1	1	1					239	239	239	239				
Oklahoma	4	4	3	3			1	1	1,670	1,670	1,639	1,639			31	31
Vose, R. A., Oklahoma City	3	3	3	3					889	889	889	889				
Oregon (December, 7 groups; June, 6 groups)	35	32	16	14	5	5	14	13	80,126	80,170	68,424	66,632	3,353	2,936	8,349	10,602
Pacific Bancorporation, Portland	10	10	5	4	1	2	4	4	9,074	9,074	6,777	6,023	214	968	2,083	2,083
West Coast Bancorporation, Portland	9	9	7	7			2	2	18,853	18,853	16,724	16,724			2,129	2,129
Oregon	8	8	6	6			2	2	18,226	18,226	16,097	16,097			2,129	2,129
Washington	1	1	1	1					627	627	627	627				
Oregon Investors Corporation, Hillsboro	4	4	1	1			3	3	1,449	1,449	945	945			504	504
First National Corporation, Portland	3	3	1	1			2	2	42,080	45,308	40,101	40,101			1,979	5,207
Linn Securities Co., Albany	3		1		1		1		3,184		1,038		1,171		975	
McCoy, E. O., The Dalles	3	3	1	1	1	1	1	1	3,414	3,414	2,839	2,839	198	198	377	377
Wright, Will T., Oregon City	3	3			2	2	1	1	2,072	2,072			1,770	1,770	302	302
Oregon	2	2			2	2			1,770	1,770			1,770	1,770		
Washington	1	1					1	1	302	302					302	302

[23] Two banks sold to First Bank Stock Corporation. [23] Formerly Exchange National Co. [24] All banks suspended November, 1929.

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Pennsylvania (December, 12 groups: June, 12 groups)	47	47	15	15	9	9	23	23	$763,305	$742,052	$343,683	$343,683	$333,911	$312,658	$85,711	$85,711
Peoples Pittsburgh Trust Co., Pittsburgh	7	7	1	1	2	2	4	4	167,180	145,927	73,470	73,470	74,444	53,191	19,266	19,266
Union Trust Co., Pittsburgh	6	6	2	2	2	2	2	2	458,901	458,901	217,529	217,529	206,465	206,465	34,907	34,907
Commonwealth Trust Co., Pittsburgh	5	5	1	1	1	1	3	3	20,317	20,317	1,713	1,713	15,754	15,754	2,850	2,850
First National Bank, Johnstown	4	4	1	1	----	----	3	3	19,329	19,329	15,639	15,639	----	----	3,690	3,690
United States Finance Co., Carlisle	4	4	2	2	----	----	2	2	5,888	5,888	1,122	1,122	----	----	4,766	4,766
Bosak, Michael & Associates, Scranton	3	3	----	----	1	1	2	2	14,000	14,000	----	----	4,333	4,333	9,667	9,667
Butler County National Bank, Butler	3	3	2	2	----	----	1	1	9,784	9,784	9,784	9,784	----	----	----	----
Berwind-White Coal Mining Co., Philadelphia	3	3	1	1	2	2	----	----	5,062	5,062	244	244	4,818	4,818	----	----
Colonial Trust Co., Pittsburgh	3	3	1	1	1	1	1	1	32,200	32,200	2,220	2,220	28,097	28,097	1,883	1,883
Oswald, V. A., Altoona	3	3	2	2	----	----	1	1	7,592	7,592	5,142	5,142	----	----	2,450	2,450
Prindible, Geo. E., Patton	3	3	1	1	----	----	2	2	4,541	4,541	3,182	3,182	----	----	1,359	1,359
United States National Bank, Johnstown	3	3	1	1	----	----	2	2	18,511	18,511	13,638	13,638	----	----	4,873	4,873
Rhode Island: Industrial Trust Co., Providence	3	3	1	1	1	1	1	1	153,331	153,331	7,340	7,340	142,069	142,069	3,922	3,922
South Dakota (December, 5 groups; June, 6 groups)	30	35	6	10	----	----	24	25	11,057	13,526	3,200	5,606	----	----	7,857	7,920
Beebe, M. P., Ipswich	7	7	----	----	----	----	7	7	2,229	2,229	----	----	----	----	2,229	2,229
Schirber, F. W., Bents, J. J., and Kindred, H. J., Mobridge	6	6	1	1	----	----	5	5	788	788	249	249	----	----	539	539
Schneider, G. F., et al., Rapid City	6	6	----	----	----	----	6	6	3,701	3,701	----	----	----	----	3,701	3,701

Stiles, Fred B., Watertown	6	6	5	5			1	1	3,096	3,096	2,951	2,951			145	145
Greene, F. D., Cahalan, A. B., and Swanson, C. P., Miller	[25]	5		4				1		2,469		2,406				63
Weare, H. G., Spearfish, Wyo.	5	5					5	5	1,243	1,243					1,243	1,243
Tennessee (December, 4 groups; June, 5 groups)	87	23	19	8	1		67	15	183,139	91,727	112,919	62,151	11,140		59,080	29,576
Caldwell, Rogers, Nashville	66		12		1		53		131,308		78,642		11,140		41,526	
Tennessee	11		4				7		97,028		70,346				26,682	
Arkansas	55		8		1		46		34,280		8,296		11,140		14,844	
American National Bank, Nashville	15	11	4	3			11	8	35,470	34,012	27,388	26,279			8,082	7,733
Commerce-Union Group, Nashville	3	3	2	2			1	1	15,198	15,198	5,989	5,989			9,209	9,209
First National Bank, Pittsburgh	3	3	1	1			2	2	1,163	1,163	900	900			263	263
Fourth and First National Bank, Nashville	[26]	3		1				2		28,484		27,465				1,019
Nashville Trust Co., Nashville	[26]	3		1				2		12,870		1,518				11,352
Texas (December, 16 groups; June, 15 groups)	86	80	25	22	3	3	58	55	104,384	88,712	77,263	62,508	13,971	13,971	13,150	12,233
Wilkinson, J. G. & H. H., Fort Worth	12	12	3	3			9	9	9,517	9,517	8,223	8,223			1,294	1,294
Parrish, M. C., and associates, Austin	9	8					9	8	1,059	959					1,059	959
Crews, J. M., and associates, Childress	9	9	2	2			7	7	1,928	1,928	429	429			1,499	1,499
Thornton, R. L., and Mercantile Banking & Trust Co., Dallas	8	8			2	2	6	6	14,176	14,176			13,869	13,869	307	307
Fuqua, W. H., Amarillo	6	6	4	4			2	2	5,996	5,996	5,452	5,452			544	544
New Mexico	1	1	1	1					151	151	151	151				
Texas	5	5	3	3			2	2	5,845	5,845	5,301	5,301			544	544
Feagin, L. M., and Kirby, J. H., Houston	5	5					5	5	965	965					965	965
Couch, R. C. and D. R., Haskell	5	5	2	2	1	1	2	2	1,277	1,277	582	582	102	102	593	593
Staley, J. I., Wichita Falls	4		2				2		4,462		3,645				817	
New Mexico	1						1		397						397	
Oklahoma	1						1		420						420	
Texas	2		2						3,645		3,645					

[25] Taken over by First Bank Stock Corporation.

[26] Now included in Rogers Caldwell Group, shown above.

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Texas—Continued.																
Welhausen & Driscoll, Yoakum	4	4	1	1			3	3	$1,354	$1,354	$736	$736			$618	$618
Republic National Co., Dallas	4	3	2	1			2	2	45,835	34,725	43,460	32,350			2,375	2,375
Stewart, Carter, and Associates, Houston	4	4	3	3			1	1	6,830	6,830	6,031	6,031			799	799
Atmas, L. P., Groveton	4	4	1	1			3	3	1,423	1,423	901	901			522	522
Thompson, H. H., Houston	3	3					3	3	268	268					268	268
Weldon & Sweeney, Milwaukee	3	3	2	2			1	1	494	494	434	434			60	60
Moody, W. L., jr., and associates, Galveston	3	3	2	2			1	1	7,087	7,087	7,087	7,087				
Paul, F. A., & Associates, Panhandle	3	3	1	1			2	2	1,713	1,713	283	283			1,430	1,430
Utah (December, 5 groups; June, 5 groups)	50	51	13	13	8	8	29	30	70,160	70,262	35,632	35,632	$11,888	$11,888	22,640	22,742
First Security Corporation, Ogden	25	25	2	2	6	6	17	17	34,723	34,723	12,038	12,038	11,129	11,129	11,556	11,556
Utah	9	9	2	2	2	2	5	5	19,302	19,302	12,038	12,038	2,091	2,091	5,173	5,173
Idaho	14	14			4	4	10	10	13,860	13,860			9,038	9,038	4,822	4,822
Wyoming	2	2					2	2	1,561	1,561					1,561	1,561
Cosgriff, J. E, Salt Lake City	9	9	6	6			3	3	15,747	15,747	15,146	15,146			601	601
Utah	2	2	1	1			1	1	10,694	10,694	10,528	10,528			166	166
Idaho	4	4	3	3			1	1	2,574	2,574	2,312	2,312			262	262
Wyoming	3	3	2	2			1	1	2,479	2,479	2,306	2,306			173	173
Armstrong - Whitmore, Salt Lake City	7	7	4	4	2	2	1	1	4,487	4,487	3,534	3,534	759	759	194	194
Utah	5	5	2	2	2	2	1	1	2,722	2,722	1,769	1,769	759	759	194	194
Idaho	1	1	1	1					307	307	307	307				
Nevada	1	1	1	1					1,458	1,458	1,458	1,458				

Desert National Bank group, Salt Lake City	[27] 5	6	1	1			4	5	13,247	13,349	4,914	4,914			8,333	8,435
Chipman family et al., American Forks	4	4					4	4	1,956	1,956					1,956	1,956
Washington (December, 12 groups; June, 11 groups)	71	59	28	24	2	1	41	34	174,851	81,418	152,536	66,800	3,342	877	17,973	13,741
Old National Corporation,[28] Spokane	22	20	12	10			10	10	32,981	8,566	30,923	6,508			2,058	2,058
Idaho	5	5	3	3			2	2	3,325	3,325	3,026	3,026			299	299
Washington	17	15	9	7			8	8	29,656	5,241	27,897	3,482			1,759	1,759
Marine Bancorporation, Seattle	10	6	5	4			5	2	35,484	32,186	31,014	29,714			4,470	2,472
First Seattle Dexter Horton Securities Co.[29], Seattle	7	6	3	3			4	3	78,298	23,539	76,437	22,363			1,861	1,176
American Securities Co., Spokane	5	5					5	5	4,895	4,895					4,895	4,895
Butler, Wm. C., and associates, Everett	4		2				2		12,484		11,057				1,427	
Hall Investment Co., Carnation	4	3					4	3	703	516					703	516
Waddell, Hugh, et al., Colville	4	4	1	1			3	3	1,194	1,194	887	887			307	307
Bankers Holding Corporation, Seattle	3	3	1	1			2	2	849	849	428	428			421	421
Bingham, C. E., Sedro Woolley	3	3					3	3	1,334	1,334					1,334	1,334
Coffman Dobson Investment Co., Chehalis	3				1		2		2,439				2,158		281	
Fechter, O. A., Yakima	3		2		1				3,121		937		2,184			
Hannay, N. B., et al., Mount Vernon	[30]	3		1				2		1,675		1,329				346
Pacific Brotherhood Investment Co., Seattle	[31]	3		2		1				5,895		4,718		877		
Washington		2		1		1				3,250		2,373		877		
Oregon		1		1						2,345		2,345				
Roberts, F. M. and F. W., Seattle	3	3	2	2			1	1	1,069	1,069	853	853			216	216

[27] One bank merged with a bank outside the group.
[28] Formerly Union Securities Co.
[29] Formerly First National Corporation.
[30] Groups dissolved.
[31] Now part of Calitalo Investment Corporation group, San Francisco.

Number and loans and investments of banks in each chain or group—Continued

Name and address of management or controlling interest	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
Wisconsin (December, 6 banks; June, 5 banks)	38	33	13	11	----	----	25	22	$198,212	$191,277	$172,261	$166,390	----	----	$25,951	$24,887
First Wisconsin National Bank, Milwaukee	18	17	7	6	----	----	11	11	168,466	165,460	147,480	144,474	----	----	20,986	20,986
Coe, C. C., and Coe, A. E., Almena	5	5	----	----	----	----	5	5	1,660	1,660	----	----	----	----	1,660	1,660
Baker, Harry D., St. Croix Falls	4	4	----	----	----	----	4	4	879	879	----	----	----	----	879	879
Dunegan, J. W., Stevens Point	4	----	1	----	----	----	3	----	3,929	----	2,865	----	----	----	1,064	----
Rosebush, Judson, Milwaukee	4	4	3	3	----	----	1	1	9,709	9,709	8,801	8,801	----	----	908	908
Brown, C. C., Kenosha	3	3	2	2	----	----	1	1	13,569	13,569	13,115	13,115	----	----	454	454
Wyoming (December, 5 groups; June, 5 groups)	21	21	6	6	3	3	12	12	12,994	12,994	9,369	9,369	$940	$940	2,685	2,685
Hay, J. W., Cheyenne	5	5	2	2	----	----	3	3	6,381	6,381	5,764	5,764	----	----	617	617
Marble, A. H., Cheyenne	4	4	----	----	2	2	2	2	1,167	1,167	----	----	805	805	362	362
Wyoming	1	1	----	----	----	----	1	1	197	197	----	----	----	----	197	197
South Dakota	3	3	----	----	2	2	1	1	970	970	----	----	805	805	165	165
Williams, C. J., Hinman, G. A., and Paerson, W. E., Powell	4	4	2	2	1	1	1	1	908	908	745	745	135	135	28	28
Taliaferro, T. S., jr., Rock Springs	3	3	1	1	----	----	2	2	912	912	463	463	----	----	449	449
P. J. Quealy, Kemmerer	5	5	1	1	----	----	4	4	3,626	3,626	2,397	2,397	----	----	1,229	1,229

Mr. LETTS. I understand the statement with respect to the Minneapolis and St. Paul situation is ready to go in at this point.

The CHAIRMAN. Yes. Do you want to submit that now, Mr. Pole?

Mr. POLE. This statement did not refer specifically to any particular banks. You asked that that be included, and so I shall have to revise it.

The CHAIRMAN. If you will revise that and insert it, we will be obliged.

Mr. POLE. I will be glad to do so.

(The statement referred to is as follows:)

POSSIBLE CONTROL OF ELECTIONS OF FEDERAL RESERVE BANK DIRECTORS BY GROUP BANKS IN NINTH FEDERAL RESERVE DISTRICT

For purposes of election of class A and class B directors of Federal reserve banks, member banks in each Federal reserve district are divided into three groups, each electoral group consisting as nearly as possible of banks of similar capitalization. Each group of banks is permitted to elect one class A and one class B director. Each member bank certifies its first, second, and other choices for a director of class A and class B, respectively. Only one choice for any one candidate may be voted. A candidate having a majority of first choice votes is declared elected. In case no candidate has a majority of first choice votes, the first and second choice votes are added together and if any candidate then have a majority of electors voting he is declared elected; if not, the first, second, and other choice votes are added and the candidate then having the highest number is declared elected.

In the ninth Federal reserve district the electoral groups of member banks are as follows: Group 1 consists of banks having a capital and surplus of $400,000 and over, Group 2 of banks having a capital and surplus of from $60,000 to $399,999, and Group 3 of banks having a capital and surplus of less than $60,000. At the end of 1929, there were 683 member banks in the Minneapolis district, of which 30 were in Group 1, 299 in Group 2, and 354 in Group 3.

The number of member banks in the ninth district belonging to the Northwest Bancorporation group and in the First Bank Stock Corporation group, together with the percentage of the number of banks in each of these groups to the total number of banks in each electoral group are shown below:

Member banks in the ninth Federal reserve district, by electoral groups, December 31, 1929

	All member banks	Number of banks in—		
		Group 1	Group 2	Group 3
All member banks	683	30	299	354
First Bank Stock Corporation:				
Number	65	7	47	11
Per cent of total in group	9.5	23.3	15.7	3.1
Northwest Bancorporation:				
Number	55	[1] 13	30	12
Per cent of total in group	8.1	43.3	10.0	3.4
First Bank Stock Corporation and Northwest Bancorporation combined:				
Number	120	20	77	23
Per cent of total in group	17.6	66.7	25 8	6.5

[1] Includes 1 bank which joined the group in January, 1930.

It will be noted that the First Bank Stock Corporation and the Northwest Bancorporation together control 66.7 per cent of the member banks in Group 1, the group of largest banks, in the Minneapolis Federal reserve district; and it is manifest that acting together these two corporations could easily control the elections of class A and class B directors in this group by having the mem-

ber banks which they own vote for a particular candidate. On the basis of their present holdings, therefore, these two corporations by their combined action would be able to place upon the board of directors of the Federal Reserve Bank of Minneapolis a class A director and a class B director from Group 1. Moreover, the First Bank Stock Corporation and the Northwest Bancorporation together control approximately 25 per cent of the banks in Group 2 in the Minneapolis district. While this number is, of course, not sufficient to control absolutely the elections of class A and class B directors in the district, it is obvious that by acting jointly, they could give to any specified candidate a large number of votes and with some additional votes from independent banks might bring about the election of the desired candidate. This would be more easily accomplished in an election where there were several candidates in the field, in which case control of a plurality of the votes might be sufficient to elect. Under some circumstances, therefore, on the basis of present stockholdings, the two corporations acting together might conceivably succeed in electing a class A and a class B director from both Group 1 and Group 2 in the Minneapolis district, a total of four directors.

Acting separately, the Northwest Bancorporation, owning as it does, approximately 43 per cent of the member banks in Group 1, could probably control the election of class A and class B directors in that group in many cases, unless the opposition were united on one other candidate. The First Bank Stock Corporation, however, owning about 23 per cent of the member banks in Group 1, would probably find it difficult to compel the election of any candidate in the group unless it were able to obtain the support of at least some of the banks owned by the Northwest Bancorporation. It is doubtful whether either the First Bank Stock Corporation or the Northwest Bancorporation could, acting separately, control the elections of class A or class B directors in Group 2, as their separate holdings in this group are only about 16 per cent and 10 per cent, respectively.

As shown in the above table, the holdings of these two corporations in member banks in Group 3, the group of smallest banks, are relatively small and it is very doubtful, on the basis of the present holdings, that much influence could be exerted by these two corporations on elections of class A and class B directors in this group, unless it be by moral suasion or some method other than direct control of votes.

While the above shows the possibility of the control of elections of Federal reserve bank directors by group banking systems, I wish to point out that there would be no likelihood of similar control of such elections in the case of branch banking. A parent bank and all its branches constitute but one corporate entity and, accordingly, a member bank with any number of branches would be entitled under the law to only one vote in elections of class A and class B directors. For example, if the Northwest Bancorporation were a member bank with a large number of branches instead of a holding corporation owning stock in a large number of individual banks, it would have only one vote in elections of class A and class B directors, whereas it now controls a large number of votes as indicated above.

The CHAIRMAN. What is the attitude of your department when you are approached by the heads of these chain groups for the organization of banks in any particular territory? Do you lend them assistance and cooperate with them to the end that these groups may be developed?

Mr. POLE. I would not go so far as to say that, Mr. Chairman, because when a group undertakes to purchase a bank, it does not consult us unless it is a question of reorganization under a national charter which is sometimes the case—frequently the case—and in those circumstances we have always been very glad indeed to do what we can to promote a better state of affairs in any particular locality.

The CHAIRMAN. You have no notice, then, when a national bank is taken over by one of these groups until you examine the stockholders' list?

Mr. POLE. Not necessarily.

The CHAIRMAN. And you do not take any cognizance of it?

Mr. POLE. No; we can not take any more cognizance of that than we can the transfer of the stock into other hands than the group.

The CHAIRMAN. Have you ever suggested to the organizers of these groups the merging or taking over of a national bank in any of these groups?

Mr. POLE. I have not. There may have been some such suggestions upon the part of our chief examiners or examiners in the field.

The CHAIRMAN. Is your department or are your chief examiners consulted in regard to the organization of these various holding companies affiliated with the banks?

Mr. POLE. What is that, Mr. Chairman?

The CHAIRMAN. Is your department or the chief national bank examiners consulted in connection with the organization of these affiliated companies with national banks?

Mr. POLE. Usually our organization department is consulted, in order that a method may be adopted which has been approved, of declaring a dividend and using the proceeds of such a dividend for the capitalization of the affiliated company.

The CHAIRMAN. Does that extend to the point of approving or disapproving the organization of these companies?

Mr. POLE. No; we do not have to approve or disapprove.

The CHAIRMAN. I understood you to say the other day that we did not need any larger banks in the central reserve cities. Was I correct in this? To which cities did you refer?

Mr. POLE. Chicago and New York are the central reserve cities.

The CHAIRMAN. Suppose two or more of the big banks in one of these cities wanted to merge or consolidate; is it the practice of your department to protest or approve, or could you stop, if you wanted to, such consolidation or merger?

Mr. POLE. Consolidations of banks has to be made with the approval of the comptroller.

The CHAIRMAN. None of these mergers could be brought about without the approval of the comptroller?

Mr. POLE. Consolidation can not be brought about otherwise.

The CHAIRMAN. The other day you said, in answer to a question, that you were largely responsible for much of the branch banking discussion going on at the present time. How did you mean that?

Mr. POLE. I mean that through my report to Congress, and through addresses which I have made, interest over the country has been aroused in the banking situation, particularly with respect to the banking situation in the rural communities, where the failures have been very large.

The CHAIRMAN. Are you carrying on any propaganda in favor of branch banking or chain banking or group banking?

Mr. POLE. None whatever.

The CHAIRMAN. I have here a report of the Comptroller of the Currency, sent out by the National Shawmut Bank of Boston, it apparently having been sent to banks generally. It is dated December 2, 1929, and pertains to legislation recommended, and it is printed at the United States Government Printing Office.

Was that sent out as a circular to the banks for distribution?

Mr. POLE. May I look at it? [After examining document.] I know nothing about this. Mr. Awalt says that he does.

The CHAIRMAN. Can Mr. Awalt tell us about it?

Mr. AWALT. As I remember it, Mr. Chairman, an officer of the Shawmut Bank came into the office in Mr. Pole's absence from the city one day and asked if we could furnish them with some of the copies of our annual report, and I said we could not. He wanted quite a large number. I called up the statistical division of our office, and they told me that some banks had desired copies of the comptroller's report and an arrangement had been made that they could get them from the Government Printing Office by getting in touch with the Public Printer and having them printed and paid for, and I assume that that was done in this case. I do not know why they wanted it.

The CHAIRMAN. The reason I mentioned it is that it seems that these are being sent out to the banks of the country as part of a movement apparently to encourage certain forms of development.

Mr. AWALT. I might suggest that if the committee desires to find out the exact reason they call the officers of the Shawmut Bank. I do not know what their reason is, and we did not approve anything of the sort.

Mr. LUCE. It might be useful in the record to have it appear at this point that any citizen may secure from the Government Printing Office, at cost plus 10 per cent, any public documents that he may desire.

The CHAIRMAN. I was not raising that question, but raising it in connection with the dissemination of information that Mr. Pole referred to the other day, as to whether the discussion was being brought about from the comptroller's office, or whether it was proceeding independently of that, or just what there was to that.

Mr. LUCE. I have an ulterior motive in making the statement that I did, because I desire to take every opportunity to correct the wrong impression on the part of the public that members of Congress are working the Public Treasury in the wide distribution of literature at public expense.

Mr. WINGO. I think it might be well, for reasons not necessary to elucidate here—and the public seems to have developed a suspicion along these lines—to make it appear affirmatively in the record that what has been done, that what the Shawmut Bank has done is not reprehensible at all but what they had a right to do. You and I have seen some things go out in the last few weeks that are perfectly innocent, and yet the newspapers seem to think something terrible is suggested. So I do not think a reputable person or a reputable institution like a bank should be suspected in a case like this of having done something terrible where they have acted properly. They have done what any citizen has the right to do, go to the Public Printing Office and get copies of documents and pay for them. The Government does not lose any money. In other words, the right of legitimate propaganda is really a part of the right of free speech and freedom of press.

The CHAIRMAN. Now, Mr. Pole, reverting to that question I asked some few moments ago which was referred to by Mr. Fort the other day; take, for instance, St. Louis, as a trade area. You avoided answering Mr. Fort fully in his question the other day about how many banks you think, that city should have under your plan. For instance, do you think it should have 1, 2, 3, or more banks, and just how would you parcel out the business in the city? Would you, in

case there were four big banks with branches, permit each of the four to have a branch on each of the four corners of a location, or just how would you do it? Would you divide the city into four districts, one bank to serve each district, and where national-bank stocks are owned by group, chain, or holding companies, how are the stocks registered on the books of the bank, correctly or in the names of dummies—I think you have answered on this last feature.

When you answer this question, I wish you would specifically set forth just how you would deal with a specific trade area like St. Louis, for instance, so that the committee may understand just how this plan of branch banking would work out. If you will add that to the brief you are preparing——

Mr. POLE. You wish me to add that to the brief on trade areas?

The CHAIRMAN. Yes.

Mr. POLE. I thought you wanted me to answer it now.

The CHAIRMAN. Do you regard the national banking system as a unit banking system?

Mr. POLE. A unit and a branch banking system.

The CHAIRMAN. Your branches being confined to the cities?

Mr. POLE. There are also branches of national banks outside of the cities which have resulted from the conversion of State branch banking systems.

The CHAIRMAN. As I understand your testimony, you believe that we have arrived at the point where we should look the situation squarely in the eye as to these banks and recommend an enlargement of the functions of the national bank business as now conducted?

Mr. POLE. Yes, as being the only remedy which occurs to me, as the only one which will carry to the rural communities a safe and sound banking service.

Mr. STEAGALL. Right there, let Mr. Pole insert the figures showing the development of branch banking in point of capital and the number of branches since the passage of the McFadden Act.

The CHAIRMAN. February 25, 1927.

Mr. WINGO. Let that show not only the branches established by direct authorization, but those that have come into the national system by reason of mergers or by reason of taking over State banks. I think that is in your annual report.

Mr. POLE. It is.

Mr. WINGO. But it might be wise to get it into the record at this point.

The CHAIRMAN. Without objection, when Mr. Pole supplies that it will be put in the record at this point.

(The information requested is reproduced below.)

BRANCHES

In the comptroller's report for the year ended October 31, 1927, the statement was made that under the provisions of the act of February 25, 1927, the Comptroller of the Currency had approved the establishment of new city branches to the number of 127. In the year following 103 new city branches were authorized and during the year ended October 31, 1929, the number authorized was 89. Of the 319 local branches authorized by the comptroller 75 have been discontinued leaving the total of city branches now in operation authorized by the comptroller under the provisions of the McFadden Act as 244.

During the past year 2 branches were added to the system through the conversion of a State bank and 82 branches were added through the consolidation of

State banks with national banks. These additions, together with those branches in the system under date of October 31, 1927, less 104 branches dropped through action of directors and shareholders or liquidation of national banks make a total of 1,061 branches in existence in the national banking system as of October 31, 1929, summarized as follows:

Classes	In operation Feb. 25, 1927	In existence Oct. 31, 1928	Authorized during year ended Oct. 31, 1929	Closed during the year ended Oct. 31, 1929				Total in existence Oct. 31, 1929
				Shareholders	Directors	Lapsed	Voluntary liquidation	
Statutory {a	165	469	2				44	427
Statutory {b		162	82	1				243
Additional offices, c branches	202	168			1		25	142
Millspaw Act	5	6				1		5
C branches		187	89		5	10	17	244
Total	372	992	173	1	6	11	86	1,061

The CHAIRMAN. I would suggest to the committee that our committee has charge on the floor this morning of two bills, and probably we had better recess.

Mr. GOLDSBOROUGH. Mr. Chairman, it seems to me that the rule under which this hearing is being conducted has worked out so far very satisfactorily, and I am going to suggest that when we further hear Mr. Pole, the same procedure be carried out. In other words, there are certain of the members, I am sure, who, because of the discussion, have other questions that they would like to ask, and if the chairman would just begin and go around the committee as we did before, I believe it would be better than to have a round table discussion.

The CHAIRMAN. The Chair will be very glad to comply with that. There are some members of the committee who have not had their opportunity to question the witness.

Without objection, we will stand adjourned until 10.30 o'clock to-morrow morning.

(Thereupon, at 11.57 o'clock p. m., an adjournment was taken until Thursday morning, March 6, 1930, at 10.30 o'clock.)

BRANCH, CHAIN, AND GROUP BANKING

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Thursday, March 6, 1930.

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

The CHAIRMAN. The committee will come to order.

Mr. Dunbar, would you like to proceed now?

STATEMENT OF HON. JOHN W. POLE—Resumed

Mr. DUNBAR. Mr. Pole, you stated that the great number of failures in banks have occurred since 1921—I think it was 5,000—is that correct?

Mr. POLE. Five thousand six hundred and forty.

Mr. DUNBAR. To what extent do you think that the failures of these banks were due to conditions existing since 1921? The reason I ask that question is this, that I was a member of the Committee on on Banking and Currency nine years ago and we at that time had confidential information that if the banks in Iowa were required to liquidate and to do so within two years' time, 95 per cent of them would prove to be insolvent.

Now, then, to what extent have these bank failures in small communities been due to conditions existing since that time?

Mr. POLE. I think it has been due in considerable part to the economic conditions.

Mr. DUNBAR. Those banks at that time were practically insolvent but we were told that if they were given a chance, probably they could recuperate and that they might become solvent, and we were also informed that the condition of many small banks throughout the United States was the same. Has not the failure of these banks in rural communities largely been due to the fact that they have been unable to recover from the effects of frozen paper that they had in their possession at that time?

Mr. POLE. Undoubtedly that has had its effect.

Mr. DUNBAR. Do you believe that if the banks at that time had been solvent in a fair proportion, that we would have had the bank failures in recent years that we have had?

Mr. POLE. The banks were not insolvent as far as the national banks were concerned. Just as soon as we would discover a condition of insolvency, the law requires us to take charge of that bank or to put into effect such remedial measures as are available.

Mr. DUNBAR. Does this figure of 5,640 that you have given us relate to national banks alone, or to national and State banks?

Mr. POLE. National and State banks.

Mr. DUNBAR. Can you tell us how many of them were national banks?

Mr. POLE. There were 763 national banks, and 4,877 State banks.

Mr. DUNBAR. Which shows that the national banks are better supervised and better conducted than the State banks.

Mr. POLE. We must take into consideration the fact that there were almost three times as many State banks as national banks.

Mr. DUNBAR. But the proportion of failures is 3 to 1—is that correct?

Mr. POLE. Approximately, in ratio to the number of banks.

Mr. DUNBAR. Of course, you have no supervision over any State banks except in so far as they are members of the Federal reserve system.

Mr. POLE. We have no supervisory powers over those banks.

Mr. DUNBAR. A large number of the banks that have failed have been banks as to which you had no power or authority to regulate their affairs—is that correct?

Mr. POLE. Very largely.

Mr. DUNBAR. You said that if a $100,000 capitalization were required of all banks, that it would close a great many banks in that area and that there would be a tendency to monopoly.

Mr. POLE. In the smaller communities, because there were in the United States on June 30, 1929, 5,468 banks with capital of less than $25,000; 5,357 banks of $25,000 capital; 6,031 banks with capital above $25,000, but not exceeding $50,000; and 1,073 banks with capital above $50,000, up to, but not including, $100,000. So that out of 24,912 banks, there were 18,000 which had caiptal under $100,000.

Mr. DUNBAR. In a community in which there is a large number of State banks, how would the requirement that a national bank have a capitalization of $100,000 produce a monopoly?

Mr. POLE. Because a bank has necessarily to have a sufficient territory from which to draw business, which will enable it to earn a reasonable profit on its capital investment, and, in addition to that, it must have an area which will permit of reasonable diversification.

Mr. DUNBAR. If it were a monopoly, it would have all those advantages, would it not?

Mr. POLE. It would have those advantages, but it would also deprive many communities of banking facilities which they are entitled to.

Mr. DUNBAR. Then you are in favor of communities having banking service in addition to the service to be rendered by national banks with $100,000 capitalization?

Mr. POLE. I am in favor of that.

Mr. DUNBAR. If you established branch banking systems in those communities, will that not drive away all of the State banks that are now serving those communities?

Mr. POLE. If national banks were given the right to extend their branches, that probably would have the effect of getting a great many State banks into the national system.

Mr. DUNBAR. Do you think it would get a great many of these small banks into the national system?

Mr. POLE. I think a great many of those small banks would become branches of a bank which would be a member of the national system, provided the advantages which were given to the national bank were such as to make the national system more attractice than the State system.

Mr. DUNBAR. What would you suggest in the way of advantages that we could give the national banking system that would make it more attractive than State banks?

Mr. POLE. If the national system were permitted to extend its branches across State lines, it would be such an advantage.

Mr. DUNBAR. You take Indiana and Ohio, for instance; we have the cities of Cleveland and Cincinnati, and their banks would come over into Indiana and compete with Indianapolis, Evansville, and every one of the other large cities. What would be the object of that? Why should they compete with one another in the different cities? Those cities are large capital centers.

Mr. POLE. As far as Cleveland and Cincinnati are concerned, my suggestion, in order that the development of the branch system might be orderly, is that a bank should not be permitted to branch out into a city in which there was a Federal reserve bank or a branch of the Federal reserve bank.

Mr. DUNBAR. You so stated the other day.

Mr. POLE. Yes.

Mr. DUNBAR. But now we have communities in which the banks in existence are earning 10 and 12 per cent. They are prosperous, but they can not furnish all of the credit required by local manufacturers. Now, then, might not the plea be made that because they can not extend that credit, a branch bank would be justifiable in the opinion of the Comptroller of the Currency?

Mr. POLE. It might be so.

Mr. DUNBAR. Then, if it were so, it would interfere with prosperous municipal banks that have filled the requirements made of them, with such assistance as they were able to give these manufacturers in obtaining credits in large cities?

Mr. POLE. That is the case now. Where banks are not able to accommodate the larger borrowings of their communities they now have to go to these larger cities.

Mr. DUNBAR. That is true.

Mr. POLE. My idea is that the business that has developed in that particular community would remain there, but it would be transacted through a branch, furthermore it does not mean because banks would be permitted to establish branches, that they would be compelled to do so.

In Indianapolis there is not a branch of the Federal reserve bank, is there?

Mr. DUNBAR. I do not know.

Mr. POLE. Indianapolis might be the center of a very large and important trade area of Indiana.

Mr. DUNBAR. It is now.

Mr. POLE. Yes. It might be found that it would not be necessary for them to take full advantage of what opportunities were offered them under such an amendment.

Mr. DUNBAR. That is true, but I can imagine a situation where some manufacturer might feel aggrieved in his dealings with the local bank and he would go to the Comptroller of the Currency and make his presentation to the effect that he could not be accommodated, and a branch bank would then be established in that community, which would interfere with and ruin the business of the banks which are there now. Do you not think that there is a high probability of

interference with the banking business by the granting of a charter to a branch bank in that kind of a community?

Mr. POLE. Under the suggestion which I have made, that there would not be much necessity for establishing de novo branches. There would be nothing to prevent, as far as I know, some Cleveland people coming down and buying a bank in Indianapolis, but, if they did buy it, I can not imagine that it would be such keen competition for the banks of Indianapolis.

Mr. DUNBAR. Theoretically it has been stated that a branch banking system would have been of great benefit in the South, the Southwest, and the Northwest.

Mr. POLE. Undoubtedly.

Mr. DUNBAR. But I fail to see wherein it would be of any advantage in Indiana. In the district I represent, we have 53 banks, and in 12 years there have been only 3 failures, 1 a national bank and 2 State banks. One State bank paid its depositors in full, the national bank paid about 90 per cent. The other is in process of liquidation. Most of the banks there pay large dividends, State and national, 10 and 12 per cent, and the only injury that has befallen them occurred in the debacle of last year's speculation when people began to use all their resources, borrowed from the banks, and lost their money in Wall Street. Now they are in the financial condition that they do not have money to deposit in banks and they do not have surpluses of necessary funds to engage in their enterprises, so that the country banks down there are somewhat embarrassed, because they do not have money to supply speculative losses. Now, the remedy, instead of establishing branches in those kinds of communities, is some law that would regulate speculation, because speculators borrowed money in those banks and invested it in New York. I know one bank in my own district that loaned $200,000. Banks sent large sums of money to New York for speculation because of high rate of interest. Those banks have been injured, but it has been due only to speculation.

Mr. POLE. Mr. Congressman, that era of speculation is of quite recent date and covered a comparatively brief period, whereas banks have been failing in rapidly increasing numbers since 1920.

Mr. DUNBAR. National or State?

Mr. POLE. Both national and State; and there have been 115 banks fail in Indiana—more than 10 per cent of all the banks which were in existence in 1920. Under the branch banking plan, if it were not found to fit the particular State or the particular community to which you refer, it would not be compulsory for them to go into the branch-banking business. It would be easily possible for the important banks of Indianapolis to continue as an independent bank, perhaps taking advantage of the law to the extent of operating branches within a short distance of Indianapolis, but if banks of $100,000 minimum capital are to be established, it would deprive a great many communities in Indiana of banking service to which they are entitled, and my chief interest, as has been already expressed, is particularly with the rural banking situation.

Mr. DUNBAR. A branch bank would have available to be loaned not only $100,000, but a great many times $100,000, and it would then interfere with the banks in the communities.

Mr. POLE. It would offer to any community in which it operates a branch its entire and complete facilities.

Mr. DUNBAR. I do not see any objection to a national bank having a capitalization of $100,000 being authorized for the simple reason that it would tend to promote a monopoly of banking institutions in the country, when the branch banks would certainly do it, with the great increased availability they have of loaning money to the community.

Mr. POLE. The point was raised that branch banking would tend to create a monopoly in banking, and as a remedy for the situation which exists in the rural communities, it has been suggested that banks of not less than $100,000 capital be established, and it was there that I presented the argument that, such capital limitation would be more apt to create a monopoly among the small communities, which might be just as dangerous as a monopoly among the large communities, inasmuch as perhaps two banks could not succeed if their capital had to be $100,000 or more unless they had territory sufficient to attract an amount of business necessary to make such a capital profitable.

Mr. DUNBAR. I do not see where the objection would be to a national bank having a capital stock of $100,000 on the theory of producing a monopoly, because if it did shut out some of these small banks, so would branch banks. I believe it would be beneficial to the entire community with the supervison given by the bank examining system which you have.

Mr. POLE. It is not a question of supervison entirely. It is a question of ability to earn a fair return on invested capital.

Mr. DUNBAR. I think a $100,000 national bank in my section of the country would be able to earn a fair investment on its return, because, with few exceptions, every bank in 12 years has been able to do so. And I am of the opinion that branch banking, except as it may be developed from now on on account of speculation indulged in a year ago, would have no beneficial result in that district. However, I believe that there are a great many States where it would have beneficial results. At the same time, I recognize that theoretically it is the right idea of banking. One of my objections to branch banking is that it is going to run out all community banks eventually, and it is going to supersede every banking system in the United States outside of the large banking centers, and in doing that there will be a tendency to develop toward paternalism, and then, following paternalism, socialism.

We see that illustrated in our holding companies; we see it illustrated in our chain stores, and we see it illustrated in our great corporations, which are taking away the individuality of the people of all the communities, and making them of no avail.

I used to be secretary of the American Gas Association. I remember 25 years ago when we would attend the convention of that association, every man had the courage of his convictions and would get up and express his opinion. I attended a meeting last October at Atlantic City, and there were 5,000 in attendance. I looked over that crowd and I was glad that I was not one of them, because but few of them had an opinion of his own; a man had to look to the fellow higher up if he wanted to talk, and he had to talk so as to get the approval of the man higher up. They were all college graduates, but all of them were impotent so far as having any personality or individuality or sovereignty because they were desirous of having the

approval of the superior, and I was glad that I was no longer connected with an organization that had to be servile to somebody, just because they had the money and knew how to manipulate politics.

Now, if we have branch banking, that is only adding to that condition of man, and I hate to see the individuality that used to exist on the decline.

Do you not think that that would be one tendency of branch banking, to promote paternalism, and, following that, socialism?

Mr. POLE. I have expressed myself as deploring the passing of the unit bank. I do, however, recognize that there is a banking condition in this country which must be remedied, with the tremendous number of failures with which we have been faced during the last nine or ten years, and with the earning position of the thousands of banks in this country to-day I feel sure that something must be offered as a remedy for it.

Mr. DUNBAR. Do you not think——

Mr. POLE. May I go on?

Mr. DUNBAR. Surely; pardon me.

Mr. POLE. After giving the matter considerable thought, the idea which has appealed to me as being the most effective is the branch banking system, and that particularly because I believe it is far better than the chain system or the group system. Now, inasmuch as there must be in my opinion some remedy for the situation, I recognize that it is very difficult to suggest anything which would be equally effective in every part of this great country. The conditions in Indiana are so different from the conditions in the Dakotas, that it is difficult to prescribe any remedy which will be equally fitting. That there is a necessity for remedy is well recognized and because of legal restrictions against branch banking there has sprung up in this country already a large number of chains and groups. National banks reported as members of banking chains or groups numbered 791 at the end of December, as compared with 646 in June

Mr. DUNBAR. Pardon me, but are not those chains or groups confined to the corporate limits in which the banks operate?

Mr. POLE. By no means.

Mr. DUNBAR. Do you mean to say that a bank in Cincinnati that has a chain will go into Indiana, into Kentucky, and into adjoining communities?

Mr. POLE. I am not specifically referring to Indiana, but in certain sections of the country State lines and Federal reserve district lines have been entirely disregarded.

Mr. DUNBAR. By what authority?

Mr. POLE. Through the organization of holding companies under State charters.

Mr. DUNBAR. We have no jurisdiction whatever of holding companies under State charters, have we?

Mr. POLE. As far as I know, we have not.

May I continue this?

Mr. DUNBAR. Yes.

Mr. POLE. State banks, members of groups in December numbered 134, compared with 111 in June, and nonmembers 1,144, compared 1,049 in June. Loans and investments of national banks belonging to banking groups were $5,600,000,000, or about one-fourth of the total of all national banks, where loans and investments of State

member banks belonging to the groups aggregated $3,000,000,000 and of nonmember banks $1,800,000,000.

I was trying to show there that the 2,069 banks reported as belonging to banking groups or chains at the end of the year constituted one-twelfth of all the banks in the country, while the loans and investments of groups and chain banks were about 10,500,000,000 or nearly one-sixth of the aggregate loans and investment of all banks in the United States.

So, as I say, we are faced with that condition now——

Mr. DUNBAR. Due to State charters?

Mr. POLE (continuing). And the question is, Would it be preferable to regulate it by law, or would it be better to let it develop as it is doing without regulation?

Mr. DUNBAR. But if the Legislature of Indiana would be averse to such a system of banking, we would be secured against these branch banks and group banks going far.

Mr. POLE. I do not know how far the laws could be amended to cover such a situation.

Mr. DUNBAR. We would have a right to control our own affairs within our own State, except in so far as it did not interfere with Federal law.

Mr. POLE. It might be possible to keep a group formed outside of the State of Indiana from owning the stock of banks within the State of Indiana.

Mr. STRONG. I am not so sure that it would be possible by a State law to keep another State from bringing a bank into that State.

Mr. AWALT. Of owning the stock in a bank in that State, which would be possibly controlled, and therefore part of the chain.

Mr. STRONG. They could prevent the majority of the stock being owned outside, could they not?

Mr. POLE. That is a legal question I am not prepared to answer.

Mr. STRONG. I think they could.

Mr. DUNBAR. I am not a lawyer, but I do not understand how any banking law of Indiana could not exclude branch banks from adjoining States being legalized unless they were Federal.

Now, Mr. Pole, I recognize the theory of branch banking as being economical as applied to the Southwest, the Southeast and the Northwest, but do you not believe that it would be more conducive to the development of man, his courage, his ingenuity, his resourcefulness, not to have it, and that after the people in these various communities had suffered, they would find a way to overcome their difficulties?

Mr. POLE. I am trying to assist them along that line.

Mr. DUNBAR. By branch banking?

Mr. POLE. Yes.

Mr. DUNBAR. I do not think it would do it, although I do recognize it would help those communities at this time.

Mr. STRONG. Do not admit it for our community.

Mr. DUNBAR. What is your community?

Mr. STRONG. Kansas. Do not admit that branch banking would help us. It would not.

Mr. DUNBAR. It would not help us in Indiana, and I do not think it would help any of the States on the Mississippi River. I think it would help some of the States west of the Mississippi River, but I believe if they were put upon their own resources and made to

realize that they had to devise their means and plans to make the banking system successful, they would do so.

I want to ask about the Bank of Italy. That is a branch bank system, is it not?

Mr. POLE. Yes.

Mr. DUNBAR. How did they acquire all their banks? Did they purchase existing banks?

Mr. POLE. In a good many instances.

Mr. DUNBAR. In a great many instances they purchased banks?

Mr. POLE. Yes.

Mr. DUNBAR. To what extent were the existing banks coerced into selling?

Mr. POLE. I am not able to answer that.

Mr. DUNBAR. Can you tell us how those that were not purchased succeeded after the Bank of Italy expanded?

Mr. POLE. I am hardly able to answer that.

Mr. DUNBAR. Would not the natural presumption be that after the Bank of Italy began to obtain such a strong fortress, all the other banks of the community had to surrender on best terms?

Mr. POLE. That is a good many years ago.

Mr. DUNBAR. Do you not believe that if branch banking were made effective in Indiana, the banks there would have to surrender and sell out on best terms?

Mr. POLE. Not necessarily so. I can visualize a strong bank in an Indiana town that is well managed and a profitable institution competing quite successfully with any branch which might be operated from Indianapolis?

Mr. DUNBAR. I do not mean Indianapolis. I am down on the Ohio River, in the "sticks."

Mr. POLE. Did you not say Indianapolis?

Mr. DUNBAR. No, sir. I did a while ago.

Mr. POLE. I thought you referred to Indianapolis.

Mr. DUNBAR. Let us take a bank at Mitchell, Ind., which has a capitalization of $100,000 and a surplus of $100,000. We have institutions there that borrow $500,000, and the bank can not lend that money, but it can advise where the money can be borrowed.

Suppose some one says, "We want a branch bank here that can lend us all their money." What chance would that $100,000 bank with a $100,000 surplus have after a branch bank came in. Because it would lose one of its best customers, and it would lose other customers, because it is easier to go right to a bank in your home town and get all your money.

Mr. WINGO. Mr. Chairman, if the gentleman will permit me, it is evident that he has not read the hearings of this committee some years ago where the methods of the Bank of Italy in extending its branches and destroying independent banks in other communities were fully pictured, and both sides were presented here.

Mr. DUNBAR. I never read it.

Mr. WINGO. I suggest that you can get there a concrete illustration of what happens.

Mr. DUNBAR. What happens?

Mr. WINGO. They drive them out of business.

Mr. DUNBAR. The independent banks?

Mr. WINGO. Yes.

Mr. DUNBAR. And that would be the case if we had branch banks in Indiana.

Mr. WINGO. May I suggest that there would be no virtue in the proposal if you did not, because you say the present situation is a bad one, and to get rid of what you call these weak banks is one of the alleged virtues of the branch-banking scheme, to give service to the community of stronger and better institutions. I did not know anybody was insisting that there should be branch banking and still at the same time expect that what they regard as unprofitable and economically unsound institutions continue. I thought they were going to supplant the present system with what they claim will be a stronger and better one.

Mr. DUNBAR. Would you regard the present system at Mitchell, Ind., as one which should be supplanted?

Mr. WINGO. I do not know anything about that system.

Mr. DUNBAR. Take any bank in any town that has a capitalization of $100,000 and had to loan $500,000 perhaps to one institution. Would you regard that system as being ideal because they had to go out and borrow money in different cities, or would you consider it a system that was worthy or that should be supplanted?

Mr. WINGO. No; I am a great believer in the independent, unit bank. I have always opposed branch banking, chain banking and group banking. If you can show me that changed conditions make branch banking necessary I shall be glad to hear you.

Mr. DUNBAR. I think branch banking might have been the salvation of some of the communities of this country, but I believe that, having lost their all, they should begin over again and begin on a sounder basis.

Mr. STRONG. The evident purpose of branch banking is to build up a monopoly in banking; that has been the result of every branch bank group that has started, and consequently they have had to drive out competing banks to establish the monopoly. Otherwise there would be no use of starting it.

Mr. DUNBAR. That is what I am afraid of.

Mr. STRONG. It is the purpose of it.

Mr. DUNBAR. I wanted information from Mr. Pole on that subject.

Mr. POLE. I should differ with Mr. Strong when he says that it is the evident purpose of such a system of banking to drive out competition. I think there will be ample competition in branch banking, and where branch banking has been developed in this country there is no lack of competition, and the banking situation in California, where branch banking has been developed beyond that of any other State, shows over a period of 10 years an infinitely more satisfactory condition with regard to bank failures than most of the other States.

Mr. DUNBAR. That is undoubtedly true.

Mr. BUSBY. Will the gentleman yield?

Mr. DUNBAR. Yes.

Mr. BUSBY. Would you call the absorption of the Bank of Italy, the Bancitaly and the other associated corporations by the Trans-America Corporation, issuing stock that was worth on the market less than one-fourth of the value originally of the Bank of Italy, a failure, or what would be your designation of the changed conditions of the Bank of Italy under the circumstances we find it to-day from what it was in June, 1928? It is not an independent entity any more

in the sense that the stock is owned as bank stock is usually owned, but the stock is owned by the Trans-America Corporation and is worth now less than one-fourth of what the Bank of Italy stock was in June, 1928.

What was that but a failure in the sense that the stock depreciated three-fourths of its value?

Mr. POLE. That was the stock, Mr. Busby, of the Trans-America Corporation of which you are speaking.

Mr. BUSBY. No, I am speaking of the Bank of Italy. The Bank of Italy is not an independent stock proposition, for the Bank of Italy stock is not listed any more, but the Trans-America stock is listed, and the Trans-America stock was traded on the basis of 1¾ shares for 1 share of Bank of Italy, and that stock is listed to-day at 45, whereas the Bank of Italy stock on June 5, 1928, was listed at 293. That is a drop from 293 to 66¼ at the present time. As to the Bancitaly Co., which was more or less of a trust corporation—Bancitaly Corporation, as it was called—the stock on June 5, 1929, was listed at 211, and that stock was exchanged for Trans-America Corporation stock, share per share, and the Trans-America Corporation stock is listed to-day at 45.

Was not that practically a failure of the whole Bank of Italy system?

Mr. POLE. I think that stock may have been split. I am not sure of that.

Mr. BUSBY. No; I have photographic copies of the history of it, taken from one of the reputable sources of information. It was handled in this way; it was exchanged share for share for Trans-America Corporation, and it is worth 45 cents now.

Mr. FORT. He has used the date of June 5. On the following day, or two days later, was not that stock worth on the market something more than $200 less?

Mr. BUSBY. I will give you the history of it, if you will permit me, Mr. Dunbar.

Mr. DUNBAR. Yes.

Mr. BUSBY. On Saturday, June 9, the Bank of Italy closed at 280. On Monday it opened—Monday, June 11, 1928—at 257. It experienced a low of 125, and it closed at 212. On Tuesday its high was 250, and its low was 150¼; it closed at 210, and it wiggled down the line until the 23d, when we find it standing about 180.

Now, as to its companion corporation, the Bancitaly Corporation, on Saturday, June 9, 1928—and this is after the slump had slightly started—it closed at 195. On Monday, June 11, 1928, its high was 177, and its low 109, and it closed at 153. On Tuesday it opened at 140; its low was 120, and it closed at 135.

So the Bank of Italy, as an original institution, has dropped from its high pinnacle of 293 to, for exchanged stock in the Trans-America Corporation of New York and San Francisco, 66¼ cents per share of what was formerly the Bank of Italy stock, or 45 cents for Trans-America Corporation.

Mr. PRALL. Was there a corresponding decrease in the value of all bank stocks at that time?

Mr. BUSBY. There was not a corresponding decrease, although there was a slight and synpathetic decrease in other bank stocks, but they soon regained their position. However, the Bank of Italy stock, I find from following the San Francisco Chronicle quota-

tions through those periods, never did get back to its former footing, and finally was taken over by the holding company that I mentioned, which took over practically all of the six or seven interests that were represented by the Bank of Italy. I say "interests" because they were independent corporations doing different types of business in line and in sympathy with the Bank of Italy; and that is the biggest branch banking institution in the country.

Mr. POLE. You are speaking largely——

Mr. BUSBY. Will you please answer my question first? I was stating the condition, and asked you if that was not a virtual failure of this tremendous branch banking institution?

Mr. POLE. You are speaking here of the movements of stock largely of the Trans-America Corporation.

Mr. BUSBY. It was not organized at that time; it was organized on the 11th of October, 1928, after the considerable slump in the Bank of Italy stock, and was organized as a holding company for the purpose of taking over the Bank of Italy interest in its several forms.

Mr. POLE. There might have been considerable fluctuation—and I think there was—in the Bank of Italy stock, whatever causes it might have been due to.

Mr. BUSBY. I can explain the causes, which I think will interest Mr. Dunbar who is asking the questions of the comptroller. Do you understand the causes, Mr. Dunbar?

Mr. DUNBAR. Yes, but ask the question.

Mr. BUSBY. I will await another time.

Mr. DUNBAR. Do it right now.

Mr. POLE. I was going to add, in answer to your question, Mr. Busby, that regardless of the stock fluctuations of the corporation to which you referred, the truth is that the history of the Bank of Italy is that it has increased from very small beginnings steadily upward until to-day it is a bank with more than billion dollars of deposits.

Mr. DUNBAR. What is its capitalization?

Mr. POLE. May I incorporate that in the record?

Mr. DUNBAR. Yes. What dividends does it pay?

Mr. POLE. I will furnish that for the record.

Mr. FORT. Here is the figure on the Bank of Italy—invested capital, $106,253,731.

Mr. POLE. What is the capital stock?

Mr. FORT. I do not know that it is here.

Mr. LETTS. That is as of November.

Mr. DUNBAR. Can you tell us how much they have paid in dividends, Mr. Fort?

Mr. FORT. No.

(The information requested is as follows:)

The capital of the Bank of Italy National Association is $50,000,000. Dividend rate is 12 per cent.

Mr. DUNBAR. How many independent banks in California in the last 10 years have liquidated or been merged either with the Bank of Italy or with other institutions? Can you tell us anything about that?

Mr. WINGO. You mean either merged or sold out to the Bank of Italy, or acquired in some other way?

Mr. DUNBAR. Yes.

Mr. POLE. The Bank of Italy has to-day in the neighborhood of 300 branches. I think I could safely say that the majority of its branches outside the large cities were formerly independent banks. As to exactly how many were independent banks and how many were de novo branches, I have not the figures.

Mr. DUNBAR. Can you tell us how many independent unit banks there are now in California, and the amount of their capitalization?

Mr. POLE. I will be glad to furnish those figures for the record.

Mr. DUNBAR. Will you please inform us how many of them are national banks and how many are State banks?

Mr. POLE. Yes.

Mr. DUNBAR. Will you please put in the record their capitalization?

Mr. POLE. I will be glad to.

(The information requested is as follows:)

Three hundred and eighty-four unit banks in the State of California as of December 31, 1929. Of this number, 193 were national and 191 were State banks.

Mr. DUNBAR. Most of the bank failures have been State banks—I believe that was your assertion a while ago?

Mr. POLE. That is true.

Mr. DUNBAR. Most of these banks would never have been in existence if we had had the branch-bank system, would they?

Mr. POLE. A great many of them undoubtedly would not have been in existence.

Mr. DUNBAR. Have you any idea of the number of State banks that have failed in Indiana to date?

Mr. POLE. Indiana has been one of the States in which there have been fewer bank failures than in a good many other States. There have been 115 suspensions since 1921, up to December 31, 1929, which is 10.9 per cent of the 1,057 banks which were in existence on June 30, 1920.

Mr. DUNBAR. That is a good record?

Mr. POLE. In comparison with some other States, it is quite good, but 10 per cent of the number of banks in a State like Indiana is no record to be particularly proud of.

Mr. DUNBAR. Yet branch banking would not have assisted this very much?

Mr. POLE. I think it would have assisted it very much, because those banks generally are small banks in rural communities.

Mr. DUNBAR. If it would have assisted to a considerable extent, it would only have done so by knocking out the country banks, the good as well as the bad.

Mr. POLE. Which knocked themselves out by failing.

Mr. DUNBAR. But the good ones are still there and will be there, provided they can liquidate the financial losses due to stock exchange transactions.

Mr. POLE. May I just add one remark, and that is that because banks would be permitted to establish branches does not mean that it would be incumbent upon them to do so.

Mr. DUNBAR. I know it would not be incumbent, but it would be almost putting them in the position where they would have to surrender and give up like you would have to surrender and give up to bandits that accosted you.

Mr. POLE. That has not proved to be the case to any great extent.

Mr. DUNBAR. It would be almost that case, because I do not see how the banks in my district would exist if you had a branch bank there for the reasons that I have given you heretofore.

Now, I admit that branch banking in some sections of the country would be a wonderful panacea, and I also contend that if these banks that have suffered as a result of their own lack of adequate knowledge and conduct of business affairs can be made to recover and stand on their feet in the future, they will be better off, and I believe that most of these bank failures have been due to conditions existing prior to 1922; they have never been able to dispose of their frozen paper due to the depreciation in the value of farms of 50 per cent, all of which has rendered it impossible for those banks to recover their prestige, and conditions existing since that time have been such as to have forced many of them into liquidation.

Mr. POLE. Regardless of what the reasons may be, they have failed.

Mr. DUNBAR. They have failed, but the point I am making is that they failed because of conditions existing prior to 1922.

Mr. POLE. Might not those conditions prevail in the future?

Mr. DUNBAR. Yes.

Mr. POLE. Do we not want to guard against them? I do not mean to be questioning you.

Mr. DUNBAR. Do you want to guard against the banks getting into that condition as the result of their own fault?

Mr. POLE. It would be very desirable.

Mrs. PRATT. Mr. Dunbar, may I ask the comptroller a question?

Mr. DUNBAR. Certainly.

Mrs. PRATT. Mr. Pole, is it your idea to force a uniform system throughout the entire country, or to permit the present system to exist where unit banks have a sound position?

Mr. POLE. It is not my thought, Mrs. Pratt, that a bank should be forced to go into a branch banking system.

Mrs. PRATT. But my point is this: There would be perhaps a branch system formed in one section of the country, and if in another district present conditions were sound under the unit banking system, would you still feel it incumbent to go on with a uniform system, in spite of the fact that present conditions in connection with unit banks were sound?

Mr. POLE. It is not my idea that we could permit branch banking in one part of the country and not permit it in another. I do think, however, that it would be more effective in some parts of the country than in others.

Mrs. PRATT. It could be flexible?

Mr. POLE. It would automatically be flexible, because where unit banks are operating successfully and profitably there might be no inducement for them to sell out to any branch system of banking, and they might wish, as they have done in very many cases over the country, to continue as successful and profitable independent units. There are many instances where bankers will tell you that they want no better competition than that of branch banks.

Mr. DUNBAR. I think that is true, or would be true in many localities, but if you could have a branch banking system in some parts of the country, for the present at least it might be a good thing; but it would work hardship in other parts of the country.

We have talked a great deal about losses sustained by banks, about bank failures, which have been mostly State banks.

Mr. DUNBAR. We talked a great deal about bank failures, which were mainly State banks. It would be a good thing to have all banks, if possible, in the national banks system? Do you think that would be a good thing for the country? I might say that I do.

Mr. POLE. I think the national system, inasmuch as it is the only system through which the Government can enforce its policies, should be the predominating system. I am not prepared to say that it should be the only system.

Mr. DUNBAR. These financial losses that have been sustained are not as great as people think they are, usually.

Mr. POLE. I do not know what people usually think they are. They are a very impressive set of figures.

Mr. DUNBAR. How much has been lost by the stockholders of banks by failures in the last 10 years?

Mr. POLE. By stockholders?

Mr. DUNBAR. No; by depositors.

Mr. POLE. I am not able to say that, because out of 5,640 failures, 4,800 of them have been State banks and I have no idea as to what the loss to depositors in State banks has been. I do know that it has been very heavy and I think the loss which has been entailed has been nothing short of a calamity in the communities in which the failures have occurred.

Mr. DUNBAR. It is a calamity; it is true.

The CHAIRMAN. Will you yield for a minute? I want to suspend this inquiry just for a minute in order to call up two resolutions.

(Discussion off the record.)

Mr. DUNBAR. Now, I am not going to detain you much longer, but I wish, Mr. Pole, that you would give us the amount of losses to depositors caused by failures of national banks during the last 10 years. Can you do that?

Mr. POLE. Yes, sir.

The CHAIRMAN. I think that material has already gone in.

Mr. POLE. It has.

Mr. DUNBAR. Then, you need not put it in again.

Mr. SEIBERLING. If you have legislation here which would permit branches in trade areas, you could then have a main bank out in sections where you have no banking facilities, merely rent a room and put in a few employees and give banking facilities, and also protect the State banks by providing that no branch bank could be put in where they have banking facilities, without the consent of the State bank or the other bank, which would give them an opportunity to take over the bank, if it is desirable to be done.

I wish you would explain what you have in mind about that.

Mr. POLE. I could not imagine that the opinion of a State bank would be anything but a prejudiced opinion as to whether or not another bank should be established in that community, but, on the other hand, I, as comptroller, certainly would not permit the establishment of a branch in any community where the banking facilities were ample. As I have already stated, I think it would be, in practice, that very, very few de novo branches would be established. If a branch system wanted to establish branches in a community which was already adequately served, it probably would not get permission from the comptroller to do so.

On the other hand, if it wishes to negotiate with a bank already in existence, and they were willing to buy that bank and the bank was willing to sell, there would be nothing to prevent it doing so, in which case no doubt they would be permitted to establish that bank as a branch, which would not, of course, increase or decrease the number of banking offices in that community.

Mr. SEIBERLING. On the other hand, if they do not have facilities and needed them, that could be established by the way I have stated?

Mr. POLE. Yes.

Mr. SEIBERLING. Without any heavy overhead or anything of that kind?

Mr. POLE. Yes.

Mr. DUNBAR. You are opposed to holding companies, so far as the Government is concerned?

Mr. POLE. As an ultimate system; yes. As a possible step toward branch banking it has many good features.

Mr. DUNBAR. This step toward branch banking—the tendency would be for holding companies to develop?

Mr. POLE. If no legislation were enacted——

Mr. DUNBAR. Then, legislation would have to be enacted, in order to prevent the development of holding companies? To what extent have you holding companies? You spoke about that a while ago—only as State permits them to out into adjoining territory. There is no Federal law on the subject?

Mr. POLE. There is no Federal law on the subject.

They are developed to the extent that already there are included in such holding companies 2,069 banks, which are one-twelfth of all the banks in the United States.

Mr. STEAGALL. If you will pardon me——

Mr. DUNBAR. Yes.

Mr. STEAGALL. Mr. Pole went over those figures once already.

Mr. POLE. Yes. Those banks embrace $10,500,000,000 of loans and investments, which is nearly one-sixth of all loans and investments in the United States, and the group system of banks is growing most rapidly. There are new groups being formed every week and I hear rumors from all over the country of large amounts of capital being so employed.

Mr. DUNBAR. You think branch banking would prevent the growth of group banking?

Mr. POLE. I do to a very large extent.

Mr. DUNBAR. One more subject and I am through. You said that branch banking—at least I understood you to say it—would help prevent the centralization of money in New York and other money centers and would decentralize it and distribute capital all over the country. Am I correct?

Mr. POLE. Yes.

Mr. DUNBAR. That was the contention put forward for the adoption of the Federal reserve system and that failed. Capital has been centralized more in New York since the establishment of the Federal reserve system than ever before. Now, then, how would branch banking be any different from the Federal reserve system? Would not most of our branch banks be centralized right in New York and where

we had branch-banking corporations, say, in Pittsburgh and St. Louis, would they not still report right to New York as they do now?

Mr. POLE. I am not prepared to accept your premises as correct Mr. Congressman. While the banking resources of New York have tremendously increased since the establishment of the Federal reserve system, the resources of the other 11 Federal reserve districts have also tremendously increased, but as to whether or not New York has increased out of all proportion to the others, I am not prepared to say.

Mr. STRONG. Might I suggest that in the other districts, the Federal reserve banks are not quite as close to Wall Street, and that such close association tends to a concentration of wealth?

Mr. DUNBAR. Is it your opinion that the Federal reserve system has decentralized wealth and money?

Mr. STRONG. It certainly has not. It has centralized money every place where there is a Federal reserve bank.

Mr. DUNBAR. It has centralized it every place there is a Federal reserve bank, but, in your opinion——

Mr. STRONG. The big centralization has been in New York, because the Federal Reserve Bank of New York City is close to Wall Street—I mean in the same city.

Mr. STEAGALL. I am wondering about this: If the branch banking plan gives us a system of banks strong enough to compete with the strong monopoly tending banks, what need have we for the Federal reserve system?

Mr. POLE. The large banks now are heavy borrowers at certain periods and would no doubt continue to use the facilities of the Federal reserve banks.

Mr. STEAGALL. You do not think that would undermine or destroy the Federal reserve system—the elimination of the small unit bank?

Mr. POLE. I think that it is quite possible that under the present system, which has grown out of group banking, some small unit banks might leave the system. Already some groups have been formed, which are operating outside of the Federal reserve system.

Mr. STEAGALL. You think that evil is to be feared in the present situation?

Mr. POLE. I do not think an important branch bank would undertake to operate outside the Federal reserve system.

Mr. DUNBAR. I have nothing more, Mr. Chairman.

The CHAIRMAN. Mr. Strong.

Mr. STRONG. Mr. Comptroller, while the chairman has gone over very carefully one subject which I wanted to discuss, there is a matter I want to take up further with you and that is the examination of national banks. The information I want to get is this: The bank examiners are not paid from the Government Treasury, are they?

Mr. POLE. The banks, Mr. Strong, are assessed for the cost of the examination.

Mr. STRONG. Who sets the limit on the salaries for the examiners?

Mr. POLE. The salaries of the examiners are fixed by the Comptroller of the Currency, with the approval of the Federal Reserve Board.

Mr. STRONG. In the course of your examination by the chairman, you stated that our bank examiner department is now practically a training school; that you take them before they are experienced and

that after they have been with you a certain time and become experienced, some big bank comes along and takes them away from the service.

Mr. POLE. That is quite often the case.

Mr. STRONG. Why are you not justified in paying salaries sufficiently large to hold good and experienced men in the service, as long as the banks that do take them away from you have to pay the expense anyway; why not pay them enough to hold them—those best qualified to examine banks?

Mr. POLE. The position of bank examiner, Mr. Strong, is a difficult one. He has to be away from home a great deal and has to travel a great deal. It is not, in itself, a very attractive life.

Mr. STRONG. What is the average salary that you pay?

Mr. POLE. I am furnishing a complete list of that.

Mr. STRONG. Well, about what?

Mr. POLE. $5,000.

Mr. STRONG. Well, why not pay a salary sufficient to these men so that they will stay in the service, regardless of the inconvenience?

Mr. POLE. I doubt if you could offer them enough money for that, Mr. Strong.

Mr. STRONG. Did you ever try it?

Mr. POLE. The service could be undoubtedly improved by offering better salaries.

Mr. STRONG. Have you ever tried it?

Mr. POLE. Yes; salaries have been considerably increased during the last few years.

Mr. STRONG. But have you tried to keep men from going out into private life, by increasing their salaries?

Mr. POLE. Oh, yes.

The CHAIRMAN. Will you yield to me a moment?

Mr. STRONG. Yes.

The CHAIRMAN. I will say that in my conversation with some of these splendid men that I happen to know, I have observed a spirit of loyalty to duty, a spirit of craftsmanship, so to speak, where many of these men stay as national-bank examiners because of the pride they have in their work and because of a realization of the importance of it, and that they were rendering a real service, and it is my belief that they would stay in the positions at a lower salary oftentimes than what banks would pay them, because of their pride in their work. They realize the high quality of their work.

It is my observation that you would not have to meet the high salaries paid by banks in that respect, if a moderate salary were paid these men doing this important work.

Mr. FORT. Is not that true through all the technical branches of the Government service?

The CHAIRMAN. I think it is true, especially in the Department of Agriculture. It is true undoubtedly all through the Government service, that men do not have to be attracted by the salaries they receive in the Government, and many of them are doing their work at particularly small salaries. I know several men in the Agricultural Department who could go out in general work and draw $25,000 a year, who are now drawing $5,000 a year or less in the department.

I think there are many of those men under Mr. Pole who feel the same way about it.

Mr. STRONG. The point I was trying to bring out was this: These bank examiners are the guardians of the funds of the people. Their examinations protect the people who have the deposits in the banks—a tremendous fund and a tremendous trust—and yet you say that when a man gets very proficient, some private bank takes him away from you and yet you say that the banks themselves that eventually pay the larger salaries to your examiners to get them away from you, are under obligation to pay the cost of the examinations, and, necessarily, would have to pay the larger salaries you might have paid them to keep them in the service. Therefore, why would it not be the proper policy for you to pay salaries sufficient to hold these men, especially when they go out into private life, they go to the same banks or other banks, which are assessed for the expense of these examinations. Why not pay salaries sufficient to retain these men in the service?

Mr. POLE. There is a consideration there that requires some thought. The banks, under the law, are assessed in accordance with their total resources. In the case of large banks, of course, they can easily pay whatever the costs may be. In the case of small banks, the present examination fee, is quite an amount for a small bank to pay.

Mr. STRONG. Don't you think they should pay it in order to give the public protection?

Mr. POLE. The earnings of small banks are so limited that any increased expense would have to be taken into consideration as involving an additional burden.

Mr. FORT. As a matter of fact, the Government only allows a salary of $9,000 to the Assistant Secretary of the Treasury, who is over the comptroller, who is over the examiners. You can not start by raising any one point without first rehabilitating the Government service and raising the officers still higher.

Mr. STRONG. If he has power to assess banks to pay for examinations, he can pay sufficient salaries to keep efficient and experienced examiners. Their services to the public is very, very great and they have a very great responsibility.

Mr. POLE. There are a great many practical difficulties. In a general increase of salaries of examiners, for the purpose of making their positions more attractive, so that the examiners will stay in the service, the increase would have to be general, and, in order to save for the service, perhaps, six men, you would have to increase the salaries proportionately of perhaps 12 or 15 or 20 men.

Mr. STRONG. Why would you have to do that?

Mr. POLE. Because you have to make the scale generally uniform.

Mr. STRONG. Is there any law that requires that?

Mr. POLE. No; but it is a matter of practice.

Mr. STRONG. But as a matter of good business—you do it in business?

Mr. POLE. I think that would involve a great deal of dissatisfaction if you should raise the salary of one man who has been in the service three years, four or five thousand dollars a year, and do not raise the salary of another man at all who has been in the service perhaps the same time. The question would be that of efficiency——

Mr. STRONG. Certainly.

Mr. POLE. And that is very largely a matter of opinion.

Mr. STRONG. It ought not to be a matter of opinion.

Mr. POLE. It is not an easy question to settle.

Mr. STRONG. It is exactly what you would do in private life. If you have an efficient man who has been with you 3 years and an inefficient man who has been with you 10 years, you would raise the salary of the efficient man and put him in the position of trust.

Mr. POLE. We endeavor to do that.

Mr. STRONG. I think it would be a bad policy to say that you have to raise all of them because you want to keep a few outstanding men.

Mr. POLE. My feeling is that if you were to pick out 100 men and raise their salaries to the point of being able to compete with commercial banks from which they might have offers of perhaps double what they are now getting—and which offers are frequently made—it would cause a great deal of disturbance in the service. I think your idea is perfectly sound, but I think it would have to be worked up to the point you aim at gradually.

That is being done; salaries have been quite markedly increased during the last few years.

Mr. STRONG. Who has charge of the regulation of the salaries—yourself or the chief examiners?

Mr. POLE. Myself, with the recommendation, usually, of the chief examiner who knows the man best.

Mr. STRONG. Naturally he would hesitate to advance some one or two men over his fellows, but it seems to me that the interest of the public in this matter is so very, very great, that it ought not to be the policy to let good examiners and good men go out of the service because of offers of large salaries by commercial banks, who would have to pay their salaries if they were kept in the service.

What salaries are paid to chief examiners in the different districts?

Mr. POLE. I will furnish that information.

Mr. STRONG. You do not know?

Mr. POLE. Yes.

Mr. STRONG. Why not state them?

Mr. POLE. Mr. Reeves, of New York, gets $20,000 a year.

In District No. 1, the salary of the chief examiner is $13,000.

In District No. 3, it is $15,000.

In District No. 4, it is $10,000.

In District No. 5, it is $10,000.

In District No. 6, it is $12,000.

In District No. 7, it is $12,000.

In District No. 8, it is $15,000.

In District No. 9, it is $11,000.

In District No. 10, it is $15,000.

In District No. 11, it is $13,000.

In District No. 12, it is $15,000.

Mr. FORT. Will you let me ask the comptroller one question?

Mr. STRONG. Certainly.

Mr. FORT. What is the salary of the Comptroller of the Currency?

Mr. POLE. $12,000.

Mr. STRONG. Then, your chief examiners are paid considerably more than yourself and other men in the Treasury Department and in your own department?

Mr. POLE. A great many of them are paid more than I am, Mr. Congressman. I am not so well posted on the salaries of other departments.

Mr. STRONG. Do the chief examiners examine banks themselves?

Mr. POLE. To make a complete physical examination of a bank, I would say not often. They are invariably on hand wherever there is a bad situation—they cooperate with the board in shaping policies and remedying undesirable situations.

Mr. STRONG. What is the highest salary paid a bank examiner?

Mr. GOLDSBOROUGH. Mr. Strong, is it not your idea to prevent these bank failures that exist in the unit system by providing a better system of examination?

Mr. STRONG. Certainly. That is why I am asking these questions. What is the highest salary paid to bank examiners outside of the chief examiners?

Mr. POLE. My recollection is that the highest salary paid is $9,500.

Mr. STRONG. What excuse is there for paying $21,000 to a chief examiner, considerably more than you receive, and only up to $9,500 to the man who stands between the banks and the people's interest?

Mr. POLE. It is $20,000 in New York.

Mr. STRONG. Well, $20,000.

Mr. POLE. The chief examiner in New York has a very responsible position.

Mr. STRONG. What is it?

Mr. POLE. He is in contact with all the national banks in New York. He consults with them on questions of policies and has supervision of the examinations of the entire second Federal reserve district and must be a man of wide experience and possess qualifications which fit him for that important position.

Mr. STRONG. Do you think he is in a more important position than the Comptroller of the Currency, who has control of the whole system?

Mr. POLE. Modesty prevents my answering that question.

Mr. STRONG. Also the Secretary of the Treasury, a Cabinet officer? It seems to me the salaries in the comptroller's office, as far as the examiners are concerned, could be revised in the interest of the people.

The chief examiners are paid very high salaries while the examiners, who stand between the banks and the depositors, are not being paid enough.

Mr. FORT. That is the exact policy the gentleman urged a moment ago—the policy the banks follow. The chief executive would get a higher salary than the man out on the road in the work. You suggested that we should pay salaries high enough to hold the men. In outside employment, the executive in charge would be getting a greater salary——

Mr. STRONG. But here is a figurehead that gets $20,000 and the man who does the work gets $9,500 and less.

Mr. POLE. He is an executive and not a figurehead.

Mr. STRONG. But he does not do the work that protects the people. He confers with the banks.

Mr. POLE. No; and I would not say that the president of the United States Steel Corporation goes out and makes steel. He is a very important executive nevertheless.

Mr. STRONG. He is not in your department?

Mr. POLE. No.

Mr. FORT. I agree——

Mr. STRONG. I decline to yield, Mr. Chairman. I do not want to get into an argument over that.

One of the principal reasons for your statement in favor of branch banking—the setting up of branch banking systems—is that there have been so many failures in the last nine years.

Mr. POLE. That is the principal reason—to offer something that will remedy that situation.

Mr. STRONG. Why did you take the last nine years for an example?

Mr. POLE. Because the failures have been increasing in numbers during the last nine years.

Mr. STRONG. Why not include nine years before that?

Mr. POLE. I thought nine years was far enough to go back. The war has been over for 9 years—10 years—and it seems to me that most businesses have been reestablished on a normal basis, but banking has lagged behind and instead of getting better in the rural communities, is getting worse and worse while every other business is prospering.

Mr. STRONG. What percentage of failures are due to inefficient examinations, because you can not pay proper salaries?

Mr. POLE. Very few of them.

Mr. STRONG. Then, that is not the reason they fail?

Mr. POLE. No, sir; I would not say so.

Mr. STRONG. Will you put into the record, at this point, the number of bank failures prior to the nine years you have used in your first statement?

Mr. POLE. The number?

Mr. STRONG. Yes.

Mr. POLE. I am already furnishing that for the record. Would you like to have this reinserted?

Mr. STRONG. No; you need not encumber the record.

Mr. POLE. My information will cover the number of bank failures for every year since 1904.

Mr. STRONG. Is it not a fact that the reason we have had so many bank failures in agricultural States in the last nine years is really due to the deflation that followed the war?

Mr. POLE. That has accentuated it.

Mr. STRONG. That has been principally the cause in the agricultural States?

Mr. POLE. Very largely.

Mr. STRONG. Very largely the deflation of agriculture——

Mr. POLE. The deflation of agriculture has accentuated it.

Mr. STRONG. Very largely?

Mr. POLE. To a material extent.

Mr. STRONG. You know that during the war the Government selected men to go out and urge agricultural States to produce more food, do you not, and the result of that encouragement was that the farmers extended their farming and credits, and then, when the war came to an end they were in debt from an inflation of their farming; they were in debt to the banks and those frozen credits that had been held during all these years were the causes of these failures, were they not?

Mr. POLE. To a considerable extent.

Mr. STRONG. For instance, I know a great many banks that have had to take over farms, because of loans that were extended during and after the war. They could hold them in my State for but five years when they are forced to sell them. The losses were such that failures followed.

Now, do you think it is fair to urge a condition such as that as a reason for putting out a branch bank system over the nation?

Mr. POLE. I think that a branch bank system extending to the rural communities would be decidedly helpful.

Mr. STRONG. All right. Tell us how branch banking would have handled the situation when deflation came after the war.

Mr. POLE. In one respect they would have been much more careful in the manner in which loans were made.

Mr. STRONG. Why? Would they have had better information?

Mr. POLE. They would have had better judgment, probably.

Mr. STRONG. Why would they?

Mr. POLE. Because they are men of wider banking experience. They lend money more scientifically. They perhaps lend it less on character and more on actual intrinsic values and are generally more conservative.

Mr. STRONG. You think they would not have been patriotic during the war and loaned money to help produce food?

Mr. POLE. I would not say that it is very patriotic to lend other peoples money to irresponsible borrower.

Mr. STRONG. Nobody asked you that.

Mr. POLE. What did you ask me?

Mr. STRONG. Read the question.

(The reporter read the question.)

Mr. POLE. I take it that the banker lends other people's money and if he does not lend it with judgment, he is not performing any patriotic duty.

Mr. STRONG. Then your idea is that during the time the Government was urging the farmers to increase their production and the banks to lend them money, that the branch banks would not have responded?

Mr. POLE. I could not uphold the position that the Government would ask the banks to make improvident loans.

Mr. STRONG. Now, did I ask anything like that?

Mr. LETTS. I submit that the Comptroller is answering the question.

Mr. STRONG. All right, let us have the question read and see if he is.

(The reporter read the question.)

Mr. STRONG. Now, read his answer and see what he said.

(The reporter read the answer.)

Mr. STRONG. Now, did I ask anything like that?

The CHAIRMAN. Referring to your statement that branch banks would not lend on character as security, I am reminded that during the Pujo investigation of the money trust, when Mr. J. P. Morgan was on the stand, he made the statement that character loans were regarded by him as good and sometimes the best security; that he had loaned as high as a million dollars on a man's character. That is quite in contrast with your statement.

Mr. POLE. Not at all. I can conceive of numerous instances where men would lend on character, and I think character is perhaps the

most important element in granting a loan, but it must be taken in connection with other things and not solely character. A man's ability to pay must also be taken into consideration.

Mr. STRONG. Now, the point——

Mr. POLE. A man of ever such good character might have his ability to repay questioned.

Mr. STRONG. The point I am trying to bring out is not that the banks made bad loans at the time they were made. During the war the 4-minute men were asked to go into the picture shows and make talks and were furnished data upon which they could present the facts to people, and one of the things suggested was that the farmers of the country should produce more food, not only to feed our men in France, but also the Allies, and the bankers were urged to support them. I made such speeches myself, in which I pointed out—pardon me, if I am going to make this examination, I should like to have the attention of the comptroller.

I was sent data for one speech myself in which I was asked to urge the farmers to go to the banks and buy Liberty Bonds and pay only 10 per cent in cash and 90 in debt for the balance and go to the banks myself personally and see that they did it and that was done. They were also urged to produce more food, and if they needed money, to go to the banks for it; and the banks were expected to make such loans.

The banks did not make bad loans. They made loans which were good at that time. Then deflation came. The value of land, horses and cattle and sheep and everything went down and the loans were poor.

Mr. GOLDSBOROUGH. Will the gentleman yield? What caused the deflation? We have heard something about that in the committee.

Mr. STRONG. There is a difference about that. My opinion was the inflation that was permitted after the war caused it.

The point I am trying to get at is this: What would these branch bankers have done under those conditions? Would they have refused to make the loans?

Mr. POLE. To answer this question as to what would have happened under a situation involving a state of facts which did not exist, would be rather venturesome.

Mr. STRONG. Nobody has asked you anything of that kind. I have stated facts and asked what would your branch banks have done during the war; would they have made these loans that afterwards became bad?

Mr. POLE. I think such branch bank systems as existed during the war did make them.

Mr. STRONG. Did make them?

Mr. POLE. Yes.

Mr. STRONG. And did not have any losses?

Mr. POLE. Yes; they suffered losses, but we are operating now 10 or 12 years after the time you are speaking of.

Mr. STRONG. The deflation came in 1920 and 1921. I am asking these questions now, 10 years after that. Those frozen loans have carried over?

Mr. POLE. And the bank failures 10 years after the war are increasing in number.

Mr. STRONG. But the frozen loans—the examiners in the State bank departments and in your own department are urging the closing up of those frozen loans, and that is what is causing the failures now.

Mr. POLE. It is an interesting fact that there are numerous instances where banks in the same town, side by side, have operated over a long period of years, before the war and since the war, and that some banks have succeeded and others have failed, with the same conditions to contend with, same localities—a question largely of management.

Mr. STRONG. That is your opinion, but I know banks where there were two banks in the same town, both of whom took over about the same number of farms. One bank happened to be in position to induce someone to buy those farms. The other bank was not in that position and could not find anyone to buy them and it had to close. It was not a matter of judgment. They both loaned the same amount of money practically on the same security.

The point I want to bring home to this committee is that the increase in the losses of banks in the agricultural country is because of the deflation since the war and it is not fair to assume that your branch banking system would have remedied it unless it refused to make the loans.

Mr. POLE. I think that a system of branch banking, if it had been in effect in those days, would have managed its business in such a way that had these losses occurred, it would have been large enough and strong enough to have been able to absorb them, whereas the small bank is on such a narrow earning basis that if an unusual loss is sustained it can not stand it.

Mr. STRONG. Do you think if the owners of these branch banks in the rural communities found they would have these large losses they would have put up the money and taken the losses?

Mr. POLE. I do not think so—or the unit banks either.

Mr. STRONG. Is it not one argument in favor of branch banking that the parent banks, buying the branch bank, will retain the local management that understands the people in the community and their credits?

Mr. POLE. That is often the practice.

Mr. STRONG. Then, you would have had the same men at the heads of the banks if you had had branch banking?

Mr. POLE. You would have had the same man, but the policies of that branch would have been directed by experts at the head office.

Mr. STRONG. Well, the experts would not have known what value the securities had; they would have had to depend on the local management.

Mr. POLE. To some extent.

Mr. STRONG. Certainly.

Mr. LETTS. But that would be a matter of applying a policy.

Mr. STRONG. The applying of the policy at that time would have been to make the loan or not. At that time the security was good. We had, after the war, a gentleman lay down on this table loans from a western bank made to a sheep raiser. The sheep at the time the loan was made were worth about $9.50, and he loaned $3.50, and we had him lay down alongside that loan the account of what those sheep sold for in Chicago after the transportation cost and commissions were paid and it was about 35 cents a head. No one could have foretold a loss of that kind. Now, what would the branch bank have done in that circumstance?

Mr. POLE. If that loan had been made by a large branch bank, it would have been able to have absorbed such losses, whereas had he borrowed the money from a small bank, it might not have been able to do so.

Mr. STRONG. That gentleman was here and he told us in executive session that if that kind of testimony got out it would break 47 banks with which he was connected in the Northwest. He was making a plea that we use our influence to urge that the loans be not called.

I should like to put into the record the fact that 35 cattlemen from Kansas came to this Capitol headed by Governor Stubbs, asking for an arrangement to prevent the calling of cattle loans, and the Secretary of Treasury helped to raise $100,000,000 to be deposited in Chicago to relieve the situation, yet the loans at the time they were made by the banks were considered good. It was simply the aftermath of the war and the deflation that caused the failures.

And such failures are not fair argument that our system of unit banks is unsound and we ought to have a branch banking system?

Mr. FORT. As I understood the comptroller's argument as to the greater soundness of branch banking, as he urges it—and the gentleman from Kansas knows I am not committed to it—it was that branch banking would produce a greater diversification of loans, because the same bank would be making both city and country loans and could therefore stand losses in one line of business without affecting its solvency.

Mr. STRONG. That might apply to your country, but not to an agricultural district, where all business depends on agriculture.

Mr. FORT. Would it not apply to a Kansas City bank with branches out in Kansas, with both types of loans?

Mr. STRONG. I am pointing out that the banks would not have made the loans and in that way have embarrassed the country, or they would have made them and suffered the same losses. Whether they could have made them and met the losses, I do not know.

Mrs. PRATT. Is it not true, Mr. Strong, that some of the losses which some of the farmers sustained, were due more or less to speculation on their part? Were they not relying on the food prices that prevailed during the war and instead of merely using the land they had to produce food, did they not go out and buy more land with the possible presumption that they were going, thereby, to make more money?

Mr. STRONG. That is undoubtedly true in individual cases.

Mrs. PRATT. They pyramided, so to speak, and the losses were, largely, speculative?

Mr. STRONG. Some were, no doubt. Up in Iowa I think they indulged in that kind of speculation, but in general, in Kansas, they did not. In my State they cultivated more land more intensively, and went into debt to get the machinery with which to do it.

Mr. LETTS. I admit there was more or less of that in Iowa, but it was done with the concurrence of the banker in a great many instances, and, as I stated for the record a few days ago, some of our bankers not only put the second mortgages into their own little banks but sometimes the thirds. They sometimes sent the first and the only good one to some insurance company and oftentimes, as I stated before, it was found that the first and the second mortgages did not supply enough money to buy an additional piece of land, and it became necessary to have a purchaser take out some additional

insurance upon which the banker was getting a commission. Altogether it was not only a spirit of speculation which existed in the farmer, but one which existed in the banker as well.

Mr. STRONG. Certainly.

Mr. LETTS. In a great many instances.

Mr. SEIBERLING. You do not mean to say that the depreciation in farm lands on account of the deflation after the war, was any greater than the depreciation in industry?

Mr. STRONG. The deflation in agricultural, products was greater.

Mr. SEIBERLING. I do not think so.

Mr. STRONG. Two million farmers lost their farms, but a great many more lost their entire working capital.

Mr. SEIBERLING. In our cities, within 30 days, the raw materials and products on hand depreciated 50 per cent, more than $100,000,000, in the plants in our community.

Mr. STRONG. I remember that we passed a bill before this committee, putting in the step rate interest plan and it was represented that it was done to check the inflation in New York, but they did not put it into effect in New York City—but in Kansas. I appreciate the whole country was deflated, but agriculture suffered most because they were left in debt, with the prices of their products below the cost of production.

I know losses to occur from instances of that kind that the bankers could not have controlled; great financiers could not have controlled—no one could control. A lot of money was lost in the stock market recently. That can not be charged to the impotence and inability of the men who lost the money.

I am holding that our bankers in our agricultural districts are not incompetent to run banks. They are the same men who would be used, under a branch banking system, to run the banks as managers. These banks failed because of the effort during the war to increase production and the deflation that followed, and it is not fair to make that an argument for branch banking.

Mr. LETTS. May I add to what I said a moment ago, by making further reference to the matter of deflation in the agricultural regions; we had been accustomed, year after year, to have supplied all the money necessary at harvest time to move the crops and to enable the farmers to carry their young animals over the winter and fatten them and send them into the market when they were prime and would bring the highest prices and furnish the best products to the consuming public. The year of the deflation, for some reason or other, from some policy perhaps the loans were called; instead of supplying the credit to which we were accustomed, the existing loans were called and the farmers were required to gather up everything they had on their farms and sell it in order to meet the demands, even to the point of driving young animals—pigs, lambs and calves—off their farms so that the year following they did not have the necessary animals on their farms to go ahead in the normal way in the breeding and raising of stock.

Mr. STRONG. And was it not the custom of those farmers to give a mortgage on the farm to the bank in order to carry over those conditions, and when they gave up the farms to the banks and the banks became vested with the title, they were entitled, under the law, to hold them only five years before disposing of them, and it was being forced to dispose of a lot of those farms that broke the banks?

Mr. LETTS. I hope, out of these hearings will come some sort of understanding that will develop a banking policy under which, at no time in the future, can it ever happen that loans will be called at harvest time, and when it will require men to dispose of their young animals and deplete the farms and bring on ruin as it did a few years ago.

Mr. STRONG. In regard to the monopoly of money and credits that will ensue from a national branch-banking system, you are proposing in each of the 12 districts—I presume these are the Federal reserve districts or like districts—I understand you call them trade areas; you will set up 12 trade areas in the United States and confine branch banking to each one of those areas.

Mr. POLE. That is not my suggestion.

Mr. STRONG. Well, what is it?

Mr. POLE. That branch banking should be extended to within the trade area, but as to the extent of that trade area I have not suggested, but have said that in the most extreme case it should not be permitted to extend beyond the Federal reserve district lines.

Mr. STRONG. Who would grant that permission?

Mr. POLE. Congress.

Mr. STRONG. Then your idea is that in each one of the 12 trade areas, as determined by Congress, should be set up a branch banking system that should not be allowed to run out to another trade area.

Mr. POLE. There might be, in some instances, a Federal reserve district consisting of a trade area. In other Federal reserve districts the entire district may more than cover the situation and it might be necessary to set up three or four areas.

Mr. STRONG. I thought you said you would confine it to 12 trade areas.

Mr. POLE. I made no such suggestion as that.

Mr. STRONG. Who would determine whether they could extend outside of the trade areas?

Mr. POLE. The law would cover the extent to which branch banking might be extended.

Mr. STRONG. What is the objection to extending them from one trade area to another.

Mr. POLE. I should like to see the trade areas limited to the point where each important center would develop its own branch system and in an orderly manner without permitting any bank to cover the entire country with branches, even if it were so disposed.

Mr. STRONG. Then you would only have branch banking groups in each trade area?

Mr. POLE. Radiating from a central point.

Mr. STRONG. How would you prevent holding companies from getting control of all these trade area branch banks?

Mr. POLE. The probabilities are that the holding companies would disappear if they were given the greater advantage of being permitted to operate branches instead of members of a group.

Mr. STRONG. You think it would have a greater advantage?

Mr. POLE. I think the operating advantage would be sufficient to——

Mr. STRONG. What do you mean by "greater advantage"?

Mr. POLE. I said "operating advantages."

Mr. STRONG. Yes. Well, what do you mean by that?

Mr. POLE. Under the present system a unit bank has to keep an entire board of directors and full set of officers.

Mr. STRONG. I am talking about the danger of group banking or a holding company getting possession of all the trade areas and you say that you hope to build up strong enough branch banks in each of the trade areas, so that there would be no incentive for that.

Mr. POLE. I do not quite understand your question. I think that it was the suggestion there should be some regulation as to how far groups should be permitted to consolidate or branch banking systems should be permitted to consolidate.

Mr. STRONG. Why?

Mr. POLE. So that their operations could be confined to their own trade areas and not extend all over the country.

Mr. STRONG. What is the objection to extending all over the country?

Mr. POLE. I do not think anybody is advocating nationwide branch banking for the moment. It is looking entirely too far ahead.

Mr. STRONG. When we passed the McFadden bill, the Comptroller of the Currency thought it would be sufficient to limit the branches to the city in which the parent bank was located. Now the Comptroller of the Currency says we should establish 12 trade areas.

Mr. POLE. You keep referring to 12 areas. I did not limit it to 12 trade areas.

Mr. STRONG. Now you believe in extending the branch banking to cover the different trade areas?

Mr. POLE. Yes.

Mr. STRONG. Now, would not the same desirability of enlarging the system apply if somebody would urge that it should be made nation-wide branch banking?

Mr. POLE. I would not be in favor of that. It is on entirely too large a scale and would present operating difficulties which I do not know whether the supervising authorities would be in a position to cope with.

Mr. STRONG. When we discussed the McFadden bill we had a great deal to say about getting the nose of the camel under the tent as far as branch banking was concerned and some of us thought it could be limited, if it was an evil, and it was generally admitted that it was an evil—be limited to the city in which the parent bank was located. They said that the State banks in the larger centers were putting in branches, which embarrassed the national banks, but if the national banks were permitted to have branches in the cities where the parent banks are located, that would meet the situation. Now, your suggestion is that we extend the range of branch banking to trade areas and it seems to me that the same argument will eventually lead us into favoring an extension of branch banking so that it will be nation-wide. What would be the objection to nation-wide branch banking?

Mr. POLE. If nation-wide branch banking were permitted by Congress it might create a condition where large banks might establish branches all over the country without respect to the natural flow of trade to any central community, in addition to which the operating difficulties would be so great that the supervisory authorities will have trouble in coping with it.

Mr. STRONG. You have no fear of a money and credit monopoly if you had nation-wide branch banking?

Mr. POLE. I am so far from thinking that nation-wide branch banking would ever be permitted, that I have not given a great deal of thought to what might happen under such a system.

Mr. STRONG. Would not that be one danger if we had nation-wide branch banking?

Mr. POLE. I say I have not given a great deal of thought to such a contingency as nation-wide branch banking. I do not think it will happen for years to come.

Mr. STRONG. Chain banking is extending and becoming nation wide?

Mr. POLE. I am not advocating it.

Mr. STRONG. I thought you said a moment ago that as a step to branch banking it might be advisable.

Mr. POLE. I said that group banks might have some characteristics which are desirable as a step toward branch banking, but not as an ultimate system.

Mr. STRONG. How do you regard chain banking?

Mr. POLE. I am not in favor of chain banking.

Mr. STRONG. You are only in favor of group banking as an ultimate step toward branch banking?

Mr. POLE. I said it might possibly make the inauguration of branch banking more orderly.

Mr. STRONG. When you cover a trade area with branches, would there not be the tendency toward a monopoly in that trade area of money and credits?

Mr. POLE. I do not see why there should be any greater monopoly in a trade area than there is in banking now. If branch banking were permitted, the big banks in any metropolitan center would take advantage of such an opportunity and would be just as much in competition with each other as they are to-day.

Mr. STRONG. Do you think there is much competition in banking in the northern part of California to-day?

Mr. POLE. Yes.

Mr. STRONG. You think there is much competition between the independent banks and the Bank of Italy?

Mr. POLE. I think they are competitors; yes.

Mr. STRONG. Has it not been the history of the Bank of Italy that it has absorbed whatever bank it wanted and forced that absorption?

Mr. POLE. There are numerous towns in California where the Bank of Italy operates side by side with a unit bank.

Mr. STRONG. But they generally force the unit bank to sell out to them if they want it?

Mr. POLE. I say there are plenty of instances where they operate side by side and do not force them to sell out.

Mr. STRONG. They may have an agreement. Is it not a fact that the Bank of Italy have forced banks to sell out to them in numerous instances?

Mr. POLE. I am not informed of that.

Mr. STRONG. There have been instances of that right in Washington, have there not?

Mr. POLE. Not that I know of.

Mr. STRONG. Let me call your attention to the fact that a man by the name of Savage, one of the old and experienced bankers, had a bank at Columbia Road and Eighteenth Street, and one of the

banks in Washington put in a branch within half a block of him, and being unable to buy or force him out of business, purchased the land at the back of his bank and announced they would build an immense bank overtowering his bank and finally forced him to sell out against his will. That is true, is it not?

Mr. POLE. I do not know about those facts.

The CHAIRMAN. Will you yield to me?

Mr. STRONG. Yes.

The CHAIRMAN. You spoke a moment ago to the effect that you were not in favor of chain banking. Will you state your reasons why?

Mr. POLE. I have already defined a chain bank. The particular danger is that if a member of a chain fails, it drags with it the entire chain.

The CHAIRMAN. Under those circumstances, then, in view of that statement, should we permit membership in the Federal reserve system of chain banking, where it is operated by a bank in the Federal reserve system?

Mr. POLE. That would be a matter, I think, Mr. Chairman, for the Federal Reserve Board to cover, would it not?

The CHAIRMAN. Well, you are ex officio a member of the Federal Reserve Board.

Mr. POLE. But I am not authorized to speak for the board.

The CHAIRMAN. You are in charge of examinations of all national banks and many national banks are now owned and operated by chains. These banks are being operated under your supervision and you have already expressed the difficulties which you encounter in the examination of these banks where they are intermingled with other companies and control and you have said that you should have authority to examine these affiliated companies. I think, under the circumstances, you are the proper one to answer that question.

Mr. POLE. Chain systems of banking are frequently composed of both State and national banks. The national banks are, perforce, members of the Federal reserve system and as to whether or not it should be denied such affiliation because its stock is owned by an individual or group of individuals, is a question which I would not be prepared to answer now. The question would seem to involve, possibly, the expulsion of a national bank from the system because it was a member of a chain.

The CHAIRMAN. Well, if a national bank was violating methods in its operation which tended to endanger the security and perhaps cause the failure of that bank would you not as comptroller, feel justified in taking drastic action?

Mr. POLE. I would not say chain banking is operating in any sense illegally. The law permits it.

The CHAIRMAN. You just said its existence is a dangerous situation.

Mr. POLE. Did I say that?

The CHAIRMAN. The reason I am asking these questions is that this question of chain banking has been considered in this country for many years, and in some instances, it has succeeded, where it was in strong hands, and in other instances, where it was in weak hands, it has failed, and caused great suffering and disaster.

Mr. POLE. Yes.

The CHAIRMAN. There are a great number of chain banks in operation to-day. It is very difficult to know whether they are strong hands or in weak hands. I have no doubt there are some

in the hands of people who are not as capable as they should be in operating such institutions. Exploitation may be taking place but national banks are involved in those chains. I think it raises a very serious question in regard to the future conduct of banking in the United States, as to whether we are going to permit our national banks to be tied up in chain banking and I would like to know your frank opinion in regard to it.

Mr. POLE. Personally, I am not in favor of it.

The CHAIRMAN. Well, one way to prohibit it would be to deny the national banks that are parts of chains the right to continue as members of the Federal reserve system. Don't you think, if the continuation of such a system endangers national banks, that drastic action should be taken?

Mr. POLE. I should like to see some legislation which would prohibit the operation of chain banks.

The CHAIRMAN. Do you know of any legislation that could be enacted that would be more effective than to forbid them membership in the Federal reserve system?

Mr. POLE. That, of course, would not prevent a chain of banks from operating outside of the system.

The CHAIRMAN. But it would protect the national banking system.

Mr. POLE. Yes.

Mr. FORT. May I ask a question right following your line, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. FORT. Mr. Pole, don't you feel that if we recognize definite abuses anywhere in the system we should proceed to correct them even though that involved unscrambling some things that have already happened?

Mr. POLE. I do.

Mr. FORT. And following up Mr. McFadden's question further, have we not, in addition to the power of debarring from the Federal reserve system, a still more potent weapon, the right to prohibit any bank to clear checks that violate our theory of sound banking?

Mr. POLE. I imagine that would be possible.

Mr. STRONG. In view of the fact it is common knowledge that wherever chain banking or group banking or branch banking is permitted, it is spreading very rapidly, do you not believe that if your system of establishing branch banking in trade areas is permitted, that eventually, inside of those trade areas will be only one or perhaps two groups of branch banks?

Mr. POLE. Legislation might be enacted to prohibit two free consolidations of banks, eliminating competition thereby.

Mr. STRONG. Then you believe it would be dangerous if but one or two groups of branch banks were established in the country?

Mr. POLE. I am not in favor of a banking monopoly. I would like to see a continuation of banking competition.

Mr. STRONG. How are you going to prevent it under your system?

Mr. POLE. My system?

Mr. STRONG. Under the system you propose, I mean.

Mr. POLE. I think that that might be taken into consideration by Congress through legislation preventing consolidations of such groups.

Mr. STRONG. But there would be no groups established until after we created a trade area. For instance, in California, will we say we will tear down the Bank of Italy's branch banks and reduce them.

Mr. POLE. I do not think the law would be retroactive.

Mr. STRONG. Do you think there could be any hope of building up another group that could compete with the Bank of Italy?

Mr. POLE. There is more than one group that competes with the Bank of Italy in California.

Mr. STRONG. I understand they had an understanding between the group in Los Angeles and the group in San Francisco, under which the Bank of Italy would take the northern part of the State and the group in Los Angeles would take the southern part of the State, but when I was out there some time ago, there was a great deal of excitement when the Bank of Italy bought a bank in Los Angeles in alleged violation of the agreement.

Mr. POLE. I know nothing of such an agreement, but outside of the Los Angeles group there is a very strong competition out of San Francisco itself.

Mr. STRONG. There are a few strong banks, of course.

Mr. POLE. I am talking about a single very important branch banking system.

Mr. STRONG. How many branches have they?

Mr. POLE. They are in keen competition with the Bank of Italy, as far as I am informed, with considerably more than 100 branches.

Mr. STRONG. Do they extend out into the rural districts?

Mr. POLE. Yes.

Mr. STRONG. Outside of the towns adjacent to San Francisco?

Mr. POLE. Yes.

Mr. STRONG. Then, your idea is that there would be competition between branch banks in the trade areas?

Mr. POLE. My idea is that I would see to it that there was competition by preventing too free consolidations of groups and large banks having branches.

Mr. STRONG. If you think it necessary to give them the extent of territory that a trade area would make, it would necessitate having a very large number of branches?

Mr. POLE. That is true.

Mr. STRONG. All right, now. You mean you would say to one branch banker, "You must have a branch in this town, but the other branch bank group can not?"

Mr. POLE. Not at all.

Mr. STRONG. How would you prevent a final working out of a monopoly?

Mr. POLE. I doubt, in the first place, whether that would be very much to be feared, because I think that there would be sufficient opportunity in the banking business for certainly more than one bank and the chances are there would be sufficient opportunity for a number of banks in a large town, as there is now and the mere fact that the banks were given the privilege of branches would not diminish the number of important units in metropolitan centers.

The CHAIRMAN. Suppose the First National Bank of New York the Chase National Bank of New York and the National City Bank of New York should decide to merge or consolidate: Could that be done without your permission?

Mr. POLE. It could not.

The CHAIRMAN. What would be your attitude, for instance, following up that hypothetical situation, and the question Mr. Strong has asked you, if, say, those three banks should want to consolidate? Would you approve or disapprove?

Mr. POLE. I would not express any opinion on that now. When we have a request for consolidation we look into all the facts and circumstances and our decision is determined upon our findings.

Mrs. PRATT. May I just ask one question in connection with Mr. Fort's questions?

The CHAIRMAN. Yes.

Mrs. PRATT. How can you debar a national bank from the Federal reserve system just because it is a member of a chain banking group if it complies with the regulations, because, of necessity, it is no longer a national bank if it is not a member of the Federal reserve system?

Mr. POLE. That is correct.

Mrs. PRATT. How would you proceed?

Mr. POLE. There is no way under the present law. A national bank is, perforce, a member of the Federal reserve system.

Mrs. PRATT. You can not debar them unless you find something wrong with the particular bank?

Mr. POLE. You could not even then, as long as it held its national charter.

Mrs. PRATT. Unless it ceases to be a national bank——

Mr. POLE. It would remain a member of the Federal reserve system. If it ceased to be a national bank it would become a question of whether or not it would be eligible or wish to come in as a State member.

Mr. FORT. It could be done by an amendment of the law.

Mr. LETTS. How could you accomplish it?

Mrs. PRATT. You would have no jurisdiction over a chain bank unless it be a member of the present Federal reserve system?

Mr. POLE. No.

Mrs. PRATT. And you can not differentiate between the national banks?

Mr. POLE. No.

Mrs. PRATT. A national bank would cease to be a member of the chain system if it is not a member of the Federal reserve system?

Mr. POLE. Yes.

Mrs. PRATT. And that could not be changed without changing the law?

Mr. POLE. No.

The CHAIRMAN. While it is 1 o'clock, the House has adjourned, and I am informed by Mr. Strong that he can finish within a few minutes. I think we had better let Mr. Strong proceed.

Mr. BUSBY. Before Mr. Strong proceeds, may I ask a question?

Mr. STRONG. Go ahead.

Mr. BUSBY. Do you know of any national banks whose stock is held or a majority of whose stock is held or controlled by a holding corporation?

Mr. POLE. Yes.

Mr. STRONG. As I understand it, your position would be that as comptroller, you would seek to restrict branches in the trade areas from forming a monopoly through competing with and forcing independent banks to sell out to them?

Mr. POLE. I do not know of any way in which a bank can be forced to dispose of its stock. It would not require any legislation for that. I can not conceive of any Comptroller of the Currency authorizing the establishment of a branch in a town or a community where independent banking was supplying all the banking needs of such a community.

Mr. STRONG. Well, they allowed a branch bank to be placed on Eighteenth Street within a few hundred feet of a bank that was satisfactory to the people there.

Mr. POLE. Of course there is a lot of difference between what I intended to convey to the committee when I spoke of branch banking in the rural communities, and what you speak of, which is city branch banking. In the city branches are more in the nature of a convenience to the bank's clients and has no reference to the safety of a small bank.

Mr. STRONG. That is true. Of course I am opposed to branch banking because I fear a monopoly of money and credit. Especially do I think such monopoly will work against the agricultural States, and if permitted, I think it will finally dominate and control the Government, just as the Second United States Bank did when it forced a bill for the renewal of its charter through Congress by loaning money to Members of Congress and to the newspapers, and would have succeeded but for the veto by Andrew Jackson. I am afraid of any monopoly built up by group or chain or branch banking. I believe it would have more power than the Government.

Mr. POLE. Has there been a monopoly of banking in countries where branch banking is in effect?

Mr. STRONG. I have been told that there is. I was in Canada once when a gentleman, who was in the manufacturing business, told me that they had forced his private bank out of existence through a branch bank and then declined to extend credit to him. That was a monopoly in that town; so much so that he sold his business. He was forced not only to sell his interest in the bank, but his interest in the manufacturing concern, because his competitor was interested in the branch bank.

Mr. POLE. In a very large number of towns in Canada there are not only two branch banks, but three and four competing keenly with each other.

Mr. STRONG. That may be, but here we have unit banks and then a branch banking group comes in and forces those unit banks out of existence in order to get control of the banking in that community. That was done in the building up of branch banks in California by the Bank of Italy. I had a banker out there tell me he had a bank that he operated a great many years and raised a boy and sent him to school with the purpose of having him succeed him and there came an offer to buy from the Bank of Italy and he refused. They then said they would put a bank building alongside him and they went so far as to buy a lot near him and still he refused. Then one day some men walked in and said, "We have purchased the accounts of your customers and we want the money right now." Being unable to comply, he sold his bank. I can not say whether that is true, but the man was vouched for by his friends as a thoroughly reliable man. I am pointing out a condition that might arise.

How will you prevent a final monopoly of banking in trade areas where you permit branch banking? Will the comptroller step in and forbid that kind of business?

Mr. POLE. Why should there not be legislation on that point?

Mr. STRONG. Without legislation——

Mr. POLE. I think it would be extremely undesirable if any single bank were permitted to monopolize the banking business of any area or section of the country. I am perfectly in accord with your idea.

Mr. STRONG. We had a law restricting the branch banking to the city where the parent bank was located. Unable to violate that law they started group banking systems and they are doing indirectly what the law prevented their doing directly.

Mr. POLE. Not under the national law. They are being formed under State laws.

Mr. STRONG. But you can not pass laws which will provide in every case where a branch bank shall or shall not be established.

Mr. POLE. If you will leave that to the discretion of the comptroller, as far as I can speak for myself, there would be no monoply. It might be, Mr. Strong, that in giving consideration to this question, you might say that the discretion should be in the comptroller and possible with some other officials, with the idea of carrying out a national policy governing the consolidation of banks and preventing monopoly in banking.

Mr. STRONG. From your testimony I am quite willing to believe that if you were the comptroller you would try to prevent the establishment of a monopoly in branch banking. I believe you would, but how about the next comptroller?

Mr. POLE. He might have a different view?

Mr. STRONG. He might believe a monopoly would be the right thing.

Mr. POLE. That is true.

Mr. STRONG. A comptroller, for instance, came before this committee several years ago and made a positive statement against branch banking and yet you now come before us and favor it.

Mr. POLE. Yes.

Mr. STRONG. Suppose these trade areas would be established, in which branch banking would be permitted, and they would finally dominate the banking interests in that district—would there be any use of the Federal reserve system after they so controlled?

Mr. POLE. Oh, there is no question in my mind but there will always be use for the Federal reserve system.

Mr. STRONG. Would not they dominate and control the Federal reserve bank in their trade areas?

Mr. POLE. Undoubtedly to an extent.

Mr. STRONG. Then, they would virtually, in fact, be the Federal reserve system?

Mr. POLE. I am filing a brief, if you recall, on that very question, as to the possibilities or probabilities of members of a chain being able to elect directors of the Federal reserve bank of its district, which will cover that.

Mr. STRONG. And there would be that possibility?

Mr. POLE. It might be theoretically possible, but, as a matter of practice, quite unlikely that it would happen.

Mr. SEIBERLING. The comptroller referred a few moments ago to countries having branch banking. I wonder if you could tell us the countries having nation-wide branch banking.

Mr. POLE. England and Canada are two of them.

Mr. STRONG. I believe I have no other questions. I will put into the record at this point, as I have suggested to the chairman, the statement of former Comptroller Dawes, made to this committee, in opposition to branch banking.

(The statement referred to is as follows:)

You have invited me to express my views to your committee doubtless for the reason that as Comptroller of the Currency I have general supervision over the national banks. I wish to state clearly at the outset that the statements which follow are made by me solely upon my responsibility as Comptroller of the Currency. They are not intended in any way to represent the views of the Federal Reserve Board of which I am a member ex officio.

With your permission I shall confine my discussion primarily to the subject of branch banking—the outstanding problem in our banking system to-day. On the side of the National Government this question is simultaneously before the Federal Reserve Board and the comptroller; before the board in the matter of the extension of branch banking by the State member banks in certain States, and before the comptroller as a question of preserving the integrity of the national banking system in those States. Since the national banks constitute the backbone of the Federal reserve system, it becomes necessary therefore for me as comptroller, in this discussion, to refer to the situation before the Federal Reserve Board.

The organization of the Federal reserve system was possible because of the power of the National Government to enforce the cooperation of the national banks. At its inception it was primarily an instrumentality of coordination, imposed upon the existing national system. At the present time, of the 31,000 banks in the United States 9,916 are members of the Federal reserve system, and of the members of the Federal reserve system 8,292 are national banks. The assets of the national banks as of June 30, 1923, were $21,511,766,000, as compared with the assets of the State member banks amounting to $12,293,-124,000.

The national bank act does not permit national banks to engage in the exercise of general banking functions beyond the limits of the municipalities in which they are located. They can not, therefore, enter the general field of branch banking.

These elementary facts are stated in order to bring out the obligation of the Federal reserve system to the national banks, and the extent to which the Federal reserve system is dependent upon the national banking system. Except for the national banks the Federal reserve system could not have been organized, and if a conditions is permitted to develop which should seriously and permanently cripple the national banking system it would be a direct and possibly fatal blow to the Federal reserve system.

The development of the American banking system has been an evolutionary process, and the preeminent strength which it possesses in world finance at the present time is in large measure due to the fact that it took its form in a gradual and orderly way, meeting by practical adjustment conditions as they developed. It is distinctly not an adaption of any foreign system nor is it a structure conceived and built by any individual or group of individuals at a given time involving the rigid enforcement of a ready-made theoretical plan. Under our system of banking, the most stable and most rapid economic development that the world has ever seen has taken place.

From time to time efforts have been made to substitute for the old machinery a system which might seem to be theoretically and technically more perfect. The frontal attacks of the proponents of foreign banking systems have invariably broken down without, in any substantial manner, permanently modifying or affecting the general principles of American banking. The genius of the American people for independence in matters of local self-government is thoroughly ingrained and will never succumb in any clean-cut issue where the choice rests between centralized control and personal and community independence.

At the present time no direct or open attack is being made on these traditional principles. The danger which confronts our present banking system lies in an insidious and gradual undermining influence which is not so much the outgrowth of a conscious effort to introduce a new system as it is the result of a natural desire

to secure temporary benefits for particular individuals and banking institutions without consideration being given as to the ultimate effects on the highly complicated and efficient machinery of American finance and exchange. It is peculiarly a time when these indefinite tendencies should be precipitated into their essential elements.

If a new system and theory of banking is in progress it should be determined whether or not it is a desirable system, and if a desirable system it should be encouraged, fostered and put into effect as rapidly as possible. If it is not a desirable system that fact should be developed and steps should be taken now to eradicate it before a condition has developed which would involve a great national disturbance and injustice to individuals and communities.

The above remarks are intended to apply to the general subject of branch banking. By branch banking I mean an association of banking houses operating in one or more cities or towns but all under the discretionary control of the board of directors of a parent bank and upon the capital of such parent bank.

Unless the State member banks enter into branch banking there is, in my judgment, no material divergence of interests between the State and national banks. If, however, State member banks engage in unlimited branch banking it will mean the eventual destruction of the national-banking system and the substitution for it, and eventually for the Federal reserve system, of a privately owned and highly centralized financial control of the banking machinery of the United States.

It is this belief which impels me to discuss at some length present tendencies in branch banking, and if the interest of your committee is largely centered on the status of nonmember banks it is proper to say that these nonmember banks are almost entirely independent unit banks and any substitution for the present system would have as vital an effect on their future as it would have upon the member banks and on the old independent unit banking operations of the national-banking system.

In support of the general contention that the principle of branch banking has been carried to such an extent as to constitute a definite trend in certain localities the following facts are submitted:

Branch banking is permitted with various modifications in the following 18 States: Arizona, California, Delaware, Georgia, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New York, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and Virginia.

The laws of some of these States restrict the establishment of branches to the city or county of the location of the parent bank, while others permit branches to be established in any part of the State. In California, for example, 82 of the State banks are operating a total of about 475 branches. In that State, one bank operates 28 branches, one bank 19 branches, another about 71 branches in 48 different cities, another about 72 branches. Four banks in California operate a total of 190 out of the 475 branch banks in the State. In the State of Massachusetts, chiefly in the vicinity of Boston, State banks and trust companies are operating several hundred branches. In the State of Michigan upward of 300 branches of State banks are in operation. In the city of Detroit 14 banks are operating about 200 branches and there are in Detroit only three national banks left in operation. In the State of New York about 251 State banks are operating branches. In the United States to-day it is reported that 517 State banking institutions have in operation 1,675 branches.

The figures used above are not intended to be authoritative or complete, and are used only for the purpose of illustration. They are, I believe, sufficient to indicate that the issue has long since passed the theoretical stage and has reached the status of a practical condition.

Granting that a State legislature may properly enact legislation permitting the local State banks to engage in branch banking, the larger questions remain, first, as to the effect of such legislation upon the national banks operating in such States under the national bank act as administered by the Comptroller of the Currency, and, second, the effect upon the Federal reserve system of admitting to or retaining in membership such State banks engaged in branch banking.

In view of the facts stated above I may safely say that branch banking already exists in the United States, and that it is distinctly a practical and not a theoretical issue.

The discussion of branch banking seems naturally to divide itself into three main questions:

First. Is a reserve system, either governmentally or privately controlled, necessary?

Second. Can the present Federal reserve system survive the imposition upon it of large and powerful chains of branch banks which, in practice as well as in theory, are privately owned and privately controlled reserve systems?

Third. Can a general system of branch banks exist simultaneously with a system of independent unit banks?

If it should be concluded, in the consideration of these questions, that the Federal reserve system is necessary and that it can not survive the strain upon it of systems of branch banks, and that branch banks will mean the elimination of independent banks, it will then, I believe, be a logical and necessary conclusion that the issue is a clean-cut one as to whether the country prefers a system of privately owned branch banks or a reserve system under Federal control.

As to the first question, namely, the necessity for a reserve system, it seems hardly necessary, in view of the record of the existing organization, to enter into any extended arguments, but it would, perhaps, be well to state some of the basic considerations on account of which it was given its present form. The principle of a central bank has been a controversial one for over a century. In deference to the widespread and thoroughly American distrust of the centralization involved in a single Government bank 12 banks were established in different sections of the country in order to secure the closest possible contact with the local member banks and a thorough understanding and adaptability to community conditions. Through the operations of the 12 individual units a proper sympathy with an understanding of local conditions and needs is secured, while at the same time, through the Federal Reserve Board, a liaison between the districts is secured and the detachment necessary for a proper compromise between local interest and national policy. Through the Federal reserve system the transfer of funds from points of surplus to points of deficit is accomplished with the primary purpose of promoting the best interests of the whole country and not with a view to enabling individuals or sections to reap a financial advantage at the expense of others. If it were assumed that the instrumentality for the transfer of funds could be provided by a private reserve system, such as a branch banking institution, it could hardly be fairly contended that the controlling influence would be other than profit. Necessarily, in adjustments of this kind the interests of a branch bank or individuals must be private profit and not public welfare.

The whole Federal Reserve System bears a very striking analogy to the general principles which underlie the American Government, being founded upon a system of checks and balances calculated to preserve local independence under centralized and coordinating control. It would be so distinctly a step backward and so manifestly a dangerous proceeding to destroy the regulated cooperation of banking facilities that it seems to me entirely unnecessary to discuss further the necessity for some sort of a reserve system, and the issue is, should it be done by governmental coordination or private centralization?

The second point referred to, as to the ability of the Federal reserve banks to survive the imposition upon the system of large privately controlled reserve systems, is a practical one which at the present moment faces the Federal Reserve Board. The question as to the duties and rights of the board to interfere in the extension of a system which, in the opinion of many might contain the seeds of a development which will mean the eventual destruction of the Federal reserve system, is by no means a simple one, either legally or from the standpoint of policy. The board, however, clearly has the moral and legal right to refuse admission to the system of any institution which either because of its financial condition or the method of its operation is unsound, and it has the same right to deny the privileges of the Federal reserve system to a member bank under similar conditions. It is reasonable to assume that a bank, for administrative purposes, might safely control 10 branches; but the same bank under American conditions might not, in safety to its depositors and general creditors, operate a thousand branches. If the Federal reserve system takes a neutral position on the general issue of branch banking and refuses to sanction the admission to the system or request the withdrawal of banks which are operating more than a safe number of branches, they will be faced continually with decisions of a highly controversial nature and which are not susceptible of reduction to elemental formulæ. The local situation, the personal equation, the temporary financial conditions, and a thousand and one conflicting influences will have to be balanced and considered in every application for a branch. However wise their decisions the board will, of necessity, frequently appear to be arbitrary and improperly partisan. The publication of their reasons for action in particular cases would frequently be productive of injustice to the individual applicant and disturbance to the financial community. If the reasons for decision in these

matters were not made public, in my opinion, the system would be subjected to such attacks and insinuations as would eventually seriously impair its standing and be destructive of its dignity and influence. In order to avoid these consequences the board has it in its power to adopt a general policy of clarification and control.

The elementary considerations which I have stated above and purpose to elaborate further seems to me to justify a decision on the part of the authorities to limit definitely the extent to which member banks may indulge in the establishment of branch banks.

As a practical consideration, aside from the broader aspects of the case, it must be constantly borne in mind that the Federal reserve system can only be successfully maintained if the administrative authorities have an adequate knowledge of the conditions of the member banks. This necessitates examination, which, in the case of the national banks, is provided by the Comptroller of the Currency. National banks can not engage in banking beyond the limits of the city in which the institution is located. In the examination of State banks the Federal reserve system is compelled to rely on its own examiners and such incidental and voluntary assistance as it can secure from the various State officials.

The examination of an institution with branches and subsidiaries is a very difficult one. The interdepartmental relationships vastly complicate it. It is more difficult to examine 10 institutions of a given size which are associated in a branch banking system than it would be to examine 10 independent institutions, as all of the transactions between the different branches have to be investigated, and eliminations and adjustments made to produce a composite picture and prevent the improper manipulation or shifting of assets. This can not be done satisfactorily wtihout a simultaneous examination of parent band and each one of the branches. This may be construed as an ex parte statement, but it bears the weight not alone of my individual opinion but of the employees of the comptroller's office who have been engaged in the examination of banks for many years. Bank examination involves very much more than a mere scrutiny of figures. Questions of moral character, of local reputation, of valuations of securities, of conformity to laws and rulings—these and many other elements enter into a proper examination. In the case of the examination of a very large bank, say with 75 to 100 branches, it would be impossible to mobilize a force of examiners of the ability to make an intelligent analysis of the situation in each individual community even if it is to be assumed that the character of the banker is not a factor in the condition of the institution.

The last stated considerations are incidental as compared with the more important one which involves the ability of the Federal reserve bank to meet the mobilization demands of an association of institutions under the control of a single interest having the power to concentrate the requirements of all of the separate institutions into one demand. This demand might be made practically without notice in a period of stress, on account of necessity or with a desire to produce a certain condition in the community which might be opposed to the general interest but favorable to that of the particular institution. To say that if a large proportion of the banking interests of a State are centralized in the hands of five or six or a dozen branch banking institutions and that these institutions will not combine, either as a result of direct conferences or agreement or of mutuality of interests, is to ignore the fundamental basis of human action. If any lessons are to be drawn from the development of large industrial enterprises in the United States it is that the principle of centralization, when once inaugurated, will proceed, unless interfered with by governmental action, to a point of complete concentration in an individual, or a group dominated by an individual. Should a situation of this kind develop in any Federal reserve district the Federal reserve bank would either be eliminated as a factor in the financial community or be virtually under the control of such a group.

As to the question of whether or not it is possible for independent unit banking systems to exist and operate in conjunction with a branch banking system, very definite conclusions may be drawn from the results of the operations of branch banking systems in other countries.

Branch banking is in vogue in England, Scotland, Ireland, Canada, Australia, New Zealand, France, and other parts of continental Europe. I understand it is also in operation in the Latin-American countries. According to figures published in the bulletin of the American Institute of Banking for July 1923, in 1842 there were in England 429 banks and in 1922 only 20 banks, of these 20 banks, 5 controlled practically all of the banking of the nation. There are about 7,900 branches in operation. In Scotland there are only about 9 banks with about 1,400 branches, and in Ireland about 9 banks with about 800 branches.

In 1885 in Canada there were 41 independent banks. Under the operation of branch banking, the number was reduced to 35 by the year 1905. I am informed that in Canada to-day there are only 14 banks, operating about 5,000 branches. There are no independent unit banks in western Canada, in fact none west of Winnipeg. Banking control through the branch system is concentrated in the cities of Montreal and Toronto.

It has been authoritatively stated that there are only 6 unit banks in New Zealand, and 20 in Australia. (See Statesman Yearbook for 1923.)

Experience in other countries definitely indicates that independent unit banks do not exist parallel with branch banks. As indicating that this is not necessarily due to conditions which exist abroad, but might not exist in the United States, the following points are adduced, which to my mind, show that there are such inherent antagonisms between the two systems that they could not, under any circumstances long operate together in the same country.

Branch banking is, in its essence, monopolistic. The financial resources of a number of communities are put under the control of a single group of individuals. Funds liquidated in one community may be used to develop other communities at the discretion of the officers of the central bank. The economic development, therefore, of a given territory under the control of a branch would depend upon the policy of the bank. The bank would have the power to retard or to encourage the development of a given community or individual enterprise. In this connection it has been well said that if the sudden creation of great branch banking systems shall result in withdrawing funds from the support of rural communities in order that they may be invested in self-liquidating commercial paper originating elsewhere, then it will be true that sound abstract banking principles will have been applied, but at a cost to the future development of the rural communities that will far outweigh any advantages that may be gained.

In a system of independent unit banks, the bank which best serves the community is the bank which is most certain to live the longest and be the most profitable to its stockholders. Since the type of man who starts a bank in a small community is essentially constructive, his natural associations and sympathies are with men of constructive type, and he extends the facilities of the bank most liberally to them. His loans take into account as a first consideration character and moral responsibility. He is naturally inclined to encourage young, aggressive, and enterprising individuals who will, in the course of time, bring business to the institution as he succeeds, and will develop commercial and industrial enterprises and be a factor in the creation of corporate and private undertakings, all of which will be feeders to the bank. As this type of individual is usually not the possessor of high-class collateral at the beginning of his career, the banker is dependent in a large measure on the character, of which he can only be sure by personal contact and acquaintance.

The distinctive accomplishment of the banking system of the United States is its contribution to enterprise and its stimulation of growth; its criterion is service. The European standard is safety first, last, and all the time.

It can well be said that the rapid economic development of America has been largely due to the policy of the pioneering unit banks which recognized this principle of service. It is inconceivable that the representative of a nonresident board of directors should be granted the authority and the discretion to make a type of loan which is based on character, knowledge of local conditions, and ultimate benefits to be realized by the community and by the banks. While it requires a high order of ability to make this class of loan, the banking history of the United States would show, in the main, a surprisingly small mortality. These loans, however, on account of their small size in individual cases, and difficulty of ascertaining their intrinsic value, do not afford a basis for discount with other banks in case of stress, and no bank could exist if it were dependent entirely upon them. If, across the street from the unit bank making this sort of loan, were the agent of a great branch banking institution, this agent would very quickly acquire the larger and from the narrow banking standpoint, the desirable business of the town. This he could do by offering lower rates of interest on loans and higher rates on deposits than local conditions would ordinarily justify, which, in the nature of the case would probably be withdrawn as soon as the independent unit banks of the town were finally eliminated. This is a process which has been pursued in the evolution of our great industrial enterprises which have had to be curbed by the action of the Sherman antitrust law and other governmental action.

The opportunities for coercion on the part of large institutions with branches scattered over a whole State are very great. This coercion might take any one of a number of forms. The connection of the branch banks with out-of-town

customers of the institutions of a community permits of pressure being readily brought.

Under the Federal reserve system, and through his relations with his correspondents, the competent unit banker is able to secure for the larger customers of his town facilities which are beyond the abilities of his own institution to grant. The branch banker can, in the case of every large customers, grant these facilities more directly and to that extent is rendering a special service to the community, but the ultimate result of these influences is to give the easiest obtainable and most desirable business to the branch bank, leaving the unit bank to take care of the enterprises of the town which have not already reached a condition of independence.

The expression has been used as applied to one State where branch banking exists on a large scale that the branch banks skim the cream and the unit banks are left with the skimmed milk, the result being that the unit banks have gone out of existence and the borrower who is a good moral risk but can not produce a certain form of collateral is left to depend on the good graces of a representative of a branch bank who is frequently the possessor of all the discretionary powers of the local railroad agent and no more.

One of the monopolistic influences exerted by the branch banker is the ability to secure, by the payment of higher salaries, the transfer to other points of the efficient employees of the unit banks. A general procedure in the creation of branch banking systems in one of our American States has been the absorption of local unit institutions. During the first few years the operations of these local unit institutions have, in many cases, been successful because the enterprising and pioneering talent that created the bank is still retained in an official capacity, but men of this type will not long consent to hold positions which are, in their essence, merely advisory and there is soon substituted therefore the type of employee who must be bound by rigid instructions and is capable of interpreting them in only a mechanical way. In case of an acute financial disturbance demanding immediate action it is necessary for the representative of the branch bank to refer back to the head office for instructions as to his course of action, and a delay is occasioned by red tape which frequently makes it impossible for them to help in an emergency, even when they have the desire.

The relations of the national bank to operations in branch banking have been the subject of a very widespread misunderstanding. In order that the situation might be clarified and defined, the present comptroller requested an opinion of the Attorney General which has just been handed down. A previous opinion given by Attorney General Wickersham was to the general effect that a national bank might not de novo establish a branch bank. The present opinion from the Attorney General makes it clear that none of the major or important incidental functions of a national bank may be exercised beyond the limits of the city in which the parent institution is located. This opinion also indicates that certain functions of a national bank, incident to the banking business, may be be carried on at fixed points within the city limits and outside of the four walls of the banking house. This opinion is not inconsistent with that of Attorney General Wickersham, and the practical application which will be made of it will be that certain national banks will be permitted to establish what are virtually tellers' windows in places more or less removed from the banks, but in the city limits, where they may take deposits and cash checks. The discretionary powers which are inherent in such transactions as making loans, purchasing securities, and similar activities will not be permitted to be carried on in such offices located at a distance from the parent institution.

It seems to me unnecessary at the present time to do more than make the above reference to the legal situation. The force of the opinion of the Attorney General just handed down would as a practical matter remove the national banks from the branch bank controversy since a national bank can not engage in the banking business outside of the city limits of its location and inside of the city limits it may under certain conditions perform only limited functions at a distance from the banking house.

I am of the opinion that the comptroller could not properly permit the establishment of these outside activities by a national bank, such as teller's windows, in any locality where the State laws or practices prohibit the State banks from rendering similar services.

Authorization to national banks to establish such additional offices will be of great advantage in certain localities where the State banks are already extending their services in this manner. In such cities as New York, Cleveland, Detroit, and California, the national banks will be able to reach their customers in the matter of making deposits and cashing checks in the same way that their com-

petitors do in this single important aspect of the banking business. At the present time, in the city of Cleveland there are only three national banks, and in the city of Detroit only three. This will enable the national banking system to really eneter these two great cities, from which they have previously been excluded, perhaps not on equal terms, but at least on a living basis.

It is my opinion that the major question of branch banking is not in any way affected by this differentiation of the functions of the tellers' windows except to mitigate the handicaps that at present exist in some great cities and that it can not by any possibility be used for the extension of the principle of branch banking. The banking arrangements of any individual city are distinctly a matter for local determination. When the extension of branches passes the city lines and becomes State wide a condition such as I have previously described is created, under which the whole balance of the Federal reserve and unit banking system of a large section of the country is disturbed and the fire will, in my opinion, very quickly jump over State lines.

If the branch banking movement can not use the Federal reserve system as an instrumentality for its extension, it will probably never become a great menace, and with the national banks extended a reasonable measure of facilities for self protection within the limits of the municipalities in which they operate the national banking system and the Federal reserve system can be maintained in their present status.

First, that the development of branch banking, unless curbed, will ban the destruction of the national banks, and thereby the destruction of the Federal reserve system and the substitution of a privately controlled reserve system for a governmental system of coordination.

Second, that if the Federal Reserve Board has not the power to refuse the admission of institutions engaged in general branch banking, and to curb the further extension of this principle by member banks, they should be given the power.

(Whereupon, at 1.45 o'clock p. m., the committee adjourned until Tuesday, March 11, 1930, at 10.30 o'clock a. m.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

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

MARCH 12 AND 14, 1930

VOLUME 1

Part 3

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1930

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BRANCH, CHAIN, AND GROUP BANKING

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Wednesday, March 12, 1930.

The committee met in the committee room, Capitol Building at 10.30 o'clock a. m., Hon. James G. Strong (acting chairman) presiding.

Mr. STRONG. The committee will come to order, please. The chairman has left with me his list of names of members of the committee to be called in their order, but, before starting to call them, I want to put into the record a letter handed me by Congressman Box of Texas, written to him by one of his constituents on this subject.

Mr. BEEDY. About what?

Mr. STRONG. Branch, group, and chain banking—on this subject. I would like to have the clerk read it.

(The clerk thereupon read the letter referred to, at the conclusion of which reading, the following occurred:)

Mr. BEEDY. Mr. Chairman, I was thinking, as the letter was being read, that we are just starting in on these hearings. I, personally, would like very much to show every courtesy to Congressman Box, but I am wondering if it is not going to be rather dangerous and lead to a great deal of misconception, if we start printing letters indiscriminately in the record.

For instance, I think the use of the word "chain" in that letter is not strictly correct.

Mr. STRONG. I think he refers to branch banking in Canada.

Mr. BEEDY. Exactly; and when he makes his references to the Canadian banks, he is speaking about branch banking.

I do not think we ought to let these generalizations go into the record when the party is not here to be questioned. He makes some very sweeping assertions in his letter and on just what he bases them, the committee has no means of knowing. While I do not want to take an arbitrary stand, I should like to know what the committee thinks about it.

Mr. FORT. It also seems to me that here we are getting a very strong statement from Mr. Pole, and it breaks the continuity, in the record, of his testimony and of his questioning, to insert something like this into the middle of it.

Mrs. PRATT. Mr. Chairman, I want to say that I have received innumerable letters along that line. The question of banking is particularly interesting to my district, but I agree with Mr. Beedy and with Mr. Fort that it is simply cluttering up the record to permit Members of the House to bring in the letters they receive from constituents——

Mr. BEEDY. And every letter introduced would prompt another Congressman to bring in an opposing letter to match it.

Mrs. PRATT. Would it not lead to the introduction of a tremendous amount of correspondence?

Mr. STRONG. Mr. Box handed it to me, stating that with the man's experience, as given in the letter, and his visits to Canada, he thought it would be helpful to the committee. He did not want to come before the committee himself, but wanted to have the letter placed in the record.

I have presented the request, and if you want to refuse it, all right.

Mr. FORT. I do not think the statement should go into the record without an opportunity to examine the witness.

Mr. STRONG. If the committee wants to bar this letter, all right.

Mr. SEIBERLING. It is difficult to discriminate among the letters. For instance, I have a circular letter from some radio company protesting against certain features of branch banking.

Mr. LETTS. Why would it not be a safe rule to permit members of the committee to introduce such letters as they think important and which come to them personally, and to bar others, unless the action of the committee is to the contrary?

Mr. FORT. That does not open the door to any cross-examination of the witness, as to his information. I think we are going to get a lot of information that way, and that we should have an opportunity to cross-examine those making the statements.

Mr. LETTS. You may have a letter from some one in your district that you think contains some important facts, and you, personally, can tell us something about the man and about his experience.

Mr. FORT. I have a lot of them.

Mr. LETTS. So I thought, in my suggestion, we ought not to bar letters offered by members of the committee.

Mr. GOLDSBOROUGH. Would it not be better to take the letters and use them as the basis for cross examination?

Mr. STRONG. Whom would you cross examine?

Mr. GOLDSBOROUGH. When you take a witness, you could say, "I have received such-and-such a letter," and ask him about the statements contained in that letter or letters, and then it would give him a chance to answer.

Mr. FENN. It seems to me since these hearings have been so well advertised throughout the country and a special rule adopted toward them in the House, gentlemen interested in them should take the opportunity and occasion to come here themselves. Personally, I have no objection to the introduction of the letters, except from the standpoint of encumbering the record. You will get one letter one way and another the other way. I think these ex parte statements are of no particular value. They are of no value to me, and I think the other members will take the same view.

Mr. GOLDSBOROUGH. If you have a letter that you think is pertinent, you can then ask the witness about it.

Mr. BEEDY. In order to get the sense of the committee, and in order not to seem to make this personal in its application to Mr. Box's request, I move that the committee do not include in the record any letters except those which are submitted by witnesses who are testifying, in amplifying statements which the witnesses make before the committee.

Mr. FENN. I second the motion.

Mr. STRONG. I just want to call attention to the fact that it is the habit of the chairman very often to introduce matters sent to him.

Mr. BEEDY. He can do it through witnesses.

Mr. GOLDSBOROUGH. That, then, includes the chairman?

Mr. BEEDY. Yes.

(The motion was carried.)

STATEMENT OF J. W. POLE—Resumed

Mr. STRONG. Mr. Luse is the next interrogator, but he is delayed, and Mr. Fenn is the next.

Mr. SEIBERLING. Does this letter go out of the record?

Mr. STRONG. It is not included in the record. The chairman has adopted the plan of going down the committee, according to the rank of the members, giving them each another chance to cross-examine Mr. Pole, and you are next, Mr. Fenn.

Mr. FENN. I have no other questions.

Mr. STRONG. Mr. Campbell is next. He is absent. Mr. Beedy is next.

Mr. BEEDY. I do not care to question Mr. Pole.

Mr. STRONG. Mr. Hooper is next.

Mr. HOOPER. I have not asked any questions yet, because I was away when my turn came. I should like to ask one or two questions that have been brought up or suggested by the letter that was read here.

I will say to Mr Pole that my attention has been called to a letter which covers the banking situation in Canada. The Canadian system, Mr. Pole, is a system of what sort of banking?

Mr. POLE. Branch banking.

Mr. HOOPER. The banking business in Canada is largely done by a small number of large banking organizations, such as the Bank of Montreal, the Bank of Nova Scotia, the Royal Dominion Bank of Canada, and others of that kind—is not that true?

Mr. POLE. Yes, sir.

Mr. HOOPER. This is typical of branch banking? The banks which the Bank of Montreal controls out through the Dominion of Canada are branches of that bank, are they not?

Mr. POLE. The question has to do with the branch banking system as it is operated in Canada?

Mr. HOOPER. In the Dominion of Canada.

Mr. FENN. May I interrupt a moment?

Mr. HOOPER. Certainly.

Mr. FENN. The Canadian banks have not only branches throughout Canada proper, but I know the Bank of Nova Scotia, the Bank of Montreal, and the Royal Bank of Canada, and others have branches in the West Indies, too.

Mr. POLE. Yes, and overseas.

Mr. FENN. The banks in general——

Mr. POLE. I had not quite finished my answer.

Mr. FENN. I wanted to point out how widely that system is operating.

Mr. POLE. Very widely. The branch banking system in Canada differs very materially from the branch banking system which I

suggested, the difference being that they cover the entire country. My plan would be to develop a branch banking system within restricted trade areas.

Mr. HOOPER. Your idea, Mr. Pole——

Mr. POLE. Instead of having 10 banks, as they have in Canada, the probability is that we would have several hundred banks in this country.

Mr. HOOPER. I was not trying to contrast the system in Canada with that of the United States, but what I wanted to ask you was: Bank failures are very rare in Canada, are they not?

Mr. POLE. Very rare.

Mr. HOOPER. And they have banks operated through the small towns, through the rural regions of the Dominion, in much the same way as in the United States?

Mr. POLE. Very much so.

Mr. HOOPER. You will find branches of the Bank of Montreal or of the Bank of Nova Scotia in the small villages of 500 or 1,000 in Canada, as you will find branch banks or State banks of similar size in the United States?

Mr. POLE. Yes, sir; in competition with one another.

Mr. HOOPER. The reason why there has been a scarcity of failures or a dearth of failures in the Canadian small towns, has been that the large banks protect the institution if trouble comes to the branch—is not that true?

Mr. POLE. Yes, sir.

Mr. HOOPER. And in Canada, at least, branch banking has worked out very much to the advantage of the financial situation in that country?

Mr. POLE. I am under that impression.

Mr. FENN. I do not think they have ever had any other system.

Mr. POLE. No, sir; not within recent years.

Mr. FENN. I suppose there is no other country in the world that has the dual system that we have?

Mr. POLE. No, sir.

Mr. FENN. I think you stated to Mr. Fort a few days ago that the tendency in all the principal countries of the world—England, France, Germany, and other great European countries—is the same tendency as in the United States; namely, the centralization of the banking business in the capital, which is usually the metropolis of the country?

Mr. POLE. That is true, with the possible exception of some little difference with regard to the system which is in force in Germany. They have a number of small independent banks in Germany in addition to the banks operating from the large centers, and the record of failures of these small independent banks in Germany last year was an imposing number.

Mr. HOOPER. They have a large number there?

Mr. POLE. Yes, sir.

Mr. HOOPER. And that was not true of the other——

Mr. POLE. Among the small banks.

Mr. HOOPER. One or two more questions.

In your preliminary statement you mentioned various reasons for the lack of success of the small banks located in small places remote from the larger centers?

Mr. POLE. Yes, sir.

Mr. HOOPER. You spoke of the lack of diversification, for instance. I assume that same lack of diversification would be found in Canadian towns of small size?

Mr. POLE. Yes, sir.

Mr. HOOPER. In the West they would be lending money on wheat or on wheat lands, and in the forest territory, where lumber is produced, that would be the principal item?

Mr. POLE. Yes, sir.

Mr. HOOPER. I suppose in Canada, as well as the United States, there is not the general diversification in the banking loans in the small towns as in the large centers, like Montreal and Toronto?

Mr. POLE. No.

Mr. HOOPER. What, then, would you say is the reason that the Canadian bank system has proved more solid and sound in the way of absence of failures than in the United States?

Mr. POLE. I think their system is responsible for the absence of failures largely by reason of the fact that the metropolitan banks are more scientific in their management and are enabled to diversify and absorb such losses as occur.

Mr. HOOPER. Is the banking system of Canada superior to the two systems in the United States—do you think, generally speaking?

Mr. POLE. The results of the situation, with regard to the rural districts, are far more satisfactory.

Mr. HOOPER. Do you think that the bankers of the higher grade in Canada are, generally speaking, abler men, in their line of business, than in the United States?

Mr. POLE. I should be unable to answer that.

Mr. HOOPER. What I was seeking to find out was the reason why, in a country with 8,000,000 of people, with less opportunity for developing genius along those lines, why the Canadian system, for a long time, has really been more stable, as far as failures are concerned, than our own, as it apparently is?

Mr. POLE. I think an independent unit system, such as ours, is less able to care for a general situation than a branch banking system.

Mr. STRONG. Will you tell us, if you know, to what extent the Government controls these banks in Canada? What is the Government control over banks?

Mr. POLE. There is very little Government control. There is no system of examination in Canada. Reports are filed with the commissioner of banking and are analyzed by him, in addition to which the banks are examined by certified public accountants, which accountants are approved by the banking department.

Mr. STRONG. Mr. Pole, you stated that you thought that, under your plan of branch banking in the United States, we would have many more hundred systems of branches than they do in Canada. Will you explain to me why you arrive at that conclusion?

Mr. POLE. My reason for that, Mr. Chairman, is that under my proposal, a system of branch banking would be developed from the metropolitan centers. Undoubtedly, if opportunities were given banks in such centers of operating branch systems there is no reason why there should not be a very large number of important groups developed from each metropolitan center.

Mr. STRONG. Would not that be true in Canada?

Mr. POLE. They have a nation-wide branch banking system there. My suggestion is that we have a regional branch banking system.

Mr. STRONG. Would that prevent a branch banking system from excluding others?

Mr. POLE. It would prevent them from operating nation-wide. It would not prevent the growth of a big branch system within a restricted area.

Mr. STRONG. Would not there be a likelihood of a monopoly within the big area?

Mr. POLE. I think there would be bank competition throughout this country, and I see no reason why there should be a greater fear of monopoly beyond the metropolitan area than there is within the cities now.

There is plenty of competition in the different cities. To extend the areas would not make for lessened competition. I think it would stimulate it. The opportunities for profit would be greater.

Mr. STRONG. Mr. Luce is here now, and we will ask him to proceed with his cross-examination.

Mr. LUCE. Mr. Pole, it requires some ingenuity to think of some question that has not been asked you already.

Mr. POLE. I think you are right, Mr. Luce. I was afraid the committee had overlooked the fact the committee might want to call other witnesses than myself.

Mr. LUCE. We look to you as the main fount of information. I shall try not to cover ground already covered.

I wish to address myself to the broader principles at stake rather than to details. Let me sketch hastily the background for my questions.

About 30 years ago the country got very much excited over monopoly from the formation of big business institutions of one sort or another. It would seem as if every generation must go through a period of excitement over the question of monopoly and, judging from the speeches in the Senate recently, we are entering another spasm of that sort and it would be of use, I think, to bring out whether the present situation in banking will add any fuel to the flame.

First, let me say that the people got alarmed 30 years ago over the obnoxious features of monopolies, price cutting, rebates, the destruction of small competitors, and other processes that were supposed to be particularly exemplified in the Standard Oil Co. Has it come to your observation that the extension of branch banking so far has produced evils of that sort?

Mr. POLE. A far as I know, Mr. Luce, the branch banking systems which are in operation in this country and abroad have been rather conducive to keener competition than is in existence in a great many parts of our country under the unit system of banking.

Mr. LUCE. You might well elaborate that, if you will, and show us how that develops—through the placing of branches in the same place by two banks, for example.

Mr. POLE. In very many places in Canada and in very many places in England, in comparatively small places, there are as many as two, three, and even four branches of large metropolitan banks, and they carry to those small communities the complete banking service of those important metropolitan institutions, and I have never

heard but what competition among the branch banking systems is anything but extremely keen.

Mr. LUCE. In California, or elsewhere, have there been any instances brought to your attention where a branch of a great bank has tried, by any unfair methods, such as price cutting or what would correspond to it in the banking world—where such tactics have been adopted by a big bank in order to destroy a little bank?

Mr. POLE. I do not know that I can recall any instance of the kind. In California, in every important town, there is, as far as I know, no banking monopoly. The branch banking systems are operating in keen competition with one another in many towns, in addition to the unit banks.

Mr. LUCE. Now, turning to the question suggested by the development in my own neighborhood, it has been observed that the striking tendency in banking in New England is the entrance into the investment field. More and more our national banks are resorting to investments for the use of their funds.

I am not prepared to admit that it is the function of Congress to go beyond securing safety in the matter of banks, but even that factor may enter into what I want to call to your attention. You are, of course, aware of the growth of trust companies in New England. They have larger opportunities for business and greater chance to go into promoting. Of course, you are familiar with the fact that some of our sizable trust companies failed as a result of going into the investment business.

If it is the function of the Government to interfere in such emergencies, is it your expectation that branch banking—that is, the concentration of banking into few groups—would increase or diminish the likelihood of investment banking, assuming for the moment that investment banking has its objections?

Mr. POLE. My belief is that the distribution of securities would be a part of the bank's regular business much more than it is to-day and that their importance as underwriters and distributors might be developed even to the point that the bulk of the investment business in this country might eventually be done by the large banks.

Mr. LUCE. We have hitherto conceived the purpose of commercial banking to be what I might call the brief aid it gives to commerce and industry rather than long-time investment of capital.

Are you quite sure that the present tendency is altogether admirable?

Mr. POLE. The attitude of the people of this country is changing very rapidly with regard to investments. The business of banking is also rapidly changing until to-day banks have become great institutions, operating in every financial direction, and there have been recently instances where banking corporations have underwritten and distributed independently of New York, unusually large underwritings and I think, under proper regulations, there would be no reason to anticipate any very great danger in the extension of such activitiy.

Mr. LUCE. Now, let me bring your attention to a particular phase of the investment of moneys; that of the savings accounts of large numbers of people and, on an average, a small amount from each.

Anyone who has watched the progress of things in our neighborhood—I speak only from that information—I will not say views with alarm, but views with much interest the entrance of commercial

banking into the handling of the small savings of the people. In Massachusetts we have thought such savings peculiarly deserving of governmental protection. To illustrate, we went so far as to insist that no savings bank and national bank should exist in the same room; they should not exist in the same building unless there was a solid wall without any opening between the two; the reason, of course, being that it was thought unwise to permit the commercial bank to have resort to the small savings of the people.

There have been several disastrous failures, as the result of the opportunity of national banks to invest the savings of the people. Yet, to-day, I find in a national bank—and a very good bank, too; not a great bank, but a successful bank, where I have a small deposit—I find a wicket there for savings accounts, and I see here and there advertisements of Christmas savings clubs, and pretty soon they will have birthday savings clubs and wedding anniversary savings clubs—and it is suggested that we may have to have baby clubs, too; in other words, the national banks are making a drive all over the country to take away the business of the savings banks; to get that money to invest in commerce or in industry or in various business activities, involving the investment of large amounts of capital.

We have very strictly confined the use of the people's savings—and I always use the word "people" with some fear of being suspected of demagoguery. However, I know of no other way to characterize the savings of millions of persons who desire, first of all, protection of their money and, secondarily, a fair amount of interest.

By the way, I might say that I am constantly irritated in Washington by observing the announcement of national banks that will pay as much as 3 per cent and sometimes 3½ or even 4 per cent for savings, when, in the savings banks of my own State, I think no bank is paying less than 5 per cent, and I think some are still continuing to pay 5½ per cent. The magnanimity of the Washington banks amuses me. [Laughter.]

Now, I am very much concerned about this proposal to concentrate, in commercial institutions, without these safeguards in the matter of investments, what has resulted from the thrift of many millions of our people.

In Massachusetts we have also a requirement strictly limiting the class of securities that the savings banks can buy and it is a common thing to use that as an illustration of perfect safety. You will find it in banking literature—the protection thrown around the savings banks by the Massachusetts law. It is a standard that other States, to some extent, try to reach. I fear not enough, as yet.

Is it your judgment that it is a wise thing—and of course I am going somewhat beyond the instant problem before us, assuming we are really making a study of the whole banking system of the country—do you think it is a wise thing, a prudent thing, to put savings of the citizens of the country at the command of commercial institutions, with the many dangers that accompany the lending of money for commercial projects?

Mr. POLE. Congress has given national banks the right to accept savings. The matter has been subject to a great deal of discussion as to whether or not savings deposits should be invested in certain characters of securities. In the case of national banks, I think the law is unfortunate in that it permits banks to enter into a contract

with its savings depositors, giving the bank the right to require 30 or 60 days' notice before withdrawal. Occasionally this has resulted in a preference of the regular depositors—the demand depositors—because the clause has been put into effect. There is, of course, no notice required with respect to demand depositors.

I personally have felt that if this 30 or 60 day clause is going to be maintained the savings investments should be segregated for the savings depositors, and those investments should be regulated. Under such circumstances, I think, there would be no danger.

Mr. LUCE. At present there is nothing in the way of intermingling of all the funds of a national bank, is there?

Mr. POLE. Nothing at all.

Mr. LUCE. I do not get clear in my mind what might be the effect of the extension of branch banking upon this particular feature of the situation. Do you think it would conduce to greater or to less safety for savings deposits, if we had branch banking, than if we had the unit banking?

Mr. POLE. I think it would be conducive to much greater safety in that a large part of the deposits, of rural districts are saving deposits and the result, over the last 10 years, has been very disastrous to savings depositors under our unit system of banking, under branch banking as I have heretofore pointed out there would be few bank failures, and consequently greater safety to the savings depositors.

Mr. LUCE. It would be quite practicable, under branch banking, to require the segregation of the savings deposits?

Mr. POLE. I think it would, if Congress saw fit to do so.

Mr. LUCE. When the McFadden bill, so-called, was passed a few years ago, in view of this particular phase of the question, I was a great deal exercised about the permission given to banks to invest a larger part of their money in real estate loans. My view, however, did not prevail, and banks now have a much larger opportunity to lend with real estate as the security.

Have you any knowledge as to how far that has been used? Of course, in a most general way, has it resulted in a considerable increase in real estate loans by the national banks?

Mr. POLE. Some banks have taken advantage of the liberality in the law to extend their investments in real estate. There is, however, another aspect of the matter and that is that banks acquire, in protection of debts, which have been previously contracted, perhaps as much real estate as they invest in under the McFadden Act directly.

Mr. LUCE. That provision was the result of competition between national banks and State banks or, what we, in our neighborhood, call trust companies. It was pointed out to us that a man who came into a national bank and could not get a loan, backed up by his property, would go across the street to his State bank, so that the national bank lost a customer, which brings me to a still broader aspect of this whole problem.

There is, in economics, the familiar law known as Gresham's law, under which the baser metal drives out the costlier metal. We have in this country, existing side by side, two systems—the national bank system and the State bank system. In many States State banks have much more freedom of action than national banks. It seems to me, in hearing the arguments in this room for 10 years, that, perhaps

quite unconsciously, a great war is going on—an economic war—between the two systems, and that the State banking system is the baser instrument of the two.

Do you have any apprehension that no legislation we might be able to pass will prevent the poorer system from driving out the better system? In answering that, you might also comment upon what will be the effect of the branch banking system on trust companies and State banks of the country. Would it tend to lessen——

Mr. POLE. It would depend very largely upon the provisions of the act. It would undoubtedly take a long time, under present conditions, for the principles of the Gresham law to apply with complete effect. On the other hand, I can not conceive of the national system driving the State banks out of business, unless the provisions of the national banking act were made so attractive as to invite them into the national system.

Mr. LUCE. You would make it a matter of moral suasion rather than compulsion?

Mr. POLE. By all means.

Mr. LUCE. Is it not a fact that in this great flood of bank failures that we have had in the last 10 years, the State banking systems have shown themselves greatly inferior to the national banking systems?

Mr. POLE. Over the country as a whole; yes.

Mr. LUCE. And if we were to assume that it is our function to protect, as far as possible, the depositors, particularly those who make savings deposits, is there any place where we can stop short of putting the State banks out of business?

Mr. POLE. Under a branch system, as heretofore suggested, Mr. Luce, I think that the particular attraction would be the element of safety which appeals to the public at large, and if the general impression got out that the branches of a national bank were a safer place to deposit money than in an independent State bank, I believe that the State banks would naturally become less and less important in that community and that the branch of the national bank would become more important—from the standpoint of safety, if for no other reason.

Mr. LUCE. That is all I have to ask.

Mr. STRONG. Mr. Beedy.

Mr. BEEDY. Inasmuch as you have passed me, may I ask now a question suggested by Mr. Luce's questions?

Mr. STRONG. Certainly.

Mr. BEEDY. If it becomes desirable for a closer supervision of banking by the Government, would the concentration of the banking business in branch banking groups tend to increase or diminish the efficiency of such Government supervision?

Mr. POLE. The system of supervision would have to be adapted to the new system, which could be easily done.

Will you ask that question again, please?

Mr. BEEDY. If it becomes desirable for a closer supervision of banking by the Government, would the concentration of the banking business in branch banking groups tend to increase or diminish the efficiency of such Government supervision?

Mr. POLE. My idea would be to make the supervision of the banks more efficient than it is to-day. I think it would be easier to do that under branch banking, in that there would be fewer banks to examine.

Mr. BEEDY. Then, your answer is——

Mr. POLE. And, by adapting a better method of examination than is in force to-day, the advantage would all be in favor of branch banking.

Mr. BEEDY. Your answer is, then, that the concentration of banking business into branch banking groups would make it easier for the Government to make a supervision of the banking business which would result in an added element of safety to the depositors?

Mr. POLE. I think so, by reason of the fact that, under a branch banking system, where large institutions would develop, the question of policy would be given more consideration than under the detailed examinations which are made of unit banks to-day.

It might be, even, that there would have to be a more or less continuous examination going on. The Government would probably have a much closer contact with the executive committees and with the directors of banks, so that it would have first-hand knowledge of any change in banking policy, as applied to any particular institution.

Mr. BEEDY. That is all, Mr. Chairman.

Mr. STRONG. Mr. Goodwin.

Mr. GOODWIN. Do you have any record of any failures in the Canadian banking system, as it has been operated?

Mr. POLE. Yes; there have been failures.

Mr. GOODWIN. Of the parent bank as well as of the branches?

Mr. POLE. Yes.

Mr. GOODWIN. Have these failures been of large proportions?

Mr. POLE. There have been no failures of recent years. My recollection is that the last failure was, about 10 years ago, of the Home Bank of Canada.

Mr. GOODWIN. I think several days ago, in answer to my question at that time, you stated that, in your opinion, supported by the advice of your counsel, branch banking could be permitted under the national law in those States where branch banking, is by the law of those States now prohibited.

Mr. POLE. That was the advice of counsel.

Mr. GOODWIN. Is that advice in writing?

Mr. POLE. Yes, and will be supplied for the record.

Mr. GOODWIN. You also stated that, in your opinion, no national bank should be chartered with a capital of less than $100,000; that is, it could not operate successfully and profitably with a capital of less than $100,000. Did I understand you correctly?

Mr. POLE. I said that that had been recommended by several as a remedy for the existing situation; that no bank should be established with a capital of less than $100,000. It was not my recommendation.

Mr. GOODWIN. If that should be adopted, would that apply to banks already chartered? Would they have to comply with the same law as to capitalization?

Mr. POLE. I do not know what Congress could do in that direction. I assume that that law would not be retroactive, if any such law were passed.

Mr. GOODWIN. It would apply only to those banks which may be chartered in the future?

Mr. POLE. It is not my suggestion at all that banks should be limited to $100,000. I have already expressed opposition to it.

Mr. GOODWIN. That is all, Mr. Chairman.

Mr. STRONG. Mr. Letts.

Mr. LETTS. Mr. Pole, when I questioned you before, it was largely with respect to the Bank of Italy and the Bancitaly Corporation and the Transamerica Corporation. I have before me what purports to be a reprint from a report recently compiled by the research department of the Los Angeles stock exchange. Have you seen that report?

Mr. POLE. I have not, Mr. Letts.

Mr. LETTS. I have no way of knowing whether the information contained in it is authentic. It is stated here that the information and figures are obtained from sources deemed reliable. It shows that the Transamerica Corporation is a holding company, total capital investment, over $1,150,000,000; that its subsidiaries perform a wide variety of functions, including banking in all its phases; insurance, real estate, the financing of investments, brokerage business, securities, underwriting, and many other things.

I find this statement:

> The size of this combination is roughly indexed by the fact that its work is not only nation-wide but world-wise; that its controlled subsidiaries operate 525 banking offices and numerous investment houses.

It contains a table showing the holdings of the Transamerica Corporation, indicating that it holds 99.6 per cent of the stock of the Bank of Italy, which is a banking concern; that it holds 99.93 of the Bancitaly Co. of America, sureties, realty, and so forth, and various other banking houses; the Bancitaly Mortgage Co., total invested capital $1,983,817; owned 100 per cent by the Transamerica Corporation; that it owns the California Joint Stock Land Bank, capitalized at $1,399,050—100 per cent; that it owns the Pacific National Fire Insurance Co., capitalized at $3,000,000, by possessing 100 per cent of its stock; the Bancitaly Agricultural Credit Co., capitalized at $1,006,620; possessing 100 per cent of that stock; in addition to that it has banking operations and investments operations in Italy.

The information contained would indicate that within eleven months after its organization, the Transamerica Corporation paid a stock dividend of 150 per cent. Would the fact that this stock dividend was paid in September, 1929, have any relation to the contention which was made by Mr. Busby a few days ago, that the Bank of Italy was bankrupt at the time its holdings were taken over by the Transamerica Corporation—would it have any bearing on that inquiry, would you say? I think Mr. Busby showed some figures which indicated a sharp decline in the value of the stock of the Bank of Italy. Have you given any thought to that?

Mr. POLE. I have not seen the circular to which you refer. If you are speaking of any evidence of the Bank of Italy being bankrupt, of course we are very certain there is nothing like that.

Mr. LETTS. I was wondering if there was incident to the taking over of this stock by the Transamerica Corporation——

Mr. POLE. I have no official information as to the stock dividends or any transactions in connection with the Transamerica Corporation.

Mr. BUSBY. Mr. Letts, if you will permit, I will make a short statement and give you what I said the other day.

Mr. LETTS. Yes.

Mr. BUSBY. It was this, that on June 5, 1928, the Bank of Italy stock on the San Francisco Exchange had reached 293. On June 11 a drive was made by certain competitive banking interests on the Bank of Italy standing, and before night on June 11 this stock, which that morning opened at 286, had been driven down to 125. On the 11th of October following that, the Transamerica Corporation was organized for the purpose of taking over all the stock, or as much stock as it could get in hand, of the Bank of Italy, the Bancitaly Corporation, and the other subsidiaries that you have alluded to in the pamphlet you hold in your hand, and their stocks were taken over. Now, the Transamerica Corporation stock was exchanged on the basis of one and three-fourths shares of Transamerica stock for each Bank of Italy share. The Bancitaly Corporation, which was an investment and trust corporation owned by the Bank of Italy, stock was exchanged for Transamerica Corporation stock share for share. At the present time the Transamerica Corporation stock is quoted on the stock exchanges of the country at 45. Now, one and three-fourths times 45 would be 78¾ that the Bank of Italy stock would sell for if it were in existence against 293, where it stood when it started its skidding performance.

My proposition was that that was a virtual failure of the institution with its 299 branches, a failure from the standpoint of its maintaining its financial integrity among the other business institutions of the country.

That is all I desire to say now.

Mr. FORT. The gentleman has overlooked the fact that in between there was a 150 per cent stock dividend, so that he has to take his 78 and multiply it by 2½, for each shareholder now has 2½ shares for each one he then had.

Mr. BUSBY. I intend to go into that later.

Mr. LETTS. That, of course, was the gist of my inquiry.

Mr. BEEDY. That would make the present worth of that stock 192 plus.

Mr. BUSBY. Taking that phase of it, it has dropped at least 100, and other banks in the same locality have not dropped so much.

Mr. BEEDY. How does that compare with the drop in other bank stock in the recent crisis—National City, for instance, and some of the strongest banks in the country?

Mr. BUSBY. National City Bank stock ran up so high that it split into $20 shares and so mystified the public that they did not know what happened.

Mr. LETTS. I will pass that for the moment.

Mr. POLE. May I say this for the record, that I think it is only fair to say that the fluctuations of the stock of the Bank of Italy or the Transamerica Corporation have been a matter of comment, but the condition of the Bank of Italy has not changed in any way and is just as good now as it was before these fluctuations took place, and, as I said the other day, it is a bank that has grown steadily during all of these stock transactions and ramifications from a very small bank to a bank of more than a billion dollars in resources.

Mr. BUSBY. I would like to add one thing in reply to what Mr. Fort said about the Bank of Italy stock, and that is that the friends that I have who have Bank of Italy stock have not been let in on any such bonanza as Mr. Fort pointed out. They do not know anything about that share dividend, if it happened, and I very seriously doubt that.

Mr. LETTS. This is a stock dividend of the Transamerica Corporation.

Mr. BUSBY. The holders of Bank of Italy stock are still in the lurch which I described.

Mr. LETTS. I am only speaking of the Transamerica Corporation.

Mr. FORT. That was the price the gentleman used, the price of Transamerica Corporation stock translated into Bank of Italy.

Mr. LETTS. I shall pass that for the time being. It is somewhat aside from my general inquiry.

I note this statement with respect to the expansion policy of the Transamerica Corporation:

> This great combination is in a position to assure itself profits in many fields. Its banks provide the funds necessary for any desirable deal; its own investment houses underwrite stocks and bonds, which may be marketed and protected by its wide-flung bond houses and securities companies; its banking and investment houses can divert tremendous business to its insurance company; its banking offices may act as agents for the farm loan and real estate mortgage companies; its real estate companies can help to liquidate foreclosed real estate of other departments; its stock trading and brokerage companies have tremendous sources of information and almost ulimited financial support.

Now, I would like to inquire of the comptroller whether or not this information is to his knowledge substantially correct?

Mr. POLE. I have no information with regard to the expansion program of the Transamerica Corporation. It does not come under our supervision, Mr. Letts.

Mr. LETTS. The particular thing that I am interested in, as perhaps was noted from the trend of my questions the other day, is that a very serious consideration exists in connection with this feature, that if we accept branch banking as the less of three evils, perhaps—branch banking, chain banking, and group banking—are we avoiding the pitfalls and the dangers that are incident to group banking after all? Does not this report indicate that the Bank of Italy with its 300 branches is controlled, after all, by a holding company through the medium of its board of directors that sits back of the screen, subject to no supervision or regulation whatever as a banking organization, and is there any way to safeguard the Nation against such control of the banking interests and banking policies of the country through the medium of one or more strong holding companies if we go to the branch banking system as advocated in your formal statement?

Mr. POLE. There should be some control of and some supervisory power over holding corporations, and I suggested in my report to Congress that that be given to the comptroller where the stock of the national banks is held in large part by such corporations.

Mr. LETTS. Well, if seems quite clear that by simply going to branch banking we are not avoiding the dangers that are incident to group control.

Mr. POLE. Of course, the Transamerica Corporation is one which is engaged in the business of both group and branch banking. The par-

ticular activity of the Bank of Italy is a branch banking operation. Now, as to whether Congress would want to legislate prohibiting the entire capital stock, with the possible exception of directors qualifying shares being held by such a corporation, that would be a matter that I should think might have consideration. Under the present laws, of course it can not be prohibited.

Mr. LETTS. Mr. Chairman, I would like at this point to insert in the record the information which I find in this report. It is brief, and the information will be of interest.

Mr. STRONG. If there is no objection, it is so ordered.

(The pamphlet referred to is reproduced below.)

TRANSAMERICA CORPORATION

[A reprint from a report recently compiled by the Research Department of the Los Angeles Stock Exchange Statements and figures herein while obtained from sources deemed reliable are not guaranteed]

INTRODUCTION

Transamerica Corporation is a holding company organized to coordinate the work of a number of financial institutions. Total capital investment is over $1,150,000,000. Its subsidiaries perform a wide variety of functions, including banking in all its phases, insurance, real estate sales, and financing, investment and brokerage service, securities underwriting, and many others. The size of this combination is roughly indexed by the fact that its work is not only nation-wide, but world-wide; that its controlled subsidiaries operate 525 banking offices and numerous investment houses.

It is difficult to visualize the extent of the Transamerica system, or to estimate the amount of capital invested in it. The table set forth on the following page presents a general outline of the structure, omitting minor subsidiaries.

Holdings of principal banking and auxiliary companies controlled or effectively controlled through Transamerica Corporation

Company	Business	Total invested capital	Shares owned	Per cent
Bank of Italy, N. T. & S. A.	Banking, 294 offices	$106,253,731.00	1,991,941	99.60
Bankitaly Co. of America	Securities, realty, etc	400,000,000.00	1,299,125	99.93
The Bank of America National Association, N. Y.	Banking, 34 offices in New York.	74,451,204.00	705,501	49.30
Bancamerica-Blair Corporation	Security underwriting, 31 offices.	53,000,000.00	705,501	49.30
Bank of America of California	Banking, 148 offices in California.	33,068,432.00	778,292	97.29
Corporation of America	Holding company for 8 banks	20,000,000.00	778,292	97.29
Oakland Bank	Banking, 12 offices in California.	6,461,752.00	14,390	71.95
Banca d'America e d'Italia	Banking (in Italy), 29 offices	23,100,000.00	804,112	40.20
Ameritalia (corporation)	Investment business in Italy			
Bankitaly Mortgage Co	Dealers in mortgages	1,983,817.00	10,000	100.00
California Joint Stock Land Bank.	Farm loans	1,399,050.00	9,160	100.00
Pacific National Fire Insurance Co.	Fire insurance	3,000,000.00	50,000	100.00
Bankitaly Agricultural Credit Co.	Farm loans	1,006,620.00	10,000	100.00

DEVELOPMENT

Transamerica Corporation was organized in October, 1928, to bring under a single ownership the Bank of Italy and Bancitaly Corporation, together with a number of smaller cooperative companies. From the resulting reorganization the present Bank of Italy, N. T. & S. A., and Bankitaly Company of America emerged, as the two principal subsidiaries of Transamerica. Bankitaly Mortgage Co., Bankitaly Agricultural Credit Co., National Bankitaly Co., California Joint Stock Land Bank, Pacific National Fire Insurance Co., and Commercial Holding Co. were the remaining original subsidiaries.

The corporation's first year has witnessed a steady development. The first major incident was the acquisition of control of the Bank of America National Association, in March. A portion of it was exchanged for a stock interest in the underwriting and investment banking firm of Blair & Co. Shortly thereafter the investment arm of the Bank of America National Association was merged with Blair & Co. to form the Bancamerica-Blair Corporation. The Bank of America National Association and the Bancamerica-Blair Corporation are now owned share-for-share by the same stockholders, and form one of the strongest links of the Transamerica chain.

Control of the Bank of America of California was obtained in June, and The Oakland Bank (Oakland, Calif.) and the Pacific National Bank (Los Angeles, Calif.) have also been acquired this year. The nine Pacific National Bank offices have been absorbed by the Bank of Italy, N. T. & S. A., and the Bank of America of California.

The latest developments are new organizations. Bancamerica-Blair has organized Interstate Equities Corporation to act as an investment trust, probably to take a primary interest in Bancamerica-Blair underwritings, and had financed it to a large extent privately. Intercoast Trading Co. has, on the other hand, been financed one-third by Transamerica and two-thirds by Transamerica stockholders under rights. The Intercoast Trading Co. is operated to deal substantially in stocks listed in Los Angeles and San Franciso, and should be a powerful and profitable addition to the Transamerica group.

EARNINGS

Transamerica in 1928 reported earnings of $97,373,000 on the companies in the original Transamerica group, equal to $11.12 per share on Transamerica's 8,747,594 shares then outstanding.

For the first half of 1929 Transamerica reported earnings on the companies in the group of $49,185,173, equal to $5.47 per share on the average number (8,988,631) of shares outstanding during the half-year. However, these earnings do not include undistributed earnings of Bank of America National Association, Bancamerica-Blair Corporation, Bank of America of California, Oakland Bank, and certain other companies in the group in which Transamerica's holdings are less than 99 per cent. It would appear that the $49,185,173 of earnings come mainly from the original Transamerica companies.

The 150 per cent stock dividend which was recently paid has, of course, increased the number of shares outstanding, and reduced the earnings per share. In terms of the new stock the half-year's earnings per share become $2.14 on 22,996,725 shares now outstanding. The number of new shares to be outstanding shortly will be 23,226,692.

DIVIDENDS

Transamerica has paid a quarterly dividend of $1 per share in cash since its organization, and in April and July of this year also paid 1 per cent in stock. These payments were made on the old stock, prior to the 150 per cent stock dividend. The number of outstanding shares was multiplied by two and one-half when the 150 per cent stock dividend was paid to stockholders of record September 10, 1929. Dividends on the new stock will be at the annual rate of $1.60 in cash and 4 per cent in stock dividends. This is the exact equivalent of the dividend paid on the old stock.

YIELD

Based on the dividends of $1.60 per annum and 4 per cent per annum in stock, Transamerica (new) yields the following as of the prices listed below:

Price:	Per cent
$50	7.20
$55	6.90
$60	6.67
$65	6.46

EXPANSION POLICY

Transamerica has made a policy of expansion through the exchange of Transamerica stock for those of the desired companies, and the ability of its management is manifest in the steady progress and development of such subsidiaries.

This great combination is in a position to assure itself profits in many fields. Its banks provide the funds necessary for any desirable deal; its own investment houses underwrite stocks and bonds, which may be marketed and protected by its wide-flung bond houses and securities companies; its banking and investment houses can divert tremendous business to its insurance company; its banking offices may act as agents for the farm loan and real estate mortgage companies; its real estate companies can help to liquidate foreclosed real estate of other departments; its stock trading and brokerage companies have tremendous sources of information and almost ulimited financial support.

Transamerica is now strongly entrenched in California and New York, has important European branches, and through Bancamerica-Blair, National Bankitaly Co., and America Investment Co. has an underwriting and investment business which is nation-wide. Expansion in New York and California is still going forward. Furthermore, there is talk of liberalizing the banking laws to permit national banks in every State to have branches, and such legislation would possibly result in Transamerica's embarking on a vigorous program of bank expansion. Certainly there is no reason to believe that Transamerica's expansion program is complete, and the banking field is one which offers the greatest opportunity to its diversified facilities.

While it is generally assumed that Transamerica Corporation is now acting as a holding company exclusively, controlling only its known subsidiaries, many well-informed people believe that the Transamerica subsidiaries are acquiring the stock of prospective additions to the Transamerica chain.

ASSET VALUES

Transamerica's balance sheet of December 31, 1928, gave total cash and investments of $1,093,449,250, equal to approximately $125 per share on 8,747,594 shares outstanding. This would indicate a book value of $50 per share on the new stock.

MANAGEMENT

While the Transamerica Corporation is generally conceded to be controlled by the group of financiers associated with A. P. Giannini in the original development of Bank of Italy and Bancitaly Corporation, the board of directors includes prominent bankers and business men from practically all of the merged organizations. The former moving spirits of the Bank of America, N. A., Blair & Co., and other merged companies have been taken into the Transamerica directorate, which now numbers 22 people. Experience in every phase of the widespread field covered by Transamerica is thus to be found on the board of directors.

Transamerica's 22,996,725 shares are owned by more than 135,000 stockholders, making an average holding of approximately 170 shares. While there are, no doubt, many large holdings of Transamerica, there are also many thousands who have bought a few shares as a permanent investment. Transamerica officials have announced that they hope to increase the number of stockholders to 500,000, and a special effort is being made to sell the new shares recently authorized in small amounts, preferably to individuals living outside of California. These policies are intended to develop a large sympathetic and geographically-scattered group of stockholders, who will provide the nucleus for a growing clientele, and will help to mold a friendly public attitude toward the corporation.

DIRECTORS OF TRANSAMERICA CORPORATION

A. P. Giannini, president Transamerica Corporation, San Francisco, Calif.
A. J. Mount, president Bank of Italy, N. T. & S. A., San Francisco, Calif.
James A. Bacigalupi, director Bank of Italy, N. T. & S. A., San Francisco, Calif.
P. C. Hale, vice president Bankitaly Co. of America, San Francisco, Calif.
A. Pedrini, vice president Bankitaly Co. of America, San Francisco, Calif.
L. M. Giannini, president Pacific National Fire Insurance Co., San Francisco, Calif.
A. E. Sbarboro, vice president Pacific National Fire Insurance Co., San Francisco, Calif.
W. E. Blauer, vice president Bankitaly Mortgage Co. and vice president California Joint Stock Land Bank, San Francisco, Calif.
Dr. A. H. Giannini, chairman board of directors, The Bank of America, N. A., New York City.

Edward C. Delafield, president The Bank of America, N. A., New York City.
J. E. Rovensky, vice president Bancamerica-Blair Corporation, New York City.
Leon Bocqueraz, chairman board of directors, Bank of America of California, San Francisco, Calif.
E. J. Nolan, president Bank of America of California, Los Angeles, Calif.
C. N. Hawkins, vice president Bankitaly Agricultural Credit Corporation, Hollister, Calif.
W. H. Snyder, vice president Commercial Holding Co., New York City.
George A. Webster, vice president Commercial Holding Co., San Francisco, Calif.
W. F. Morrish, vice president Corporation of America, San Francisco, Calif.
C. R. Bell, vice president Corporation of America, San Francisco, Calif.
Elisha Walker, president Bancamerica-Blair Corporation, New York City.
Harry Bronner, vice president Bancamerica-Blair Corporation, New York City.
Hunter S. Marston, vice president Bancamerica-Blair Corporation, New York City.
W. W. Garthwaite, president The Oakland Bank, Oakland, Calif.

Mr. LETTS. There is just one other question, Mr. Comptroller. Have you given any consideration to the tax question? Many of our States are finding it necessary to reexamine their tax plans, and one question that exists in the minds of many of the legislators is whether or not the national banks are bearing their proper part of the tax burden of the States.

Have you given any consideration to that problem?

Mr. POLE. Yes. The comptroller's office is on record as being in favor of the existing section 5219. No recommendation was made by me, so that the former recommendation that we do not advocate any change in that stands. However, the matter is being given consideration by the American Bankers' Association and is being investigated very thoroughly, which may possibly enable us to offer some suggestions at a later date.

Mr. LETTS. Under a branch system, the parent bank would place in each state only such assets and banking facilities as were deemed to be necessary to meet the conditions and to render the appropriate service—is that not correct?

Mr. POLE. Yes.

Mr. LETTS. In relation to chain merchandising, we find that it is never possible to find enough in stock and wares on the shelves in January, when the assessor makes his visit, to furnish any kind of a proper tax basis. An individual merchant, a unit merchant, may have, we will say, $150,000 worth of stock on his shelves, and he is assessed accordingly. A chain hardware store across the street from him will have about $3,000 worth of stock on its shelves, and a requisition sheet lying on the manager's desk, and when he sells a hoe or a hatchet, he writes "hoe" or "hatchet" on his requisition sheet, and sends that to Chicago or to some other center, and the stock is in that way replenished, to the point that in many instances there chain merchandising corporations are obviating the difficulties and the expense incident to storage by getting away from storage, by keeping their merchandise in transit and using their railroad cars for their storage purposes.

Will we have any corresponding difficulties in that regard if we go to branch banking?

Mr. POLE. I do not know what amendments there might be in the law with respect to such a contingency, Mr. Letts, but this I do know, that whatever new methods of taxation must be adopted to cover such

a situation, the branch bank would be far better able to meet that expense than would the unit bank.

Mr. LETTS. I think that is all.

Mr. STRONG. Mr. Fort.

Mr. WINGO. Judge Letts, his answer assumes that Congress by legislation might affect that matter. There might be another question that would arise that nothing but a Federal Court could determine, that it was beyond the power of Congress to grant that power. Congress can not grant taxing power to the States at all. We might say to the States that they can tax these banks as they please, that we will make no restrictions, and yet the difficulty to which Judge Letts points would be one that would still have to be met.

As an illustration, suppose that you had your parent bank in Memphis, Tenn. It is a foreign corporation so far as Arkansas is concerned, and all the efforts of the Arkansas Legislature to enforce its taxation might meet with the same situation that arose in the case that was settled in the Supreme Court, in the Western Union case, under what they called the Wingo Corporation Act that I was the author of in the State senate.

So it is not so easy as you suggest, that Congress should simply handle it.

Mr. POLE. It was not my idea that that would be necessarily an amendment by Congress, but it might be by a change in the State laws with regard to taxation, and I feel that section 5219 that, as far as we are concerned, banking capital shall not be assessed at a greater rate than other similarly invested capital, is for the time being satisfactory.

Mr. WINGO. I thought, however, that he was calling attention to the difficulties that might arise.

Mr. LETTS. My particular point is this, if I may make it plainer, and if you will pardon me, Mr. Wingo, that there will be no invested capital represented by the branch. The invested capital will be in the parent institution.

Mr. POLE. Well, I would not be able to answer offhand on an intricate question of taxation as to what modifications the State might find necessary to make in such a contingency.

Mr. LETTS. Well, of course, if there is no invested capital, that can not be made the basis of taxation, and yet the States should have some part of its tax burden borne by an institution which renders that service and has that privilege within the community.

Mr. POLE. The States do not ordinarily overlook the opportunities for adjusting their taxing systems——

Mr. LETTS. It is a very difficult question.

Mr. POLE. Extremely.

Mr. LETTS. In my State we have a tax commission that is making a study of that matter and that has been looking into the matter for a long time, and I think that in a great many States they are finding that it is quite necessary that they reexamine their tax methods; they must get on some kind of a new basis, because there have been so many new and novel situations arise in business and the manner of handling property.

Mr. WINGO. Mr. Chairman, if I may right there, I still think that the comptroller does not catch the point I am seeking to impress upon him, that it is not an easy matter, either for Congress or the

States, to handle this question. We will take the illustration that I used awhile ago. The parent bank is in Memphis, and it says that Arkansas is in its trade territory. It will have, say, several small branches like they have in these small villages on these plantations across the river in Arkansas where they will have an office open two or three days a week, and the Legislature of Arkansas, under the decisions of the courts, can not arbitrarily say that they will assess them on the basis of their capital, because the courts say that they can not do that, that they have tried that once. The corporation will take the position that it has a desk and so much furniture in Arkansas, but the physical deposits are not there, that they are in Memphis. Three days in the week there are some papers brought there by the manager in his bag, and that is all that is there outside of the furniture. It will take a more ingenious law or plan than anyone in this room has worked out whereby that State can tax other than the actual physical furniture in that branch.

That is the difficulty you are thinking of, Judge Letts, is it not?

Mr. LETTS. Precisely.

Mr. LUCE. May I interpose a statement there? For about thirty years I have made my bread and butter out of a corporation that does business both in Massachusetts and New York, and during that time every year we have had to apportion the amount of capital used in each of those two States, and it has not proved to be an insurmountable proposition.

Mr. WINGO. For the corporation?

Mr. LUCE. For the corporation.

Mr. WINGO. I am familiar with that apportionment business, and it is not satisfactory to the States. The corporation always to the State, "Challenge our apportionment if you want to, and into the courts we go," and they cite certain decisions of the courts to support them.

Mr. LETTS. Would it be as easy and as simple as you indicate, Mr. Luce, if you had a parent organization in New York City, with branches throughout the entire Nation?

Mr. LUCE. It makes no difference what the comparative size of the corporation is. The proposition is not to tax the material assets of the corporation, but we are asked to furnish figures from which a computation may be made as to the relative proportionate use of that capital in the two States.

Mr. LETTS. That was just a harmonious plan that was used to take care of your situation, was it not?

Mr. LUCE. I am not sure about that.

Mr. LETTS. It was a harmonious plan of taxing companies in one State and the other?

Mr. LUCE. Oh, no; my State holds that it has the right to tax the capital used.

Mr. LETTS. I understand that, but how did you make this apportionment?

Mr. LUCE. We do not make it. We furnish the figures and let them make it. We give them the figures of our business.

Mr. LETTS. But who had authority to make that apportionment?

Mr. LUCE. The tax commissions of the two States.

Mr. LETTS. Well, it was by mutual and satisfactory agreement that they were able to arrive at it, and there is nothing in the law of either State that controlled the matter, as I understand it.

Mr. LUCE. The law of Massachusetts has a yardstick by which it measures the amount of capital used in Massachusetts.

Mr. LETTS. But that would not be binding in my State.

Mr. LUCE. But, as a matter of fact, the thing works out without any difficulty.

Mr. LETTS. By the harmonious action of the officials that are charged with the duty of levying the tax.

Mr. LUCE. Of course, it is possible that one State might claim that a much larger proportion of the capital is used in its borders than the other State would be able to admit.

Mr. LETTS. And would not the difficulties be multiplied in putting branches in 48 States?

Mr. LUCE. Well, I can only answer that as far as I know the thing does not happen.

Mr. LETTS. You do not have difficulties?

Mr. LUCE. Not in my State of any appreciable consequence.

Mr. LETTS. A good many of the States now feel that there must be some kind of a readjustment along those lines.

Mr. BEEDY. It think, for the purpose of the record, that it ought to appear that there is no proposal before the committee at the present time that would authorize the establishment of branches in 48 States. At best, the only proposal that has been suggested is the limitation of branches within the areas of 12 commercial districts, so that your question would simply go to the extent of the size of the branch-banking system.

Mr. LETTS. I take it that Congress might decide now to permit branches within certain trade areas, and another Congress might take another step at a later time, and it is quite conceivable that it might become nation-wide.

Mr. BEEDY. Oh, yes.

Mr. WINGO. I do not want the comptroller put in the attitude of saying on the record that the question of taxation would be an easy one, which it is not. I suppose he recognizes that the taxation problem is a very difficult one, and, with the shifting conditions, it becomes a constant problem that has to be met. I assume that they are handling it in some way in connection with the Bank of Italy, and that as they extend branch banking they will work out a way, and the courts can be determined upon to protect the interests of both the States and the banks; but I do not want it to appear to the attorneys and directors of banks who may read this record that the comptroller who is making this recommendation to us that we have to pass on treats the taxation problem as a light one.

Mr. POLE. I intended to convey to you, Mr. Wingo, that I realized that the taxation problem was a most intricate one, and I reiterate that.

Mr. STRONG. Now, Mr. Fort.

Mr. FORT. Mr. Pole, on this tax problem, we now have a statute, as you pointed out awhile ago, by which the Federal Government restricts and limits the powers of the State to tax national banks so that the capital invested in national banks shall be treated the same as other capital in the State similarly employed.

Mr. POLE. That is correct.

Mr. FORT. I assume that that act has been sustained in the courts?

Mr. POLE. I am sure it has.

Mr. FORT. If we have, then, the power to put on that type of limitation, we would also have the power, if we saw fit, would we not, to draw a statute providing—and I am just suggesting this, not having thought through this particular matter—that each national bank which had branches shall pay in each city or in each town where it had branches a tax proportionate to the volume that the deposits from that branch bear to its entire resources, or something of that sort?

Mr POLE. That would seem to be entirely reasonable.

Mr. FORT. In other words, we have the power, if we choose to use it, to establish a rule of taxation for national banks which will compel them to pay taxes?

Mr. POLE. I feel sure that the States tax the national banks by permission of Congress. That is my understanding.

Mr. FORT. And we could compel it as well as permit it? That is, we could compel the bank to pay?

Mr. POLE. That would be my idea.

Mr. FORT. We have had a lot of discussion here about the Bank of Italy. I do not hold any brief for their system of banking or of holding companies, but, as a matter of fair consideration of this whole question, substantially the same thing that is happening in the Bank of Italy group is happening in other banking groups in this country, is it not?

Mr. POLE. The same methods of transacting business and the same developments along the line of branches is going on with respect to other banks.

Mr. FORT. And the same development in the line of affiliated organizations of one type or another?

Mr. POLE. In a greater or less degree.

Mr. FORT. For example, the Chase National Bank in New York today has the American Express Co. as a part of itself, has it not?

Mr. POLE. I believe that is true through the Chase Securities Co.

Mr. FORT. As a result, today, in effect, the Chase National Bank is operating branch banking of a type throughout all of the cities of any importance in the United States and Europe, is it not?

Mr. POLE. It is operating a branch system directly in the city of New York and, through its Securities Co., I think over the country in the manner suggested by you.

Mr. FORT. All of the business of the American Express Co. is banking business of a type, is it not? I do not mean that they are necessarily depositary banks, but they do a banking business, do they not, in exchange, in the issuance of letters of credit, and in the issuance of traveler's checks?

Mr. POLE. That is my understanding.

Mr. FORT. So that we already have at least one affiliated organization in the United States which is engaged in certain forms of branch banking, not only nation wide, but world wide?

Mr. POLE. Yes.

Mr. FORT. And somewhat the same thing is true—and, of course, it is a part of the Bankitaly group—of the Bancamerica since its

affiliation with the Blair Corporation, is it not? They are issuing letters of credit and doing a banking business throughout the world and in the larger cities of the United States?

Mr. POLE. That is true.

Mr. FORT. And the same thing is true with the National City and Guaranty Cos., or their affiliates, and the Chicago Continental & Commercial Bank?

Mr. POLE. In many respects.

Mr. FORT. So that we already are faced, as a practical existing question and not a mere future possibility, with the expansion of some form of branch banking activities, both nation wide and world wide, by some of our large banks?

Mr. POLE. Other than by the Transamerica Corporation?

Mr. FORT. Yes, other than by the Transamerica Corporation.

Mr. POLE. Yes.

Mr. FORT. And in some cases those functions are really carried on by the bank as a bank, are they not? For instance, the Bankers Trust Co., of New York, as I understand, has no security affiliate, but has securities offices and letters of credit offices, and so forth, throughout this country and Europe—is not that so?

Mr. POLE. I think you are correct. Of course, the Bankers Trust Co. is not a national bank and I have no official information with regard to its operations.

Mr. FORT. Now, in that connection, you have spoken, under the questioning of Mr. Luce——

Mr. BUSBY. Will the gentleman yield at this point, before he leaves that matter? I want to call attention to the fact that I was not pointing out these things that you have asked about——

Mr. FORT. I was referring to Judge Luce's questions.

Mr. BUSBY. But to the fact that the Transamerica Corporation had been formed to take care of all the interests of the Bank of Italy, which has not happened in any other system.

Mr. FORT. It has happened in the Chase National Bank taking over the American Express Co.

Mr. BUSBY. No; not by a holding corporation formed independently of all these units, to take over all the units under a new name.

Mr. FORT. Mr. Pole, in regard to the question of the shift which Mr. Luce, I think, very aptly described as from the finer to the baser system of banking, the shift from the national to the State system, what has been the shift in terms of resources between the two systems since the passage of the McFadden bill?

Mr. POLE. There have been four and a half billion dollars of resources that have been converted from the national to the State system within the past 10 years.

Mr. FORT. Is that a net figure, or have there been corresponding shifts of State to the national that would reduce that?

Mr. POLE. No, that is the total resources of all national banks of five millions of resources and over which have left the national system within the past 10 years, as set out in my report to Congress.

Since the passage of the McFadden Act (Feb. 25, 1927) to March 14, 1930, the total resources of the 377 national banks which have gone into the State systems is approximately $3,400,000,000, while

the total resources of the 181 State banks which have come into the national system during the same period is about $2,700,000,000.

Mr. FORT. Have you the figures in number of banks?

Mr. POLE. I shall be glad to supply that.

Mr. FORT. I should like to see it.

Mr. WINGO. Right in that same place, will you insert the resources of State banks and the resources of national banks on the date the McFadden Act passed, and the same figures of resources of State banks and resources of national banks on the last available date, or at the present time?

Mr. POLE. I will be glad to.

Mr. WINGO. Pardon the interruption, but I wanted to get the whole picture there.

(The information called for is reproduced below.)

This office had no call showing the resources of national banks as of February 25, 1927, but did through process of calculation estimate the total amount of resources of national banks on that date as being $25,136,426,000. No figures were available, however, for State and private banks. The nearest available figures on call reports for State and private banks and national banks was June 30, 1927, four months subsequent to the passage of the McFadden bill, on which date the total resources of 7,796 national banks was $26,581,943,000. Total resources for 19,265 State and private banks was $41,550,615,000. The total resources for 7,536 reporting national banks as of June 29, 1929, was $27,440,228,000, and the total resources for 17,794 State and private banks as of June 29, 1929, was $44,732,277,000. No later figures are available for State and private banks but the total resources of 7,408 national banks as of December 31, 1929, was $28,882,483,000.

Mr. FORT. Now, we have also had some discussion as to the political power resulting from these various systems. Is it not a fact also, Mr. Pole, that these changes in the banking systems, of branch banking and group banking and other affiliations of banking power, are resulting in an enormous concentration of economic power, apart from political power?

Mr. POLE. It would seem that that would be natural.

Mr. FORT. And that that is running along correlatively and simultaneously with an aggregation of economic power in our industry and in our merchandising?

Mr. POLE. Undoubtedly.

Mr. FORT. The tendency everywhere seems to be toward the establishment of greater units under single control?

Mr. POLE. Yes.

Mr. FORT. It has seemed to me, parenthetically, that we are somewhat getting to the point where we have got to consider the aggregation of economic power, through control of personal property, as England was forced three or four hundred years ago to consider it when all property was real property. If this aggregation of economic power through consolidation of banking resources is moving as fast as it is, do you still feel, as you said awhile ago, that allowing these great banks of deposit to go into the investment field and the origination of securities is wise, or should they be restricted and held out of the investment and origination of securities altogether and forced back into what used to be called banking?

Mr. POLE. A very important factor in the banking business is dealing in securities, and it is becoming more and more important as

the commercial business of the bank appears to be coming less and less profitable.

Mr. FORT. Let us get a clear view of what we mean by dealing in securities, Mr. Pole. Dealing with securities and dealing in securities are two different things, of course?

Mr. POLE. Yes.

Mr. FORT. Can you see no possible basis for a differentiation between the function of loaning on securities held by somebody else and the function of originating securities and selling them to somebody else?

Mr. POLE. A very wide difference.

Mr. FORT. Granting that there is a difference there, are they, in your judgment, as a supervising bank official, the type of functions that should be in the same hands?

Mr. POLE. I know of no dangerous developments to date, Mr. Fort.

Mr. FORT. No; but that does not go to the theory.

Mr. POLE. No.

Mr. FORT. Banking, as it has been regarded traditionally, is the receipt of deposits and the loaning of money, is it not?

Mr. POLE. Yes.

Mr. FORT. Now, the loaning of money to-day, by virtue of the transformation in our business and economic structure, has become increasingly a loaning on securities rather than a loaning on names or on individually-owned business. Do you feel that it is sound banking—and I am not precommitted one way or the other—or sound banking theory that the same man should sell me a security and then determine how much he should lend me to buy it?

Mr. POLE. I can not see any objection to banks going into the underwriting and the distribution of securities on a large scale.

Mr. FORT. In the one case the psychology of the banker is that of a lender whose sole consideration is the safety of the loan and the making of a loan that is wise for the borrower to have; do you see no difference between that psychological viewpoint and the viewpoint of the salesman who is making money or profit out of selling the security on which the loan is sought?

Mr. POLE. Yes, I see a very great difference.

Mr. FORT. In that psychology?

Mr. POLE. A very great difference in that psychology.

Mr. FORT. Now, the trust powers of banks have been exercised to a very great extent, have they not?

Mr. POLE. To an increasing extent.

Mr. FORT. And are continuing. The percentage of increase is really tremendous, is it not?

Mr. POLE. Remarkably large.

Mr. FORT. That results in the control of very large resources going into the hands of the management of banks, that management having no financial interest whatever in the funds in its control, does it not?

Mr. POLE. It certainly does.

Mr. FORT. In other words, it is another step by which we are passing from the owner controlling his property to somebody else controlling it for him?

Mr. POLE. I think you are correct.

Mr. FORT. Now, if an individual is trustee under a will or a voluntary trust, he may make no profit whatever, directly or indirectly,

out of the funds in his hands as trustee, other than his legal commission, may he?

Mr. POLE. That is correct.

Mr. FORT. And if he does, he is liable to removal, and also to deprivation of his profit, and, simultaneously, to make up any loss which may have occurred on one transaction, while being denied a profit on the other transaction. Is there any sound reason why the same rule should not apply to corporate trustees?

Mr. POLE. I think not.

Mr. FORT. Then should banks which are corporate trustees be permitted to deposit the funds of the trust with themselves, except that they pay as interest the same earnings that they make?

Mr. POLE. I should say that under regulation there would be no objection to it.

Mr. FORT. Why not? If it were a private individual, he would not be allowed to do it, would he?

Mr. POLE. I think that the trust department might properly deposit its uninvested trust funds in the commercial department of a bank, which it does to-day, such deposit being covered by securities under governmental regulation.

Mr. FORT. And then, when deposited in the commercial department, they become subject to the ordinary hazards and investments of the bank, do they not?

Mr. POLE. They are protected by a deposit of securities with the trust department, covering the full amount of deposit.

Mr. FORT. The individual trustee under a will is covered by a surety bond, is he not?

Mr. POLE. Yes.

Mr. FORT. So that there is no difference between the one case and the other?

Mr. POLE. As far as the security is concerned; no.

Mr. FORT. But the individual trustee would not be permitted, even though under bond, to utilize the funds in his custody as trustee in his own business and make a profit?

Mr. POLE. That is correct.

Mr. FORT. Nor would he be permitted to buy securities from himself or from a corporation which he owned?

Mr. POLE. That is true.

Mr. FORT. Now, all that I am asking is this, that as a matter of sound theory, is there any reason why a corporate trustee should have broader powers in this respect than individual trustees?

Mr. POLE. I probably see no reason why there should be any difference there.

Mr. FORT. Is it not possible, under the present situation of security affiliates, as was brought out by somebody else the other day, for the little actual stock ownership of a bank to be in its own security affiliate?

Mr. POLE. There is no law prohibiting that at present. I have suggested that where the stock is held by these securities companies, or where there is a securities company that is closely affiliated with the bank, that the supervisory authority should be extended to such corporations.

Mr. FORT. The fact is that the stock of security affiliates and the stock of the banks themselves are traded in as a unit, is it not?

Mr. POLE. That is quite often the case.

Mr. FORT. Is there anything in the national bank act that permits that?

Mr. POLE. There is nothing prohibiting it.

Mr. FORT. The tieing of the two stocks together so that neither could be sold separately from the other.

Is there anything in the national bank act that permits voting trusts on national bank stock?

Mr. POLE. There is no mention of voting trusts as far as I know.

Mr. FORT. Are there any court decisions on that subject in regard to national banks?

Mr. POLE. I am sure there are.

Mr. FORT. Which way? Do you know? Are they legal or illegal?

Mr. POLE. I have not the information on that.

Mr. FORT. If Mr. Awalt knows the decisions, I wish he would put them in the record.

Mr. AWALT. I can not offhand tell you the exact decisions, but there was a decision in New York State on a voting trust, holding it illegal, and there was a decision in one of the southern States holding a voting trust illegal.

Mr. WINGO. That was not with reference to national banks, was it?

Mr. AWALT. I do not believe either one had reference to national banks.

Mr. WINGO. I do not think they were. I remember that I had occasion to ask about that.

Mr. AWALT. I might say that we have consistently opposed voting trusts in our office.

Mr. FORT. That is what I was coming to. I think generally that there is a feeling that a voting trust of bank stock at least is against the public interest.

Mr. POLE. There is.

Mr. FORT. Is there any logical difference between a voting trust on the bank stock and the ownership of the majority of the stock of that bank by a corporation?

Mr. POLE. As a matter of practice, there would be great similarity in the operation of the two ideas.

Mr. FORT. In the one case the man would have his voting trust certificates for his holding, and in the other he would have a certificate of stock in the Transamerica Corporation, or whatever it might be that owned the stock of the bank, but in either case the control is locked, is it not?

Mr. POLE. Yes.

Mr. FORT. Do you feel that the locking of control of banks through any form of device is a desirable thing?

Mr. POLE. I think it is undesirable.

Mr. FORT. In the examinations of banks having trust departments, are the securities held by the banks for their own account cross-checked by number and in other ways against the securities held by the bank for trust accounts?

Mr. POLE. Those are kept entirely separate.

Mr. FORT. You seal the one box so that they can not be transferred back from box to box until you make your examination?

Mr. POLE. We do. We take care of that situation.

Mr. FORT. Has the question come to you in any way that will give you grounds for an opinion as to whether we should, now that banking has become so largely a matter of loans on collateral, in addition to our 10 per cent limit, or some other limit, of resources that may be loaned to any borrower, make a lending limit as to the amount that can be loaned on the securities of any corporation?

Mr. POLE. I have not given that any consideration.

Mr. FORT. Now that collateral loans have replaced personal loans to such a large extent, do you not think it is something that we should think of?

Mr. POLE. I think it might be given consideration.

Mr. FORT. Is it not essential if you are going to get real diversification of investment?

Mr. POLE. I do not know that I would say that it would be essential. I think it might be desirable.

Mr. FORT. In regard to branch banking again, has the branch banking system in California, in your judgment and from your vision of it, produced really strong banks in the small towns? That is, have the branch banking systems penetrated into the very small towns as well, or have they only gone into the larger towns?

Mr. POLE. They are in very many small towns as well as the larger ones.

Mr. FORT. You have said that branch banking will intensify competition. Has not its tendency so far been, as applied to city-wide banking, to reduce the competition in the sense of the number of competitors, while at the same time it has furnished stronger independent banks, larger individual banks?

Mr. POLE. I think that might be true as to the cities.

Mr. FORT. Would not the same thing be true in the country?

Mr. POLE. The small unit banks in the cities have very frequently been replaced by branches, and there are branches on almost every block of one bank or another, thus increasing competition with, it is true, a less number of competing systems. I think that the large cities would reach out into the rural sections and the competition would be just as keen there.

Mr. FORT. You have spoken of the fact that the branch banks would be stronger by virtue of a greater diversification of loans, which I think is a very sound observation.

Mr. POLE. Yes.

Mr. FORT. That has not necessarily been true, however, of our great city systems has it?

Mr. POLE. I should say so, in their diversification of loans with respect more, of course, to industries than to rural credits. There are greater opportunities for diversification in the cities by reason of the great diversification of industries there.

Mr. FORT. I think the panic of 1920 is far enough back so that we can perhaps talk about it a little. Is it not true that in 1920 and 1921, some of the very largest banks in America were in pretty tight straits?

Mr. POLE. I have heard that some of them were.

Mr. FORT. But were not permitted to fail because of the danger to the whole banking structure of the Nation if they did fail?

Mr. POLE. I think that is correct, Mr. Fort.

Mr. FORT. Is not the explanation in part of the absence of failures in the Canadian system the fact that they have not been allowed to fail? Was not that the case just two or three years ago, where one bank was on the verge of failure and was taken over by two or three of the other major systems of Canada?

Mr. POLE. I think that may account in some measure for the few failures which do occur in the metropolitan centers. That is also true in this country.

Mr. FORT. In Canada, too. It is true in a group system. In other words, if a bank gets so big that its failure would be a shock to the whole banking structure, somebody is going to step in and take it over and not let it fail, whereas that does not happen with these little country banks.

Mr. POLE. That is undoubtedly true.

Mr. FORT. So that in part the safeguard to the small country town is not altogether from the diversification?

Mr. POLE. Not altogether.

Mr. FORT. Or from the greater capital, in the sense that it enables it to stand the shock, but from the fact that the size will make it inadvisable for other banks to let it fail.

Mr. POLE. That is an important factor.

Mr. FORT. Now, we have developed in these questions of you, Mr. Pole, a very great deal of interesting thought from which it might appear to some of us at least that perhaps our loss of banks from the national system to the baser system, as Mr. Luce very well called it, could be in either of two ways. One is by extending the powers of national banks and the other by endeavoring to force improvement in banking methods among State banks. One would be as effective as the other, would it not?

Mr. POLE. I do not know how we could force improvement in the management of State banks.

Mr. FORT. Not in the management, but in the code.

Mr. POLE. The code?

Mr. FORT. The code under which they operate. You said, in answer to a question the other day, that we had the power, if we chose to exercise it through the Federal reserve system, to lay down rules which every State bank would have to live up to.

Mr. POLE. As a condition of membership.

Mr. FORT. As a condition of membership, or, I assume, as a condition of having their checks cleared.

Mr. POLE. I think that Congress might pass legislation to that effect.

Mr. FORT. So that we have the power if it is wise to use it?

Mr. POLE. As far as I know, Mr. Fort.

Mr. FORT. But, in any event, so far as moderate regulation of the State banks goes, we have unquestionably the power through the Federal reserve system?

Mr. POLE. I should say so.

Mr. FORT. So that we can approach the question of the strengthening of the national system from either angle we choose, either by making the membership in the Federal reserve system mean a better bank or by extending to the national banks more of the privileges that the State banks now enjoy, or other privileges that the State banks can not enjoy, as in your suggestion?

Mr. POLE. I think that might be said to be correct.

Mr. FORT. Somewhere in between there probably is a balance that represents what we ought to do?

Mr. POLE. Yes.

Mr. FORT. The shift from the national to the State system really will not be stopped if we permit either chain or group banking while the States still give greater advantages to the State banks?

Mr. POLE. I do not think I understand the question.

Mr. FORT. I will ask my question differently. All of us are vitally concerned with this shift of resources out of the national system into the State system.

Mr. POLE. Yes.

Mr. FORT. If the State laws continue to permit greater flexibility in banking practice to banks incorportaed under State charter than we do under the national charter, and we continue to permit group and chain banking, will not the tendency be for the groups and chains to transform their national banks that they own into State banks?

Mr. POLE. I think that tendency would be so if they did not attach too much value to their membership in the Federal Reserve System. I think, however, if privileges were given to national banks which would permit them to cross State lines with branches it would attract a great many State banks into the national system.

Mr. FORT. That I see.

Mr. POLE. If they were permitted to cross State lines, which is the important factor there.

Mr. FORT. But we have not found, practically, that the extension of branch banking facilities to national banks in cities has not retained their resources in the system, has it?

Mr. POLE. Not at all, because that extension was to meet State bank competitors and gave the national bank no superior advantage.

Mr. FORT. On the contrary we have lost four and one-half billions in three years, in spite of extending that privilege.

Mr. POLE. From the national system, but not from the Federal Reserve System.

Mr. FORT. We have lost that because of the greater flexibility permitted banks under the State laws, have we not?

Mr. POLE. That is correct.

Mr. FORT. I think that is all.

Mr. WINGO. May I ask a few questions along the line of the questions Mr. Fort has been asking?

A moment ago, on the voting trust proposition—

Mr. BEEDY. Will you permit me, before we leave this particular subject to ask one question?

Mr. WINGO. Yes.

Mr. BEEDY. It has been developed here in answer to a question that the one thing that might tend to check this shift from the national to the state system would possibly be the attraction of membership in the Federal Reserve System, which membership would be doubly attractive if the national banks were permitted to establish branches beyond State lines. I do not want to say to the committee that I have given extensive consideration to that very problem, but I have in my possession a consideration of the cases bearing upon the right of Congress to pass a law authorizing national banks to establish

branches in States, even where the State law does not permit it. You recently answered a question which was asked you as to the power of national banks under Federal law to establish branches in more than one State irrespective of State lines. You said you though there was such power, or you had been so advised. Have you any legal opinion in writing which you could put in the record at this point as bearing upon this subject?

Mr. POLE. I have, and shall be glad to do so.

(The opinion referred to is as follows):

NOVEMBER 16, 1929.

Memorandum for the comptroller.

You have requested my opinion as to the constitutional power of Congress to authorize the establishment of branches by national banks irrespective of State laws.

In order to fully cover the question involved, it is necessary to go back to the establishment of the first bank of the United States in 1791.

The legal theory upon which Congress enacted the national bank act and the Federal reserve act is the same as that upon which Congress authorized the establishment of the first bank of the United States in 1791 and the second bank of the United States in 1816. When the first bank was proposed in Congress, the constitutionality of the bill was seriously debated but a majority of both Houses supported it. The act as passed provided in part:

"It shall be lawful for the directors of aforesaid to establish offices wheresoever they shall think fit in the United States, for the purposes of discount and deposit only, and upon the same terms, and in the same manner, as shall be practiced at the bank; and to commit the management of such offices, and the making of the said discounts, to such persons, under such agreements, and subject to such regulations as they shall deem proper; not being contrary to law, or to the constitution of the bank."

President Washington signed the bill after considering the official opinions both for and against its constitutionality. The first bank of the United States was opened December 12, 1791, and established eight branches in several States, namely, in Boston, New York, Baltimore, Washington, Norfolk, Charleston, Savannah, and New Orleans. This is the first precedent of the establishment of branches by national banks. Upon the occasion of the failure of Congress to renew the charter of the bank, which expired in 1811, the constitutional question was again raised and some of the opposition against the renewal was upon the ground that Congress was without power to establish and maintain a national bank.

THE SECOND NATIONAL BANK OF THE UNITED STATES, 1816–1836

The attempt to finance the war of 1812–1814 without any banking instrumentality under the control of the Federal Government proved so disastrous that Congress in 1816 passed a new bill to charter a bank of the United States similar to the first bank, President Madison approving the act, having the year before vetoed a similar measure which did not meet his views. As compared with the first bank of the United States there was little difference between their organization and purpose.

The second Bank of the United States likewise established branches in various States in the Union. In 1818 the legislature of the State of Maryland passed an act the effect of which was to place a special tax upon the branch of the Bank of the United States in operation in Baltimore. The Baltimore branch refused to pay this tax; its cashier, McCulloch, was sued in the State court and a judgment sustained against him by the court of final jurisdiction. He thereupon sued out a writ of error under which the case was brought before the Supreme Court of the United States. Here for the first time the constitutional power of Congress to establish the bank, and of the bank to establish branches, was considered by that tribunal. (McCulloch *v.* Maryland, 4 Wheat. 424.)

In the following year, 1819, the State of Ohio imposed a tax of $50,000 on each of the two branches of the Bank of the United States, established at Cincinnati and Chillicothe. Upon the refusal of these branches to pay the tax the sheriff on behalf of the States seized $98,000 in money. The State officials concerned were arrested by the Federal authorities and tried in the Federal Circuit Court where judgment was rendered against them to restore to the bank with

interest the funds seized. An appeal was taken to the Supreme Court of the United States (Osborn *v.* Bank of the United States, 9 Wheat. 738), where again the constitutional power of Congress was brought into question and formed the basis of the opinion.

The opinions in both of these cases were written by Chief Justice Marshall, and for practical purposes can be considered as one case, the second being an elaboration and a review of the first.

The principles decided in these cases may be briefly stated as follows:

(1) Congress has the constitutional power to incorporate a national bank.

(2) The existence of State banks can have no influence upon the question of this paramount power of Congress.

(3) "After the most deliberate consideration, it is the unanimous and decided opinion of this court that the act to incorporate the bank of the United States is a law made in pursuance of the Constitution, and is a part of the supreme law of the land. The branches proceeding from the same stock, and being conducive to the complete accomplishment of the object, are equally constitutional." (McCulloch Case 4 Wheat. 424.)

(4) Congress, having the constitutional power to create a national bank, has also the constitutional power to determine, authorize, or create the faculties necessary to enable it to perform the services for which it was created and Congress alone is the judge of the means to be employed in the exercise of these faculties.

The Supreme Court of the United States in these two cases upheld the power of a national bank, to establish branches in the various States without permission or authority from the State governments.

The National Bank Act Of 1863

With the failure of Congress to renew the charter of the second bank of the United States the Federal Government operated without a banking instrumentality under its control until the enactment of the national bank act in 1863. That act set up a system of independent national banks rather than one central national bank with branches. The question of the power of national banks to establish branches did not again come before the Supreme Court of the United States until 1924, more than a century after the decision of McCulloch *v.* Maryland and Osborn *v.* Bank of the United States when it was presented in the case of the First National Bank in St. Louis *v.* Missouri. (263 U. S. 640.)

In the meantime, however, many cases had come before the Supreme Court of the United States in which it became necessary to interpret and construe the national bank act with reference to the charter powers of national banks in their relationship to the State legislatures, in all of which the fundamental principles enunciated in the McCulloch and the Osborn cases were sustained and followed. It seems appropriate to consider some of these cases before proceeding to the First National Bank in St. Louis *v.* Missouri.

Prigg v. Pennsylvania (16 Peters, 539, 617–19)

The Supreme Court of the United States in discussing the respective domains of Federal and State legislation, said:

"If this be so, then it would seem upon just principles of construction, that the legislation of Congress, if constitutional, must supersede all State legislation upon the same subject; and by necessary implication prohibit it. For, if Congress have a constitutional power to regulate a particular subject, and they do actually regulate it in a given manner, and in a certain form, it can not be, that the State legislatures have a right to interfere, and as it were, by way of compliment to the legislation of Congress, to prescribe additional regulations, and what they deem auxiliary provisions for the same purpose. In such a case, the legislation of Congress, in what it does prescribe, manifestly indicates, that it does not intend that there shall be any further legislation to act upon the subject matter. Its silence as to what it does not do, is an expressive of that its intention is, as the direct provisions made by it. This doctrine was fully recognized by this court, in the case of Houston *v.* Moore (5 Wheat, 1, 21–2), where it was expressly held, that where Congress have exercised a power over a particular subject given them by the Constitution, it is not competent for State legislation to add to the provisions of Congress upon that subject; for that the will of Congress upon the whole subject is as clearly established by what it has not declared, as by what it has expressed."

FARMERS' AND MECHANICS' NATIONAL BANK v. DEARING (91 U. S. 29, 1875)

This was a case before the Supreme Court which construed the national bank act with reference to the authority of the State governments and involved the application of the usury law of the State of New York. The court said:

"The constitutionality of the act of 1864 is not questioned. It rests on the same principle as the act creating the second bank of the United States. The reasoning of Secretary Hamilton and of this court in McCulloch *v.* Maryland (4 Wheat. 316), and in Osborn *v.* Bk. (9 Wheat. 738), therefore applies. The national banks organized under the act are instruments designed to be used to aid the Government in the administration of an important branch of the public service. They are means appropriate to that end. Of the degree of the necessity which existed for creating them. Congress is the sole judge.

"Being such means, brought into existence for this purpose, and intended to be so employed, the States can exercise no control over them nor in anywise affect their operation, except in so far as Congress may see proper to permit. Anything beyond this is 'an abuse', because it is the usurpation of power which a single State can not give. Against the national will 'the States have no power, by taxation or otherwise, to retard, impede, burthen or in any manner control the operation of the constitutional laws enacted by Congress to carry into execution the powers vested in the General Government.' (Osborn *v.* Bk., supra; Weston *v.* Charleston, 2 Pet. 466; Brown *v.* Maryland, 12 Wheat. 419; Dobbins *v.* Erie Co., 16 Pet. 435.

"The power to create carries with it the power to preserve. The latter is a corollary from the former.

"The principle, announced in the authorities cited, is indispensable to the efficiency, the independence, and, indeed, to the beneficial existence of the General Government; otherwise it would be liable, in the discharge of its most important trusts, to be annoyed and thwarted by the will or caprice of every State in the Union. Infinite confusion would follow. The Government would be reduced to a pitiable condition of weakness. The form might remain, but the vital essence would have departed. In the complex system of polity which obtains in this country, the powers of government may be divided into four classes:

"Those which belong exclusively to the States;

"Those which belong exclusively to the National Government;

"Those which may be exercised concurrently and independently by both;

"And those which may be exercised by the States, but only with the consent, express or implied, of Congress.

"Whenever the will of the Nation intervenes exclusively in this class of cases, the authority of the State retires and lies in abeyance until a proper occasion for its exercise shall recur. (Gilman *v.* Philadelphia, 3 Wall. 713, 18 L. ed. 96; Ex parte McNiel, 13 Wall. 240, 20 L. ed. 625.)

"The power of the States to tax the existing national banks lies within the category last mentioned.

"It must always be borne in mind that the Constitution of the United States, 'and the laws which shall be made in pursuance thereof,' are 'the supreme law of the land' (Const., art. 6), and that this law is as much a part of the law of each State, and as binding upon its authorities and people, as its own local constitution and laws."

CASEY v. GALLI (94 U. S. 673, 1877)

This case held that Congress had the power to authorize a State chartered bank to convert into a national bank without any assent or permission by the State upon the ground that no authority from the State was necessary.

DAVIS v. ELMIRE SAVINGS BANK (161 U. S. 275, 1896)

The court in denying the validity of a statute of the State of New York fixing preferences in cases of insolvency, in so far as it applied to national banks, through Mr. Justice White, said:

"National banks are instrumentalities of the Federal Government, created for a public purpose, and as such necessarily subject to the paramount authority of the United States. It follows that an attempt by a State to define their duties or control the conduct of their affairs is absolutely void, wherever such attempted exercise of authority expressly conflicts with the laws of the United States, and either frustrates the purpose of the national legislation, or impairs the efficiency of these agencies of the Federal Government to discharge the duties for the performance of which they were created. These principles are axiomatic, and are sanctioned by the repeated adjudications of this court."

EASTON v. IOWA (188 U. S. 220, 1903)

In this case the president of a national bank was sentenced under a criminal statute of the State penalizing the receipt of deposits with knowledge of the insolvency of the bank.

In taking issue with the Supreme Court of the State, Mr. Justice Shiras, in delivering the opinion of the court, said:

"We think that this view of the subject is not based on a correct conception of the Federal legislation creating and regulating national banks. That legislation has in view the erection of a system extending throughout the country, and independent, so far as powers conferred are concerned, of State legislation which, if permitted to be applicable, might impose limitations and restrictions as various and as numerous as the States. Having due regard to the national character and purposes of that system, we can not concur in the suggestions that national banks, in respect to the powers conferred upon them, are to be viewed as solely organized and operated for private gain. The principles enunciated in McCullough *v.* Maryland (4 Wheat. 425, 4 L. ed. 606) and in Osborn *v.* Bank of United States (9 Wheat. 738, 6 L. ed. 204), though expressed in respect to banks incorporated directly by acts of Congress, are yet applicable to the later and present system of national banks."

* * * * * * *

"Such being the nature of these national institutions, it must be obvious that their operations can not be limited or controlled by State legislation, and the Supreme Court of Iowa was in error when it held that national banks are organized and their business prosecuted for private gain, and that there is no reason why the officers of such banks should be exempt from the penalties prescribed for fraudulent banking."

FIRST NATIONAL BANK v. FELLOWS (244 U. S. 416, 1917)

In this case the State of Michigan contested the power of Congress to enact the provisions of the Federal reserve act conferring trust powers upon national banks. The Supreme Court of the United States (opinion delivered by Mr. Chief Justice White) reversed the Supreme Court of Michigan and upheld the powers of Congress citing with approval the principles enunciated in McCullough *v.* Maryland and Osborn *v.* Bank of the United States. Referring to the basic principles of constitutional law laid down in the above two cases, the court further said: "The doctrines thus announced have been reiterated in a multitude of judicial decisions, and have been undeviatingly applied in legislative and enforced in administrative action."

FIRST NATIONAL BANK OF SAN JOSE v. STATE OF CALIFORNIA ET AL. (262 U. S. 366, 370)

In this case the Supreme Court declared invalid, so far as national banks were concerned, a State law providing for the escheat to the State of California of bank deposits remaining unclaimed for more than 20 years, and in commenting upon attempted interference with national banks by State legislation, said:

"This court has often pointed out the necessity for protecting Federal agencies against interference by State legislation. The approved principle of obsta principiis should be adhered to. (McCulloch *v.* Maryland, 4 Wheat, 316; Osborn *v.* United States Bank, 9 Wheat. 738; Farmers' and Mechanics' National Bank *v.* Dearing, supra; California *v.* Central Pacific R. R. Co., 127 U. S. 1; Davis *v.* Elmire Savings Bank, supra; Easton *v.* Iowa, supra; Covington *v.* First National Bank, 198 U. S. 100; Farmers and Mechanics Savings Bank *v.* Minnesota, 232 U. S. 516; Choctaw, Oklahoma and Gulf R. R. Co. *v.* Harrison, 235 U. S. 292; Bank of California *v.* Richardson, 248 U. S. 476."

BARNES NATIONAL BANK v. DUNCAN (265 U. S. 17, 1924)

In this case the State of Missouri attempted to enforce against a national bank, the State law regulating the exercise of trust powers. The Supreme Court of the United States reversed the State Supreme Court upon the authority of the Fellows case and others above cited. Mr. Justice Holmes in delivering the opinion of the court reiterated the principle that the constitutional power of Congress was to be tested by the right to create the bank and the authority to attach to it that which was relevant in the judgment of Congress to make the business of the bank successful and that this excluded the power of the State in such cases.

FIRST NATIONAL BANK IN ST. LOUIS v. MISSOURI (263 U. S. 640, 1924)

This case involved primarily the question of the power of national banks to establish branches under the authority of the national bank act and rests upon a state of facts different from that of McCulloch *v.* Maryland in which the question of branches for national banks was first considered by the Supreme Court.

The First National Bank, upon the advice of its own counsel, proceeded to establish and conduct a branch bank in the city of St. Louis upon the theory that whereas the Federal statutes did not expressly authorize national banks to establish branches, such banks nevertheless possessed the incidental charter power so to do. No permission from the comptroller was obtained for the establishment of the branch. There was upon the statute books of the State a law prohibiting the establishment of branch banks in that State. The Attorney General of Missouri on behalf of the State took the position, first that the national bank exceeded its charter powers under the national bank act when it established the branch and second that there being no permissive Federal statute, the State was competent to enforce against the national bank its own law against branches. The following propositions are quoted from the brief of the Attorney General of the State which he filed before the Supreme Court of the United States:

(1) "Branch banking by a national bank in a State is conduct in excess of any authority from the Nation."

(2) "Acts of a national bank in a State which are in excess of any authority from the Nation, and in contravention of State law, can be stopped by the State."

(3) "An unauthorized, unlawful act of a national bank in a State should stand upon the same footing as the unauthorized, unlawful act of any other corporation."

(4) "A national agency is no more free from responsibility to the state for unlawful acts done in the State beyond the scope of its powers and authority than is a State agent."

(5) "The same conduct may be an offense against both State and national sovereignty, and may be restrained by both Nation and State."

It was upon these grounds that the action was brought by the State in the supreme court of the State in the nature of quo warranto. The formal allegation of the State was to the effect, first that the bank was not authorized by Congress to establish a branch and second, that in establishing the branch it violated a statute of the State expressly prohibiting the establishment of branch banks.

At the request of the Comptroller of the Currency the Attorney General of the United States intervened in this case, not however for the purpose of upholding the right of the national bank to establish the branch but to contest the jurisdiction of the State to inquire into the question whether Congress had authorized a national bank to establish a branch.

It was shown before the court that the office of the Comptroller of the Currency had for years construed the national bank act as denying the right of national banks to establish branches. This opinion was supported by an opinion of the Attorney General, May 11, 1911, which was cited with approval in the opinion of the court in this case. The principal argument of counsel on both sides before the court, and the bulk of the opinion of the court, is devoted to the question of whether Congress had authorized national banks to establish branches. The court reached the conclusion that there was no doubt, especially in view of the long-continued construction of the national bank act by the Comptroller of the Currency, that Congress had not conferred upon national banks the charter power to establish branches.

In view therefore of this condition precedent the court held that the State was competent to enforce its own law against the national bank. The question therefore of the constitutional power of Congress to permit national banks to establish branches was not involved in this case. The case is in harmony with the previous decisions of the court hereinabove considered. Had there been upon the Federal statute books an amendment to the national bank act permitting national banks to establish branches the Supreme Court of the United States would have undoubtedly held the State law invalid as applied to national banks. The question asked by the court of the State law, "Does it conflict with the laws of the United States?" would have been necessarily answered in the affirmative. In the absence of such an amendment the question was answered in the negative.

Congress inserted in the so-called McFadden-Pepper Act of February 25, 1927, a clause in its branch banking section, that branches of national banks would be permitted only in those States which permitted the State banks to establish

branches. This clause was a concession to the States not as a matter of constitutional necessity but rather as a matter of legislative policy.

In view of the above consideration there appears to be no doubt of the constitutional power of Congress to permit the national banks to establish branches in any State of the Union, irrespective of the laws of the State. If Congress determines that the national banks could better serve as instrumentalities of the Federal Government through the establishment of branches it would not be within the jurisdiction of a State to prohibit or restrict the purpose of the National Legislature to this effect.

F. G. AWALT,
Deputy Comptroller and Counsel.

Mr. WINGO. You said you knew of no power by which we could prevent and control the State standards of banking. Is that true, do you think, in its entirety?

Mr. POLE. I said I did not know of anything that Congress could do to control a State bank, except——

Mr. WINGO. I am talking about a charter to the State bank, not talking about controlling the actual operation of the bank after it gets the charter, but about the powers of the bank secured from a charter given by the State—in other words, under the State banking laws. You say you do not know of any power we have to affect that?

Mr. POLE. I know of none. Of course, I am not a lawyer.

Mr. WINGO. Let us speculate just a little bit and draw on experience, too, Let me cite to you the fact that we drove out of existence the State bank issues by the exercise of a Federal power, the taxing power.

Before I go into these illustrations I want it distinctly understood that by enumerating the possibilities I do not by my questions indicate my personal opinion on or approval of the use of any of these methods, but, in talking about possibilities, we will take the question of the commerce clause of the Constitution.

Mr. POLE. I thought you were talking about existing law.

Mr. WINGO. No; I am talking about the power to enact a law and that the effect of it would be to drive out of existence every State bank that did not come up to a standard that Congress fixed.

Mr. POLE. I would not question that in any way.

Mr. WINGO. As an illustration, we could use the taxing power to stop chain banking or group banking; we could use the interstate commerce clause; we could use the barring of the mails; we could provide that no national bank or Federal reserve bank should clear or have any relations with a bank that did not come up to a specific standard, and if we did those things would we not ultimately force the different State banks up to a standard that was comparable to the ideal standard that we have fixed in the national bank act?

Mr. POLE. There is no question in my mind that Congress could eliminate the State banks.

Mr. WINGO. Is it not a question of the power of Congress by several means to check what we all recognize and what you denominate as the evils of chain and group banking? But your idea is that the ideal way to check these evils is to adopt what some other people regard as another evil, branch banking?

Mr. POLE. Yes.

Mr. WINGO. If you are a chain banker or group banker, and you were given the alternative what reason or what motive or what philosophy would there appear to you that would lead you to say,

"I had better change my chain and my group into a branch banking system?"

Mr. POLE. Greater mobility of resources and ease and economy of operation.

Mr. WINGO. What do you mean by "greater mobility of resources?"

Mr. POLE. That the transfer of funds from one section of the area in which I was operating my branch system to another would be far easier under the branch banking system than it would under the other systems which you speak of.

Mr. WINGO. I can not comprehend that statement, because I have an idea that the transfer of funds would either come by telegraph or by mail.

Mr. POLE. Under the group plan, each bank is an independent unit, and it has its own investments, so that if it wished to transfer funds from one point to another, it would be under the necessity of selling some of its assets or transferring them through a holding company to some other bank which had funds.

Mr. WINGO. Not necessarily; it could transfer a deposit, could it not, without doing that?

Mr. POLE. It could not transfer its deposits.

Mr. WINGO. What is to prevent a chain bank from making a transfer of its deposits in the same identical instance that a branch bank could? Suppose that here is a chain bank that has a deposit in New York City with a correspondent, and it is changed over night into a branch banking system. Is there any difference in the mechanics of transferring those funds in one case than in the other?

Mr. POLE. We must be talking about different things.

Mr. WINGO. That is the reason I am asking you to elucidate.

Mr. POLE. If you were to deposit your funds in a bank which was a member of a group, it would not be within the province of the holding company which held the stock of that member of the group to transfer your deposit to another member of its group where funds might be needed for loaning purposes.

Mr. WINGO. Well, they are doing it everyday. Even if the laws of Arkansas prohibit branch banking, they do permit chains, and funds are being transferred from Arkansas to Nashville, Tenn., under chain banking and under group banking just the same as they would have the power to do if you had branch banking.

Mr. POLE. Funds may be transferred, funds which are involved in the operation of a single unit.

Mr. WINGO. That is what we are talking about.

Mr. POLE. But there would be no possibility of transferring the deposits of one independent bank which might be a member of the group to another independent bank which might be a member of the group.

Mr. WINGO. You mean the book record, not the deposit.

Mr. POLE. The deposit.

Mr. WINGO. Are you talking about the actual money or the actual credit or the record on the books?

Mr. POLE. I am talking about the actual credit. If a bank itself wished to transfer its funds, that still might be a very difficult matter.

Mr. WINGO. We will say that there is a holding corporation in Nashville, Tenn.; can it not direct one of its chain banks in Arkansas to transfer my funds that are there to my credit—and there is no

occasion to specify "Wingo deposit"; they say, "from your deposits, you transfer $10,000 or $20,000"—whatever they wanted—"over to the depositary in Nashville, Tenn."

Can they not do that now, and do they not do it?

Mr. POLE. Such funds as that may be moved, but they would be limited to the amount which the bank might deposit or the amount which the bank might borrow.

Mr. WINGO. That would be true in both instances.

Mr. POLE. With small banks it would be a very small amount, whereas in the branch banking system funds could be transferred very freely to any branch of the system.

Mr. WINGO. What limitation is there in the national bank act with reference to such transfers? The limitation you are talking about is the 10 per cent limitation, and that applies to loans.

Mr. POLE. No; I was not referring to that.

Mr. WINGO. What statute did you have in mind?

Mr. POLE. I was having in mind the statute where a bank could not keep on deposit, for instance——

Mr. WINGO. I see what you are driving at now.

Mr. STRONG. Are you going to finish soon?

Mr. WINGO. Yes; I have one or two more questions.

Is it not then true, talking about the standards of the State banks, that we have been engaged for years in this committee and in Congress in constantly framing our laws to meet the competition of State banks, and has not that been the chief cry and reason for our doing these things?

Mr. POLE. I think that is a fair statement of the situation.

Mr. WINGO. Was not that the late argument for the McFadden Act?

Mr. POLE. Yes.

Mr. WINGO. To liberalize the national bank standards, and whenever we pointed out objections to any particular proposal around this table, instead of discussing the merits of the objection, we were told that "Well, we have to do that in order to meet the competition of State banks."

Mr. POLE. That was largely the case in the McFadden bill.

Mr. WINGO. And the reason for that was that these State banks, as my friend Mr. Luce would say, had a baser standard, which was lower, and so we have governed our conduct in meeting this competition by reasons of expediency and not by measuring the standard or what should be the ideal, have we not?

Mr. POLE. In the McFadden bill there was some liberalization.

Mr. WINGO. I am talking about the major features of it.

Mr. POLE. Of course, the important thing in the McFadden bill was not so much the liberalization of a bank's privileges as it was with respect to the extension of branches.

Mr. WINGO. Oh yes; we had the argument made here that we ought to permit them to deal in securities because State banks were permitted to do it. I think every major proposal in the McFadden Act was bottomed not upon the justification that it was sound banking, but we were trying to meet the competition of State banking systems.

Can you name a major proposal where that argument was not made?

Mr. POLE. I think that is correct.

Mr. WINGO. And the point I want to drive home is this, that if there are evils in these State banking systems which, by reason of an enforced competition, are weakening the standard of the National system, would it not be profitable for us, instead of spending our time in devising schemes of expediency and lowering the national standard in order to meet this competition, to spend our time in devising legislation embracing methods by which we could enforce a higher standard in the State banking laws so as to protect both the State bank patrons as well as the national bank patrons from the evils of the baser standard as referred to by Mr. Luce?

Mr. POLE. I think we have to consider it from the economic point of view. The announced legislative policy of the so-called McFadden bank act of February 25, 1927, was parity between the National and State systems. The purpose of the bill was to make the charter powers of national banks approximately equal in operating advantage to those of the State banks. Nearly three years of operation under that act has demonstrated that it has failed of its purpose in this respect.

The theory of parity between the two systems of banks is, in my opinion, economically unsound.

Mr. WINGO. Should we not say that we will spend our time in bottoming everything we do upon building up the system that from an economic standard is sounder and better than the baser standard now permitted by the States?

Mr. POLE. I think so, and hence my proposal for an increase of branch banking powers for national banks without reference to State laws. I think that the economic change is such that the small bank can not operate successfully any more. I am, therefore, suggesting a plan which will enable banking service to be carried to every community from a metropolitan center.

Mr. WINGO. In other words, your theory is that the changed economic structure is such that in order for banking institutions to render to the public that service to which it is entitled, necessarily you have to have larger banking units?

Mr. POLE. That is correct.

Mr. WINGO. And you think that necessarily then in order to have larger banking units, you have to choose between three types—group banking, chain banking, or branch banking—and in your own mind branch banking possesses fewer of the evils and more of the benefits than the other two?

Mr. POLE. I think decidedly there is no question in my mind as to which is the best of the three, and I am not advocating either chain banking or group banking as a remedy.

Mr. WINGO. That is what I say.

Mr. POLE. I am advocating branch banking.

Mr. WINGO. Your ideal, as I understand it, is the independent unit banking system, but you say that changed economic conditions have made us face a condition and not a theory?

Mr. POLE. Yes.

Mr. WINGO. And your belief is—and your judgment is entitled to a great deal of weight—that the only choice we have now in order to do what you think is necessary is between a group banking system or a chain banking system or a branch banking sustem, and you think the branch banking system is preferable, both from the standpoint of

the service they may render, the superior service, and from the standpoint of having fewer evils than either of the other two systems?

Mr. POLE. And from the standpoint of successful operation.

Mr. WINGO. That is included.

Now, let us go back to the proposition of the trustee. Is it not a fact that the courts in New York City now sometimes designate banks as receivers and trustees, and permit those banks to deposit with themselves the trust funds and to pay the trust estate, of which it is receiver, or trustee, only 2 per cent, or whatever the current rate is, upon deposit balances, and the bank gets the benefit of those funds and in some instances makes 10 or 12 per cent, or whatever its earning is upon its deposits, and, in addition thereto, draws its fees as trustee and remuneration as receiver? Is not that an actual practice in New York City and possibly in other cities and States?

Let us just take one instance, and it is not an isolated one. Do you not know that the Irving Trust Co. had such an experience? Was it not appointed receiver, and did not the court permit it to deposit the trust funds in its own institution and let them use them and simply account to the trust estate for the current rate of interest on deposit balances, and, in addition thereto, the same court allowed them a fee for acting as receiver?

Mr. FORT. If the gentleman will permit, I understand that in New York there have been some modifications made of the ordinary rules applicable to trustees, in favor of corporate trustees under the supervision of the banking department as organized.

Mr. WINGO. That is true.

Mr. FORT. As against individual trustees.

Mr. WINGO. What I am talking about is this, that regardless of the fundamental rules, time and experience as well as statutes have set up certain safeguards governing the use of trustees' funds. I am not discussing whether they are wise or unwise, whether they should be permitted to be changed or not; I am talking about what is actually being done. Is not that very thing being done in New York City? I am not undertaking to criticize it, to say whether it is justified or not; I am just asking you if it is not a fact that in actual practice, such as in the illustration I have used, that that has taken place place in more than one instance in New York City?

Mr. POLE. I know nothing, of course, of the Irving Trust Co. I think as a general rule that trust funds do not remain uninvested for any great length of time.

Mr. WINGO. That, of course, does not answer my question. You do not know whether any such practice as I have given obtains or not?

Mr. POLE. No, I do not.

Mr. STRONG. Is that all, Mr. Wingo?

Mr. WINGO. Can you conceive of any reason why a trust estate should not be protected by the same jealous rules when a corporation is dealing with it as when an individual is dealing with it?

Mr. POLE. None at all.

Mr. STRONG. Mr. Goodwin has a matter that he wants to bring before the committee.

(Thereupon, 1.15 o'clock p. m., the committee went into executive session.)

BRANCH, CHAIN, AND GROUP BANKING

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Friday, March 14, 1930.

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

The CHAIRMAN. The committee will come to order.

Mr. Seiberling, you seem to be next on the list this morning to question the Comptroller.

STATEMENT OF HON. JOHN W. POLE—(Resumed)

Mr. SEIBERLING. Mr. Pole, there has been a good deal said about the Canadian banking system, and I would like to read into the record a paragraph from an address made by A. B. Barker, of Toronto, Ontario. It is found in the Journal of the Canadian Bankers' Association for October, 1929, and I read from page 81 as follows:

> Many comparisons are made between the banking systems in Canada and the United States, but there is one feature which is seldom referred to, and that is the extraordinary difference in the attitude of the general public in each country toward its own system. In Canada the banks are not popular, and the criticism of a certain class is very forcibly expressed in Parliament whenever the opportunity occurs. Across the border, however, this does not seem to be the case, and the average American freely asserts that, in his country, they have the finest banking system in the world. Canadians know in their hearts that their own system is the equal of any, but when opinions are expressed they seem to be suffering from an inferiority complex, and praise that of every country but their own.

I suppose, Mr. Comptroller, that the unpopularity of the banks is due to a large extent on account of the service that they render and the price at which they render it—is that not so?

Mr. POLE. I would not like to be put in the position of admitting the unpopularity of the Canadian banking system in Canada. That is the opinion of one writer, but there are other opinions which differ.

Mr. SEIBERLING. You think that their system is popular over there?

Mr. POLE. I would say it is popular, with the possible exception of western Canada.

Mr. SEIBERLING. They do not get anywhere near as large an amount on their deposits there as we do in this country; they do not pay as much interest on deposits as we do here.

Mr. POLE. Of course, the rates of interest which we pay in this country vary very greatly. In Canada it is much more uniform, and I think quite reasonable. Certainly the rate at which they lend money not only in the cities but in the farthest hamlet is very much more reasonable and very much more uniform than it is here.

Mr. SEIBERLING. I assume that that is a very admirable feature of their banking system?

Mr. POLE. It is, indeed.

Mr. SEIBERLING. The failure, however, to pay as much interest on deposits there is due probably to lack of competition, is it not?

Mr. POLE. I would not say that. I am not prepared to say that the average amount of interest which is paid on deposit accounts in Canada is not as great as it is in this country Do you know that to be true?

Mr. SEIBERLING. I only know what this gentleman says in his address.

Mr. POLE. I would not accept that article without knowing something more about it.

Mr. SEIBERLING. This article is written on the subject of savings deposit accounts, and in the paragraph immediately preceding the one I read, in speaking of United States savings banks and trust companies, he says:

> These institutions operate savings departments, but they are for real savings, and for that reason American banks and trust companies are able to pay higher rates of interest on savings deposits than Canadian banks.

Mr. POLE. I do not know how authoritative that is.

Mr. SEIBERLING. I do not, either, except that that is said in his address published here in the Journal of the Canadian Bankers' Association.

Mr. POLE. That is undoubtedly his honest opinion.

Mr. SEIBERLING. After my examination of you the other day, some one said that he thought I was "out on a limb," and I want to put this statement in the record, that, as far as I am personally concerned, if we are going to concentrate banking in this country and put it in the hands of fewer people, then I should favor restrictions upon the rates which may be charged for money, and that is the connection between my examination and the bill pending before the committee.

Now, Mr. Comptroller, you said the other day that you were in favor of having banks also underwrite securities—is that correct?

Mr. POLE. Yes, certain classes of securities. The national banks now have authority to deal in securities of certain types.

Mr. SEIBERLING. They are given the authority to deal in industrial bonds?

Mr. POLE. Bonds, notes, and debentures are the three types of securities which the law permits them to deal in.

Mr. AWALT. Under regulation, under our control.

Mr. SEIBERLING. But your statement was that you thought it was perfectly proper for a large bank to have the right to underwrite securities, and in these securities would be classed industrial bonds?

Mr. POLE. Bonds, notes, and debentures, under regulation of the comptroller, under the present law.

Mr. SEIBERLING. Let us assume that an industry owes a large bank in a large center $10,000,000 on notes running for three or four months and that we have a stringent money market; what is to prevent this bank from calling this loan, and, of course, in a stringent money market they could not go out and borrow $10,000,000 some other place, and to say to them "We want a first mortgage on your property, and we want you to put out a bond issue; we will underwrite the bonds for you, and we will pay you 90 cents on the dollar, and you have to give us 8 per cent interest and then you have to redeem these

bonds at a fixed price; if you do not want to do that, you pay the loan."

Is there anything to prevent that?

Mr. POLE. If the notes were due, there would, of course, be nothing to prevent the bank from requiring their payment under any system of banking. As to what further arrangements for financing that interest there might be, would be difficult to answer. If the bond issue were acceptable, the bank might undertake to refinance it. Under this plan which you just suggested, if the rate of interest were regulated, I presume that would include bonuses of stock?

Mr. SEIBERLING. Yes, and a lot of things that I have not mentioned in my question; there are a lot of other things I could have put in, but did not.

Mr. POLE. All of that would, of course, have to be taken into consideration.

Mr. SEIBERLING. If a bank did not have the right to underwrite the bonds, and that profit was going to some other bank, is it not possible that they might not call the loan?

Mr. POLE. I should say that would be possible, if the bank wished to continue the loan and knew that it was good, that it might retain it in its portfolio.

Mr. SEIBERLING. Where you put all these transactions into the hands of one institution, is there not great danger that just such manipulations as that will be carried on in order to make a profit?

Mr. POLE. Those things might happen, Mr. Seiberling, under any form of banking, as far as I see. The protection of the public against manipulation is, of course, a question of banking ethics as well as public opinion, and I am convinced that there will always be plenty of banking competition in this country which would prevent undue advantage being taken.

Mr. SEIBERLING. Not on a loan of the size I have mentioned, in a stringent money market.

Mr. POLE. That is a hypothetical question, which would be very difficult for me to answer.

Mr. SEIBERLING. Of course, no bank would call a loan if it thought it was reasonably good in a money market where there was plenty of money, and rates were low.

Mr. POLE. Unless under your proposal it might take advantage of a situation to obtain a better underwriting arrangement.

Mr. SEIBERLING. They would not be very apt to do that if the profit on the underwriting was going to somebody else. You have not in your experience seen many banks working for a profit for other banks, have you?

Mr. POLE. Not often.

Mr. SEIBERLING. That is very seldom?

Mr. POLE. Yes; never.

Mr. SEIBERLING. I was glad to hear you say "never," because I never have.

Now, I want to ask you a few questions along other lines. I have heard a good deal of criticism of the Federal reserve system in connection with the limitation on loans which can be rediscounted. Have you heard any criticism of that kind?

Mr. POLE. That is stated in the law.

Mr. SEIBERLING. I know it is in the law, but have you heard criticisms of the law, that it is too restrictive in the particular I mentioned?

Mr. POLE. I would not say criticism. I have heard the matter discussed, as to whether perhaps different characters of paper might be admissible for discount at the Federal reserve banks, such as stock exchange loans and other classes of secured paper.

Mr. SEIBERLING. How about paper secured by municipal bonds?

Mr. POLE. I think that has also been discussed.

Mr. SEIBERLING. As a matter of fact, the member banks, in view of these restrictions, are not getting anywhere near as much service out of the Federal reserve banks as they could get otherwise—is not that true?

Mr. POLE. I think not. I think the liberality with which the Federal reserve bank has dealt with its members is quite remarkable.

Mr. SEIBERLING. But they can not go beyond the restrictions fixed by statute, can they?

Mr. POLE. That is true.

Mr. SEIBERLING. Within those limits, they have taken care of the situation?

Mr. POLE. Yes.

Mr. SEIBERLING. Here is a large municipal bond house in Ohio that buys municipal bonds, and they have to carry them in the banks until they can sell them at, they say, a present rate of 8 per cent. These bonds only yield about 4¼ to 5 per cent, and in many cases the rate of interest is limited by statute. Do you think that if the law could be amended so that loans with municipal bonds as collateral could be rediscounted, that would help that situation?

Mr. POLE. That is a difficult question to answer without giving full consideration to it. As to whether or not the classes of paper which might be eligible for rediscount by the Federal reserve banks should be enlarged is a question which would require a great deal of thought, and I have not given sufficient thought to it, Mr. Seiberling.

Mr. SEIBERLING. I suppose you will agree with me that municipal bonds are a security that should be classed as nearly comparable with Government bonds as any security in the country, will you not?

Mr. POLE. Speaking very generally, I should say yes. Of course, there are numerous instances where they are not comparable in any respect.

The CHAIRMAN. Will you yield there?

Mr. SEIBERLING. Yes.

The CHAIRMAN. I would like to ask Mr. Pole a fundamental question. Do you consider it good practice to permit the rediscount of loans secured by Government bonds?

Mr. POLE. I would see no objection to that. As a matter of fact, banks indirectly have that privilege now.

The CHAIRMAN. Do you think that brokers' loans secured by stock exchange collateral could safely be made subject to rediscount at the Federal reserve bank?

Mr. POLE. I have not given that sufficient consideration, Mr. Chairman.

The CHAIRMAN. Do you think mortgage loans, when given as security for notes to banks, could be made eligible for rediscount by Federal reserve banks?

Mr. POLE. I have not given that sufficient consideration. It is a very important question.

The CHAIRMAN. You do not care to express an opinion on that?

Mr. POLE. It requires a great deal of thought, and I would not be prepared to answer that question now.

The CHAIRMAN. All right, Mr. Seiberling.

Mr. SEIBERLING. When the Federal reserve act was passed, it was intended to help member banks by rediscounting acceptances for merchandise, and so forth, was it not?

Mr. POLE. The Federal reserve banks do purchase acceptances.

Mr. SEIBERLING. But in view of the fact that many corporations have now financed themselves by the sale of stock and have a large amount of cash, we do not have acceptances any more to any such extent as we did have, do we?

Mr. POLE. Yes, I think the acceptance method of financing transactions is increasing rather than diminishing.

Mr. SEIBERLING. It certainly is not in my city.

Mr. POLE. We are developing quite a good acceptance market now in New York and elsewhere, which was unknown before the Federal reserve act was passed in this country.

The CHAIRMAN. Will you yield again there?

Mr. SEIBERLING. Yes.

The CHAIRMAN. Does not a good deal of the acceptance business cover exportation and importation transactions?

Mr. POLE. Quite largely.

The CHAIRMAN. During the last year and a half, in your observation as comptroller—and, of course, you have jurisdiction over the banks who hold those acceptances?

Mr. POLE. Yes.

The CHAIRMAN. Do you consider that acceptances are always a very liquid form of paper, or has there been a tendency to consider them as frozen assets?

Mr. POLE. There may have been instances where acceptances have not been paid at maturity, but I know of no instance. They are probably considered in banking circles as the most liquid form of paper.

The CHAIRMAN. Under recent amendments to the Federal reserve act, the scope of the service of acceptances has been largely extended, has it not? In other words, it has been extended to cover goods in storage in foreign countries, and in process of manufacture?

Mr. POLE. There have been certain changes in the regulations.

The CHAIRMAN. Does it not cover that particular situation?

Mr. POLE. I believe that, generally speaking, that is correct.

Mr. SEIBERLING. The Federal reserve banks are piling up an enormous amount of wealth, are they not?

Mr. POLE. The capital and surplus accounts of Federal reserve banks, of course, are growing. Is that what you mean?

Mr. SEIBERLING. Yes.

Mr. POLE. Yes.

Mr. SEIBERLING. Is there any reason in a situation of that kind why the law should not be liberalized as to the paper that can be rediscounted?

Mr. POLE. You are going back to that same question again. I have not given sufficient consideration to any changes in that respect of the Federal reserve act. It is a very involved question.

Mr. SEIBERLING. I would like very much to have you give consideration to it and, if you reach a conclusion, I would like very much to have it in the record.

Mr. POLE. It is a matter to which the Federal reserve board itself is giving consideration to, and I have no doubt that at a later date probably a member of the board might be able to give a more definite answer.

Mr. SEIBERLING. You will agree with me that it would help the business of the country a great deal if the law could be liberalized without interfering with the functions of the Federal reserve bank, permitting the rediscount of a wider range of paper?

Mr. POLE. Due to a change in the financing of industry over the last few years, what is known as commercial paper is decreasing in volume, but there is usually ample credit to accommodate industry and agriculture under the present arrangements, and as to whether it might be found necessary to enlarge the scope of paper which the Federal reserve bank should discount is quite open to question.

Mr. SEIBERLING. I think that is all.

The CHAIRMAN. Mr. Steagall, have you any further questions to ask the comptroller?

Mr. STEAGALL. Not right now.

The CHAIRMAN. Judge Brand, have you any further questions?

Mr. BRAND. I want to ask just one or two, Mr. Chairman.

Mr. Pole, in your judgment, what effect on business do the decreasing of the discount rate and the increasing of the discount rate by the Federal reserve bank have?

Mr. POLE. That would depend very largely on what the condition of the country was at the time of the rate change. Yesterday the rate was lowered from 4 to 3½ per cent.

Mr. BRAND. What was the reason assigned for that?

Mr. POLE. The effect of that, in my judgment, would be almost entirely psychological, which would be good.

Mr. BRAND. You say it would have a good effect on business?

Mr. POLE. The psychological effect, I think, would be good.

Mr. BRAND. It is 3½ per cent now in the New York Federal Reserve Bank; that is the rate they reduced it to, on yesterday. Suppose that thirty days from now, this bank runs it up to 4½ or 5 per cent; what effect would that have?

Mr. POLE. I could not answer that question. That would depend upon the condition of the country at that time. I could not answer that question now.

Mr. BRAND. Well, it would have a different effect than decreasing it, would, would it not?

Mr. POLE. Judge, you are asking me what would happen in thirty days time if the discount rate were increased or decreased. I can not answer that, because I do not know what the necessity for any change might be in thirty days from now. I would like to answer your question if I could, but I think it would be difficult for me to venture any guess on a proposition of that kind.

Mr. BRAND. They have reduced it now from 4 per cent to 3½ per cent, as has already been stated. What effect, in your judgment, will this reduction have on farm commodities, and on prices generally?

Mr. POLE. I think that the psychological effect of a reduction in the rediscount rate at this time is decidedly good. As to whether it would have any practical effect as far as the bank's loaning rate is concerned, I can hardly believe that it would have any effect at all.

Mr. BRAND. It would have some effect, would it not, if they put it back to 4½?

Mr. POLE. Banks are borrowing very little now from the Federal Reserve banks.

Mr. BRAND. That is one reason, I suppose, why they reduced it to 3½ per cent, is it not?

Mr. POLE. My opinion is that the particular reason for the reduction in the rate at this time would be to perhaps create a little easier feeling on the part of the public that money was easy, and that there was no particular reason for retrenchment, but that business could go ahead with the reasonable assurance that money would continue to be cheap and plentiful.

Mr. SEIBERLING. Mr, Brand, if you will get the United States Daily for this morning, you will see that it gives the reason why the rate is down.

Mr. BRAND. I have not had a chance to read to-day's issue of this paper, but at the same time I want to get Mr. Pole's opinion about it. I had intended to ask this the other day, without knowing, of course, that it was going to be reduced from 4 per cent to 3½ per cent yesterday, but others prolonged their questions, so that I did not have the opportunity.

Now, Mr. Pole, it would make a decided difference in the prices of farm commodities and in the prices of all other things that people have to buy if they should run it up say thirty days from now to 4½ or 5 per cent?

Mr. POLE. I think there is not much question of that, Judge.

Mr. BRAND. Mr. Pole, do you think that any such power as that ought to be lodged in the hands of seven men?

Mr. POLE. I think there should be no change in the number of men in which such power is lodged.

Mr. BRAND. In any given number of men, or a reasonable number?

Mr. POLE. I have not given any thought to the question, as to whether or not the membership of the Federal Reserve Board should be reduced or increased.

The CHAIRMAN. Will the gentleman yield there?

By your answer, I am inferring that the Federal Reserve Board fixes the discount rate—is that correct?

Mr. POLE. The Federal Reserve Board approves or disapproves any change in the discount rate.

The CHAIRMAN. Do they ever initiate, or have they ever initiated, a rate?

Mr. POLE. That would be a question that you would have to inquire of the Board.

The CHAIRMAN. But you are a member of the Federal Reserve Board?

Mr. POLE. I have been a member since I have been Comptroller of the Currency.

The CHAIRMAN. During your term of office as a member of the Federal Reserve Board, have they ever initiated a change in the discount rate?

Mr. POLE. Not to my knowledge.

The CHAIRMAN. Referring to Judge Brand's question about the lowering of the discount rate to 3½ per cent, that is the lowest rate since the summer of 1927, is it not?

Mr. POLE. I believe so.

The CHAIRMAN. What effect did the lowering of the discount rate have in the summer of 1927?

Mr. POLE. It had a stimulating effect.

The CHAIRMAN. Stimulating to what extent?

Mr. POLE. I was not a member of the Federal Reserve Board then.

The CHAIRMAN. No; but you have an observation.

Mr. POLE. A marked extent.

The CHAIRMAN. Is it not a fact that it did stimulate commodity prices about 3 per cent?

Mr. POLE. It did stimulate commodity prices, but to what extent I would not be prepared to say.

The CHAIRMAN. It stimulated speculative activities too, did it not?

Mr. POLE. I think so.

The CHAIRMAN. And it resulted in the export of a large amount of gold, did it not?

Mr. POLE. There was a considerable amount of gold exported about that time, but as to whether or not that was the reason for it, I could not say.

The CHAIRMAN. Well, inasmuch as the rate is now lowered to 3½ per cent, do you think that similar results will come about?

Mr. POLE. It might have that tendency.

The CHAIRMAN. Do you think it might encourage speculation?

Mr. POLE. That was embraced in your question. I say, it might have that tendency.

The CHAIRMAN. All right.

Mr. STEAGALL. Just in that connection, with your permission, Mr. Brand——

Mr. BRAND. Yes.

Mr. STEAGALL. It was the avowed purpose of the Federal Reserve Board, and was made known to the public some months back, that the rate should be fixed with reference to its effect upon speculation, was it not?

Mr. POLE. I know of no such statement on the part of the board.

Mr. STEAGALL. Maybe I have not expressed myself clearly in a technical way.

Mr. POLE. It is possible that such a statement might have been made, but I say that if it was made I am not familiar with it.

Mr. STEAGALL. Well, in any event, the board did issue a warning, the avowed purpose of which was to notify the public that the rates would be adjusted in order to affect the situation unless the necessity for it was removed. That happened, did it not?

Mr. POLE. The act passed clearly indicates that Federal reserve credit is not intended to be employed in speculative transactions.

Mr. STEAGALL. I understand that, and I am not raising any question about that. The inquiry up to the point where I came into the discussion was with respect to the effect of the change or the various changes in rates and as to what purpose was contemplated by those changes, and, as I understand the situation, this change that was recently made was not accompanied by any public statement from the Federal Reserve Board—is that right?

Mr. POLE. As far as I know.

Mr. STEAGALL. But heretofore the board has issued statements to the public respecting changes in rates and the purpose sought to be accomplished by those changes—is not that true?

Mr. POLE. There have been statements made by the Federal Reserve Board, but my recollection is vague as to the particular language of them. Those statements of course could be supplied for the record if you desire them.

Mr. STEAGALL. Mr. Pole, I believe you said in answer to a question by Mr. McFadden that the Federal Reserve Board did not initiate rates. As a practical matter, is not this true, that no Federal reserve bank acts in a matter of that sort without a full consultation and understanding with the Federal Reserve Board? That is the way those changes are made, is it not?

Mr. POLE. I think that is not a fact.

Mr. STEAGALL. Do you think in practice that the Atlanta bank would ever change its rate to the extent of the change recently made in New York without first taking up the matter for discussion with the board here?

Mr. POLE. Yes.

Mr. STEAGALL. They do that?

Mr. POLE. Yes.

Mr. STEAGALL. I had this thought, that the mere technical expression describing what the board does with respect to the initiation of a rate was a sort of a technical differentiation that meant little in practice. It was my idea that in a matter of that importance, the district bank would bring the Federal Reserve Board into conference so that such action would not be said necessarily to have been initiated by the Federal Reserve Board, nor, on the other hand, would it have been done independently of them, but that, as a practical proposition, it would be in the nature of joint action.

Mr. POLE. As a practical proposition, Mr. Steagall, it is sometimes by certain banks discussed prior to any change on the part of such bank, but not generally so.

Mr. STEAGALL. What is the practice of the Federal Reserve Board with reference to changes proposed by the different Federal reserve banks?

Mr. BRAND. You mean as to the rate of discount?

Mr. STEAGALL. In the matter of fixing the rates of discount?

Mr. POLE. Whenever there is a rate change proposed, the board discusses the question very thoroughly and approves or disapproves it.

Mr. STEAGALL. Have there been instances where the Federal Reserve Board disapproved such rates?

Mr. POLE. Yes.

Mr. STEAGALL. How many instances of that kind?

Mr. POLE. I am not prepared to answer that.

Mr. STEAGALL. What occurred when that situation arose?

Mr. POLE. When the Federal Reserve Board disapproves a rate, the rate remains unchanged.

Mr. STEAGALL. Have there been instances where a rate was put in effect, and announced by a district bank, and then for lack of approval of the Federal Reserve Board, that rate would be withdrawn or changed?

Mr. POLE. There may have been such instances, Mr. Congressman.

Mr. STEAGALL. What would you think of legislation to fix a uniform rediscount rate?

In the first place, let me ask you this question: What would you think of requiring a uniform rediscount rate for all the banks, the 12 banks?

Mr. POLE. That is entirely too large a question to answer off-hand.

Mr. STEAGALL. Each bank has access to the loaning facilities of all the other banks, has it not?

Mr. POLE. Yes.

Mr. STEAGALL. It is one great system under one control, as far as the Government is concerned?

Mr. POLE. Yes.

Mr. STEAGALL. That leads to the other question: What would you think of fixing the rediscount rate by law?

Mr. POLE. I have not given consideration to that question and could not answer it off-hand. It is far too important.

Mr. BRAND. As I understood you, Mr. Pole, none of the 12 Federal reserve banks on its own responsibility decreases the discount rate without first consulting the Federal Reserve Board?

Mr. POLE. You misunderstood me. I said that the rates were initiated by the banks themselves and were subject to the approval or disapproval of the board.

Mr. BRAND. Suppose that the board disapproves a proposed increase or decrease; is that final and binding on the proposing bank?

Mr. POLE. The board has the right to approve or disapprove.

Mr. BRAND. Have you ever known of the Federal Reserve Board disapproving any rate, either a decrease or increase in the discount rate, proposed by the New York Federal Reserve Bank?

Mr. POLE. Yes.

Mr. BRAND. Was it a decrease or increase?

Mr. POLE. Both.

Mr. BRAND. I am surprised to hear that.

Now, Mr. Steagall, of Alabama, Mr. Chairman, has asked two questions that I intended to propound, so I will finish very briefly.

Mr. Pole, does not the Federal Reserve Board recognize that they have full authority under the Federal reserve act to suggest to any Federal reserve bank an increase or decrease in the discount rate?

Mr. POLE. I do not know what the opinion of the board is on that subject.

Mr. BRAND. Have they, in any given instance, suggested to any of the banks, within your knowledge, a decrease or increase in the discount rate?

Mr. POLE. If they have, I am not aware of it.

Mr. BRAND. I am going to ask you another broad question. Do you not think that the Federal Reserve Board feel that they have the

authority, under the provisions of the Federal reserve act, to increase or decrese the discount rate so as to effect the prices of farm commodities and the prices of every other thing people purchase?

Mr. POLE. I could not speak for the board, Mr. Brand.

Mr. STEAGALL. Your question was whether, under the provisions of the law, they contend that they have that authority?

Mr. BRAND. Yes.

Mr. POLE. It is a question of interpretation. I would not be authorized to speak for the board on that subject.

Mr. BRAND. Mr. Pole, let me get down to a more practical and personal proposition.

As I understand, in one of the counties of the State of Georgia, and I know it is so of one or two counties in the State of Alabama, and I know it is so of one of the counties in Mr. Stevenson's district, every bank in the county has failed. Take the State of Georgia; it has repealed the law which authorized the establishment of branch banks. That county has no banking facilities, on account of three banks having failed in the last 60 days.

Now, what system of banking would you advise the people of such a county as that to adopt, where they can have no branch bank under the law—would you advise either the chain or the group banking proposition?

Mr. POLE. Between chain and group banking, I prefer group banking.

Mr. BRAND. Then, under the law of Georgia, it permitting no branch banking at present, the Atlanta banks, for instance, could establish a bank down in that county where there are now no banks, could they?

Mr. POLE. An independent bank, the stock of which might be owned by certain persons who were interested in the Atlanta bank.

Mr. BRAND. It would have to be an independent bank, but it would be within the classification of group banking?

Mr. POLE. The majority of the stock perhaps might be controlled by the holding company in Atlanta.

Mr. BRAND. As our law exists at present, there is no opportunity for those people to establish a branch bank in that particular county, is there, under the McFadden bill or any other bill?

Mr. POLE. No, assuming that your Georgia law does not permit the organization of a State system of branches.

Mr. BRAND. They have repealed that law.

Do you not think, and is it not your opinion, that it lies within the power of the Federal Reserve Board, by adopting a policy of deflation or inflation, absolutely to control the price of farm commodities, thereby having the effect to increase or decrease the same?

Mr. POLE. I think action might be taken by the Federal Reserve Board which would affect the prices of commodities.

Mr. BRAND. Like cotton, for instance, and wheat and corn. It has done it in the past, has it not?

Mr. POLE. I think the prices of commodities, as I said before, have been affected by the rate changes.

Mr. BRAND. Does not the board so construe its Federal Reserve Act as to give its board the authority—if the board wishes to exercise it—to adopt such a policy as to run the prices of farm commodities down, cotton for instance?

Mr. POLE. As I stated before, Judge, assuming that you have reference to the increase or decrease in the discount rate, those changes are initiated by the Federal reserve banks themselves and not by the Federal Reserve Board.

Mr. BRAND. I was talking about the effect that it would have. uppose that the Federal reserve banks get together and decide that they are going to deflate the prices of all farm commodities, and their action is approved by the Federal Reserve Board—and you say that they generally approve what they ask.

Mr. POLE. I did not say that.

Mr. BRAND. I thought you said that they generally approved.

Mr. POLE. Not at all. I said quite the contrary. I said they did not always approve.

Mr. BRAND. I said generally.

Mr. POLE. I would not go so far as to say that.

Mr. BRAND. Suppose that the 12 Federal reserve banks did decide that the prices of wheat and cotton are too high, and that their action were approved by the Federal Reserve Board; could they not effect a substantial decrease in the prices of cotton, wheat and corn?

Mr. POLE. I could not answer that question, Judge.

Mr. SEIBERLING. May I ask just one question there?

Mr. BRAND. Yes.

Mr. SEIBERLING. Mr. Comptroller, is it not a matter of quite current knowledge that the deflation following the war, which resulted in the big collapse in 1921, was caused by the Federal reserve banks extending credit so as to keep Liberty bonds at par that had been sold to the public?

Mr. POLE. There are some who entertain such an opinion as that.

Mr. SEIBERLING. You do not know whether that is a fact or not?

Mr. POLE. As to what their reasons might have been for a low rate of rediscount, I would not precisely be able to say.

Mr. SEIBERLING. When they found that they could not keep Liberty bonds at par—and they went down, I think, to 85, was it not?

Mr. POLE. I think it was.

Mr. SEIBERLING. Then they contracted the credit, because they could not go any further.

Mr. POLE. Credit was contracted, but as to whether it was because they could not go further or not is debatable.

Mr. SEIBERLING. The object of liberalizing credits was not accomplished, and they had to reverse the thing.

Mr. BRAND. I had not finished my question, Mr. Pole, in connection with the increasing and decreasing of the discount rate. I asked the question if the board did not feel that they had authority to adopt a policy, in connection with the banks, which would have the effect of decreasing or increasing the price of farm commodities, if they saw fit to adopt such a policy?

Mr. POLE. You are asking me, Judge, to represent the opinion of the board, and I can not do that.

Mr. BRAND. Do they not claim that they have that authority?

Mr. POLE. I do not know what the board does claim, Judge.

Mr. BRAND. I do not mean to ask an unfair question.

Mr. POLE. I know you do not.

Mr. BRAND. That is all I care to ask.

The CHAIRMAN. Mr. Goldsborough?

Before you start, Mr. Goldsborough, I would like to finish with Mr. Pole for this period. Later on, of course, we will have to have Mr. Pole back again, but I am trying to arrange to finish with him to-day. I do not want to hurry you unduly, Mr. Goldsborough, but we still have Mr. Busby and Mr. Dunbar, and if you can arrange it so that we can finish with Mr. Pole to-day, I think we should do so.

Mr. POLE. It is very kind of you, Mr. Chairman; I should appreciate it very much.

The CHAIRMAN. The Comptroller has been very liberal in giving us his time, and he has also given us very material information.

Mr. GOLDSBOROUGH. Mr. Pole, getting back to what seems to be a little closer to the subject that we are here to discuss, I understood you to say a few minutes ago that you favored group banking over chain banking. Did I understand you correctly?

Mr. POLE. Of the two, I should prefer group banking.

Mr. GOLDSBOROUGH. You do not think that either type of banking is sound or good, do you?

Mr. POLE. I would not undertake to say that, Mr. Goldsborough.

Mr. GOLDSBOROUGH. Do you favor chain banking?

Mr. POLE. I do not.

Mr. GOLDSBOROUGH. Do you favor group banking?

Mr. POLE. As an ultimate system, I do not.

Mr. GOLDSBOROUGH. How do you distinguish between an ultimate system and the system that is existing at this time?

Mr. POLE. Under the present law, branch banking is not possible. Group banking is possible under the present law, and I know of very many instances where groups have been formed which have resulted in great benefits to the communities in which they are operating, so that there is much good in group banking. I also know of individual chains of banks which are operating successfully and are well and carefully managed; but, speaking of them as systems of banking, I much prefer the branch banking idea.

Mr. GOLDSBOROUGH. I understand, but do you care to say whether or not you approve of chain and group banking? You answered before, but then you appeared to have modified your statement. Do you care to make a direct statement as to whether you do or do not approve of group banking or chain banking as being sound in theory?

Mr. POLE. I do not approve of chain banking. I do not approve of group banking as a system of banking which is best adapted to this country.

Mr. GOLDSBOROUGH. Now, would you favor legislation which would make chain banking impossible if it were possible to formulate such legislation, as chain banking is now conducted?

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. Would you favor legislation, if such were possible, which would do away with group banking, as now conducted?

Mr. POLE. That involves the question as to what legislation would be offered to take the place of group banking, I think. If you ask me the question whether group banking should be abolished, and undertake to unscramble those groups which have already been formed, I would not be in favor of that, but I would be in favor of

regulating those groups by the extension of supervisory powers on the part of the comptroller. But as to legislation which might affect the future expansion of group banking, I think that I should be in favor of limiting that and regulating it.

Mr. GOLDSBOROUGH. You would not be in favor of stopping it for the future and making it impossible either to increase the size of the present groups or form other groups in the future?

Mr. POLE. I think that that would correct itself automatically, if banks were given the privilege of extending, through the method of operation of branches.

Mr. GOLDSBOROUGH. Of course I know your view on branch banking and if you would rather not answer my question, sir, it is perfectly satisfactory to me. I would rather have you say you do not prefer to answer than seem to evade it.

Mr. POLE. It is a pretty involved question; you are asking me what I would rather do——

Mr. GOLDSBOROUGH. My question was not involved. Read the question.

(The reporter read the question.)

Mr. GOLDSBOROUGH. That question certainly is not involved, as far as I can tell.

Mr. POLE. It would depend upon what you have to offer in place of group banking. If such legislation as you speak of proposed to give something in place of group banking, I would say yes to your question. If it offered nothing at all by way of substitute legislation, my answer would be no.

Mr. GOLDSBOROUGH. Your answer is, as I understand it, this, that if you can not have branch banking, you prefer group banking to the unit banking?

Mr. POLE. Yes, sir.

Mr. GOLDSBOROUGH. I think, in your various——

Mr. POLE. May I add something there?

Mr. GOLDSBOROUGH. Yes.

Mr. POLE. Under proper regulation.

Mr. GOLDSBOROUGH. I may be confusing what you have said with what others have said, and I am not sure that you made the statement that I am now about to refer to.

In the various addresses you delivered this summer, or in your report to the Federal Reserve Board, I believe you stated, did you not, one reason for the extension of the right to establish branches of banks, was the fact that these groups were being formed that you you did not approve of? I may be wrong about that. That is only my recollection. I know that has been said a great many times.

Mr. POLE. I have made objections to the group banking system, Mr. Goldsborough, in my addresses, my particular reasons being that it is difficult to supervise groups of banks by reason of the fact that many groups are composed of national banks, of member banks, and of nonmember State banks, some of which we have jurisdiction over and some of which we have not, and for other reasons, and I think I have usually said as an ultimate system, I was very much in favor of branch banking as against group banking.

Mr. GOLDSBOROUGH. Your idea is, I suspect, that if it were permitted further to extend branches in accordance with the plans which

you have suggested, that that would tend to abolish or do away with group banking, automatically?

Mr. POLE. I feel quite sure that the groups themselves, at least in a large number of cases, would prefer to operate under the branch system rather than the group system and I think that that would automatically change from one to the other.

Mr. GOLDSBOROUGH. Now, the State of California has had extensive systems of branch banking for quite some years, has it not?

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. The group banking began, I think, not more than two years ago. Is not that right? I do not mean in California; I mean anywhere, as far as we know it?

Mr. POLE. I think that is correct, including California.

Mr. GOLDSBOROUGH. Including California?

Mr. POLE. Yes, sir.

Mr. GOLDSBOROUGH. Now, is it not a fact that in California there has been a great extension of group banking, as in other parts of the United States?

Mr. POLE. I should say by no means.

Mr. GOLDSBOROUGH. Well, I did not anticipate that answer, but the December number of the Federal Reserve Bulletin states what I am saying to you now.

Mr. POLE. Oh, does it? I am perfectly willing to accept your statement for it. I was not aware that group banking had developed in California to the same degree that it had in other States.

Mr. GOLDSBOROUGH. I did not bring the Bulletin with me. I did not anticipate that answer.

Mr. POLE. I am surprised when you make that statement but no doubt your information is correct.

Mr. GOLDSBOROUGH. Of course, if my premises are not correct, it is not worth while to discuss it further—that is, if my premises do not agree with yours.

Mr. POLE. That is a question of fact.

Mr. GOLDSBOROUGH. Of fact; yes.

Mr. POLE. Decidedly so.

Mr. GOLDSBOROUGH. Assuming that is the fact, certainly branch banking in California did not interfere with the development of group banking in California?

Mr. POLE. Well, Mr. Goldsborough, branch banking is not permitted any more in California than it is in any other State.

Mr. GOLDSBOROUGH. But it has been extended so much further than any other States——

Mr. POLE. Not since the passage of the McFadden Act. These systems were inaugurated and in operation prior to that time.

Mr. GOLDSBOROUGH. Yes.

Mr. POLE. No branches have been created outside of the cities since that time.

Mr. GOLDSBOROUGH. They have state-wide branch banking there too?

Mr. POLE. Neither can a large bank or any other bank operate a system of branches unless it wishes to remain outside of the Federal Reserve System.

Mr. GOLDSBOROUGH. Well, the point I was emphasizing or trying to emphasize, was that branch banking had not stopped group banking.

Where branch banking has been in existence in a very practical way, it has not interfered with group banking, where you indicate your branch banking system would probably do away with a system that you probably disapprove of.

Mr. POLE. There is no branch banking now.

Mr. GOLDSBOROUGH. In California?

Mr. POLE. They can not extend their branch banking systems and remain in the Federal Reserve System.

Mr. GOLDSBOROUGH. I am thoroughly aware of it. But they do have branch banking and have it all over the State and it has not stopped group banking.

Mr. POLE. It would stop group banking, in my opinion, if those groups were permitted to operate under a branch system. But it is because there is no right for a bank to operate branches that the group systems are developing.

Mr. GOLDSBOROUGH. Then, as you said a few moments ago, the group system is a lesser evil than the unit system?

Mr. POLE. I said that a group system was preferable to the chain system.

Mr. GOLDSBOROUGH. You said it was preferable to the unit system, also?

Mr. POLE. Yes; I would agree with that.

Mr. BRAND. What do you mean by "unit system"?

Mr. GOLDSBOROUGH. Independent banks.

The CHAIRMAN. Will you yield for a question?

Mr. GOLDSBOROUGH. If you can defer your question, I would appreciate it, because I think I have something going now.

The CHAIRMAN. I think this is in line with your questions.

Mr. POLE. I want to ask, in line with the questions that have been put and answered, in regard to chain and group banking: You have recommended that branch banking be extended to trade areas and stop there. I think that is correct, is it not?

Mr. POLE. Yes; except that I——

The CHAIRMAN. You have also said that you would like to prohibit the control of those main banks in trade areas by another group or bank; for instance, like—

Mr. POLE. A consolidation of a large group so as to form a banking monopoly.

The CHAIRMAN. Yes.

Mr. POLE. I have.

The CHAIRMAN. If you stop there, group banking and chain banking will continue as it is now operated under State law, will it not?

Mr. POLE. It might do so.

The CHAIRMAN. Then, under your plan, you would not stop group and chain banking in the United States?

Mr. POLE. There might still be chains and groups formed after the passage of such branch banking legislation as I have suggested.

The CHAIRMAN. It is all proceeding under State law now, and no national law could forbid the continuance of State group and chain banking, could it?

Mr. POLE. The fact that the Federal reserve system might, as a condition of membership, impose such conditions as would make it impracticable, might stop it.

The CHAIRMAN. Is that your suggestion for controlling it?

Mr. POLE. I made no suggestions for controlling that, Mr. Chairman.

The CHAIRMAN. Do you care to make a suggestion?

Mr. POLE. Not at this time.

The CHAIRMAN. Well, inasmuch as you have asked for an extension of branch banking to trade areas and you have expressed your unqualified opposition to group and chain banking——

Mr. GOLDSBOROUGH. Not to-day, but previously, as I understand it. To-day he defends group banking over unit banking, as I understood his answer.

The CHAIRMAN. I think it would be helpful to the committee if you will tell the committee just how you propose to stop group and chain banking under your plan of extending branch banking in trade areas.

Mr. POLE. My plan is this: If banks are given the right to operate branch systems, the advantages would be such as to automatically convert these groups and chains into branches for the most part.

Mr. GOLDSBOROUGH. Mr. Pole, the arguments which have been made by you, I think, as well as others, in favor of branch banking, have been that it is necessary to do it in order to enable the national bank system to compete with State banking systems which do permit branch banking. That is a fact, is it not?

Mr. POLE. That is a factor.

Mr. GOLDSBOROUGH. You distinguish between a fact and a factor?

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. I see. Now, Mr. Pole, suppose it were practicable for Congress to pass legislation which would entirely stop branch banking within the States. Would you still then recommend an extension of branch banking by the Federal Government?

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. Suppose it were possible for Congress to pass legislation which would stop chain and group banking right where it is within the States—State banks—would you then think it proper for Congress to pass legislation which would stop further group or chain banking among national banks?

Mr. POLE. Not without offering something in its place.

Mr. GOLDSBOROUGH. Do you not think in communities where banks have failed on such a scale as to indicate there was something radically wrong, that the community had failed first before the bank had failed?

Mr. POLE. Under the present system that might be correct.

Mr. GOLDSBOROUGH. Is it not a fact, Mr. Pole, that this condition of failures, which you have testified to, and which has been made a matter of comment in numerous articles by yourself and others during the last six or eight months, is almost entirely directly attributable to the after-war conditions in this country?

Mr. POLE. No. The number of banks which have failed includes a large number of banks which have been organized since the war.

Mr. GOLDSBOROUGH. Well, I do not know about the percentages.

Mr. POLE. It is at least 10 per cent.

Mr. GOLDSBOROUGH. How is that?

Mr. POLE. At least 10 per cent of failures have been of banks which have been organized since the period referred to.

Mr. GOLDSBOROUGH. I will change the question. Is not substantially all of the 90 per cent of banks which were in existence prior to the war and which have failed since the war, have not these failures been the result of after-war conditions?

Mr. POLE. I should say not.

Mr. GOLDSBOROUGH. Do you not believe it is true to a very great extent?

Mr. POLE. To an extent, Mr. Goldsborough.

Mr. GOLDSBOROUGH. Have you any idea to what extent?

Mr. POLE. Well, to a considerable extent.

Mr. GOLDSBOROUGH. Do you think it is fair, in attempting to conduct a judicial—I am not referring to these hearings here—in attempting to argue this matter judicially, do you think it fair to lay the great accent which has been laid on the failure of small banks since the war in the last nine years, as any real evidence of the breaking down of the unit system?

Mr. POLE. I do, indeed.

Mr. GOLDSBOROUGH. You have just said that you thought after-war conditions were very largely the cause of these failures. You could not tell to what extent. If you can not tell to what extent, but you think to a large extent, how are you in a position to say?

Mr. POLE. I think failures have been accentuated to a considerable extent by the economic conditions in the agricultural sections of the country, but I do not think that is the basic reason.

Mr. GOLDSBOROUGH. Mr. Pole, is it not a fact that banks have been gradually failing and trying to hold on and one would be a little stronger than another and then first one would fail and then another, almost all due entirely to after the war deflation? Banks filled with frozen paper, bad mortgages, etc., have been just hanging on and gradually, first one then another, would fail as time went by. We countrymen have understood that to be the condition.

Mr. POLE. I agree that that has had its effect.

Mr. GOLDSBOROUGH. Now, if that is the cause, if that is the reason, it does not constitute an argument against the unit system. If a man has got a pimple on his hand and it may be caused from fifty different diseases, no doctor would say, arbitrarily, it was because of some disease he was interested in, you know.

Now, Mr. Pole, I have made rather careful inquiry from the Bureau of Investigation of the Federal Reserve Board and I may be mistaken—I will not undertake to tie them into this because they may say I am wrong and they might not have meant exactly what I thought was in their minds—but I am strongly of the opinion that they think that a substantial number of these failures which have happened in the last nine years, are directly caused by the after-war deflation.

Mr. GOLDSBOROUGH. Do you think it is possible—practically possible—for a bank of $25,000 capital to make a success?

Mr. POLE. There are such banks that can be made successful and are successful to-day.

Mr. GOLDSBOROUGH. Do you think it is possible for a bank with a less capital than $25,000 to succeed?

Mr. POLE. There are undoubtedly banks with less than $25,000 capital succeeding.

Mr. GOLDSBOROUGH. A mere illustration is never convincing, but in 1909, I was the attorney in the set-up of banks in my own community with a capital stock of $12,000. They both have been wonderfully successful.

I sent for the last statements of each bank, but I have had only one answer so far. This institution has been in extence in a little place of 300 inhabitants for nearly 21 years now. It has absolutely around it nothing but a rural community and is surrounded, within a radius of 7 or 8 miles, by large banks in county seats—comparatively large banks. That bank paid a dividend of 6 per cent from its inception. Since 1918 it has paid a dividend of 20 per cent. It has always paid 4 per cent on savings deposits. It has about $4 in the savings deposits to every $1 it has in commercial deposits, and its stock is now worth 8 for 1. Its capital stock is $12,000; surplus $75,000 and undivided profits, $7,928.80, according to this last statement. Its deposits are $780,000 plus. It pays its cashier $3,200 a year. That is the Hilsboro, Queen Anne, Bank of Hillsboro, Md.

The other bank I have in mind is the Goldsborough Bank of Goldsborough, Md., a village of about 150 inhabitants. It has done nearly as well.

Do you think that the banking business is like any other business? If you are a good banker, you bank makes money and if you are not a good banker your bank does not make money? Do you not think that is the real crux of the situation?

Mr. POLE. I think that is a very important phase of it and much more important, perhaps, than the question of economic conditions to which you refer.

I assumed these banks to which you refer were not affected by the economic conditions?

Mr. GOLDSBOROUGH. Yes sir; after the war they were loaded up, but came out all right.

Mr. POLE. By reason of good management?

Mr. GOLDSBOROUGH. By reason of good management; yes. The section, the eastern shore of Maryland, is just as distinctly rural as Iowa. I am satisfied of that.

Mr. POLE. My point is that the reason for the bank failures in communities is not entirely—I think you used the word—due to economic conditions because these banks, as you say, were just as subject to them as other banks in rural communities. It survived and other banks failed.

Mr. GOLDSBOROUGH. Mr. Pole, with the good roads we have now and telephones, radio and frequent bank meetings and the very, very close touch that the country banks are in now with the metropolitan banks, do you not think that country bank management is improving very, very rapidly, especially in the last 10 years, just as the country doctor or country lawyer and other professional men are gradually reaching the average level?

Mr. POLE. We have in our office so very, very many evidences of poor bank management, Mr. Goldsborough, that it is doubtful, in my mind, as to whether the better element among the bankers is finding a resting place among the small country banks. I doubt very much whether the management of country banks, speaking generally,

has improved, perhaps in proportion to the other branches of business and professions.

The CHAIRMAN. Will you yield a moment?

Mr. GOLDSBOROUGH. Just one other question, if you can reserve that.

I have an article that I cut out of some paper yesterday. I think it is the Marylander and Herald, probably one of our local papers. It is in the pot metal type and evidently taken from some city paper.

A survey of State banking departments by the State bank division, American Bankers Association, discloses a distinct tendency the last five years to take bank supervision out of politics, to increase the discretionary powers of bank commissioners, to lengthen their terms of office, to supply them with adequate forces of qualified examiners and to relieve banking departments of duties foreign to banking, says a recent statement.

Then the statement continued, and finally this is said:

The office of bank commissioner is now operated as an independent department of State government in 34 States.

Do you not think that the management of country national banks is comparable to the management of country State banks?

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. And do you not think that the management of country State banks is being greatly assisted by the increasingly efficient State bank departments?

Mr. POLE. No doubt the State banking departments do render a great deal of assistance to the executives of the banks in the matter of management.

Mr. GOLDSBOROUGH. Now, Mr. Chairman, I beg your pardon. I wanted to finish that line.

The CHAIRMAN. Have you finished with the witness?

Mr. GOLDSBOROUGH. Oh, no.

I gather from what you stated the other day, that you thought mergers in the central reserve cities of New York and Chicago had proceeded far enough. Did I interpret what you said correctly?

Mr. POLE. I do not recall having made such a statement as that, Mr. Goldsborough.

Mr. GOLDSBOROUGH. Well, my recollection is quite distinct, but, of course, I may be wrong. Mr. Busby thinks you stated you are in favor of larger banks.

Mr. BUSBY. My recollection is that in a very short answer you stated that you were not in favor of larger banks than now existed in centers like New York and Chicago.

Mr. AWALT. He did not say that.

Mr. BUSBY. Then, the answer is, he did not say that.

Mr. POLE. Let me answer my own questions.

(Discussion off the record.)

Mr. GOLDSBOROUGH. I will put my question another way. My recollection of the statute is that the Comptroller of the Currency has to approve mergers.

Mr. POLE. Consolidation.

Mr. GOLDSBOROUGH. That is the same thing, as far as I know.

Mr. POLE. Practically so. I might qualify it by saying that the Comptroller of the Currency approves consolidations, but a bank has the right to purchase the assets and assume the liabilities of

another bank, without approval of the comptroller, which is, in effect, a merger without the approval of the comptroller.

Mr. GOLDSBOROUGH. Mr. Pole, last summer the Guaranty Trust Co. and the National Bank of Commerce consolidated, did they not, in New York?

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. Was that consolidation approved by the Comptroller of the Currency?

Mr. POLE. No, sir; it was a consolidation under State charter, the national bank going into liquidation. The comptroller's approval was not necessary.

Mr. GOLDSBOROUGH. Now, Mr. Pole, suppose the National City Bank and some other large institution in New York wanted to consolidate—really wanted to do it and made up their minds to do it, and set the machinery to work with the vast influence they have, to get the consent of any Comptroller of the Currency?

Mr. POLE. Yes.

Mr. GOLDSBOROUGH. The only thing he could do would be to grant the permission?

Mr. POLE. Not at all.

Mr. GOLDSBOROUGH. The only practical thing to do?

Mr. POLE. Not at all.

Mr. GOLDSBOROUGH. I am not referring to you, you understand.

Mr. POLE. I understand.

Mr. GOLDSBOROUGH. You never were subject to that ordeal, were you, of trying to resist a situation of that kind?

Mr. POLE. Of that magnitude, no; but of considerable magnitude, yes.

Mr. GOLDSBOROUGH. It is not pleasant, is it?

Mr. POLE. By no means, but it is done.

Mr. GOLDSBOROUGH. It is done up to a certain point and then resistance breaks down inevitably.

What I am trying to get at is this: Of course, your theory is that under this trade area plan of yours, there would be sufficient competition always to protect the rural communities from autocratic credit domination.

Mr. POLE. That is my feeling.

Mr. GOLDSBOROUGH. Is it not a fact that as groups get larger and get further away from smaller groups, they inevitably get closer and closer in their manner of approaching things and in their point of view and in their selfish interests? There is pretty near consolidation there at the top. Now, two, three, four, five, or six very large institutions in a city who, together, dominate the credit situation, gradually find it to their interest not to fight each other but to cooperate in their policies, and so, even though they do not consolidate, is there not a tendency for them so to cooperate in matters of policy with those who are nearly as strong as they are, so as practically to do away with any real competition? That is my experience in other walks of life.

Mr. POLE. With regard to banks, I would not see why there would be any more reason for diminishing competition than there is now. Banking competition is rife in the cities. Just because they were permitted to put out small branches in that direction or this direction, do you think that would make competition any less keen? With

enlarged opportunities for banks, would competition be any less keen? I should think not. I think it would be accentuated.

Mr. GOLDSBOROUGH. You do not think gradually and more gradually they would find that it was to their interest to merge to stop competition?

Mr. POLE. I think there might be a certain amount of merging going on, as there is to-day, but I do not think the time would ever come when the banking business of the country would be consolidated in a very few hands. Banking is a business, and if properly conducted is a profitable business and a necessary business, and I see no reason why competition should not be keen.

Mr. GOLDSBOROUGH. Now, Mr. Pole, in this country at this time, we are going through an epoch which is, by a great many, viewed with great alarm. There is a tendency to consolidate in every industry and in every walk of life. Of course, it is very evident in public utilities and chain stores and in mail-order houses, and three things that are right on the surface and that we all see. But it is so in every other business. It is so in the professions; for instance, take the legal profession as an illustration. A man buys an automobile and he insures it. If he has an accident he is represented by the insurance company. The insurance company, in turn, has a law firm in some city which represents it, so that the country lawyer is gradually eliminated.

The same thing exists among the doctors; in other words, what I am driving at is this tendency has gotten into the final place it would drift to and that is the learned professions. Now, it is a tendency.

It may be that 25 or 30 years from now, we will all sleep in the country and all work in the city, because there will not be any other place to work and that our farming will be done by great corporations who own thousands and thousands of acres of land and that work the farms by machinery. This may be inevitable and it may not be possible to stop it no matter how much we may deplore it.

As I see it, any monopoly of credit will accelerate that situation more than anything else, because credit controls everything else economic in the community and is it not the province of statesmanship, if it has any, to rather restrain that tendency than accelerate it, until, of course, it becomes clearly demonstrated that you are in an actual economic cycle?

Is there any reason why we, as legislators, should sit here and deliberately formulate a plan to accelerate that condition unless we think it is a good one? It certainly can not be that the people in the country are suffering for want of banks. I will guarantee we can sit here from now to the first of July, Mr. Pole, and you will not find a single country banker here asking that his bank be transformed into a branch banking system or any community coming here and asking for a branch banking system.

That is my question. Do you think it is the part of legislators, who have the public interest at heart and who are bond to visualize the future, in so far as they can, to accelerate a condition of that kind or to restrain it in so far as it can be done?

Mr. POLE. I do not think it is the part of legislators to participate in such acceleration, but under my suggestion of a branch banking system, the question of decentralization of credit is a very important part of it. I think you will find in very many sections of the country

to-day, that the presidents and executive officials of independent bank are importuning the large group bankers to admit them into their systems. That is my information from those people who are in that business. That, of course, is a matter than can be easily demonstrated, during the hearings as they develop.

Mr. GOLDSBOROUGH. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Dunbar.

Mr. DUNBAR. You stated a few moments ago, decentralization of credit is a very important object to be attained by branch banking. Is that right?

Mr. POLE. Yes.

Mr. DUNBAR. The other day I made the statement that the argument was used by proponents of the Federal reserve system in favor of the passage of the bill, that decentralization of banking credits would be diverted from New York and I understood you to state that the Federal reserve banking system had decentralized credit from New York, but that the credits had grown in other communities, giving the impression that centralization of banking credits was effective in New York.

Now, I get my——

Mr. POLE. I am not agreeing to that.

Mr. DUNBAR. I know you are not.

Mr. POLE. I am not agreeing to that being a correct statement of what I said.

Mr. DUNBAR. Pardon me. What did you say?

Mr. POLE. I said that while undoubtedly there had been a large increase in deposits in New York, I was not prepared to say they were out of proportion to the increase of deposits in other parts of the country.

Mr. DUNBAR. That is what I understood you to say and perhaps I did not make my observation and thoughts clear.

Mr. Carter Glass, who was the author of the Federal reserve act, in a speech made the statement that the operations of the Federal reserve system had centralized credit in New York City, and I talked to him yesterday. He said that it was absolutely true that the operations of the Federal reserve system had increased, to a very, very great extent, the centralization of credit in New York City. You do not agree with him?

Mr. POLE. I agree with him, but I do not know whether it has increased out of all proportion to the increase in other sections of the country. There is no doubt but that it has increased in New York.

Mr. DUNBAR. His idea was that it had disproportionately increased and to all intents and purposes, had increased beyond the intention of the proponents of the bill.

Mr. POLE. I am not prepared to say.

Mr. DUNBAR. Have you any record of the statements of the credits of banks in New York City before the passage of the Federal reserve act, together with other cities? Of course, now, they have very greatly increased, but have you those statistics from which we could obtain an idea of the proportionate increase in the respective cities?

Mr. POLE. Yes.

Mr. DUNBAR. Will you publish them in your remarks?

Mr. POLE. There will be no objection to publishing them.

(The figures referred to are in course of preparation and will be furnished later.)

Mr. DUNBAR. You said that the capital and surplus of the Federal Reserve System had very largely increased——

Mr. POLE. Yes, sir.

Mr. DUNBAR. The amount of the franchise tax paid to the Federal Government last year by the Federal reserve-system banks, was $2,900,000. How is the amount arrived at that they shall pay the Federal Government?

Mr. POLE. After paying a 6 per cent dividend to their shareholders. The Federal banks are permitted to increase their surplus and their earnings until it equals the subscribed capital, after which 10 per cent of the earnings go to surplus, and the balance goes to the Government as a franchise tax.

Mr. DUNBAR. After the war, the amount of money paid to the Federal Government, instead of being $2,900,000 was $60,000,000 a year, or twenty times more than now paid by the Federal reserve banks. Was that because their earnings were so much greater at that time in proportion to their capital stock?

Mr. POLE. Obviously, I would say so.

Mr. DUNBAR. Then, the Federal reserve banks are not making as much money now as they did nine years ago?

Mr. POLE. I think some of them are and some are making less.

Mr. DUNBAR. Not in the aggregate, because in the aggregate they paid last year to the Federal Government $2,900,000, instead of $60,000,000 annually some 9 or 10 years ago.

Mr. POLE. Those complete figures on the earnings of the Federal reserve banks have been furnished the record, Mr. Dunbar.

Mr. DUNBAR. I know, but I would like to know some reason for the fact——

Mr. BUSBY. May I suggest this, that the building program of the Federal reserve banks has taken $160,000,000 out of the earnings for the last year or two?

Mr. DUNBAR. Would that affect the amount of the franchise tax paid by the Federal reserve banks?

Mr. POLE. Yes, sir.

Mr. DUNBAR. And the suggestion was made the other day that the amount of the franchise tax paid to the Federal Government might be used to reimburse depositors in the national banks which have failed. Would the $2,900,000 pay the losses—be sufficient to pay the depositors in national banks which have failed and which did not pay their depositors 100 cents on the dollar?

Mr. POLE. It will be impossible to tell that because banks which have failed last year have only started on their liquidation and it will depend on how they liquidate. I think that $2,900,000 would not be nearly enough to pay that.

Mr. DUNBAR. Another question: The Federal reserve bank has reduced its discount rate to 3½ per cent. What is the amount of discount of the Bank of England to-day?

Mr. POLE. Four per cent.

Mr. DUNBAR. The reduction of the Federal Reserve rate to 3½ per cent, if it is less than the rate charged by the Bank of England—does that cause an outflow of gold from the United States to England?

Mr. POLE. It might make some little difference.

Mr. DUNBAR. It might make some little difference?

Mr. POLE. Yes, sir.

Mr. DUNBAR. Then, that outflow of gold from the United States to England would reduce the available credit of our banks?

Mr. POLE. Well, the gold reserve would have to be very materially reduced before the Federal reserve banks would feel the effect of that.

Mr. DUNBAR. I note in financial newspapers that great importance is paid to the outflow of gold from the United States on our business and credit systems.

Mr. POLE. Yes, sir.

Mr. DUNBAR. So that if there is any outflow due to the 3½ per cent rate, notwithstanding our business men can obtain money at a less amount, it would pretty near balance the situation?

Mr. POLE. I do not think, under the present circumstances, there will be very much outflow of gold. The Federal reserve banks themselves are probably almost at their high point as to gold reserve, so that the difference would not affect, in a practical way, the amount of credit which could be extended by the Federal reserve system.

Mr. DUNBAR. During the last year, the Federal reserve banks were criticised for raising the rates for the purpose of preventing speculation. I do not say they did so, and you would not care to commit yourself on that subject anyway. But was not a large amount of the speculation due to the fact that last year the corporations of the country loaned their surplus for the purpose of speculation?

Mr. POLE. That was a very important factor.

Mr. DUNBAR. The Federal Reserve Bank officials were apprehensive all along that the debacle of speculation would result just as it did, were they not?

Mr. POLE. I can not speak for the Federal Reserve Bank officials.

Mr. DUNBAR. But you believed that?

Mr. POLE. I think that may be correct.

Mr. DUNBAR. Now, another question. You have heard a great deal about the unit bank and about its being driven out of business by branch banking. Branch banking would drive the unit banking system out of existence, according to my notion, the same as chain stores to-day are driving out the individual stores in our respective towns.

Mr. POLE. You are making that statement?

Mr. DUNBAR. I am making that statement. Does it agree with your idea?

Mr. POLE. No.

Mr. DUNBAR. You do not believe that branch banking would drive out the unit banks?

Mr. POLE. It has not done so where branch banks are in operation.

Mr. DUNBAR. How could a branch bank go into a community with several banks of $100,000 capital and have available to loan in that community $200,000 to a corporation or an individual instead of $20,000 and not drive those other banks out? Would not that be a natural sequence?

Mr. POLE. Well, you are assuming a great many things there, Mr. Dunbar. In the first place, if the banking facilities in the particular community to which you refer were ample, it might not be possible

for the branch bank to go in there, with its branches, unless it purchased one of the going banks.

Mr. DUNBAR. I know it could not go in there without the consent of the Comptroller, and also unless it could be shown that the branch bank was needed.

Mr. POLE. That is my answer, substantially.

Mr. DUNBAR. Yes, but it is my opinion that branch banking would go into all these communities. They would find some reason for being established and these unit banks would be eliminated and caused to cease to exist—the local unit banks which we have. Now, you do not believe that?

Mr. POLE. Not necessarily. A great many unit banks will tell you they do not want any better competition than a branch of a city bank.

Mr. DUNBAR. That is all, Mr. Chairman.

The CHAIRMAN. Have you any questions, Mr. Busby? We have just five minutes left.

(Discussion off the record.)

The CHAIRMAN. The committee will stand adjourned until Tuesday morning at 10.30 o'clock a. m.

(Whereupon, at 12.55 o'clock p. m., the committee adjourned until Tuesday, March 18, 1930, at 10.30 o'clock a. m.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

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

MARCH 18, 19, AND 21, 1930

VOLUME 1

Part 4

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON : 1930

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, MARCH 18, 1930

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

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

The CHAIRMAN. Now, Mr. Busby, if you will take the witness.

STATEMENT OF HON. JOHN W. POLE—Resumed

Mr. BUSBY. Mr. Pole, I want to ask you a few questions which may be general in their nature, before we get down to the discussion of banking and finance.

Now, speaking of the national banks, the State banks, the holding companies, and of branch, chain, and group banking, and other similar entities which have considerable proportions in the banking world, I take it that we are all agreed that no major part of this system could be ignored or left out of consideration when it comes to the operations in the field of finance. Is that your view?

Mr. POLE. My view is that every major point which might affect chain, group, or branch banking should be given consideration.

Mr. BUSBY. Suppose that any one part of this group—and this is a hypothetical question—or any one part of a financial organization should be discriminated against or should fail in whole or in part, would not that in a sense affect all the other parts?

Mr. POLE. It might do so.

Mr. BUSBY. Is there not a sympathetic response in the financial world to any sort of a failure of a financial unit or an institution which is as far reaching as any of these I have mentioned?

Mr. POLE. Undoubtedly its effect might be felt.

Mr. BUSBY. Is it not true in the commercial and investment world?

Mr. POLE. I think that might be said to be true.

Mr. BUSBY. Now, coming particularly to the subject of bank failures, you have stated that by far the greatest number of bank failures were among small banks.

Mr. POLE. Yes.

Mr. BUSBY. Do you not also think that the greatest number of bank failures have been confined to certain territories in the United States, where a period of undue inflation has been experienced?

Mr. POLE. Failures of banks have been scattered all over the United States. The record shows that in the agricultural districts it has been most prevalent.

Mr. BUSBY. Is not the bank in the agricultural district of necessity required to make loans on collateral that is more hazardous than the collateral furnished on loans in the metropolitan centers?

Mr. POLE. Loans in the agricultural sections are not quite so well fortified as they might be in the industrial sections.

Mr. BUSBY. Is not the stability of the collateral often dependent on weather conditions, crop conditions, and future developments?

Mr. POLE. Those are all factors.

Mr. BUSBY. Where a crop is mortgaged that has not been planted, that is a very important factor, isn't it?

Mr. POLE. Quite.

Mr. BUSBY. Frequently the banks in the agricultural sections take as security mortgages on crops that have not been planted—is not that true?

Mr. POLE. I think that is the custom in some parts of the country.

Mr. BUSBY. What is your view with regard to that custom, as to whether that type of security ought to be accepted by banks?

Mr. POLE. I would not say that that type of security is generally taken, but I think usually the loans are made on crops which have been planted, but the proceeds of those loans in such cases are used gradually as the time goes on and the crop approaches maturity.

Mr. BUSBY. Is it not a fact that there is one system of banking which applies to the metropolitan centers, and another system of banking and security which has to be used in the country districts and small towns?

Mr. POLE. Yes.

Mr. BUSBY. The two systems are not altogether alike, especially from the standpoint of the type of security that may be offered by the borrower, are they?

Mr. POLE. That is generally correct.

Mr. BUSBY. Now, with further regard to bank failures, referring to the hearings on page 4, I find that four States along the Atlantic coast—North Carolina, South Carolina, Georgia, and Florida—with a population, based on the 1920 census, of 7⅞ per cent of the population of the country, have had 729 bank failures, or 15½ per cent of the bank failures of the country.

I also call your attention to another rather well-defined section of our country, Minnesota, Iowa, Missouri, Oklahoma, North Dakota, South Dakota, Nebraska, Kansas, and Montana, nine additional States in the central Northwest, a purely agricultural section, which nine States had a total of 2,768 bank failures in the period from 1920 to 1929. That territory represents 14⅛ per cent of the population and represents 56⅛ per cent of the bank failures during the period of time I have mentioned.

Taking the two areas together, I find that the 13 States mentioned with 22 per cent of the population of the country, have had 71.6 per cent of the bank failures of the country, while the other 35 States, with 78 per cent of the population of the country, have had only 24.4 per cent of the bank failures from 1920 to 1929.

If you have given any thought to the situation in these two particular areas, do you not see in these bank failures something besides the fact that they were individual banks and not in a chain or branch system?

Mr. POLE. Yes, I see quite a difference.

Mr. BUSBY. Is it not a matter of common knowledge that the territory about Florida and north of Florida, in the States I have men-

tioned on the Atlantic coast, has experienced a considerable period of inflation in land values during the last nine years?

Mr. POLE. Yes.

Mr. BUSBY. Much of the security offered and taken by the banks in that territory was based on lands in that section, was it not?

Mr. POLE. Quite largely so.

Mr. BUSBY. And do you not think that it was the inflation of value of lands and real property, and then a collapse of those values, that primarily caused the failures of the banks in the section we are now discussing?

Mr. POLE. That had a lot to do with it.

Mr. BUSBY. Now, going to the other territory in the central Northwest, the nine States mentioned a moment ago, is it not a fact that during the postwar period, land values in that section grew to a proportion far beyond that which had existed at any time prior to that period?

Mr. POLE. I think so.

Mr. BUSBY. That is an agricultural section, is it not?

Mr. POLE. Yes.

Mr. BUSBY. The basis for the business and commerce of that section is very largely agricultural, is it not?

Mr. POLE. Quite largely so.

Mr. BUSBY. Stock raising enters into consideration to a considerable extent in that territory, does it not?

Mr. POLE. It does.

Mr. BUSBY. Considering the fact that the nine States mentioned in the central Northwest section of the United States, with a population of 14⅛ per cent, had 56⅜ per cent of the bank failures during the nine years mentioned, do you not see that the inflation of values in that section, and then the inflation coming to an end, was the direct cause of the failures there?

Mr. POLE. Certainly it was a very important factor. However, we must bear in mind that all banks were not affected. There were a large number of banks in those sections which you referred to which have gone through this period of deflation and are still operating and operating successfully, and the large banks have been practically free from failures, and they were faced with the same economic condition.

Mr. BUSBY. Can you tell the committee why they were able to go through this situation and why the great number of the banks which did fail went under; in a general way?

Mr. POLE. In a general way, the large banks were operated more scientifically; the loans were more carefully made, their judgment was better, they saw further ahead and, with regard to the smaller banks, the same reasons might apply, which might be summed up very largely in the question of management. A small bank might be termed more or less of a fair-weather bank, because if it is faced with successive crop failures the support in the way of capital structure and savings is not sufficient to enable it to take care of its losses, whereas the larger banks, of course, are much more able to do so.

Mr. BUSBY. The people in that section of the country, being largely engaged in agriculture and stock raising, will of necessity have that kind of property, including their lands, to offer as security for credits, will they not?

Mr. POLE. Yes.

Mr. BUSBY. If they can not get credit on their lands, their agricultural products, and stock-raising activities, what collateral would you suggest that they could offer to the large banking systems in order to secure needed credit?

Mr. POLE. The larger banking systems, under my suggestion, would cover a wider, and do cover a wider, diversification of interests. As I say, they make loans more carefully and more scientifically.

Mr. BUSBY. Do you mean by "more carefully" that they do not make the loan unless they can see absolute certainty in its return?

Mr. POLE. I would not go so far as to say with absolute certainty, but I would say that they do not make them so freely, and it is no benefit to a borrower to borrow more money than he can pay back. Banks that are scientifically managed generally realize that if loans are made too freely, it hurts both the lender and the borrower.

Mr. BRAND. Is it not true that these large banks, especially in the cities, do not lend their money on lands or on crops?

Mr. POLE. In the cities, they generally would not be offered that character of security to the same extent.

Mr. BRAND. A farmer who has nothing to offer except his land or his crop can not go to any big bank and borrow a dollar in my country. I would like to find some big bank which will lend some money to farmers on the crop markets; I would like to know where it is located.

Mr. BUSBY. I want to continue with my examination, Judge.

Then, Mr. Pole, as a natural result of the system of what you term "careful lending," and what you term a "far insight" into the banking situation, the larger banking institutions, or the chain or branch banking institutions, would take into consideration the possibility of crop failures and take into consideration the possibility of the security being deflated and becoming at the time of payment not what it was when the loan was made—they would take into consideration all of those things which would tend to reduce the amount to be loaned on the collateral or security offered by the borrower, would they not?

Mr. POLE. In making loans every factor is taken into consideration, Mr. Busby.

Mr. BUSBY. Those would be the factors that the banks would have to take into consideration in the territory I have mentioned, would they not?

Mr. POLE. Those would be factors, unquestionably.

Mr. BUSBY. Now, you know the system of banking in Canada, do you not?

Mr. POLE. Yes.

Mr. BUSBY. You know that the Canadian banking system is not conducted on the basis that the American banking system is conducted, do you not?

Mr. POLE. Yes.

Mr. BUSBY. Instead of taking deeds of trust and mortgages, they take straight bills of sale for loans made by the banks and the branches of banks in Canada, do they not?

Mr. POLE. I think that may sometimes be done; I am not sufficiently familiar with those details.

Mr. BUSBY. Do you not know that the banks of Canada deprecate loans around $500, $600, and $700, and refuse to make loans below that amount to farmers or to people who need credit in small amounts?

Mr. POLE. No; I do not know that.

Mr. BUSBY. If that is true, that is news to you, is it?

Mr. POLE. I doubt the accuracy of that statement.

Mr. BUSBY. Do you know the minimum of deposits that they will accept in the Canadian banks?

Mr. POLE. I think that varies in different parts of Canada.

Mr. BUSBY. Do you not know that the Canadian banking system does not deal with the small men at all?

Mr. POLE. No.

Mr. BUSBY. Do you not know that the Canadian system has no desire, through the numerous branches maintained by the five large systems, to deal with the small borrower or the small depositor?

Mr. POLE. I do not think that is a fact.

Mr. BUSBY. You do not think that is a fact?

Mr. POLE. No.

Mr. BUSBY. Now coming back to the question we started on, I want to ask you two or three academic questions.

What is the necessity for a banking system in any country?

Mr. POLE. Obviously there is great necessity for a banking system in order that people may deposit money and make loans and transact such other business as is ordinarily transacted through banks.

Mr. BUSBY. The fact is that 90 per cent of the business of the country is done on what is called checking or clearance accounts, is it not, and about 10 per cent is done on credit?

Mr. POLE. In a general way, it might be called credit.

Mr. BUSBY. What is your idea about the expression that "currency is the life blood of the commerce of the Nation?"

Mr. POLE. I do not know who coined that phrase. I think possibly it was intended to cover credit, also.

Mr. BUSBY. Do you think credit can be dissociated in any sense from banking?

Mr. POLE. No.

Mr. BUSBY. Is it your idea that banking is an objective or means to an end, the end being commerce and exchange of commodities and products and values among the people of the Nation?

Mr. POLE. I think it is a necessary complement to the business of this or any other country.

Mr. BUSBY. To be a little more specific, do you think that that is the primary objective to be sought, that is, to create a system of banking or money dealing by a portion of the people, or should it be the servant of commerce, and the handmaid of commerce and trade?

Mr. POLE. I think it should be the handmaid of commerce and trade, but I think it should also be regarded as a definite business enterprise in which people may invest money and hope to make a reasonable return on it, the same as in industry.

Mr. BUSBY. You have stated in the hearings that you were decidedly of the view that the best system of banking in this country would be the branch banking system, have you not?

Mr. POLE. Not precisely that statement.

Mr. BUSBY. What is your attitude with regard to that?

Mr. POLE. I said that if it were possible that a unit banking system could be made profitable and effective, that I should prefer such a system, but inasmuch as the system appears to have broken down, particularly in the agricultural communities, the best substitute that

occurs to me is a branch banking system rather than a group or a chain banking system.

Mr. BUSBY. You used one expression, that the unit banking system had broken down in the agricultural communities. Have the banks in either of these communities mentioned by me, the Atlantic States group and the North Middle West group—or in any other agricultural community, ever failed until the community failed from under the bank?

Mr. POLE. Of course, if the community fails, the unit bank must fail, and frequently if a bank fails it is difficult for the community to get along.

Mr. BUSBY. If the branch banking system had operated in those communities and had extended the help and the credit to the people in those communities that was needed, similar to that extended by the unit banks, would it not have also failed or at least been materially crippled when the period of deflation came along?

Mr. POLE. The facts are that in some sections of the country there are no banks left. They have all failed.

Mr. BUSBY. And the facts are that the branch banking system would not extend the assistance or help to that community that the individual bank would—is not that true?

Mr. POLE. I would differ with you on that. The experience with branch banks is frequently that they put into a community a tremendous lot of money where the deposits may be at a very low ebb; in other words, they put far more funds into the community than the community provides in the way of deposits.

Mr. BUSBY. I tried to get away from that subject, but that brings me to this thought, that if they put that greater amount of money into a community than the deposits secured from that community, and they will not take the security that the community has, on what basis do they make the loans or place the money among the people?

Mr. POLE. Of course, they do take the security that the community has.

Mr. BUSBY. What kind of security in the agricultural northwest would they—the chain banking system—take in order to put more money into that community than they would take out?

Mr. POLE. The same class of security that you mentioned.

Mr. BUSBY. They whittle it down until it does not amount to so much, do they not?

Mr. POLE. It amounts to more in a great many instances than the community is able to supply from its own resources.

Mr. BUSBY. Do not despoits run largely in proportion to the amount of credit extended by the banks in the community in which the bank operates?

Mr. POLE. Speaking generally, it might be said that they do, but on these special occasions when a community is hard hit by crop failures, and when it is necessary for a bank to put money into the community, that is very frequently done by branch banking systems. That is one of the theories on which the system works, that money may be transferred from one place where there is a plethora of funds to a place where there is a dearth of them.

Mr. BUSBY. There is considerable controversy in the banking world as to whether or not that statement is a fact.

Mr. POLE. I think there is considerable controversy on every banking point.

Mr. BUSBY. I mean, on that one point.

Mr. POLE. I should say on that point among others.

Mr. BUSBY. You have described your position with regard to branch banks.

Mr. POLE. Yes.

Mr. BUSBY. You stated, on March 6, in your examination, these words:

> I would be glad to see some legislation which would prohibit the operation of chain banking.

That is your position on the question of chain banking, is it not?

Mr. POLE. Right.

Mr. BUSBY. Now, we have some very extensive branch banking operations in this country in a few States, do we not?

Mr. POLE. There are extensive branch bank systems in operation.

Mr. BUSBY. I have asked you some questions heretofore about the Bank of Italy, rather for the purpose of using it as an example of the development of branch banking. I hand you a chart which shows the locations of the branch banks of the Bank of Italy in the State of California. There is hardly a community in that State that is not covered by a branch bank of the Bank of Italy, is there?

Mr. POLE. I would not go so far as to say that. There are very many communities not covered by branches of the Bank of Italy.

Mr. BUSBY. I mean banking communities, or communities of credit.

Mr. POLE. I understand what you mean.

Mr. BUSBY. Of course, that would not be the same as a school district, or anything like that.

Mr. POLE. There are a large number of branches. If you exclude those branches which might be termed city branches, I should estimate roughly that you would have 200 points covered by branches of the Bank of Italy in California.

Mr. BUSBY. How is the business at a branch of the parent bank conducted with reference to extending credit to applicants for loans?

Mr. POLE. The branch manager, in conjunction with the advisory committee, is given a certain loaning limit. In the case of very large loans which have not been passed on, they are taken up with the head office.

Mr. BUSBY. I am informed by people who do business with the branches of the Bank of Italy, members of the House from California, that no loan is made by the cashier of one of the branches on an application for a loan; that he takes your application, with your financial statement, and tells you that it will be presented to the loan committee of the central institution the next morning at the meeting of this committee. Then your application, together with your financial statement, is presented to the committee on loans by the cashier or representative of the branch bank the next day, and that is passed on entirely in the absence of the applicant for the loan.

Do you know whether or not that is true?

Mr. POLE. I do not think it is true if it comes within the limit.

Mr. BUSBY. Do you have any idea what the limit is?

Mr. POLE. It varies in different places. As a matter of fact, you perhaps are speaking of new loans. Now the business of a bank might be said to be 90 per cent with regular customers, whose lines

of credit have been established perhaps for years in that community, and they are given a regular line of credit. Those loans are usually reviewed by the executive committee or by the loaning committee and are fixed quite in advance of the time when the customer may come to take up his loan, and with respect to the new loans, if they are of any size they, of course, should be given very careful consideration and, if necessary, referred to the head office.

Mr. BUSBY. I know that is the sytem usually used by the independent individual banks.

Mr. POLE. That is the sytem employed by the Bank of Italy, I think.

Mr. BUSBY. But the branch-banking system entirely leaves out of the loan the question of personal responsibility or the fact that the individual, because of his course of business activity and conduct, is entitled to credit, and makes the loan solely on the collateral that the borrower has to offer, nothing else being considered by a body of men who do not take the man into consideration at all, or very little. Is that not the case with branch banking?

Mr. POLE. On the contrary, I think that the character element is perhaps the most important, and it is given consideration.

Mr. BUSBY. How do you reconcile that statement with the fact that more careful loans, for instance in the central Northwest territory that we were talking about, would be made by the branch banking system, leaving out of consideration the personal character of the applicant for the loan?

Mr. POLE. I have never made the statement that the personal character feature is ever left out of consideration on loans. I think that is the most important, but there is also connected with that the borrower's ability to pay which is frequently lost sight of by small banks.

Mr. BUSBY. I will have to hurry on.

Now the Bank of Italy until recently had 299 branches scattered over California. Some time ago we went through a period of depression that reflected itself on the stock of the Bank of Italy, when on the 11th of June, 1928, it opened in the morning at 286 and ran to a low of 125 on the same date, closing at a somewhat higher figure. At that time it had the 299 branches. I might say it is my information that other banking interests in the same field sought to bring about the depression in the Bank of Italy stock. Now, even though you have a system with many branches, it is not entirely secured against the competitive banking activities of other institutions in the same field, is it?

Mr. POLE. By no means.

Mr. BUSBY. Even though it does not break in the sense that we speak of the individual country bank, the financial effect of such an experience in the affairs of a bank is of such broad extent in deflating the stock that it is similar to a bank failure in that territory, is it not?

Mr. POLE. Not at all.

Mr. BUSBY. Does that not affect the investors in the stocks of that bank just as effectively as if they had been interested in a bank that failed and got only a portion of their invested money back?

Mr. POLE. I see no direct connection there. The stocks of banks are always going to fluctuate. They have in the past and will in the future. But the condition of that bank is not affected by the fluctua-

tion of the stock, and in the case you mentioned there was a large speculative element in that trading.

Mr. BUSBY. Two or three other banks making a desperate effort to drive down the Bank of Italy stock while Mr. A. P. Giannini was in Italy?

Mr. POLE. I do not know as to that. I have never heard that the banks made any concerted drive against the Bank of Italy. You have referred several times to the breaking of the Bank of Italy and bankruptcy in connection with the Bank of Italy. I think the record ought to be cleared on that point; and, even at the expense of reiteration, I should say that the Bank of Italy has steadily grown from a very small institution to a bank of, according to the last statement, more than a billion dollars of resources; so that the bank per se has not been greatly affected by the fluctuations in the stock.

Mr. BUSBY. Has it not been difficult to trace the activities of the Bank of Italy, to tell whether it has grown or absorbed and combined with other institutions so as to make the showing you speak of in the last report?

Mr. POLE. I should say not.

Mr. BUSBY. All right. Now, immediately after the period that I referred to as the break of the Bank of Italy stock, which you explained and on which you place another light, the Transamerica Corporation, a New Jersey corporation, a holding company, was organized for the purpose of taking over all or as much of the stock as it could get of the Bank of Italy, its subsidiaries and affiliates, was it not?

Mr. POLE. I think it is a well-known fact that the Transamerica Corporation was formed to take over its various activities.

Mr. BUSBY. It was formed October 11, 1928, after the period I mentioned as June 11, 1928?

Mr. POLE. Yes.

Mr. BUSBY. Now, listed among the corporations a majority whose stock is owned wholly or largely by the Transamerica Corporation, are 11 banking, investment, insurance, trust, and other similar types of financial institution covering every business activity in our country, and two additional institutions in which the Transamerica Corporation holds about 50 per cent of the stock. Now, the holding company, having this stock in hand, controls the policies of all of these banks and other institutions, and directs their course in whatever business activity they are operating, does it not?

Mr. POLE. Theoretically.

Mr. BUSBY. Does not the holding company direct the directors that do direct the policies of these institutions?

Mr. POLE. Elects them.

Mr. BUSBY. Elects them?

Mr. POLE. Yes.

Mr. BUSBY. What do you mean by that term?

Mr. POLE. I mean to say that the directors would undoubtedly be elected by the shares which were preponderantly held by the Transamerica Corporation.

Mr. BUSBY. Well, the Transamerica Corporation is operated by about 25 men composing the directors of that institution, is it not?

Mr. POLE. I really do not know how many men direct the affairs of the Transamerica Corporation.

Mr. BUSBY. I think you can get that from Poor's Banking Directory.

Mr. POLE. I think so, too.

Mr. BUSBY. So that takes entirely away the human element of management, so far as the stockholders and the investors in the stocks are concerned, the management of these institutions which embrace some 525 independent units that are managed by the Transamerica Corporation?

Mr. POLE. Theoretically, if you wish to assume that the directors and the executive officers of the Bank of Italy are dummies.

Mr. BUSBY. They do not know anything about the several communities in which the 525 units operate, do they?

Mr. POLE. What do you mean by "they"?

Mr. BUSBY. That is, the men that control and direct the policies, through the Transamerica Corporation, of all of these 525 institutions that are under it?

Mr. POLE. I am not informed as to what is the extent of the power of those 25 men who are connected with the Transamerica Corporation.

Mr. BUSBY. The Transamerica Corporation controls national banks, does it not?

Mr. POLE. I think so.

Mr. BUSBY. It owns all of the stock in some national banks, does it not?

Mr. POLE. Yes; practically all.

Mr. BUSBY. It owns all of the stock or practically all of it,, in some State banks?

Mr. POLE. That is my information.

Mr. BUSBY. Some of the national banks that are owned and controlled by the Transamerica Corporation also have branches in other territory under the McFadden Act, have they not?

Mr. POLE. Yes.

Mr. BUSBY. And some of the State banks that are owned and controlled by the Transamerica Corporation also have branches in the States where branch banking is permitted, do they not?

Mr. POLE. I do not know what the State banks have.

Mr. BUSBY. The fact is that there is such a confusion of interests in a financial institution as gigantic and extensive as the business the Transamerica Corporation controls that it is very difficult for one without a special accountant to go through the situation to understand what the financial relations of the several elements are—is not that a fact?

Mr. POLE. Of the Transamerica Corporation?

Mr. BUSBY. Yes.

Mr. POLE. Yes; I think that is right.

Mr. BUSBY. Now, the Transamerica Corporation and the Bank of Italy also own and are interested in a bank in Rome, Italy, are they not, or do you know about that?

Mr. POLE. I have heard so. Of course, I do not know very much about the Transamerica Corporation's investments.

Mr. BUSBY. You have never examined Poor's Directory on Banks and Trust Companies, 1929, with reference to the Banca D'America e D'Italin, in which James A. Bacigalupi and A. P. Giannini, the man who established the Bank of Italy in the United States, are directors? You know nothing about that?

Mr. POLE. I have never examined Poor's report.

Mr. BUSBY. I want to call your attention to another illustration. Mr. Chairman, I will quit any time.

The CHAIRMAN. We were planning to finish with Mr. Pole at 11.30, to hear Governor Young.

Mr. BUSBY. All right. I find, in regard to the National City Bank of New York, in Poor's Bank Directory, that on December 31, 1928, the bank contained, in addition to a main office in Wall Street, New York, 30 city branches and, in addition, direct and subsidiary foreign branches numbering 89 in 23 countries, and plans were being perfected to enter two additional countries during 1929, and I also find that the National City Bank at that time had resources of $1,847,000,000—and that has been considerably increased since then—with a capital stock of $110,000,000.

I call attention to that for the purpose of leading up to the other thought, that this country is becoming a country of big banking institutions, which leaves out of consideration any place for the country bank or for any bank that is not a part of a chain, group, or branch system.

Also, in connection with that, I want to call attention to the statement of Mr. Thomas W. Lamont with regard to the Bank for International Settlements, where the big banking interests of all the countries could come together and settle the financial policy of the world.

You know about the situation I refer to, do you not?

Mr. POLE. I have heard of the Bank for International Settlements.

Mr. BUSBY. Is it not your opinion that the group, chain, and branch banking systems are playing directly into the hands of that kind of a policy of internationalizing the money system of the world?

Mr. POLE. Through the Bank of International Settlements?

Mr. BUSBY. Yes.

Mr. POLE. I am not sufficiently familiar with that, Mr. Busby, to give you an intelligent reply.

Mr. BUSBY. Well, the Federal reserve system, of which we may talk more some other day, would be considerably disparaged if the holding companies took over the management of banks and placed them under State charters, and left out of consideration the national system, would it not?

Mr. POLE. If all the large banks left the Federal reserve system, it would unquestionably be affected.

Mr. BUSBY. There is no way to place a holding company in the national banking system, is there?

Mr. POLE. No.

Mr. BUSBY. If the holding companies become the managers of the banking interests of the country, they will be outside the management of the Comptroller and the Federal Reserve Board, will they not?

Mr. POLE. Not necessarily. Banks, regardless of where their stock is held, may be, and must be in the case of national banks, members of the Federal Reserve System.

Mr. BUSBY. I will suspend here, Mr. Chairman.

Mr. GOLDSBOROUGH. May I ask Mr. Pole one question? It is not controversial, and he can answer it.

Mr. Pole, there is about to be effected a merger between the Chase National Bank and the Equitable Trust Co. and another bank whose name has slipped my memory.

Mr. POLE. Interstate.

Mr. GOLDSBOROUGH. Yes. Was it necessary to get the consent of the Comptroller of the Currency to effect that merger?

Mr. POLE. Yes, sir.

Mr. GOLDSBOROUGH. And that consent was granted?

Mr. POLE. That consent will be granted.

The CHAIRMAN. Gov. Roy A. Young, of the Federal Reserve Board, is present, and I am going to suggest that when Governor Young begins his statement, he be not interrupted until he may so indicate.

Before hearing him, I would like to suggest that when we have completed with Governor Young, perhaps the next persons that should be heard before the committee are the members of these chains and groups. It seems to me that, as has been disclosed before the committee, the witnesses who can give us the most valuable detailed information in line with the scope of our hearings are the officers of the Transamerica group. From my knowledge of the management of that organization, it would seem to me that the two men we should have are Mr. A. P. Giannini, who was the originator of the plan and its president, and Mr. James A. Bacigalupi who, I believe, is director of the Bank of Italy. It may later develop that there are other men connected with that group whom it might be desirable for the committee to hear, and I would suggest that representatives of the St. Paul and Minneapolis group would probably be the next ones that the committee might profitably hear.

My purpose in bringing that up this morning is to ask the committee to authorize me to extend invitations to Mr. Giannini and Mr. Bacigalupi.

Mr. BEEDY. Mr. Chairman, before we proceed to that, these hearings have been very interesting indeed up to the present point, but the time is passing so rapidly and we do not seem yet to have made more than a start. The Senate is presently to finish with the tariff and to start its hearings, and we are losing, it seems to me, our position of vantage that we had.

This thought occurs to me that if we should start in with a man like Mr. Giannini, he will be here for three or four weeks and we will have completed an investigation of that particular subject and then it will be about time to wind up these hearings.

The CHAIRMAN. I do not think that is a correct statement.

Mr. BEEDY. It is an exaggerated statement; I concede that. I think if we could get some witnesses before the committee who could give us the basic facts with reference to group, chain and unit banking, it would not take us into such elaborate detail as Mr. Giannini's examination would be obliged to. We would then have the broad foundation laid for the examination of such a witness, whose testimony in the light of the facts then covered might be much curtailed.

The CHAIRMAN. I am interested in this group because there is included in their organization every form of banking that we are proposing to study, and inasmuch as that was the big movement in this country, practically the original movement of this new expanded idea, it seems to me that there is embodied in a study of that organization the elements that we should have before us.

Mr. BEEDY. Well, perhaps that may be so. I am simply interested in some method of procedure here that will enable us to get on with these hearings. I personally have not taken more than perhaps

three minutes in examining, and the motion I am about to make is not a reflection on anybody; it is just an observation and perhaps a necessity, and I would like to have the viewpoint of the committee on it.

For that purpose I want to move that hereafter each member of the committee be limited to 15 minutes in his examination of any witness. There are 21 members, and that will take up five hours and a quarter in the cross-examination of each witness. Of course, a good many of us will not want to use the 15 minutes and we can yield to others; that will be permissible.

Mr. GOLDSBOROUGH. This is probably by far the most economic question that the country is now interested in. Usually it is very difficult to get the public to take hold of a matter of this kind at all, because they do not understand it. As Mr. Beedy said, it seems to me that up to this time these hearings have been interesting, and very informative. Personally it does not make any difference to me if it takes six months or a year for the country to get a thorough understanding of just what this is all about and just what its future implications are. I do not see any reason why it should be hurried, as long as we do not waste any time. As far as I can see, up to this time there has been no time wasted, and I see no reason why a member of the committee who has an intelligent question to ask should be limited to any particular time. If in the future we should feel that we have to make some different arrangements, it seems to me that it will then be time enough to do it, but certainly as long as the inquiry is being confined to the subject matter and as long as there is no rancor and no partisanship of any kind injected into the hearings, as long as they are purely for the purpose of getting information, it seems to me it would be a great mistake to limit it in any way.

Mr. BEEDY. I want the committee to understand that I did not make that motion with the thought of hurrying these hearings at the expense of denying ourselves any of the facts that would be helpful. I thought there would be more of an inclination perhaps on the part of members to carefully prepare their questions and to avoid repetition, and the question is vast in scope unless we adopt some limitations.

The CHAIRMAN. The chairman had it in mind to consider the matter which Mr. Beedy has proposed and in which there is much merit. There is no desire on my part, however, to curtail any member of the committee who has questions pertinent to this inquiry that will bring forth necessary information; but I had in mind that when we had finished with Governor Young—considering Governor Young as one of the officials here in Washington whom the members of the committee would want to ask many questions to elicit information along the lines furnished by Mr. Pole, which I think has been very instructive and has involved no waste of time up to this point—a different situation will exist when we begin to hear these outside men, for the information secured from these men will be not only valuable to Mr. Pole but valuable to Governor Young, to the members of the Federal Reserve Board, to the Treasury, and to all the members of this committee.

I had hoped that when we had finished with Governor Young, the committee might have an executive session to discuss our further procedure, and I believe all the members of the committee will agree to that. If we could have an agenda of witnesses representing these various groups so that specific information could be secured from them, whether the questions are asked by the chairman or a member of the committee, I think that would be very helpful.

I am not in disagreement with what Mr. Beedy is proposing, but I think if this matter were not raised until after we had finished with Governor Young, it would be helpful to us in connection with the further procedure.

Mrs. PRATT. Is it not possible for the members of the committee to have the minutes of the hearings between the times we are actually engaged in the hearings? Is not one of the things that delays us quite a long time the repetition that we have?

The CHAIRMAN. Yes.

Mrs. PRATT. And I think if we could see those minutes in between times, it would be very helpful. I know that as far as I am concerned, many questions that I had were covered by others, and yet I could not remember how they were covered and I may have spent a great deal of time.

The CHAIRMAN. We are endeavoring as far as possible to print the minutes of each week's hearings immediately after they are closed.

While I am on the subject, I would like to suggest to the members of the committee that this printing is being greatly delayed because of the fact that the members of the committee desire to correct their questions in the stenographic transcript before it can be sent to the printer. The clerk of the committee is delayed in getting these minutes to the printer because every member wants to read these hearings for purposes of correction. So there has been some delay. Parts 1 and 2, however, are printed and, as soon as corrected, this last week's hearings will go to the printer this week.

I think it is very essential for the members of the committee to note carefully the testimony up to this time, in order to enable us properly to question the other witnesses who are coming before the committee. So I would like to stress that the members of the committee correct each week, as quickly as possible, the stenographic notes.

(Discussion off the record.)

Mr. BEEDY. Mr. Chairman, in order that we may clear the situation and get on with the hearing, there is a motion before the Chair, which I will now withdraw. I think it is wise to take up the matter in executive session, and I think it is well to have the members get the record and look it over, and then we can adopt some intelligent procedure.

Mr. LUCE. Mr. Chairman, I move that the members of the committee have three legislative days after the day of the hearing in which to correct their remarks.

Mr. GOLDSBOROUGH. Of course, Mr. Chairman, we have to have access to the record in order to do that.

The CHAIRMAN. The record will be available here in the committee room. The witness has one copy and there is only one other copy available, so that it will be available for the members of this committee in this room. This room is very convenient to the House, and the members will be expected to come here to make their corrections.

Mr. GOLDSBOROUGH. I second that motion.

(The motion was agreed to.)

The CHAIRMAN. I believe, Mr. Pole, you have some additional data you want to submit for the record in regard to holding companies.

Mr. POLE. I think everything is in the record, Mr. Chairman.

Mr. BEEDY. I was going to ask Mr. Pole if he has any record of bank failures in groups by congressional districts that he could put into the record.

Mr. POLE. Covering the United States?

Mr. BEEDY. Yes.

Mr. POLE. That could be prepared, Mr. Beedy, and I shall be glad to supply the record with that.

Mr. BEEDY. Then, I would ask the comptroller to make such a tabulation of bank failures and put it into the record.

Mr. POLE. State and national banks covering congressional districts of the United States?

Mr. BEEDY. Yes.

Mr. POLE. That will be done.

Mr. FORT. Will you make that in 4-year or 10-year periods?

Mr. POLE. Whatever the comparable periods are.

Mr. LUCE. I think that will be very difficult to carry out literally in some of the larger centers embracing several congressional districts. For instance, in Boston——

Mr. POLE. I think, Mr. Luce, the number of failures in Boston is so small that it will not make any real difference.

Mr. LUCE. Yes; but if there were a failure there, you might have difficulty in discovering whether it was embraced within the ninth or the tenth congressional district.

The CHAIRMAN. Was there printed in the record a list of chain and group systems?

Mr. POLE. Yes, sir; that has been furnished.

Mr. BEEDY. I should like to change my request so as to make that tabulation on the basis of metropolitan centers and congressional districts outside of the metropolitan centers. The reason for the change is that some cities embrace parts of four or five congressional districts. It will be almost impossible for you to draw the lines of the districts there.

The CHAIRMAN. That will be inserted in the record at this point.

(The information requested of Mr. Pole is here printed in full, as follows:)

Number of bank suspensions, by States, congressional districts, and years, 1921–1929

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Alabama	**32**	**1**	----	**2**	**10**	**5**	**2**	**1**	----	**11**
District No. 1—Mobile	1	----	----	----	----	----	----	1	----	----
District No. 2	3	1	----	----	1	1	----	----	----	----
Flomaton	1	----	----	----	1	----	----	----	----	----
Glenwood	1	----	----	----	----	1	----	----	----	----
Montgomery	1	1	----	----	----	----	----	----	----	----
District No. 3	9	----	----	1	3	1	----	----	----	4
Abbeville	2	----	----	----	1	----	----	----	----	1
Ariton	1	----	----	----	----	1	----	----	----	----
Eufaula	1	----	----	----	----	----	----	----	----	1
Newton	1	----	----	----	1	----	----	----	----	----
Ozark	1	----	----	----	1	----	----	----	----	----
Samson	1	----	----	----	----	----	----	----	----	1
Scale	1	----	----	1	----	----	----	----	----	----
Slocomb	1	----	----	----	----	----	----	----	----	1
District No. 4	2	----	----	----	----	2	----	----	----	----
Lincoln	1	----	----	----	----	1	----	----	----	----
Orrville	1	----	----	----	----	1	----	----	----	----
District No. 5	2	----	----	----	2	----	----	----	----	----
Fivepoints	1	----	----	----	1	----	----	----	----	----
Marbury	1	----	----	----	1	----	----	----	----	----
District No. 7	3	----	----	----	2	----	----	----	----	1
Fort Payne	1	----	----	----	1	----	----	----	----	----
Odenville	1	----	----	----	1	----	----	----	----	----
Valley Head	1	----	----	----	----	----	----	----	----	1
District No. 8	3	----	----	1	----	----	1	----	----	1
Athens	1	----	----	----	----	----	1	----	----	----
Florence	1	----	----	----	----	----	----	----	----	1
Madison	1	----	----	1	----	----	----	----	----	----
District No. 9	5	----	----	----	----	----	----	----	----	5
Birmingham	4	----	----	----	----	----	----	----	----	4
Leeds	1	----	----	----	----	----	----	----	----	1
District No. 10	4	----	----	----	2	1	1	----	----	----
Carrollton	1	----	----	----	1	----	----	----	----	----
Haleyville	2	----	----	----	----	1	1	----	----	----
Hodges	1	----	----	----	1	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Arizona: District No. 1	**27**	**6**	**4**	**9**	**3**	**3**	**1**	**1**	----	----
Bisbee	1	----	----	1	----	----	----	----	----	----
Clifton	1	----	----	1	----	----	----	----	----	----
Duncan	1	----	----	----	----	----	1	----	----	----
Florence	1	----	----	1	----	----	----	----	----	----
Jadsden	1	----	----	----	----	----	----	1	----	----
Jerome	1	----	----	----	----	1	----	----	----	----
Mayer	1	----	----	----	1	----	----	----	----	----
Metcalf	1	----	1	----	----	----	----	----	----	----
Parker	1	----	1	----	----	----	----	----	----	----
Patagonia	1	----	----	1	----	----	----	----	----	----
Peoria	2	1	1	----	----	----	----	----	----	----
Phoenix	2	1	1	----	----	----	----	----	----	----
Prescott	2	----	----	----	----	2	----	----	----	----
Ray	1	----	----	----	1	----	----	----	----	----
Safford	1	----	----	1	----	----	----	----	----	----
Saint Johns	1	----	----	1	----	----	----	----	----	----
Snowflake	2	1	----	1	----	----	----	----	----	----
Somerton	1	1	----	----	----	----	----	----	----	----
Tempe	1	----	----	1	----	----	----	----	----	----
Tombstone	1	1	----	----	----	----	----	----	----	----
Tucson	1	----	----	1	----	----	----	----	----	----
Wickenburg	1	1	----	----	----	----	----	----	----	----
Winslow	1	----	----	----	1	----	----	----	----	----
Arkansas	**95**	**5**	**4**	**5**	**11**	**8**	**19**	**18**	**14**	**11**
District No. 1	32	----	1	2	6	1	8	8	4	2
Black Oak	1	----	----	----	----	----	1	----	----	----
Blytheville	1	----	----	----	----	----	----	1	----	----
Brookland	1	----	----	----	----	----	----	----	----	1
Cotton Plant	2	----	1	----	----	----	----	1	----	----
Earl	1	----	----	----	1	----	----	----	----	----
Greenway	1	----	----	----	----	----	1	----	----	----
Harrisburg	2	----	----	----	----	----	----	1	1	----
Haynes	1	----	----	----	1	----	----	----	----	----
Helena	1	----	----	----	----	----	----	----	1	----
Joiner	1	----	----	1	----	----	----	----	----	----
Jonesboro	1	----	----	----	----	----	1	----	----	----
Lake City	1	----	----	----	----	----	----	----	----	1
Lepanto	1	----	----	----	----	----	----	1	----	----
Marianna	1	----	----	----	----	----	1	----	----	----
Marion	2	----	----	1	----	----	1	----	----	----
Marked Tree	2	----	----	----	1	----	1	----	----	----
Marmaduke	2	----	----	----	----	----	1	1	----	----
Moro	1	----	----	----	----	----	----	----	1	----
Nimmons	1	----	----	----	----	----	----	1	----	----
Osceola	1	----	----	----	----	----	----	----	1	----
Paragould	1	----	----	----	----	----	1	----	----	----
Parkin	2	----	----	----	1	1	----	----	----	----
Peach Orchard	1	----	----	----	----	----	----	1	----	----
Success	1	----	----	----	----	----	----	1	----	----
Vanndale	1	----	----	----	1	----	----	----	----	----
Walcott	1	----	----	----	1	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Arkansas—Contd.										
District No. 2	8	1			1	1	2	2	1	
Batesville	1							1		
Biscoe	1								1	
Black Rock	1	1								
Bradford	1					1				
Hazen	1				1					
Newport	1						1			
Strawberry	1							1		
Williford	1						1			
District No. 3	3						1	2		
Cotter	1							1		
Lincoln	1							1		
Lowell	1						1			
District No. 4	9	1	1	1	1	2	3			
Ashdown	1					1				
Dyer	2				1	1				
Foreman	1		1							
Hatfield	1			1						
Mineral Springs	1	1								
Mulberry	1						1			
Scranton	1						1			
Winthrop	1						1			
District No. 5	13	1			2		4	1	1	4
Altus	1									1
Belleville	1	1								
Clarksville	1									1
Coal Hill	2				1			1		
Dardanella	1						1			
Lamar	1									1
Little Rock	1						1			
London	1				1					
Morrillton	1						1			
Ozark	2						1			1
Viola	1								1	
District No. 6	15	1	1	1		3	1	5		3
Arkansas City	1							1		
Carlisle	2							1		1
De Witt	1									1
Gillett	1			1						
Lonoke	1							1		
McGehee	2	2						1		
Pine Bluff	2					1				1
Star City	1					1				
St. Charles	1		1							
Stuttgart	1						1			
Watson	1							1		
Wilmar	1					1				

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Arkansas—Contd.										
District No. 7	15	1	1	1	1	1	----	----	8	2
Camden	1	----	----	----	----	----	----	----	1	----
Columbus	1	----	----	----	----	----	----	----	----	1
Dermott	1	1	----	----	----	----	----	----	----	----
El Dorado	1	----	1	----	----	----	----	----	----	----
Fulton	1	----	----	----	1	----	----	----	----	----
Gurdon	1	----	----	----	----	----	----	----	1	----
Hampton	1	----	----	----	----	----	----	----	1	----
Hope	1	----	----	----	----	1	----	----	----	----
Louann	1	----	----	----	----	----	----	----	1	----
Montrose	1	----	----	----	----	----	----	----	----	1
Norphlet	1	----	----	----	----	----	----	----	1	----
Okolona	1	----	----	----	----	----	----	----	1	----
Smackover	1	----	----	----	----	----	----	----	1	----
Taylor	1	----	----	1	----	----	----	----	----	----
Thornton	1	----	----	----	----	----	----	----	1	----
California	31	3	6	2	2	3	5	6	----	4
District No. 1	4	----	3	----	1	----	----	----	----	----
Biggs	1	----	----	----	1	----	----	----	----	----
Colusa	1	----	1	----	----	----	----	----	----	----
Fort Bragg	2	----	2	----	----	----	----	----	----	----
District No. 2	2	----	1	----	----	----	----	----	----	1
Alturas	1	----	1	----	----	----	----	----	----	----
Cottonwood	1	----	----	----	----	----	----	----	----	1
District No. 3—Sacramento	2	1	----	----	1	----	----	----	----	----
District No. 7	10	1	----	----	----	2	4	3	----	----
Chowchilla	1	----	----	----	----	----	----	1	----	----
Clovis	1	----	----	----	----	1	----	----	----	----
Delano	1	----	----	----	----	----	----	1	----	----
Dinuba	2	----	----	----	----	----	1	1	----	----
Kingsburg	1	----	----	----	----	----	1	----	----	----
Livingston	1	----	----	----	----	----	1	----	----	----
Merced	1	----	----	----	----	----	1	----	----	----
Modesto	1	1	----	----	----	----	----	----	----	----
Riverbank	1	----	----	----	----	1	----	----	----	----
District No. 11	8	1	2	1	----	1	----	3	----	----
Bishop	2	----	----	----	----	----	----	2	----	----
Chino	1	----	----	1	----	----	----	----	----	----
Corona	1	----	----	----	----	1	----	----	----	----
Imperial	2	----	1	----	----	----	----	1	----	----
National City	1	1	----	----	----	----	----	----	----	----
Seeley	1	----	1	----	----	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
California—Contd.										
Hynes	1									1
Los Angeles	1									1
Watts	1			1						
South Pasadena	1									1
San Francisco	1						1			
Colorado	89	13	8	18	9	15	14	4	3	5
District No. 1—Denver	12	1		2		7	1		1	
District No. 2	39	7	2	11	4	4	7		2	2
Akron	2	1					1			
Amherst	1								1	
Arriba	1								1	
Bovina	2	1		1						
Brush	1						1			
Burlington	1			1						
Cheyenne Wells	1			1						
Dailey	1									1
Evans	1				1					
Flagler	1						1			
Fleming	1			1						
Fort Collins	1					1				
Gilcrest	1									1
Goodrich	1			1						
Greeley	2	1		1						
Grover	1				1					
Hudson	1			1						
Julesburg	1				1					
Keensburg	1	1								
Keota	1			1						
Kersey	1			1						
Lafayette	1	1								
Loveland	1					1				
Matheson	1						1			
Millikin	1						1			
New Raymer	1						1			
Orchard	1			1						
Otis	1						1			
Simla	1					1				
Snyder	1	1								
Sterling	3		1		1	1				
Stoneham	1	1								
Stratton	1			1						
Windsor	1		1							
District No. 3	22	4	4	2	4	2	3	3		
Aguilar	1							1		
Antonito	1				1					
Brandon	1						1			
Bristol	1		1							

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Colorado—Contd.										
District No. 3—Contd.										
Cheraw	1					1				
Granada	1					1				
Hasty	1			1						
Haswell	1							1		
Jarosa	1	1								
Lamar	1		1							
La Veta	1			1						
Mesita	1	1								
Monument	1				1					
Ordway	1	1								
Pueblo	1	1								
Rocky Ford	2				1		1			
San Acacio	2				1			1		
Sheridan Lake	1		1							
Springfield	1		1							
Trinidad	1						1			
District No. 4	16	1	2	3	1	2	3	1		3
Bayfield	1			1						
Clifton	1			1						
Delta	1									1
Fruita	1							1		
Gypsum	1					1				
Hayden	1						1			
Maybell	1			1						
Montrose	1		1							
Mount Streeter	1	1								
Norwood	1									1
Nucla	1		1							
Oak Creek	1						1			
Pagosa Springs	1						1			
Rifle	1					1				
Telluride	1									1
Walden	1				1					
Connecticut	2		1		1					
District No. 2—Putnam	1				1					
District No. 3—New Haven	1		1							
Delaware: District No. 1	2								1	1
Middletown	1								1	
Newport	1									1

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Florida	**190**	**5**	**5**	**4**	**3**	**1**	**43**	**31**	**35**	**63**
District No. 1	69	----	3	----	1	----	12	4	11	38
Auburndale	1	----	----	----	----	----	----	----	----	1
Avon Park	2	----	----	----	----	----	----	----	----	2
Bartow	2	----	----	----	----	----	----	----	----	2
Boca Grande	1	----	----	----	----	----	----	----	----	1
Bowling Green	1	----	----	----	----	----	----	----	----	1
Brandenton	1	----	----	----	----	----	----	----	----	1
Bushnell	1	----	----	----	----	----	1	----	----	----
Clermont	1	----	----	----	----	----	1	----	----	----
Coleman	1	----	----	----	----	----	----	----	1	----
Crystal River	1	----	----	----	----	----	----	----	----	1
Dade City	3	----	----	----	----	----	1	----	1	1
Dundee	1	----	----	----	----	----	----	----	----	1
Ellenton	2	----	----	----	----	----	----	----	1	1
Eustis	1	----	----	----	----	----	1	----	----	----
Frostproof	1	----	----	----	----	----	----	----	----	1
Fort Meade	1	----	----	----	----	----	----	----	----	1
Groveland	2	----	----	----	----	----	1	----	1	----
Haines City	1	----	----	----	----	----	----	----	----	1
Inverness	2	----	----	----	----	----	----	----	1	1
Lake Alfred	1	----	----	----	----	----	----	----	----	1
Lakeland	4	----	----	----	----	----	1	----	2	1
Lake Wales	1	----	----	----	----	----	----	----	----	1
Largo	1	----	----	----	----	----	----	1	----	----
Moore Haven	3	----	2	----	----	----	1	----	----	----
Mount Dora	2	----	----	----	----	----	1	----	1	----
Mulberry	1	----	----	----	----	----	----	----	----	1
Palmetto	1	----	----	----	----	----	----	1	----	----
Plant City	2	----	----	----	----	----	----	----	1	1
Port Tampa City	1	----	----	----	----	----	----	----	----	1
Punta Gorda	2	----	----	----	----	----	----	----	----	2
Safety Harbor	1	----	----	----	----	----	1	----	----	----
Sarasota	2	----	----	----	----	----	----	----	1	1
Sebring	2	----	----	----	----	----	----	----	----	2
St. Petersburg	1	----	----	----	----	----	1	----	----	----
Tampa	6	----	----	----	----	----	----	----	----	6
Tarpon Springs	1	----	1	----	----	----	----	----	----	----
Tavares	1	----	----	----	----	----	1	----	----	----
Trilby	1	----	----	----	1	----	----	----	----	----
Umatilla	1	----	----	----	----	----	1	----	----	----
Wauchula	3	----	----	----	----	----	----	----	----	3
Webster	2	----	----	----	----	----	----	2	----	----
Winter Haven	1	----	----	----	----	----	----	----	----	1
Zepyrhills	1	----	----	----	----	----	----	----	1	----
Zolfo Springs	1	----	----	----	----	----	----	----	----	1
District No. 2	26	1	1	3	2	----	6	5	4	4
Bronson	1	----	----	----	----	----	----	----	1	----
Callahan	1	----	1	----	----	----	----	----	----	----
Chiefland	1	----	----	----	----	----	----	----	----	1
Citra	1	----	----	----	----	----	----	----	1	----
Dunnelton	1	----	----	----	----	----	----	1	----	----
Gainesville	2	----	----	1	----	----	----	----	----	1
Hawthorn	1	----	----	----	----	----	----	----	----	1
Jennings	2	----	----	----	----	----	1	----	1	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Florida—Continued.										
District No. 2—Continued.										
Lake Butler	1						1			
Lake City	1						1			
Lawtey	1			1						
Live Oak	1						1			
Macclenny	1				1					
Madison	1						1			
Mayo	1	1								
McIntosh	1							1		
Micanopy	1							1		
Monticello	1						1			
Ocala	1								1	
Waldo	1									1
White Springs	1							1		
Williston	3			1	1			1		
District No. 3	7	1				1	3	1		1
Baker	2	1								1
Bonifay	1						1			
Cottondale	1						1			
Laurelhill	1							1		
Marianna	1						1			
Quincy	1					1				
District No. 4	88	3	1	1			22	21	20	20
Boca Raton	1								1	
Boynton	1								1	
Buena Vista	1						1			
Cocoa	2								1	1
Coconut Grove	1						1			
Crescent City	1						1			
Dania	1						1			
Daytona Beach	6						2	2		2
De Land	2									2
Delray	3						1	2		
Eau Gallie	1								1	
Fellsmere	1		1							
Fort Lauderdale	2						1		1	
Fort Pierce	1							1		
Hastings	1								1	
Homestead	2						1	1		
Jacksonville	5	2		1						2
Jacksonville Beach	1									1
Kilsey City	1								1	
Kissimme	2						1		1	
Lake Helen	1						1			
Lake Worth	2							2		
Little River	1						1			
Maitland	1							1		
Melbourne	2									2
Miami	6	1							4	1
Oakland	1						1			
Ocoee	1								1	
Okeechobee	3						1		1	1
Orlando	3							1		2

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Florida—Continued.										
District No. 4—Continued.										
Ormond	1									1
Palatka	3						2	1		
Palm Beach	2						1	1		
Sanford	2							1		1
Sebastian	1						1			
South Jacksonville	1							1		
St. Augustine	1									1
St. Cloud	3						1	1	1	
Stuart	4						1	1		2
Titusville	1								1	
Vero Beach	2							1	1	
West Palm Beach	8						2	4	2	
Winter Garden	2								1	1
Georgia	**319**	**56**	**14**	**11**	**29**	**31**	**102**	**18**	**26**	**32**
District No. 1	37	11	2	1	1	2	6	3	2	9
Claxton	1									1
Clyo	1	1								
Cobbtown	3	1						1		1
Dover	1						1			
Girard	2							1		1
Gough	1			1						
Guyton	2	1			1					
Hagan	1	1								
Ludowici	3	1				1				1
Metter	1								1	
Midville	1									1
Oliver	1						1			
Pulaski	1									1
Register	3	1					1			1
Reidsville	1							1		
Rocky Ford	2						1			1
Sardis	1									1
Savannah	7	4	2						1	
Springfield	1	1								
Waynesboro	2						2			
Woodcliff	1					1				
District No. 2	27	3		2	6	2	8	2	3	1
Albany	2				1				1	
Baconton	1								1	
Berlin	1	1								
Camilla	1				1					
Climax	1				1					
Cloquitt	4	1		1	1	1				
Doerun	2						2			
Donalsonville	2				1		1			
Ellenton	1							1		
Iron City	1							1		
Morgan	1			1						
Moultrie	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Georgia—Continued.										
District No. 2—Continued.										
Norman Park	1								1	
Oakfield	1	1								
Pavo	2				1		1			
Poulan	1									1
Sylvester	2					1	1			
Ty Ty	1						1			
Whigham	1						1			
District No. 3	37	7	1		3	3	13	3	4	3
Americus	2	1							1	
Ashburn	1						1			
Benevalence	1	1								
Brownwood	2	1	1							
Butler	3	1			1		1			
Byromville	1								1	
Conyers	1					1				
Cordele	3	1			1		1			
Cuthbert	1					1				
Leesburg	1						1			
Lilly	1								1	
Lumpkin	3	1					1			1
Oglethorpe	1						1			
Parrott	1									1
Plains	1						1			
Preston	1								1	
Rebecca	3	1					1	1		
Reynolds	1						1			
Richland	1						1			
Smithville	1						1			
Sycamore	2					1	1			
Unadilla	2				1			1		
Vienna	2						1	1		
Weston	1									1
District No. 4	25	4		1		2	13	3	2	
Bowdon	2	1					1			
Buena Vista	1					1				
Carrollton	2	1					1			
Chipley	1						1			
Cussetta	1						1			
Franklin	1					1				
Hamilton	1						1			
Hogansville	1								1	
Lagrange	1							1		
Lyerly	1						1			
Manchester	1						1			
Moreland	1						1			
Roopville	1						1			
Shiloh	2	1		1						
Temple	2						1		1	
Twin	1							1		
Villa Rica	1						1			
Warm Springs	2						1	1		
Waverly Hall	1	1								
Woodbury	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Georgia—Continued.										
District No. 5	14	1	3	----	1	----	7	----	1	1
Atlanta	7	----	1	----	----	----	5	----	----	1
Chamblee	1	----	1	----	----	----	----	----	----	----
Douglasville	1	----	----	----	----	----	----	----	1	----
East Point	1	----	----	----	----	----	1	----	----	----
Fairburn	1	----	----	----	1	----	----	----	----	----
Lithonia	1	----	1	----	----	----	----	----	----	----
Palmetto	1	----	----	----	----	----	1	----	----	----
Stone Mountain	1	1	----	----	----	----	----	----	----	----
District No. 6	16	1	----	----	----	2	5	2	3	3
Bradley	1	----	----	----	----	----	----	----	1	----
Brooks	1	----	----	----	----	1	----	----	----	----
Culloden	1	----	----	----	----	----	----	----	1	----
Hampton	2	----	----	----	----	1	1	----	----	----
Jackson	1	----	----	----	----	----	1	----	----	----
Locust Grove	1	----	----	----	----	----	----	----	----	1
Macon	1	----	----	----	----	----	----	----	1	----
McDonough	1	----	----	----	----	----	----	----	----	1
Milner	1	----	----	----	----	----	1	----	----	----
Roberta	1	----	----	----	----	----	----	1	----	----
Shady Dale	1	1	----	----	----	----	----	----	----	----
Stockbridge	1	----	----	----	----	----	1	----	----	----
Williamson	1	----	----	----	----	----	1	----	----	----
Woolsey	1	----	----	----	----	----	----	1	----	----
Yatesville	1	----	----	----	----	----	----	----	----	1
District No. 7	18	1	1	----	----	2	12	1	----	1
Adairsville	1	----	----	----	----	----	1	----	----	----
Bremen	1	----	----	----	----	----	----	----	----	1
Calhoun	1	----	----	----	----	----	1	----	----	----
Cassville	1	----	----	----	----	----	1	----	----	----
Dallas	1	----	----	----	----	----	1	----	----	----
Fair Mount	1	----	----	----	----	----	1	----	----	----
Hiram	1	----	----	----	----	----	1	----	----	----
Kingston	1	----	----	----	----	----	1	----	----	----
Marietta	1	----	1	----	----	----	----	----	----	----
Menla	1	----	----	----	----	----	1	----	----	----
Plainville	1	----	----	----	----	----	1	----	----	----
Powder Springs	1	----	----	----	----	----	1	----	----	----
Ringgold	1	----	----	----	----	----	----	1	----	----
Rockmart	1	----	----	----	----	----	1	----	----	----
Smyrna	1	----	----	----	----	----	1	----	----	----
Summerville	1	----	----	----	----	1	----	----	----	----
Tallapoosa	2	1	----	----	----	1	----	----	----	----
District No. 8	27	2	1	2	5	7	8	1	----	1
Arnoldsville	1	----	----	----	----	----	1	----	----	----
Athens	2	----	----	----	----	2	----	----	----	----
Bishop	1	----	----	----	1	----	----	----	----	----
Bogart	1	----	----	----	1	----	----	----	----	----
Bowersville	1	----	----	----	----	1	----	----	----	----
Bowman	1	1	----	----	----	----	----	----	----	----
Canon	2	----	----	1	1	----	----	----	----	----
Carlton	2	----	----	----	1	----	----	1	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Georgia—Continued.										
District No. 8—Continued.										
Carnesville	1				1					
Colbert	1						1			
Comer	1						1			
Elberton	2						2			
Godfrey	1	1								
Greensboro	1					1				
Hartwell	1						1			
Lavonia	1						1			
Loganville	2					1				1
Madison	1		1							
Royston	1						1			
Social Circle	1			1						
Washington	1					1				
White Plains	1					1				
District No. 9	41	8	3	3	5	4	11	3		4
Alpharetta	1						1			
Ball Ground	1						1			
Blue Ridge	1									1
Canton	1						1			
Clarksville	1						1			
Cleveland	1							1		
Commerce	1						1			
Cornelia	1						1			
Covington	1					1				
Crawford	1			1						
Cumming	2	1	1							
Dacula	1	1								
Dawsonville	1	1								
Duluth	1				1					
Eatonton	4	2	1							1
Flowery Branch	1				1					
Grayson	1				1					
Hiawassee	1						1			
Homer	1							1		
Lawrenceville	1			1						
Lexington	2					1	1			
Lula	1						1			
Mansfield	3	1	1							1
Maxeys	2					1				1
McCaysville	1	1								
Newborn	2	1			1					
Norcross	1			1						
Statham	1					1				
Watkinsville	1						1			
Winder	1				1					
Wrens	2						1	1		
District No. 10	22	5			2	3	5		1	6
Augusta	1	1								
Avera	1									1
Bartow	2						1			1
Davidsboro	1									1
Gordon	4	2					1		1	
Harrison	1									1
Louisville	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Georgia—Contd.										
District No. 10—Contd.										
Sandersville	2					1				1
Sparta	2	1			1					
Stapleton	1						1			
Tennille	1						1			
Thomson	1					1				
Wadley	1	1								
Warrenton	1					1				
Warthen	2				1					1
District No. 11	19	6		1	2	1	3		5	1
Adel	3					1			2	
Alapha	1						1			
Alma	2						1			1
Ambrose	1	1								
Blackshear	1	1								
Douglas	1	1								
Hahira	2								2	
Hazlehearst	1						1			
Milltown	1	1								
Naylor	1								1	
Nicholls	2	1		1						
Ocilla	1	1								
Pearson	1				1					
Valdosta	1				1					
District No. 12	36	7	3	1	4	3	11		5	2
Abbeville	1						1			
Adrian	1					1				
Alamo	2	1	1							
Alston	1	1								
Byron	1								1	
Cadwell	1								1	
Chauncey	1						1			
Chester	1						1			
Cochran	1						1			
Danville	1						1			
Dublin	2					1			1	
Eastman	3	1	1							1
Fort Valley	2				1				1	
Glenwood	1									1
Hawkinsville	1	1								
Helena	1				1					
Jeffersonville	1						1			
Kite	1						1			
Lovett	1				1					
Lumber City	1					1				
Norristown	1	1								
Pineview	1						1			
Rochelle	1						1			
Rockledge	1		1							
Scott	1			1						
Soperton	2						1		1	
Stillmore	2	1			1					
Swainsboro	1	1								
Wrightsville	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Hawaii	1	----	1	----	----	----	----	----	----	----
Idaho	72	23	8	10	7	8	4	7	2	3
District No. 1	27	8	2	3	2	2	3	4	----	3
Bonners Ferry	1	----	----	----	----	----	1	----	----	----
Caldwell	1	----	----	----	----	1	----	----	----	----
Cambridge	1	----	----	----	----	----	----	1	----	----
Coeur d'Alene	1	----	----	----	----	----	----	----	----	1
Council	1	----	----	----	----	----	1	----	----	----
Fruitland	1	----	1	----	----	----	----	----	----	----
Horse Shoe Bend	1	----	----	----	----	----	----	----	----	1
Jerome	1	----	----	1	----	----	----	----	----	----
Kamiah	1	1	----	----	----	----	----	----	----	----
Kooskia	1	1	----	----	----	----	----	----	----	----
Leadore	1	----	----	----	----	1	----	----	----	----
May	1	1	----	----	----	----	----	----	----	----
Middleton	1	----	----	----	----	----	----	1	----	----
Midvale	1	----	----	1	----	----	----	----	----	----
Nampa	2	----	----	1	----	----	----	1	----	----
New Plymouth	1	----	----	----	----	----	----	1	----	----
Nezperce	1	1	----	----	----	----	----	----	----	----
Orofino	1	1	----	----	----	----	----	----	----	----
Payette	1	----	1	----	----	----	----	----	----	----
Peck	1	1	----	----	----	----	----	----	----	----
Salmon	1	----	----	----	----	----	----	----	----	1
Stites	1	1	----	----	----	----	----	----	----	----
Weiser	2	----	----	----	2	----	----	----	----	----
Wilder	2	1	----	----	----	----	1	----	----	----
District No. 2	45	15	6	7	5	6	1	3	2	----
American Falls	1	----	----	1	----	----	----	----	----	----
Ashton	2	----	----	----	----	----	----	----	2	----
Bellevue	1	1	----	----	----	----	----	----	----	----
Blackfoot	1	----	----	1	----	----	----	----	----	----
Bliss	1	----	1	----	----	----	----	----	----	----
Boise	1	1	----	----	----	----	----	----	----	----
Bruneau	1	1	----	----	----	----	----	----	----	----
Buhl	2	1	----	----	----	1	----	----	----	----
Burley	4	4	----	----	----	----	----	----	----	----
Carey	1	----	----	----	1	----	----	----	----	----
Declo	1	1	----	----	----	----	----	----	----	----
Dubois	1	----	----	----	----	----	----	1	----	----
Eden	1	----	----	1	----	----	----	----	----	----
Gooding	1	----	----	----	----	1	----	----	----	----
Hailey	1	1	----	----	----	----	----	----	----	----
Hansen	1	----	1	----	----	----	----	----	----	----
Heyburn	1	----	1	----	----	----	----	----	----	----
Homedale	1	----	----	----	----	----	----	1	----	----
Idaho Falls	1	1	----	----	----	----	----	----	----	----
Meridian	1	----	----	----	----	----	----	1	----	----
Montpelier	2	----	----	----	1	1	----	----	----	----
Mountain Home	1	1	----	----	----	----	----	----	----	----
Murtaugh	1	----	1	----	----	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Idaho—Continued.										
District No. 2—Continued.										
Oakley	1						1			
Paul	1			1						
Pocatello	1	1								
Rexburg	2				1	1				
Rigby	2	1				1				
Ririe	1				1					
Rockland	1			1						
Rupert	3		1	2						
Shelley	1					1				
St. Anthony	2		1		1					
Wendell	1	1								
Illinois	**138**	**10**	**4**	**5**	**14**	**8**	**20**	**29**	**14**	**34**
District No. 6	13	2	2	3	1					5
Chicago	11	2	1	3	1					4
Franklin Park	1		1							
Oak Park	1									1
District No. 10—Waukegan	1						1			
District No. 11	4							1	1	2
Aurora	1							1		
Downers Grove	1								1	
Marengo	1									1
McHenry	1									1
District No. 12	5							1	2	2
Genoa	2									2
Oswego	1								1	
Rutland	1							1		
Winnebago	1								1	
District No. 13	7	2	1				1		2	1
Davis	1								1	
Dixon	1									1
Fenton	1						1			
Hanover	1	1								
Lyndon	1		1							
Prophetstown	1	1								
Stockton	1								1	
District No. 14	12	1			2	2	3	1	2	1
Aledo	1								1	
Augusta	1									1
Bardolph	1	1								
Biggesville	1						1			
East Moline	2				1	1				
Gladstone	1						1			
Matherville	1					1				

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Illinois—Continued.										
District No. 14—Continued.										
Rock Island	1							1		
Sherrard	1				1					
Stronghurst	1						1			
Viola	1								1	
District No. 15	8	2						4		2
Abingdon	1									1
Annawan	2	1						1		
Astoria	1							1		
Geneseo	1	1								
Hooppole	1							1		
Kewanee	1							1		
Maquon	1									1
District No. 17	13			1	3	1	3	4		1
Arlington	1							1		
Buda	1							1		
Chenoa	1					1				
Colfax	1			1						
East Peoria	1				1					
Fairbury	1							1		
Guthrie	1						1			
Le Roy	1				1					
Magnolia	1							1		
McLean	1				1					
Meadows	1						1			
Princeville	1									1
Toluca	1						1			
District No. 18	5					2			1	2
Chebanse	1									1
Grant Park	1								1	
Kankakee	1									1
Momence	1					1				
Neoga	1					1				
District No. 19	25	2		1	3	1	7	5	5	1
Allenville	1				1					
Arcola	2	1						1		
Blue Mound	1						1			
Champaign	1							1		
Cisco	1							1		
Cowden	1						1			
Decatur	1					1				
Deland	1				1					
Fisher	1							1		
Foosland	1						1			
Hindsboro	1						1			
Lakewood	1						1			
La Place	1								1	
Mansfield	1							1		
Mattoon	2				1		1			
Moweaqua	1								1	

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Illinois—Continued.										
District No. 19—Continued.										
Rantoul	1			1						
Sadorus	1						1			
Shelbyville	2								2	
Stewardson	1								1	
Sullivan	1	1								
Urbana	1									1
District No. 20	8				2		1	3		2
Bath	1						1			
Greenview	1							1		
Griggsville	1									1
Havana	1				1					
Kilbourne	1				1					
Jerseyville	1							1		
New Canton	1									1
New Salem	1							1		
District No. 21	13				1		1	3	1	7
Bulpitt	1									1
Edinbury	2									2
Farmerville	1							1		
Mt. Auburn	1				1					
Springfield	2							2		
Stonington	1								1	
Taylorville	3									3
Tamaroa	1						1			
Thomasville	1									1
District No. 22	5		1		1			1		2
Alhambra	1							1		
East St. Louis	1				1					
Troy	1									1
Venus	1									1
Woodriver	1		1							
District No. 23	3				1			1		1
Divide	1									1
Hunt	1				1					
Walnut Hill	1							1		
District No. 24	10	1				1	2	3		3
Bible Grove	2					1	1			1
Dahlgren	1									
Eldorado	1						1			
Galatea	1							1		
Harco	1							1		1
New Haven	1									
West End	1							1		1
West Salem	1									
Xenia	1	1								

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Illinois—Continued.										
District No. 25	6	----	----	----	----	1	1	2	----	2
Benton	2	----	----	----	----	----	----	1	----	1
Logan	1	----	----	----	----	1	----	----	----	----
Mankanda	1	----	----	----	----	----	1	----	----	----
Royalton	1	----	----	----	----	----	----	1	----	----
Sesser	1	----	----	----	----	----	----	----	----	1
Indiana	**115**	**7**	**7**	**7**	**4**	**10**	**7**	**25**	**24**	**24**
District No. 1	3	1	----	----	----	----	----	----	2	----
Dale	1	----	----	----	----	----	----	----	1	----
Fort Branch	1	----	----	----	----	----	----	----	1	----
Newburgh	1	1	----	----	----	----	----	----	----	----
District No. 2	13	1	----	----	1	----	1	----	5	5
Bloomfield	1	----	----	----	----	----	1	----	----	----
Brooklyn	1	----	----	----	----	----	----	----	1	----
Farmersburg	1	----	----	----	----	----	----	----	----	1
Hymera	1	----	----	----	----	----	----	----	----	1
Jasonville	1	----	----	----	----	----	----	----	----	1
Merom	1	----	----	----	----	----	----	----	1	----
Monroe City	1	----	----	----	----	----	----	----	1	----
Shelburn	1	----	----	----	----	----	----	----	----	1
Sullivan	2	1	----	----	----	----	----	----	1	----
Vincennes	2	----	----	----	1	----	----	----	1	----
Spencer	1	----	----	----	----	----	----	----	----	1
District No. 3	4	----	3	----	----	----	----	----	----	1
Corydon	2	----	2	----	----	----	----	----	----	----
Elizabeth	1	----	1	----	----	----	----	----	----	----
Huntingburg	1	----	----	----	----	----	----	----	----	1
District No. 4	8	----	1	3	----	1	----	----	2	1
Burney	2	----	1	----	----	----	----	----	1	----
Crothersville	2	----	----	2	----	----	----	----	----	----
Hope	2	----	----	1	----	----	----	----	----	1
Letts	1	----	----	----	----	1	----	----	----	----
Scipio	1	----	----	----	----	----	----	----	1	----
District No. 5	6	1	----	1	----	----	1	1	2	----
Bainbridge	1	----	----	----	----	----	----	1	----	----
Clinton	1	----	----	----	----	----	----	----	1	----
North Salem	1	----	----	1	----	----	----	----	----	----
Plainfield	1	----	----	----	----	----	----	----	1	----
Stilesville	1	1	----	----	----	----	----	----	----	----
Universal	1	----	----	----	----	----	1	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Indiana—Continued.										
District No. 6	3		1						1	1
Gwynneville	1								1	
Liberty	1									1
Richmond	1		1							
District No. 7	4	1						1	2	
Action	1								1	
Beech Grove	1	1								
Indianapolis	2							1	1	
District No. 8	15		1	2		3	1	2	1	5
Bluffton	3							1		2
Dunkirk	1		1							
Geneva	2					1			1	
Keystone	1					1				
Liberty Center	1									1
Markleville	1							1		
Petroleum	1									1
Portland	1						1			
Redkey	2			2						
Tocsin	1					1				
Uniondale	1									1
District No. 9	14					2	1	5	4	2
Arcadia	1								1	
Attica	1								1	
Colfax	1					1				
Darlington	1							1		
Delphi	1								1	
Flora	1							1		
Kirklin	1							1		
Kokomo	1							1		
Ladoga	1							1		
Linnsburg	1					1				
Noblesville	2						1		1	
Rosston	1									1
Whitestown	1									1
District No. 10	11	2		1		1	1	2	2	2
Ambia	1	1								
Gary	1	1								
Hobart	2					1				1
Kentland	1			1						
Kouts	1							1		
La Fayette	1							1		
Monon	1									1
Monticello	1						1			
Williamsport	1								1	
Wolcott	1								1	

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Indiana—Continued.										
District No. 11	11	----	----	----	1	2	----	5	1	2
Bunker Hill	1	----	----	----	----	----	----	1	----	----
Galveston	1	----	----	----	----	----	----	1	----	----
Hartford City	1	----	----	----	----	1	----	----	----	----
Huntington	1	----	----	----	1	----	----	----	----	----
La Fontaine	1	----	----	----	----	1	----	----	----	----
Matthews	1	----	----	----	----	----	----	----	----	1
Medaryville	1	----	----	----	----	----	----	1	----	----
Montpelier	1	----	----	----	----	----	----	----	----	1
Onward	1	----	----	----	----	----	----	1	----	----
Wabash	1	----	----	----	----	----	----	1	----	----
Warren	1	----	----	----	----	----	----	----	1	----
District No. 12	13	1	----	----	1	1	2	6	----	2
Angola	1	----	----	----	----	----	----	1	----	----
Churubusco	2	----	----	----	----	----	1	1	----	----
Columbia City	2	----	----	----	----	----	----	1	----	1
Corunna	1	----	----	----	----	----	----	1	----	----
Fort Wayne	1	----	----	----	----	1	----	----	----	----
Grabill	1	----	----	----	----	----	----	1	----	----
Hoagland	1	----	----	----	----	----	----	----	----	1
Huntertown	1	1	----	----	----	----	----	----	----	----
Lagrange	1	----	----	----	----	----	----	1	----	----
Mongo	1	----	----	----	----	----	1	----	----	----
Yoder	1	----	----	----	1	----	----	----	----	----
District No. 13	10	----	1	----	1	----	----	3	2	3
Argos	1	----	----	----	----	----	----	----	----	1
Claypool	1	----	----	----	----	----	----	----	1	----
Lakeville	1	----	----	----	----	----	----	1	----	----
Milford	1	----	----	----	1	----	----	----	----	----
Millersburg	1	----	----	----	----	----	----	----	----	1
North Liberty	1	----	----	----	----	----	----	1	----	----
Sidney	1	----	----	----	----	----	----	1	----	----
South Bend	2	----	----	----	----	----	----	----	1	1
Tippecanoe	1	----	1	----	----	----	----	----	----	----
Iowa	**528**	**24**	**12**	**35**	**83**	**84**	**135**	**70**	**51**	**34**
District No. 1	30	1	1	2	6	1	3	6	9	1
Batavia	2	----	----	----	----	1	----	----	1	----
Birmingham	1	----	----	----	----	----	----	----	1	----
Bonaparte	1	----	----	----	----	----	----	----	1	----
Brighton	1	----	----	----	1	----	----	----	----	----
Columbus Junction	3	----	----	----	----	----	1	2	----	----
Douds	1	----	----	----	----	----	----	----	1	----
East Pleasant Plains	1	----	----	----	----	----	1	----	----	----
Farmington	1	----	----	----	----	----	----	----	1	----
Fort Madison	1	----	----	----	----	----	----	----	----	1
Keosawqua	1	----	----	----	----	----	----	----	1	----
Kingston	1	----	----	----	----	----	----	1	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Iowa—Continued.										
District No. 1—Continued.										
Letts	1				1					
Lockridge	1				1					
Morning Sun	1						1			
Mount Pleasant	1				1					
Mount Sterling	1								1	
Oakville	1								1	
Riverside	3			2				1		
Rome	1	1								
Stockport	2		1		1					
Wapello	1							1		
Washington	1				1					
West Point	1								1	
Yarmouth	1							1		
District No. 2	25	3	2	2	2	3	2	3	6	2
Bellevue	3		2						1	
Charlotte	1				1					
Conesville	1									1
Davenport	1					1				
Grandmound	2			1			1			
Iowa City	1					1				
Lost Nation	1				1					
Low Moor	1								1	
Maquoketa	1	1								
Marengo	3							1	2	
McCausland	1			1						
North English	1								1	
North Liberty	1	1								
Oxford	1									1
Parnell	1							1		
Preston	1						1			
Sabula	1							1		
Sprague ville	1	1								
Swisher	1					1				
Victor	1								1	
District No. 3	40	1	2	1	6	11	5	3	6	5
Aredale	1							1		
Aurora	1								1	
Cleves	1				1					
Dyersville	1				1					
Eagle Grove	1					1				
Frederika	1					1				
Goldfield	2						2			
Greene	1							1		
Hazleton	1					1				
Holy Cross	1					1				
Hopkinton	2								1	1
Hudson	1						1			
Jesup	1					1				
Lamont	1	1								
Laporte City	1								1	
Manchester	2				1					1
Masonville	1					1				

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Iowa—Continued.										
District No. 3—Continued.										
New Hartford	1						1			
New Vienna	1					1				
Owasa	1		1							
Parkersburg	2				1		1			
Peosta	1									1
Quasqueton	1								1	
Ryan	1							1		
Sheffield	2		1	1						
Shellrock	1					1				
Sherrill	1				1					
Stanley	1					1				
Sumner	1								1	
Tripoli	1									1
Union	1									1
Waterloo	2					2				
Winthrop	1								1	
Zwingle	1				1					
District No. 4	48	2		1	7	13	13	4	4	4
Alta Vista	1									1
Arlington	1								1	
Bassett	1						1			
Cartersville	1				1					
Charles City	1					1				
Chester	2			1	1					
Elma	3						2	1		
Fertile	1									1
Fredericksburg	2						2			
Grafton	1	1								
Hawkeye	1							1		
Ionia	1						1			
Lansing	1									1
Manly	2					1	1			
Marble Rock	1				1					
Mason City	3				1	2				
Nashua	1							1		
New Albin	1								1	
New Hampton	4				1	1	2			
Oelwein	1						1			
Osage	1						1			
Plymouth	1					1				
Quadahl	1								1	
Riceville	1						1			
Rockford	2				1					1
Rossville	2				1	1				
Strawberry Point	1								1	
Swaledale	1	1								
Thornton	1						1			
Ventura	1					1				
Waterville	2					2				
Waukon	4					3		1		

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Iowa—Continued.										
District No. 5	26				3	3	8	8	2	2
Alburnet	1							1		
Belle Plaine	1							1		
Central City	2					1	1			
Chelsea	1							1		
Clutier	1							1		
Dike	1								1	
Fairfax	1				1					
Garwin	1						1			
Haverhill	1				1					
Legrand	1							1		
Marshalltown	2						1		1	
Newhall	1					1				
Norway	1							1		
Oxford Juntion	1									1
Rhodes	1						1			
St. Anthony	1						1			
Stout	1				1					
Tama	2						2			
Toledo	1						1			
Troy Mills	1									1
Vinton	1					1				
Walker	2							2		
District No. 6	27	1			6	6	7	3	1	3
Barnes City	1									1
Brooklyn	1					1				
Deep River	1						1			
Eddyville	1					1				
Farson	1						1			
Fremont	1						1			
Grinnell	2				1	1				
Harper	1	1								
Hartwick	1							1		
Hedrick	3					2	1			
Kellogg	1					1				
Keswick	2				1			1		
Lovilia	1						1			
Malcom	2				1			1		
Martinsburg	1						1			
Montezuma	1									1
New Sharon	1								1	
Ollie	1						1			
Searsboro	1				1					
Sigourney	1				1					
What Cheer	2				1					1
District No. 7	36	1	2	2	8	6	10	5	1	1
Bouton	2			1		1				
Cambridge	1						1			
Collins	1				1					
Colo	2						1			1
Des Moines	7	1			5		1			
De Soto	1						1			
Dexter	1				1					

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Iowa—Continued.										
District No. 7—Continued.										
Elkhart	1						1			
Indianola	1						1			
Knoxville	1						1			
Lacona	1		1							
Liberty Center	1							1		
Linden	1					1				
Melcher	1		1							
Milo	1						1			
Nevada	2							2		
Perry	3					3				
Pershing	1								1	
Pleasantville	1					1				
Redfield	1				1					
Sheldahl	1						1			
St. Marys	1							1		
Story City	1						1			
Swan	1			1						
Tracy	1							1		
District No. 8	33	1		1	9	7	4	6	3	2
Afton	2				1			1		
Allerton	2				1	1				
Arispe	1							1		
Athelstan	1					1				
Bartlett	1							1		
Bedford	1									1
Braddyville	1				1					
Clarinda	1						1			
Clearfield	1									1
Clio	1								1	
Corydon	2			1			1			
Creston	1				1					
Davis City	1	1								
Decatur	1						1			
Derby	1								1	
Garden Grove	1				1					
Hamburg	2				2					
Lamoni	1				1					
Leon	2				1			1		
Lineville	2					1		1		
Moulton	1							1		
Osceola	1					1				
Pleasanton	1					1				
Sewal	1					1				
Shenandoah	1						1			
Udell	1								1	
Woodburn	1					1				
District No. 9	41	2	1	10	9	4	8	2	2	3
Adair	1						1			
Anita	2	1		1						
Atlantic	1				1					
Aububon	1			1						
Avoca	1									1
Bagley	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Iowa—Continued.										
District No. 9—Continued.										
Bayard	3			1		1	1			
Bridgewater	1				1					
Carson	1							1		
Cumberland	1						1			
Dunlap	1					1				
Elliott	2	1				1				
Glenwood	1						1			
Griswold	1									1
Greenfield	1								1	
Lewis	1				1					
Logan	4			3					1	
Magnolia	1				1					
Malvern	1						1			
Marne	1				6					
Massena	2		1			1				
Menlo	1			1						
Mondamin	1			1						
Neola	1							1		
Panora	1						1			
Red Oak	2				1					1
River Sioux	1				1					
Stuart	2				1		1			
Treynor	1			1						
Walnut	1			1						
Wiota	1				1					
District No. 10	130	2	2	10	16	18	49	17	11	5
Algona	6				1		3	2		
Arion	1							1		
Armstrong	1						1			
Ayrshire	1					1				
Bancroft	3				1		1	1		
Barnum	1									1
Beaver	1			1						
Berkley	2					2				
Blairsburg	1								1	
Bode	1				1					
Boyer	1				1					
Bradgate	1				1					
Britt	2					1	1			
Buckgrove	1								1	
Calmar	1									1
Churdon	1						1			
Clare	1							1		
Coon Rapids	1					1				
Cooper	1					1				
Corwith	1				1					
Curlew	1	1								
Cylinder	1						1			
Dayton	1							1		
Decorah	1				1					
Dedham	2			1		1				
Denison	4				3		1			
Dolliver	2			1			1			
Dow City	1				1					

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Iowa—Continued.										
District No. 10—Continued.										
Duncombe	1						1			
Emmettsburg	5	1					2	1		1
Estherville	5			1		1	3			
Farlin	1							1		
Farnhamville	1								1	
Fenton	2						2			
Fonda	1								1	
Forest City	2					1			1	
Fort Dodge	1					1				
Garner	1					1				
Gilmore City	1						1			
Graettlinger	1						1			
Gruver	1						1			
Havelock	1							1		
Hayfield	1								1	
Humboldt	2						2			
Huntington	1						1			
Jefferson	5		1	1		2	1			
Kiron	1									1
Klemme	1					1				
Lake Mills	2							2		
Lakota	1						1			
Lehigh	1						1			
Leland	1					1				
Lidderdale	2		1					1		
Lonerock	1						1			
Luther	1						1			
Luverne	1						1			
Mallard	2						1	1		
Manilla	1					1				
Manning	2			2						
Miller	1				1					
Napier	1				1					
Otho	1					1				
Ottosen	1						1			
Palmer	1								1	
Pocahontas	2						2			
Randall	1						1			
Renwick	2						1	1		
Rinard	1								1	
Ringsted	4			1			2		1	
Rippey	1						1			
Rodman	1						1			
Rolfe	1								1	
Ruthven	2						1			1
Schleswig	1						1			
Swea City	4						2	2		
Thompson	1						1			
Vail	2				1			1		
Webster City	2						2			
Wesley	1								1	
West Bend	2				1		1			
Westside	2			2						
Whittemore	2						2			
Yetter	1				1					

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Iowa—Continued.										
District No. 11	92	10	2	6	11	12	26	13	6	6
Alta	2						2			
Alton	1					1				
Alvord	1						1			
Anthon	2									2
Arthur	2				2					
Ashton	1					1				
Auburn	1							1		
Battle Creek	1				1					
Brunsville	1									1
Castana	1				1					
Cherokee	1		1							
Danbury	1				1					
Doon	1								1	
Early	1							1		
Everly	1						1			
Fostoria	1						1			
George	1						1			
Greenville	1						1			
Harris	3	1			1		1			
Hartley	3						1	2		
Hawarden	2							2		
Holstein	1								1	
Hospers	1							1		
Idagrove	1					1				
Inwood	1							1		
Ireton	1					1				
Kingsley	1					1				
Lake Park	1				1					
Langdon	1						1			
Larrabee	1						1			
Lawton	1	1								
Le Mars	1					1				
Linn Grove	1						1			
Little Rock	1						1			
Lytton	1								1	
Marathon	1	1								
Marcus	1	1								
Matlock	1							1		
Melvin	1									1
Merrill	1									1
Milford	2	1					1			
Moneta	1						1			
Montgomery	1						1			
Nemaha	1					1				
Odebolt	2					1		1		
Onawa	1	1								1
Oto	2	1								
Paullina	1						1			
Pierson	2					1			1	
Quimby	1			1						
Rock Rapids	1				1					
Royal	1						1			
Sac City	3					2			1	
Sanborn	1				1					
Sheldon	1							1		

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Iowa—Continued.										
District No 11—Continued.										
Sibley	1		1							
Sioux City	5	2		1	1	1				
Sioux Rapids	1						1			
Smithland	1			1						
Spencer	3						2	1		
Spirit Lake	1						1			
Superior	2			1				1		
Sutherland	1			1						
Terril	2						2			
Ulmer	1	1								
Ute	2						1		1	
Washta	1				1					
Webb	1						1			
Westfield	1			1						
Kansas	**223**	**14**	**20**	**34**	**16**	**19**	**46**	**36**	**26**	**12**
District No. 1	**15**	1	2			1	4	2	3	2
Arrington	1		1							
Cummings	2	1							1	
Holton	1							1		
Lansing	1						1			
Leavenworth	1		1							
Linnwood	1						1			
Oneida	1									1
Powhattan	1									1
Rossville	1							1		
Sebetha	1								1	
Seneca	1								1	
Tonganoxie	1					1				
Topeka	1						1			
Wetmore	1						1			
District No. 2	**26**	3	1	3	3	2	5	5	2	2
Blue Mound	1					1				
Centropolis	1									1
Colony	1						1			
Eudora	1			1						
Fort Scott	1							1		
Garnett	2				1			1		
Kansas City	6	1			1		2	1	1	
La Cygne	1									1
Lane	1			1						
Lawrence	1								1	
Le Loup	1	1								
Moran	1				1					
Olathe	1						1			
Osawatomie	3		1	1		1				
Rantoul	1						1			
Spring Hill	2	1						1		
Zarah	1							1		

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Kansas—Continued.										
District No. 3	40	2	4	6	3	----	13	10	1	1
Altamont	1	----	----	----	----	----	----	1	----	----
Altoona	1	----	----	----	----	----	1	----	----	----
Angola	1	----	----	----	----	----	----	1	----	----
Arkansas City	1	----	1	----	----	----	----	----	----	----
Arma	1	----	----	----	----	----	----	1	----	----
Bartlett	1	----	----	1	----	----	----	----	----	----
Chanute	1	----	----	----	----	----	1	----	----	----
Chautauqua	1	----	----	1	----	----	----	----	----	----
Cherokee	1	----	----	----	----	----	----	1	----	----
Cherryvale	1	----	----	1	----	----	----	----	----	----
Chetopa	1	----	1	----	----	----	----	----	----	----
Coffeyville	2	1	----	----	----	----	----	1	----	----
Dennis	1	----	----	----	----	----	1	----	----	----
Earleton	1	----	----	----	----	----	1	----	----	----
Elgin	1	----	----	1	----	----	----	----	----	----
Elk Falls	1	----	----	----	----	----	1	----	----	----
Farlington	1	----	----	----	1	----	----	----	----	----
Frontenac	1	----	----	----	----	----	1	----	----	----
Girard	1	----	----	----	----	----	----	----	----	1
Hallowell	1	----	----	1	----	----	----	----	----	----
Havana	1	----	----	1	----	----	----	----	----	----
Hewins	1	----	----	----	----	----	1	----	----	----
Kimbal	1	----	----	----	----	----	1	----	----	----
Labette	1	----	1	----	----	----	----	----	----	----
Longton	1	----	----	----	----	----	----	----	1	----
McCune	1	1	----	----	----	----	----	----	----	----
Moline	1	----	----	----	----	----	1	----	----	----
Mound Valley	2	----	----	----	----	----	----	2	----	----
Mulberry	2	----	----	----	----	----	1	1	----	----
New Albany	1	----	----	----	----	----	1	----	----	----
Opolis	1	----	----	----	----	----	----	1	----	----
Oswego	2	----	1	----	1	----	----	----	----	----
Parsons	1	----	----	----	1	----	----	----	----	----
Pittsburg	1	----	----	----	----	----	----	1	----	----
Thayer	1	----	----	----	----	----	1	----	----	----
Valeda	1	----	----	----	----	----	1	----	----	----
District No. 4	31	----	2	5	4	4	5	4	5	2
Belvue	1	----	----	----	----	1	----	----	----	----
Burlingame	2	----	1	1	----	----	----	----	----	----
Burlington	2	----	----	----	1	----	----	1	----	----
Burns	1	----	----	----	----	----	----	1	----	----
Cottonwood Falls	1	----	----	----	----	----	----	----	1	----
Council Grove	1	----	----	----	----	----	----	1	----	----
Delavan	1	----	----	----	----	----	----	----	----	1
Dunlap	1	----	----	----	----	1	----	----	----	----
Dwight	1	----	----	----	1	----	----	----	----	----
Emmett	1	----	----	----	----	----	1	----	----	----
Florence	1	----	----	----	1	----	----	----	----	----
Gridley	1	----	----	1	----	----	----	----	----	----
Halls Summit	1	----	----	1	----	----	----	----	----	----
Hartford	1	----	----	----	----	----	----	----	1	----
Harveyville	1	----	----	----	----	1	----	----	----	----
Lebo	1	----	----	----	1	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Kansas—Continued.										
District No. 4—Continued.										
Lehigh	1							1		
Lyndon	1								1	
Madison	1									1
Neosho Rapids	1								1	
Olivet	1			1						
Quenemo	1		1							
Scranton	1					1				
Severy	1								1	
Vernon	1			1						
Wamego	1						1			
Waverly	1						1			
Westmoreland	2						2			
District No. 5	17	3	3	1		3	2	3	1	1
Ada	1							1		
Assaria	1	1								
Barnes	1					1				
Clifton	1						1			
Haddam	1					1				
Hanover	1		1							
Hope	2		1			1				
Manhattan	2	1							1	
Minneapolis	1									1
New Cambria	1							1		
Salina	1	1								
Summerfield	1							1		
Washington	1		1							
Wells	1			1						
Winfred	1						1			
District No. 6	42	1		7	1	3	13	3	13	1
Atwood	1								1	
Beloit	1			1						
Bird City	2			1					1	
Cedar	2			1		1				
Covert	1								1	
Damar	1						1			
Ellsworth	1						1			
Esbon	1						1			
Gove	1									1
Hays	1						1			
Kanona	1						1			
Kanopolis	1					1				
Kanorado	1	1								
Kensington	1								1	
Kirwin	2			1			1			
Lovewell	1							1		
Ludell	1								1	
Marysville	1				1					
McDonald	2			1					1	
Osborne	1								1	
Otego	1						1			
Phillipsburg	2								2	

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Kansas—Continued.										
District No. 6—Continued.										
Plainville	2						1		1	
Quinter	1							1		
Randall	1						1			
Scottville	1			1						
Smith Center	1			1						
Stockton	2						1	1		
Tipton	1								1	
Walker	1						1			
Webster	1						1			
Wheeler	1								1	
Wilson	1					1				
Woodston	1						1			
Zurich	1								1	
District No. 7	33	2	5	9	2	3	2	8		2
Adams	1			1						
Anthony	1							1		
Belmont	1		1							
Belpre	1			1						
Bloom	1			1						
Claflin	1									1
Cunningham	3		1	1		1				
Elkhart	1							1		
Englevale	1							1		
Ford	1									1
Garden City	1				1					
Geneseo	1					1				
Greensburg	1			1						
Harper	1		1							
Horace	1							1		
Hutchinson	1			1						
Kingman	2				1			1		
Lake City	1	1								
Langdon	1			1						
Larned	1		1							
McCracken	1							1		
Minneola	1			1						
Partridge	1						1			
Pawnee Rock	1	1								
Pierceville	1							1		
Runnymede	1		1							
Saxman	1						1			
Tribune	1							1		
Wright	1			1						
Zenda	1					1				
District No. 8	19	2	3	3	3	3	2	1	1	1
Andale	1		1							
Argonia	1			1						
Belle Plaine	1					1				
Caldwell	1								1	
Clearwater	1							1		
Eldorado	2			1	1					
Geuda Springs	1		1							
Goddard	1					1				

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Kansas—Continued.										
District No. 8—Continued.										
Groveland	1				1					
Mulvane	1						1			
Newton	1									1
Peck	1					1				
Riverdale	1				1					
Viola	1	1								
White Water	1	1								
Wichita	3		1	1			1			
Kentucky	**43**	**3**	**2**	**3**	**6**	**7**	**6**	**7**	**7**	**2**
District No. 1	5	1		2					1	1
Hickman	1									1
Lovelaceville	1								1	
Moscow	1	1								
Paducah	1			1						
Tolu	1			1						
District No. 2	3					1	1	1		
Calhoun	1						1			
Henderson	1							1		
White Plains	1					1				
District No. 3—Morgantown	1								1	
District No. 4	7				2	1	4			
Elk Horn	1					1				
Glendale	1				1					
Hardysville	1				1					
Hartford	1						1			
Horse Cave	1						1			
Lebanon Junction	1						1			
Rockport	1						1			
District No. 7	2				2					
Stamping Ground	1				1					
Sulphur	1				1					
District No. 8	10	2	2		1	1	1	2		1
Bryantsville	1					1				
Casey Creek	1				1					
Cornishville	1							1		
Cropper	1	1								
Junction City	1		1							
Perryville	1		1							
Salvisa	1	1								
Shelbyville	1							1		
Taylorville	1									1
Wilmore	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Kentucky—Contd.										
District No. 9	8				1	2		4	1	
Boyd	1					1				
Brooksville	1				1					
Greenup	1							1		
Maysville	1							1		
Milford	1							1		
Morehead	1								1	
Sandy Hook	1					1				
Sunrise	1							1		
District No. 10	5					1			4	
Blackey	1								1	
Bond	1					1				
Hazard	1								1	
Himlerville	1								1	
Lothair	1								1	
District No. 11	2					1	1			
Evarts	1					1				
Fountain Run	1			1						
Louisiana	34	7	4	4	2	3	8	4	2	
District No. 2	3			2					1	
Edgard	1			1						
Gretna	1								1	
Hahnville	1			1						
District No. 3	6				1		4	1		
Abbeville	1						1			
Delcambre	1				1					
Franklin	1						1			
Houma	1							1		
Jeanerette	1						1			
Lockport	1						1			
District No. 4	4	1		1		1			1	
Cotton Valley	1					1				
Mooringsport	1								1	
Plain Dealing	1	1								
Sibley	1			1						
District No. 5	6	2	3				1			
Monroe	1		1							
Newellton	1	1								
Oak Grove	1		1							
Rayville	1						1			
Simsboro	1		1							
Water Proof	1	1								

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Louisiana—Contd.										
District No. 6	4	----	----	----	----	----	1	3	----	----
Lottie	1	----	----	----	----	----	----	1	----	----
Morganza	1	----	----	----	----	----	----	1	----	----
New Roads	1	----	----	----	----	----	1	----	----	----
White Castle	1	----	----	----	----	----	----	1	----	----
District No. 7	6	2	----	----	1	2	1	----	----	----
Crowley	1	----	----	----	----	----	1	----	----	----
De Ridder	1	1	----	----	----	----	----	----	----	----
Eunice	2	1	----	----	----	1	----	----	----	----
Iota	1	----	----	----	1	----	----	----	----	----
Oakdale	1	----	----	----	----	1	----	----	----	----
District No. 8	5	2	1	1	----	----	1	----	----	----
Dodson	1	----	1	----	----	----	----	----	----	----
Florien	1	----	----	1	----	----	----	----	----	----
Leesville	1	1	----	----	----	----	----	----	----	----
Marthaville	1	1	----	----	----	----	----	----	----	----
Sikes	1	----	----	----	----	----	1	----	----	----
Maine	**3**	----	**1**	**1**	----	----	----	**1**	----	----
District No. 2—Wiscosset	1	----	----	1	----	----	----	----	----	----
District No. 3—Belfast	2	----	1	----	----	----	----	1	----	----
Maryland	**11**	**5**	**2**	----	----	**2**	----	----	**1**	**1**
District No. 1	2	1	1	----	----	----	----	----	----	----
Elkton	1	----	1	----	----	----	----	----	----	----
Whitehaven	1	1	----	----	----	----	----	----	----	----
District No. 2—Union Bridge	1	----	1	----	----	----	----	----	----	----
District No. 5—Seat Pleasant	2	1	----	----	----	----	----	----	----	1
District No. 6	2	1	----	----	----	----	1	----	----	----
Emmitsburg	1	1	----	----	----	----	----	----	----	----
Hagerstown	1	----	----	----	----	1	----	----	----	----
Baltimore	4	2	----	----	----	1	----	----	1	----
Massachusetts	**6**	**5**	----	**1**	----	----	----	----	----	----
District No. 11—Boston	5	5	----	----	----	----	----	----	----	----
District No. 13—Warren	1	----	----	1	----	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Michigan	**66**	**8**	**4**	**3**	**7**	**5**	**23**	**7**	----	**9**
District No. 2	3	1	----	----	----	----	----	----	----	2
Britton	1	----	----	----	----	----	----	----	----	1
Tecumseh	1	----	----	----	----	----	----	----	----	1
Temperance	1	1	----	----	----	----	----	----	----	----
District No. 3	2	----	----	----	----	1	----	----	----	1
Grand Ledge	1	----	----	----	----	1	----	----	----	----
Tekonsha	1	----	----	----	----	----	----	----	----	1
District No. 4	7	2	1	----	1	----	2	1	----	----
Allegan	1	----	----	----	----	----	----	1	----	----
Dorr	1	----	----	----	----	----	1	----	----	----
Edwardsburg	1	----	----	----	----	----	1	----	----	----
Hartford	1	1	----	----	----	----	----	----	----	----
Jones	1	1	----	----	----	----	----	----	----	----
Marcellus	1	----	1	----	----	----	----	----	----	----
Vandalia	1	----	----	----	1	----	----	----	----	----
District No. 5	4	3	----	----	1	----	----	----	----	----
Ada	1	1	----	----	----	----	----	----	----	----
Elinira	1	----	----	----	1	----	----	----	----	----
Grand Rapids	2	2	----	----	----	----	----	----	----	----
District No. 6	3	----	----	----	----	1	1	----	----	1
Detroit	1	----	----	----	----	----	1	----	----	----
Linden	1	----	----	----	----	----	----	----	----	1
Otisville	1	----	----	----	----	1	----	----	----	----
District No. 7	19	1	1	----	1	1	12	3	----	----
Akron	1	----	----	----	----	----	1	----	----	----
Almont	1	1	----	----	----	----	----	----	----	----
Carsonville	1	----	----	----	----	----	1	----	----	----
Clifford	1	----	----	----	----	----	1	----	----	----
Decker	1	----	----	----	----	----	----	1	----	----
Deckerville	1	----	----	----	----	----	----	1	----	----
Fairgrove	1	----	----	----	----	----	1	----	----	----
Gilford	1	----	----	----	----	----	1	----	----	----
Jeddo	1	----	----	----	----	1	----	----	----	----
Lum	1	----	----	----	1	----	----	----	----	----
Millington	1	----	----	----	----	----	1	----	----	----
Melvin	1	----	----	----	----	----	1	----	----	----
New Baltimore	1	----	1	----	----	----	----	----	----	----
Otter Lake	1	----	----	----	----	----	1	----	----	----
Reese	1	----	----	----	----	----	1	----	----	----
Richville	1	----	----	----	----	----	1	----	----	----
Shabbona	1	----	----	----	----	----	----	1	----	----
Silverwood	1	----	----	----	----	----	1	----	----	----
Watrousville	1	----	----	----	----	----	1	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Michigan—Contd.										
District No. 8	6	1	2	1	1	----	----	----	----	1
Belding	1	----	1	----	----	----	----	----	----	----
Northstar	1	1	----	----	----	----	----	----	----	----
Oakley	1	----	----	----	----	1	----	----	----	----
Orleans	1	----	----	----	----	----	----	----	----	1
Saranac	1	----	----	1	----	----	----	----	----	----
Trufant	1	----	1	----	----	----	----	----	----	----
District No. 9	4	----	----	----	1	1	2	----	----	----
Manistee	1	----	----	----	----	1	----	----	----	----
Ravena	1	----	----	----	1	----	----	----	----	----
Thompsonville	1	----	----	----	----	----	1	----	----	----
White Cloud	1	----	----	----	----	----	1	----	----	----
District No. 10	12	----	----	1	2	----	5	1	----	3
Bay City	1	----	----	----	----	----	----	1	----	----
East Tawas	1	----	----	----	----	----	1	----	----	----
Evart	2	----	----	1	1	----	----	----	----	----
Hale	1	----	----	----	----	----	1	----	----	----
Midland	1	----	----	----	----	----	----	----	----	1
Munger	1	----	----	----	----	----	1	----	----	----
Reed City	1	----	----	----	----	----	----	----	----	1
Sanford	1	----	----	----	1	----	----	----	----	----
Tawas City	1	----	----	----	----	----	1	----	----	----
Tustin	1	----	----	----	----	----	----	----	----	1
West Branch	1	----	----	----	----	----	1	----	----	----
District No. 11	4	----	----	----	1	----	1	1	----	1
Alba	1	----	----	----	----	----	----	----	----	1
Lachine	1	----	----	----	----	----	----	1	----	----
Mackinaw	1	----	----	----	----	----	1	----	----	----
Vanderbilt	1	----	----	----	1	----	----	----	----	----
District No. 12	2	----	----	1	----	----	----	1	----	----
Baraga	1	----	----	1	----	----	----	----	----	----
Iron Mountain	1	----	----	----	----	----	----	1	----	----
Minnesota	**411**	**13**	**14**	**45**	**55**	**50**	**92**	**65**	**46**	**31**
District No. 1	28	2	----	3	4	2	8	3	1	5
Albert Lee	2	----	----	----	----	----	----	1	----	1
Alden	1	----	----	----	----	1	----	----	----	----
Austin	1	----	----	----	----	----	----	----	1	----
Brandon	2	----	----	----	----	----	2	----	----	----
Brownsvalley	1	----	----	----	----	----	----	----	----	1
Claremont	1	----	----	----	1	----	----	----	----	----
Conger	1	----	----	----	1	----	----	----	----	----
Dexter	1	----	----	----	----	----	1	----	----	----
Dodge Center	1	----	----	----	1	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Minnesota—Contd.										
District No. 1—Continued.										
Douglas	1	1								
Emmons	1									1
Glenville	1							1		
Hartland	1									1
Matawan	1							1		
Minneiska	1						1			
Oronoco	1			1						
Owatonna	1						1			
Plainview	1					1				
Rochester	1	1								
Sargeant	1						1			
Simpson	1			1						
Spring Valley	2			1						1
Taopi	1						1			
Weaver	1				1					
West Concord	1						1			
District No. 2	66	3	1	4	14	6	14	14	10	
Adrian	1						1			
Alpha	1								1	
Amboy	1				1					
Arco	1								1	
Avoca	1								1	
Beaver Creek	1				1					
Belview	1						1			
Brewster	1							1		
Butterfield	1							1		
Chandler	1							1		
Cobden	1							1		
Currie	1								1	
Dovray	1						1			
East Chain Lakes	1			1						
Foxlake	1			1						
Fulda	1						1			
Good Thunder	2			1					1	
Granada	2						1	1		
Guckeen	1						1			
Hatfield	1							1		
Heron Lake	1								1	
Hills	1							1		
Holland	1	1								
Iona	1							1		
Jasper	2					2				
Lake Wilson	2	1			1					
Lamberton	2				1			1		
Lismore	1						1			
Luverne	2					1	1			
Mapleton	1							1		
Minnesota Lake	1				1					
Monterey	1								1	
New Ulm	1				1					
North Redwood	1							1		
Pemberton	1							1		
Redwood Falls	2					1	1			
Ruthton	1					1				

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Minnesota—Contd.										
District No. 2—Continued.										
Searles	1				1					
Slayton	1						1			
Sleepy Eye	1						1			
Steen	1					1				
St. James	1						1			
Storden	2		1				1			
Triumph	1				1					
Troskey	1								1	
Tyler	1								1	
Verdi	1				1					
Vernon Center	1								1	
Wabasso	1						1			
Walnut Grove	1				1					
Walters	1				1					
Wells	2			1	1					
Wilmont	1				1					
Windom	2	1						1		
Winnebago	1							1		
Worthington	1				1					
District No. 3	17	1	1		4	2	2	1	2	4
Afton	1								1	
Cannon Falls	1					1				
Elko	1									1
Faribault	1									1
Farmington	1						1			
Gibbon	1	1								
Hampton	1						1			
Hastings	1				1					
Lester Prairie	1				1					
Morristown	1								1	
New Germany	1					1				
North Mankato	1							1		
Pine Island	1				1					
Shakopee	1		1							
St. Peter	1				1					
Wanamingo	1									1
Winsted	1									1
District No. 4—St. Paul	6				1		3	1		1
District No. 6	52		1	10	5	9	10	11	4	2
Alexandria	4		1	1		1	1			
Becker	1					1				
Big Lake	1					1				
Brainerd	1				1					
Brooten	2			1			1			
Cass Lake	1				1					
Clarissa	1					1				
Clear Lake	1						1			
Crosby	1							1		
Eagle Bend	1						1			
Evansville	1						1			
Fairhaven	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Minnesota—Contd.										
District No. 6—Contd.										
Genola	2					1			1	
Georgeville	1								1	
Grey Eagle	2			1				1		
Hackensack	1					1				
Hillman	1							1		
Holdingford	1							1		
Holmes City	1							1		
Ironton	1						1			
Jenkins	1							1		
Little Sauk	1					1				
Long Prairie	1							1		
Meire Grove	1			1						
Melrose	2			1				1		
Millerville	1							1		
Nelson	1							1		
New Munich	1			1						
Osakis	1						1			
Park Rapids	1			1						
Pierz	1				1					
Pine River	1									1
Rice	1								1	
Richmond	1						1			
Royalton	1						1			
Sauk Rapids	1								1	
Sebeka	1			1						
Solway	1				1					
Spooner	1							1		
St. Cloud	2				1	1				
St. Joseph	1					1				
St. Martin	1			1						
Verndale	1			1						
West Union	1									1
District No. 7	65	5	1	3	5	5	21	11	5	9
Alberta	1									1
Appleton	2	1					1			
Ashby	1			1						
Atwater	1					1				
Balaton	1				1					
Beardsley	2							1		1
Bellingham	3			1			1		1	
Benson	3						1			2
Bird Island	1							1		
Boyd	2				1				1	
Buffalo Lake	1							1		
Chokio	1	1								
Clinton	1							1		
Correll	1	1								
Cyrus	1							1		
Danvers	1	1								
Dassel	1						1			
Dawson	1						1			
Dumont	1								1	
Glenwood	2					1	1			
Graceville	1						1			
Grove City	1									1
Hawick	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Minnesota—Contd.										
District No. 7—Contd.										
Herman	1						1			
Hoffman	1						1			
Holloway	1						1			
Kandiyohi	1					1				
Litchfield	2		1						1	
Louisburg	1									1
Lynd	1							1		
Marietta	3	1			1		1			
Montevideo	5				2		1	2		
Morris	1									1
Morton	2					1	1			
Murdock	1									1
New London	1								1	
Odessa	1							1		
Olivia	2						1	1		
Ortonville	2						2			
Renville	1					1				
Spicer	1									1
Swift Falls	1						1			
Tintah	1						1			
Villard	2						1	1		
Watson	1						1			
Willmar	1			1						
District No. 8	14	1		1	2	1	4	2	2	1
Biwabik	1							1		
Brookston	1						1			
Cloquet	2						2			
Cromwell	1								1	
Deer River	1				1					
Duluth	1						1			
Grand Rapids	1				1					
Meadowlands	1			1						
Moose Lake	1					1				
Mountain Iron	1	1								
Northome	1									1
Ranier	1								1	
Virginia	1							1		
District No. 9	115		4	16	14	17	22	16	19	7
Ada	2						1		1	
Alvarado	3		1			1			1	
Argyle	2		1					1		
Badger	1		1							
Bagley	1						1			
Barnesville	2				1					1
Bejou	1			1						
Bronson	1								1	
Callaway	1						1			
Clearbrook	1						1			
Climax	1				1					
Comstock	1								1	
Crookston	3				1			2		
Dale	1						1			
Deer Creek	1					1				
Detroit	3					1	2			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Minnesota—Contd.										
District No. 9—Contd.										
Dilworth	1								1	
Donaldson	1						1			
East Grand Forks	2							1		1
Eldred	1								1	
Elizabeth	1								1	
Erskine	2								1	1
Felton	1								1	
Fergus Falls	1							1		
Fertile	1								1	
Fisher	1								1	
Frazee	1					1				
Gatzke	1							1		
Georgetown	1									1
Glyndon	1								1	
Gonvick	2						1	1		
Goodridge	1						1			
Greenbush	3			1		1		1		
Grygla	1					1				
Hallock	1					1				
Halstad	1								1	
Hawley	1									1
Hazel	2				1		1			
Hendrum	1				1					
Hitterdal	1							1		
Holt	1		1							
Kalstad	2			1					1	
Kennedy	2			1				1		
Lake Park	2					1	1			
Lancaster	3			1	1				1	
Lawndale	1						1			
Leonard	1					1				
Mahnomen	3			1			1	1		
Mavie	1					1				
Mentor	1								1	
Middle River	3			1		1	1			
Moorehead	2			1					1	
Newfolden	1							1		
New York Mills	2				1		1			
Nielsville	1								1	
Novithcote	1			1						
Oklee	1									1
Orleans	1			1						
Oslo	2			1				1		
Parkers Prairie	1			1						
Pelican Rapids	1						1			
Perley	1									1
Plummer	1						1			
Red Lake Falls	3			1	1			1		
Richville	1						1			
Roseau	1						1			
Rosewood	1				1					
Rothsay	1			1						
Stephen	1					1				
St. Hilaire	1							1		
Standquist	1			1						
Strathcona	1					1				
St. Vincent	1			1						
Tabor	1							1		

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Minnesota—Contd.										
District No. 9—Contd.										
Tenney	1								1	
Thief River Falls	2				1	1				
Trail	1				1					
Twin Valley	1				1					
Ulen	2				1	1				
Warren	2					2				
Warroad	1				1					
Waubun	1						1			
Wolverton	1						1			
District No. 10	48	1	6	8	6	8	8	6	3	2
Anoka	1					1				
Bock	1								1	
Braham	1								1	
Buffalo	1					1				
Cokato	1						1			
Delano	1					1				
French Lake	1			1						
Hanover	1					1				
Hinckley	2				1	1				
Lindstrom	1				1					
Long Siding	1						1			
Maple Lake	2				1		1			
Markville	2		1							1
Milaca	1	1								
Minneapolis	12		4	3			3	2		
Monticello	1							1		
Montrose	1							1		
North Branch	1						1			
Ogilvie	2			1				1		
Pease	1				1					
Princeton	1					1				
Rockcreek	1			1						
Rockford	2					1			1	
Rush City	1							1		
South Haven	1				1					
St. Bonifacius	1			1						
Sturgeon Lake	1		1							
Sunrise	1			1						
Wahkon	1						1			
Waverly	2				1					1
Willow River	1					1				
Mississippi	**34**	**5**	**10**	**2**	**1**	**1**	**5**	**5**	**4**	**1**
District No. 1—Baldwin	2		1	1						
District No. 2	5		2					3		
Coldwater	1							1		
Cortland	1							1		
Crenshaw	1		1							
Enid	1							1		
Sumner	1		1							

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Mississippi—Contd.										
District No. 3	17	4	4	----	1	1	4	1	1	1
Boyle	2	1	----	----	----	----	1	----	----	----
Clarksdale	2	1	----	----	----	----	1	----	----	----
Drew	1	----	1	----	----	----	----	----	----	----
Friar Point	1	----	----	----	1	----	----	----	----	----
Greenville	1	1	----	----	----	----	----	----	----	----
Gunnison	2	----	1	----	----	----	1	----	----	----
Indianola	1	----	----	----	----	----	----	----	1	----
Lambert	1	----	1	----	----	----	----	----	----	----
Merigold	1	----	----	----	----	----	----	1	----	----
Mound Bayon	1	----	1	----	----	----	----	----	----	----
Rosedale	2	1	----	----	----	----	----	----	----	1
Shaw	1	----	----	----	----	1	----	----	----	----
Tunica	1	----	----	----	----	----	1	----	----	----
District No. 4	6	----	2	----	----	----	1	1	2	----
Ackerman	2	----	1	----	----	----	1	----	----	----
Grenada	1	----	1	----	----	----	----	----	----	----
Houston	1	----	----	----	----	----	----	1	----	----
Okolona	1	----	----	----	----	----	----	----	1	----
Zama	1	----	----	----	----	----	----	----	1	----
District No. 6—Oak Vale	1	----	----	1	----	----	----	----	----	----
District No. 7	2	----	1	----	----	----	----	----	1	----
Centreville	1	----	1	----	----	----	----	----	----	----
Crystal Springs	1	----	----	----	----	----	----	----	1	----
District No. 8—Pelahatchee	1	1	----	----	----	----	----	----	----	----
Missouri	**296**	**17**	**11**	**20**	**43**	**45**	**58**	**48**	**31**	**23**
District No. 1	33	2	1	3	4	3	4	4	8	4
Alexandria	1	----	----	1	----	----	----	----	----	----
Arbela	1	----	----	----	----	----	----	----	1	----
Baring	1	----	----	----	----	----	----	----	1	----
Callao	1	----	----	----	1	----	----	----	----	----
Canton	1	----	----	----	----	1	----	----	----	----
Clarrence	1	----	----	----	----	1	----	----	----	----
College Mound	1	----	----	----	1	----	----	----	----	----
Gorin	2	----	----	----	1	----	----	----	----	1
Granger	1	----	----	----	----	----	----	----	----	1
Hunnewell	1	----	----	----	----	----	1	----	----	----
Kahoka	2	----	1	----	----	----	1	----	----	----
Kirksville	2	----	----	1	----	----	----	----	1	----
La Belle	1	1	----	----	----	----	----	----	----	----
Lancaster	2	----	----	1	----	----	----	1	----	----
Lewistown	3	----	----	----	----	----	----	1	2	----
Macon	1	----	----	----	----	----	----	1	----	----
Maywood	1	----	----	----	----	1	----	----	----	----
Memphis	2	----	----	----	----	----	1	----	1	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Missouri—Contd.										
District No. 1—Continued.										
Mendota	1				1					
Novinger	1	1								
Powersville	1						1			
Unionville	1								1	
Williamstown	1							1		
Willmathsville	1								1	
Worthington	1									1
Wyaconda	1									1
District No. 2	28	3	1		4	8	4	6	1	1
Bedford	1					1				
Brookfield	1					1				
Browning	1				1					
Bucklin	1					1				
Chillicothe	1					1				
Chula	2							2		
Green Castle	2					2				
Green City	1							1		
Hale	2	1							1	
Hickory	1							1		
Huntsville	1							1		
Meadville	1					1				
Milan	2	1					1			
Moberly	1		1							
Newtown	1						1			
North Salem	1							1		
Paris	1				1					
Stoutsville	2						2			
Sturges	2	1				1				
Tina	1				1					
Wakenda	1									1
Wheeling	1				1					
District No. 3	34		2	3	5	7	9	7		1
Allendale	2			1			1			
Altamont	1					1				
Bethany	2							2		
Cainesville	1						1			
Clarksdale	2				1			1		
Darlington	1							1		
Excelsior Springs	1					1				
Gallatin	1						1			
Grant City	1				1					
Jameson	2						2			
Jamesport	3			1		2				
King City	1							1		
Lawson	1						1			
Lowndes	1			1						
Maysville	3		2							1
Melbourne	1							1		
Mercer	1				1					
Mount Moriah	1							1		
Pattonsburg	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Missouri—Contd.										
District No. 3—Contd.										
Princeton	1				1					
Richmond	1						1			
Stanberry	2					2				
Weatherby	1						1			
Winston	1					1				
Worth	1				1					
District No. 4	22		2	2	1	1	9	4	1	2
Burlington Junction	1						1			
Cosby	1							1		
Dearborn	2		1	1						
Fairfax	1							1		
Farley	1								1	
Fortescue	1				1					
Hopkins	1						1			
Maryville	1						1			
Nodaway	1						1			
Parkville	1			1						
Parnell	1							1		
Rea	1						1			
Rushville	1									1
Savannah	3					1	1			1
St. Joseph	4		1				3			
Whitesville	1							1		
District No. 5	16	1		4	3		5	2		1
Fairmount	1							1		
Grain Valley	1							1		
Greenwood	1						1			
Herculaneum	1				1					
Independence	1						1			1
Kansas City	10			4	2		3			
Mount Washington	1	1								
District No. 6	16	1		2	1	4	3		1	4
Adrian	1			1						
Amsterdam	1					1				
Arcola	1						1			
Caplinger Mills	1									1
Clinton	1	1								
Eldorado Springs	1									1
Greenfield	2				1					1
Harrisonville	1						1			
Jerico Springs	2			1						1
La Due	1					1				
Leeton	1					1				
Merwin	1					1				
Montrose	1						1			
West Line	1								1	

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Missouri—Contd.										
District No. 7	20			1	4	4	5	3	2	1
Arrow Rock	1							1		
Battlefield	1					1				
Brookline Station	2				1					1
Concordia	1							1		
Fayette	1					1				
Franklin	1						1			
Hughesville	1					1				
Nelson	1				1					
New Franklin	1							1		
Republic	1								1	
Sedalia	4						4			
Slater	1			1						
Springfield	2				1				1	
Wellington	1					1				
Wheatland	1				1					
District No. 8	16	1		1	2		4	3	4	1
Bagnell	1								1	
Blackwater	1							1		
Boonville	1								1	
Centertown	1								1	
Clifton City	1						1			
Etterville	1							1		
Jefferson City	1						1			
McGirk	1	1								
Meta	1							1		
Otterville	1				1					
Sandyhook	1									1
Syracuse	1				1					
Tipton	1			1						
Ulman	1								1	
Versailles	1						1			
Wooldridge	1						1			
District No. 9	18	1	1		3	2	4	1	5	1
Annada	1					1				
Auxvasse	2				1				1	
Bland	1	1								
Bowling Green	1								1	
Foley	1								1	
Frankford	2					1		1		
Fulton	2						2			
Marling	1								1	
McCredie	1						1			
Middletown	1								1	
New Bloomfield	2		1		1					
New Florence	1						1			
Tebbetts	1									1
Thompson	1				1					
District No. 10—Allentown	1							1		

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Missouri—Contd.										
District No. 13	14	1	1	----	2	6	2	1	----	1
Barnhart	1	----	----	----	----	1	----	----	----	----
Chaonia	1	----	----	----	----	----	1	----	----	----
De Soto	2	1	----	----	----	----	----	----	----	1
Ellsinore	1	----	----	----	1	----	----	----	----	----
Farmington	1	----	----	----	1	----	----	----	----	----
Frohna	1	----	----	----	----	1	----	----	----	----
Glenallen	1	----	----	----	----	1	----	----	----	----
Greenville	2	----	----	----	----	1	1	----	----	----
Longtown	1	----	----	----	----	----	----	1	----	----
Patton	1	----	1	----	----	----	----	----	----	----
Perryville	1	----	----	----	----	1	----	----	----	----
Ste. Genevieve	1	----	----	----	----	1	----	----	----	----
District No. 14	41	3	1	3	4	7	6	10	5	2
Advance	1	----	----	----	----	----	----	1	----	----
Anniston	1	----	----	----	----	----	----	1	----	----
Benton	1	----	----	----	----	----	----	1	----	----
Bernie	1	----	----	----	----	----	----	----	----	1
Bertrand	2	----	----	----	----	1	1	----	----	----
Blodgett	1	----	----	1	----	----	----	----	----	----
Bragg City	1	----	----	----	----	----	1	----	----	----
Canalon	1	----	----	----	----	----	----	1	----	----
Cardwell	1	----	----	----	----	----	1	----	----	----
Chadwick	1	----	----	----	----	----	----	----	1	----
Chaffee	1	----	----	----	1	----	----	----	----	----
Charleston	1	----	----	----	----	----	----	1	----	----
Clarkton	1	----	----	----	----	----	1	----	----	----
Delta	1	----	----	----	----	----	----	1	----	----
Diehlstadt	1	----	----	----	----	1	----	----	----	----
Holcomb	1	----	----	----	----	1	----	----	----	----
Illmo	1	----	----	----	1	----	----	----	----	----
Kelso	1	----	----	----	----	----	----	1	----	----
Kennett	1	----	----	----	----	----	1	----	----	----
Malden	1	----	----	----	----	----	1	----	1	----
Matthews	1	----	----	----	----	----	----	1	----	----
New Madrid	2	----	----	----	----	----	----	1	1	----
Oak Ridge	1	----	----	----	----	1	----	----	----	----
Old Appleton	1	----	----	----	----	1	----	----	----	----
Oran	2	----	----	----	1	1	----	----	----	----
Pomona	1	1	----	----	----	----	----	----	----	----
Poplar Bluff	2	----	1	----	----	----	----	----	1	----
Protem	1	----	----	----	----	1	----	----	----	----
Puxico	1	----	----	1	----	----	----	----	----	----
Sikeston	2	----	----	1	----	----	----	----	1	----
Steele	1	1	----	----	----	----	----	----	----	----
Vanduser	1	1	----	----	----	----	----	----	----	----
Whitewater	2	----	----	----	----	----	----	1	----	1
Wyatt	1	----	----	----	1	----	----	----	----	----
District No. 15	18	----	1	1	6	1	1	1	4	3
Anderson	1	----	----	----	----	----	----	----	----	1
Asbury	1	----	----	----	----	----	----	----	----	1
Bronough	1	----	----	----	1	----	----	----	----	----
Carthage	1	----	----	----	----	----	----	----	1	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Missouri—Contd.										
District No. 15—Contd.										
Granby	1				1					
Iantha	1						1			
Jasper	1				1					
Joplin	1			1						
Lamar	2				1	1				
Liberal	1							1		
Milford	1								1	
Miller	1								1	
Mount Vernon	1									1
Pierce City	1				1					
Seneca	1				1					
Stark City	1		1							
Stotts City	1								1	
District No. 16	19	4	1		4	2	2	5		1
Belle	1	1								
Beulah	1				1					
Buffalo	1	1								
Cabool	1							1		
Charity	1	1								
Conway	1					1				
Fordland	2				1		1			
Grovespring	1				1					
Hartville	2					1	1			
Houston	1							1		
Louisburg	1							1		
Norwood	1									1
Simmons	1							1		
Waynesville	2	1			1					
St. Louis	2		1					1		
Montana	203	21	31	77	46	16	8	2	1	1
District No. 1	43	2	5	9	19	6	2			
Augusta	1			1						
Butte	1				1					
Charlo	1				1					
Corvallis	1				1					
Culbertson	2				2					
Darby	1				1					
Dixon	1				1					
Drummond	1					1				
Eureka	1					1				
Gilman	1			1						
Glasgow	2		1			1				
Helena	2			1			1			
Hot Springs	1				1					
Libby	1					1				
Manhattan	1				1					
Missoula	1				1					
Montague	1			1						
Ovanda	1	1								

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Montana—Contd.										
District No. 1—Contd.										
Pablo	1				1					
Philipsburg	1				1					
Plains	1				1					
Plentywood	3			2	1					
Polson	2				2					
Ronan	1				1					
Stevensville	1					1				
Thompson Falls	1				1					
Three Forks	2		1	1						
Foston	1				1					
Townsend	1					1				
Twin Bridges	1		1							
Valier	1		1							
Virginia City	1		1							
Whitefish	1						1			
Wibaux	2	1		1						
Willow Creek	1			1						
District No. 2	160	19	26	68	27	10	6	2	1	1
Absarokee	1	1								
Antelope	1				1					
Baker	3				3					
Ballantine	1		1							
Barber	1			1						
Bearcreek	2	1							1	
Belmont	1				1					
Belt	1		1							
Benchland	1				1					
Big Sandy	2	1		1						
Billings	2		1		1					
Bowdoin	1		1							
Box Elder	1		1							
Broadview	2		1	1						
Brockway	1			1						
Browning	1	1								
Buffalo	1			1						
Carlyle	1							1		
Carter	2			2						
Chester	2	1		1						
Circle	1	1								
Clydepark	2			2						
Coburg	1			1						
Coffee Creek	1			1						
Columbus	1					1				
Conrad	1				1					
Cut Bank	3	2		1						1
Denton	2			1						
Devon	1			1						
Dodson	1			1						
Edgar	1			1						
Fallon	1			1						
Fairfield	1						1			
Fairview	2			1	1					
Forsyth	3			2	1					
Fort Benton	2		1		1					

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Montana—Contd.										
District No. 2—Contd.										
Fresno	1		1							
Galata	1				1					
Gardiner	1				1					
Genou	1			1						
Geraldine	1			1						
Geyser	1			1						
Gilford	1		1							
Grassrange	1			1						
Great Falls	4	1	1	2						
Hardin	2			1		1				
Harlowton	1			1						
Havre	3	2			1					
Hedgesville	1			1						
Highwood	1		1							
Higler	1			1						
Hingham	2	1	1							
Hinsdale	1					1				
Hobson	1			1						
Homestead	1			1						
Huntley	1		1							
Hysham	1		1							
Ingomar	1		1							
Intake	1						1			
Inverness	1			1						
Ismay	1	1								
Joliet	1			1						
Joplin	2	1		1						
Jordan	2	1					1			
Judith Gap	1			1						
Kremlin	2		1		1					
Lambert	2			1	1					
Laurel	3		2			1				
Lavina	1			1						
Lehigh	1			1						
Lewistown	2			1	1					
Livingston	3	1		1	1					
Lodge Grass	1				1					
Loma	1			1						
Madoc	1			1						
Malta	1					1				
Martinsdale	1			1						
Medicine Lake	2			2						
Melstone	1	1								
Miles City	2		1		1					
Moore	2			2						
Musselshell	1		1							
Nashua	1					1				
Neihart	1				1					
Oswego	2			2						
Poplar	3	1	1	1						
Rapelji	1			1						
Ringling	1			1						
Rosebud	1						1			
Roundup	3			3						
Roy	2			1		1				
Rudyard	2			1	1					

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Montana—Contd.										
District No. 2—Contd.										
Ryegate	2			2						
Saco	2						1	1		
Sandcoulee	1		1							
Savoy	1					1				
Shawmut	1			1						
Shelby	2			1		1				
Shepherd	1						1			
Sidney	2		1		1					
Stockett	1		1							
Sumatra	1				1					
Sweetgrass	3	1		1	1					
Vanada	1		1							
Westmore	1			1						
Wilsall	2				2					
Windham	1			1						
Winifred	1					1				
Winnett	1			1						
Wolf Point	2		1	1						
Nebraska	339	28	23	17	17	12	18	25	50	149
District No. 1	32	5	2		1		3	1	3	17
Auburn	1									1
Bennett	1		1							
Brownville	2	1					1			
College View	1									1
Crab Orchard	1									1
Dunbar	1								1	
Eagle	2								1	1
Greenwood	1									1
Hallam	1									1
Havelock	1									1
Humboldt	2									2
Julian	1									1
Lincoln	3	2								1
Malcolm	1								1	
Panama	1									1
Pawnee City	1							1		
Plattsmouth	2	1					1			
Rhors	1									1
Sprague	1									1
Stella	1									1
Sterling	1									1
Table Rock	1	1								
University Place	1						1			
Vesta	1									1
Walton	1		1							
Waverly	1				1					

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Nebraska—Contd.										
District No. 2	18	3	2	----	----	----	4	2	3	4
Bennington	2	----	----	----	----	----	----	----	2	----
Blair	1	1	----	----	----	----	----	----	----	----
Gretna	1	----	----	----	----	----	----	----	1	----
Kannard	2	----	----	----	----	----	----	1	----	1
Meadow	1	----	----	----	----	----	----	----	----	1
Omaha	4	1	1	----	----	----	1	1	----	----
Papillon	1	----	----	----	----	----	1	----	----	----
Ralston	2	----	----	----	----	----	1	----	----	1
Richfield	2	----	----	----	----	----	1	----	----	1
Springfield	1	1	----	----	----	----	----	----	----	----
Waterloo	1	----	1	----	----	----	----	----	----	----
District No. 3	107	6	4	5	4	6	4	7	24	47
Allen	2	1	----	----	----	----	----	----	----	1
Altona	1	----	----	----	----	----	----	----	----	1
Ames	1	----	----	----	----	1	----	----	----	----
Bazile Mills	1	----	----	----	----	----	----	1	----	----
Beemer	1	----	----	----	----	----	----	----	----	1
Belden	1	----	----	----	----	----	----	----	1	----
Belgrade	2	----	----	----	----	----	----	----	1	1
Bloomfield	3	----	----	----	----	1	----	----	----	2
Boone	1	----	----	----	----	----	----	----	----	1
Bradish	1	----	----	----	----	----	----	----	----	1
Breslau	1	----	----	----	----	----	----	----	----	1
Brunswick	2	----	----	----	----	----	----	----	1	1
Carroll	1	----	----	1	----	----	----	----	----	----
Cedar Rapids	1	----	----	----	----	----	----	----	1	----
Chapman	1	----	----	----	----	----	----	----	----	1
Clarks	2	----	----	----	----	----	----	----	----	2
Clearwater	2	----	----	----	----	----	----	----	1	1
Coleridge	1	----	----	----	----	----	----	----	----	1
Cornlea	1	----	----	----	----	----	----	----	1	----
Craig	1	----	----	----	----	----	1	----	----	----
Creighton	1	----	----	----	----	----	----	----	----	1
Crofton	1	----	----	----	----	----	----	----	1	----
Dixon	2	----	----	1	----	----	----	----	----	1
Dodge	2	----	----	----	1	----	----	----	----	1
Elgin	1	----	----	----	----	----	----	----	1	----
Enola	1	----	----	----	----	----	----	----	1	----
Fremont	2	1	1	----	----	----	----	----	----	----
Fullerton	1	----	----	----	----	----	----	----	----	1
Genoa	1	----	----	----	----	----	----	----	----	1
Hadar	1	1	----	----	----	----	----	----	----	----
Hartington	1	----	----	----	----	----	----	----	1	----
Havens	1	----	----	----	----	----	----	----	----	1
Homer	1	----	1	----	----	----	----	----	----	----
Hoskins	1	1	----	----	----	----	----	----	----	----
Humphrey	1	----	----	----	----	----	----	----	----	1
Jackson	2	----	----	----	----	----	----	----	1	1
Laurel	2	----	----	----	----	----	----	1	----	1
Lindsay	1	----	----	----	----	----	----	----	----	1
Loretto	1	----	----	----	----	----	----	----	----	1
Lyons	1	----	----	----	----	----	1	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Nebraska—Contd.										
District No. 3—Contd.										
Macy	1					1				1
Madrid	1								1	
Magnet	1									1
Martinsburg	2									2
Maskell	1			1						
Meadow Grove	1								1	
Monroe	1									1
Nacora	1									1
Neligh	3			1		1				1
Newcastle	2		1						1	
Newman Grove	2									2
Nickerson	1				1					
Niobrara	1					1				
North Bend	1									1
Oakdale	2								2	
Obert	1	1								
Orchard	1						1			
Petersburg	2								2	
Pierce	1									1
Pilger	1				1					
Plainview	3								1	2
Ponca	1									1
Raeville	1									1
Rosalie	2							1		1
Royal	2			1				1		
Schuyler	1				1					
Scribner	1									1
Sholes	1		1							
Silver Creek	1							1		
Snyder	1								1	
South Sioux City	1							1		
Stanton	1									1
St. Edward	1									1
Thurston	2								1	
Tilden	1								1	
Verdel	1								1	
Wakefield	2								1	1
Wausa	1					1				
Wayne	1						1			
Winnetoon	1									1
Winside	1	1								
Wynot	1							1		
District No. 4	33	2	4	1	1	1			9	15
Abie	1									1
Adams	1					1				
Ashland	1									1
Belvidere	2	1								1
Benedict	1		1							
Endicott	1		1							
Fairbury	2		1		1					
Geneva	1								1	
Gilead	1									1
Giltner	1								1	
Milford	1									1

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Nebraska—Contd.										
District No. 4—Contd.										
Milligan	1		1							
Murphy	1									1
Octavia	1	1								
Odell	1									1
Ohiowa	1								1	
Osceola	1								1	
Polk	2									2
Strong	1									1
Stromburg	1									1
Surprise	1									1
Tamora	1									1
Ulysses	2								2	
Valparaiso	1									1
Wacp	1			1						
Wahoo	1								1	
Western	1								1	
York	2								1	1
District No. 5	37		1	1	2	1	2	4	4	22
Angus	1							1		
Bartley	1				1					
Berkelman	1									1
Bertrand	1									1
Beverly	1					1				
Bloomington	1									1
Bostwick	1						1			
Cadams	1									1
Cairo	2									2
Chambers	1		1							
Champion	1									1
Culbertson	1				1					
Deweese	1									1
Doniphan	1								1	
Edison	1									1
Fairfield	2								1	1
Grainton	1									1
Grant	1									1
Haigler	1									1
Harvard	1							1		
Hastings	1						1			
Holdrege	1			1						
Lamar	1									1
Loomis	1									1
Marion	1									1
Mount Clare	1								1	
Nelson	1							1		
Ong	1									1
Republican City	1									1
Springranch	1								1	
Stockville	1									1
Superior	2							1		1
Sutton	2									2

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Nebraska—Contd.										
District No. 6	112	12	10	10	9	4	5	11	7	44
Ainsworth	2									2
Alliance	1									1
Angora	1					1				
Anselmo	1	1								
Ansley	2							1	1	
Ashton	1									1
Bassett	1								1	
Bayard	2		1							1
Berwyn	1			1						
Big Springs	1									1
Boelus	1								1	
Brady	1									1
Brayton	1						1			
Bridgeport	3	1						1		1
Bristow	2			1	1					
Broken Bow	1									1
Brownlee	1									1
Burton	1									1
Bushnell	1			1						
Butte	1									1
Chadron	2					1				1
Chappell	1	1								
Clinton	1				1					
Cody	1									1
Cotesfield	1						1			
Cozad	1									1
Crawford	2		1		1					
Crookston	1			1						
Dalton	1									1
Dannebrog	2								2	
Dix	1				1					
Dunning	1	1								
Eddyville	1			1						
Elba	1							1		
Ericson	1							1		
Ewing	2							2		
Gering	1		1							
Gibbon	2									2
Greeley	2									2
Gross	1			1						
Gurley	2	1								1
Harrison	2				1					1
Hazard	1								1	
Hemingford	2		1	1						
Henry	1			1						
Inman	1									1
Johnstown	1									1
Kearney	2							1		1
Kilgore	1	1								
Kimball	1		1							
Lakeside	1							1		
Lexington	1									1
Litchfield	1									1
Long Pine	2	1	1							
Lorenzo	1				1					

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Nebraska—Contd.										
District No. 6—Contd.										
Loup City	1									1
Lyman	1									1
Mason City	1									1
Maxwell	1									1
McGrew	1				1					
Merriman	1	1								
Minatare	2							1		1
Mitchell	1									1
Morrill	1		1							
Newport	1								1	
North Platte	1							1		
Ogallala	1		1							
Oshkosh	1	1								
Overton	2									2
Paxton	1									1
Pleasanton	1	1								
Potter	1				1					
Ravenna	1									1
Scotia	1									1
Scottsbluff	3							1		2
Seneca	1						1			
Shelton	2		1							1
Sidney	2	2								
Spencer	1		1							
Springview	1			1						
St. Libory	1									1
Sweetwater	1						1			
Taylor	1					1				
Thedford	1				1					
Valentine	1					1				
Wayside	1			1						
Wolbach	3						1			2
Nevada: District No. 1	3		1						1	1
Gardnerville	1								1	
Reno	1									1
Wells	1		1							
New Hampshire: District No. 2—										
Lebanon	1					1				1
New Jersey	3		2							1
District No. 3—Englishtown	1		1							
District No. 6—Hope	1		1							
District No. 7—Passaic	1									1

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
New Mexico: District No. 1	**62**	**5**	**8**	**14**	**22**	**10**	**1**	**1**	----	**1**
Almogrado	1	----	----	1	----	----	----	----	----	----
Albuquerque	3	----	----	----	3	----	----	----	----	----
Capitan	1	----	----	1	----	----	----	----	----	----
Carrizozo	2	----	----	2	----	----	----	----	----	----
Carlsbad	3	1	----	----	2	----	----	----	----	----
Clayton	2	----	----	----	2	----	----	----	----	----
Clovis	2	----	----	----	2	----	----	----	----	----
Deming	2	----	----	1	----	1	----	----	----	----
Des Moines	1	----	----	1	----	----	----	----	----	----
Dexter	1	----	----	----	1	----	----	----	----	----
Encino	1	----	1	----	----	----	----	----	----	----
East Las Vegas	2	----	----	----	----	2	----	----	----	----
Estancia	1	----	----	----	1	----	----	----	----	----
Farmington	2	----	----	----	1	----	1	----	----	----
Ft. Sumner	3	----	----	1	1	----	----	1	----	----
Gallup	2	----	----	1	----	1	----	----	----	----
Greenville	2	1	----	----	----	1	----	----	----	----
Hillsboro	1	----	----	----	1	----	----	----	----	----
Hope	1	----	1	----	----	----	----	----	----	----
Las Cruces	1	----	1	----	----	----	----	----	----	----
Lordsburg	1	----	1	----	----	----	----	----	----	----
Loving	1	----	1	----	----	----	----	----	----	----
Lovington	2	1	----	1	----	----	----	----	----	----
Las Vegas	2	----	----	1	----	1	----	----	----	----
Maxwell	1	----	----	----	----	1	----	----	----	----
Magdalena	2	----	1	----	1	----	----	----	----	----
Moriarty	1	----	----	----	1	----	----	----	----	----
Mountainair	1	----	1	----	----	----	----	----	----	----
Portales	2	----	----	----	2	----	----	----	----	----
Reserve	1	----	1	----	----	----	----	----	----	----
Roswell	2	----	----	2	----	----	----	----	----	----
Roy	1	----	----	----	----	1	----	----	----	1
San Marcial	1	----	----	----	----	----	----	----	----	----
Santa Fe	3	1	----	2	----	----	----	----	----	----
Silver City	3	----	----	----	3	----	----	----	----	----
Sorocco	1	----	----	----	----	1	----	----	----	----
Springer	1	----	----	----	----	1	----	----	----	----
Taiban	1	1	----	----	----	----	----	----	----	----
Tyrone	1	----	----	----	1	----	----	----	----	----
New York	**26**	**5**	**1**	**4**	**6**	----	----	**2**	**3**	**5**
District No. 1—Bellmore	1	----	----	----	1	----	----	----	----	----
District No. 31	2	----	1	----	----	----	----	----	1	----
Hammond	1	----	1	----	----	----	----	----	----	----
Plattsburg	1	----	----	----	----	----	----	----	1	----
District No. 34	2	----	----	1	----	----	----	----	----	1
Endicott	1	----	----	1	----	----	----	----	----	----
Fleishmans	1	----	----	----	----	----	----	----	----	1

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
New York—Contd.										
District No. 36	3	----	----	1	1	----	----	1	----	----
Schenectady	1	----	----	----	1	----	----	----	----	----
Sodus	1	----	----	1	----	----	----	----	----	----
Waterloo	1	----	----	----	----	----	----	1	----	----
District No. 37	2	----	----	----	----	----	----	1	----	1
Avoca	1	----	----	----	----	----	----	1	----	----
Odessa	1	----	----	----	----	----	----	----	----	1
District No. 39	3	1	----	----	1	----	----	----	----	1
Bergen	1	----	----	----	----	----	----	----	----	1
Honeoye Faus	1	1	----	----	----	----	----	----	----	----
Mechanicsville	1	----	----	----	1	----	----	----	----	----
District No. 40	2	----	----	1	----	----	----	----	1	----
Brooklyn	1	----	----	----	----	----	----	----	1	----
Buffalo	1	----	----	1	----	----	----	----	----	----
New York	11	4	----	1	3	----	----	----	1	2
North Carolina	**125**	**15**	**9**	**19**	**13**	**18**	**11**	**14**	**8**	**18**
District No. 1	18	1	2	2	1	3	2	5	----	2
Ayden	1	----	----	----	----	----	----	1	----	----
Belhaven	1	----	----	----	----	----	----	1	----	----
Creswell	1	----	----	----	----	----	----	1	----	----
Elizabeth City	2	----	----	----	----	1	----	----	----	1
Hertford	1	----	1	----	----	----	----	----	----	----
Jamesville	1	----	----	----	1	----	----	----	----	----
Oak City	1	----	----	----	----	----	----	----	----	1
Parmele	1	----	----	1	----	----	----	----	----	----
Pinetown	1	----	----	----	----	----	1	----	----	----
Plymouth	1	----	----	----	----	1	----	----	----	----
Robersonville	1	----	----	----	----	----	1	----	----	----
Roper	1	1	----	----	----	----	----	----	----	----
Stokes	1	----	----	1	----	----	----	----	----	----
Swanquarter	1	----	----	----	----	----	----	1	----	----
Washington	1	----	----	----	----	----	----	1	----	----
Williamstown	2	----	1	----	----	1	----	----	----	----
District No. 2	16	2	1	2	1	3	2	1	----	4
Conetoe	2	----	----	----	----	----	----	1	----	1
Hollister	1	----	----	1	----	----	----	----	----	----
Kinston	1	----	----	----	----	----	----	----	----	1
Lasker	1	----	1	----	----	----	----	----	----	----
Leggett	1	----	----	----	1	----	----	----	----	----
Littleton	1	----	----	1	----	----	----	----	----	----
Morlina	2	1	----	----	----	1	----	----	----	----
Pink Hill	1	1	----	----	----	----	----	----	----	----
Scotland Neck	1	----	----	----	----	----	----	----	----	1

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
North Carolina—Con.										
District No. 2—Con.										
Snow Hill	2					2				
Tillery	1						1			
Whitakers	1						1			
Wilson	1									1
District No. 3	13	1		5		1	1	2	2	1
Atkinson	1				1					
Bridgeton	1								1	
Burgaw	1			1						
Dover	1			1						
Fremont	1			1						
Goldsboro	1							1		
New Bern	1									1
Pollocksville	1	1								
Turkey	1					1				
Vanceboro	1			1						
Wallace	1								1	
Warsaw	2						1	1		
District No. 4	19	3	1		2	5		2	1	5
Auburn	1	1								
Bailey	1	1								
Benson	1								1	
Borlee	1									1
Castalie	1									1
Henderson	1				1					
Kenly	1									1
Knightsdale	1	1								
Louisburg	1					1				
Middlesex	1									1
Nashville	1							1		
Princeton	1				1					
Raleigh	1		1							
Selma	2					1		1		
Sharpsburg	1				1					
Spring Hope	1					1				
Townsville	1					1				
Wake Forest	1									1
District No. 5	6	1	1		1	1	1		1	
Creedmoor	1					1				
Elkin	2	1			1					
High Point	1		1							
Stoneville	1								1	
Winston Salem	1						1			
District No. 6	25	1	3	7	6	3	1	2	1	1
Cerro Gordo	2			1	1					
Chadbourn	1		1							
Council	1				1					
Dunn	2			1					1	

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
North Carolina—Con.										
District No. 6—Con.										
Fairmont	2	----	1	1	----	----	----	----	----	----
Fayetteville	2	----	----	----	----	1	----	1	----	----
Lillington	1	----	----	1	----	----	----	----	----	----
Lumberton	1	----	----	----	----	1	----	----	----	----
Maxton	1	----	----	----	1	----	----	----	----	----
McDonalds	1	----	----	----	1	----	----	----	----	----
Parkton	1	----	----	----	1	----	----	----	----	----
Proctorville	1	----	----	1	----	----	----	----	----	----
Red Springs	1	----	----	----	----	----	----	1	----	----
Rowland	2	----	----	----	----	1	----	----	----	1
Shallotte	1	1	----	----	----	----	----	----	----	----
Southport	1	----	----	1	----	----	----	----	----	----
Whiteville	1	----	----	----	----	----	1	----	----	----
Wilmington	3	----	1	1	1	----	----	----	----	----
District No. 7	10	3	----	----	----	1	----	2	2	2
Denton	1	1	----	----	----	----	----	----	----	----
Ellerbe	1	----	----	----	----	----	----	----	----	1
Hamlet	1	----	----	----	----	1	----	----	----	----
Mocksville	1	----	----	----	----	----	----	----	1	----
Rockingham	1	----	----	----	----	----	----	----	1	----
Sanford	1	----	----	----	----	----	----	1	----	----
Star	1	----	----	----	----	----	----	----	----	1
Thomasville	2	2	----	----	----	----	----	----	----	----
Wilkesboro	1	----	----	----	----	----	----	1	----	----
District No. 8	11	2	----	3	1	1	2	----	1	1
Boone	1	1	----	----	----	----	----	----	----	----
East Spencer	1	----	----	----	----	----	1	----	----	----
Granite Quarry	1	----	----	1	----	----	----	----	----	----
Hiddenite	1	----	----	----	----	1	----	----	----	----
Midland	1	----	----	----	----	----	1	----	----	----
Richfield	1	----	----	----	1	----	----	----	----	----
Salisbury	1	----	----	1	----	----	----	----	----	----
Spencer	1	----	----	1	----	----	----	----	----	----
Statesville	1	----	----	----	----	----	----	----	1	----
Troutmans	1	----	----	----	----	----	----	----	----	1
West Jefferson	1	1	----	----	----	----	----	----	----	----
District No. 9	7	1	1	----	1	----	2	----	----	2
Charlotte	3	----	----	----	1	----	1	----	----	1
Connellys Springs	1	----	----	----	----	----	1	----	----	----
Gastonia	1	----	----	----	----	----	----	----	----	1
North Charlotte	1	----	1	----	----	----	----	----	----	----
Pineville	1	1	----	----	----	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
North Dakota	**429**	**36**	**10**	**106**	**75**	**32**	**59**	**37**	**38**	**36**
District No. 1	153	7	1	26	28	16	19	23	15	18
Abercrombie	2					1			1	
Aneta	2					1				1
Ardock	1								1	
Arthur	1			1						
Ayr	1						1			
Bartlett	1									1
Bathgate	1	1								
Bisbee	2			1		1				
Blabon	1							1		
Bowesmont	1					1				
Brocket	1									1
Calio	1						1			
Calvin	2								1	1
Cando	1						1			
Casselton	2				1				1	
Cavalier	1					1				
Cayuga	1				1					
Christine	1					1				
Churches Ferry	1				1					
Clyde	1				1					
Cogswell	2		1	1						
Colgate	1							1		
Conway	1					1				
Crary	1			1						
Crete	2	1				1				
Crocus	1	1								
Crystal	2					2				
Davenport	1								1	
De Lamere	2			1				1		
Derrick	1				1					
Devils Lake	1					1				
Drayton	2							1		1
Dresden	1								1	
Dwight	1								1	
Easby	1				1					
Egeland	1				1					
Elliott	1				1					
Embden	1									1
Emerado	2				1			1		
Engevale	1						1			
Fairdale	1			1						
Fargo	2	1							1	
Finley	1							1		
Forman	1						1			
Fort Ransom	1			1						
Gardner	1									1
Geneseo	1						1			
Gilby	2				1		1			
Glasston	1				1					
Grafton	2							1		1
Grand Forks	2	1			1					
Gwinner	1							1		
Hampden	1				1					
Hankinson	1				1					
Hannah	1							1		
Hansboro	2						1	1		

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
North Dakota—Con.										
District No. 1—Con.										
Hansel	1				1					
Hickson	1			1						
Hoople	2			1				1		
Hope	1							1		
Horace	1			1						
Hunter	1				1					
Inkster	2			1				1		
Joliette	1			1						
Kempton	1									1
Kloten	1									1
Lakota	1									1
Langdon	4			2	1					1
Larimore	2			1						1
Lawton	1				1					
Lidgerwood	2				1		1			
Lisbon	2			1					1	
Loma	1									1
Luverne	2							2		
Maida	1				1					
Mantador	3				1		1	1		
Manvel	1					1				
Mapes	1						1			
Mayville	1									1
Maza	1								1	
McLeod	1						1			
McVille	1						1			
Michigan	2			1			1			
Milnor	1			1						
Minto	1							1		
Mountain	1					1				
Mowbray	1	1								
Munich	1						1			
Neche	1			1						
Newville	1			1						
Niagara	1							1		
Olga	1				1					
Olmstead	1			1						
Orr	1				1					
Osnabrock	1			1						
Page	2				1				1	
Park River	1				1					
Pembina	1							1		
Perth	2					2				
Pisek	1								1	
Prosper	1	1								
Rock Lake	1							1		
Rutland	2				1		1			
Sarles	2			1				1		
St. Thomas	1									1
Stirum	1						1			
Tower City	4			2	1					1
Wahpeton	2						1		1	
Walcott	1							1		
Wales	3			1					1	1
Walhalla	2				1			1		
Wheatland	2					1			1	
Wyndmere	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
North Dakota—Con.										
District No. 2	153	12	55	41	22	9	23	8	18	15
Anamoose	2						2			
Arena	1							1		
Baldwin	1			1						
Balfour	2				1		1			
Bantry	1							1		
Barton	1						1			
Bergen	2			1		1				
Bismark	2						2			
Bordulac	1									1
Bottineau	2			2						
Bowdon	1					1				
Braddock	1	1								
Brantford	2	1	1							
Brinsmade	2					1				1
Carbury	1				1					
Carrington	2			1					1	
Cleveland	1				1					
Cooperstown	2				1			1		
Courtnay	2	1			1					
Crystal Springs	1	1								
Dawson	2			2						
Dazey	2			1					1	
Deering	1			1						
Driscoll	3			2			1			
Dunseith	1	1								
Eckelson	1									1
Edgeley	2	1						1		
Fessenden	1			1						
Fillmore	1			1						
Fingal	1			1						
Flora	1								1	
Gardena	1				1					
Glenfield	1									1
Glover	1			1						
Grace City	1									1
Granville	2			1			1			
Hamberg	1				1					
Hannaford	2						2			
Hastings	1								1	
Hazelton	1								1	
Hesper	1			1						
Hurdsfield	1			1						
Jamestown	1				1					
Jessie	1									1
Juanita	1									1
Jud	1				1					
Karlshruhe	1					1				
Karnak	1			1						
Kathryn	2			1				1		
Kensal	2				1				1	
Kief	1								1	
Kintyre	1								1	
Kongsberg	1								1	
Kramer	1			1						
Lake Williams	1						1			
La Moure	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
North Dakota—Con.										
District No. 2—Con.										
Lansford	2			1	1					
Leal	1		1							
Leeds	4			3			1			
Litchville	1			1						
Ludden	1									1
Maddock	1				1					
Marion	2						1	1		
Maxbass	2				1		1			
McHenry	2								1	1
Melville	1								1	
Menoken	1				1					
Merricourt	1									1
Minnewaukan	1								1	
Monango	1			1						
Mylo	1								1	
Nanson	1					1				
Napoleon	1						1			
Newburg	1				1					
New Rockford	2	1		1						
Nome	2		1	1						
Norwich	1			1						
Nortonville	1						1			
Oakes	1						1			
Oberon	1				1					
Omemee	1				1					
Oriska	2		1	1						
Overly	1			1						
Pillsbury	1				1					
Pingree	1	1								
Regan	3			1					2	
Revere	1						1			
Robinson	1	1								
Rogers	1								1	
Rolette	2							1	1	
Rolla	2			1						1
Russell	1			1						
Sanborn	3	1		1						1
Sheyenne	3				1	1				1
Souris	1				1					
Steele	1						1			
Strasburg	1				1					
Streeter	1	1								
Sutton	1									1
Sykeston	1									1
Tokio	1								1	
Towner	1						1			
Tuttle	1							1		
Velva	2				1	1				
Verendrye	1						1			
Voltaire	1			1						
Walum	1	1								
Warwick	1						1			
Willow City	2			2						
Wimbledon	2		1			1				
Wing	1					1				
Wolford	1			1						
Woodworth	1			1						

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
North Dakota—Con.										
District No. 3	123	17	4	39	25	7	17	6	5	3
Alexander	1				1					
Amidon	2	2								
Aurelia	1						1			
Beach	2				1		1			
Benedict	2	1		1						
Berthold	1				1					
Beulah	1						1			
Blaisdell	1			1						
Bonetrail	1			1						
Bowbells	2		1		1					
Bowman	2			2						
Bucyrus	1								1	
Burlington	1			1						
Carpio	1	1								
Cartwright	1			1						
Center	1			1						
Charbonneau	2			2						
Charlson	1				1					
Coleharbor	1								1	
Columbus	1								1	
Coulee	1						1			
Crosby	3			1	2					
Dickinson	1				1					
Dodge	2					1	1			
Dogden	1						1			
Douglas	1							1		
Dunn Center	2			2						
East Fairview	1				1					
Epping	1			1						
Flaxton	1				1					
Fort Clark	1			1						
Fortuna	1	1								
Garrison	1						1			
Glenburn	1				1					
Goldenvalley	2			1			1			
Golva	1				1					
Grenora	2			2						
Holliday	1				1					
Hartland	1						1			
Haynes	2	1			1					
Hazen	3	1		2						
Hebron	2					1		1		
Killdeer	1				1					
Larson	1	1								
Leith	1	1								
Lonetree	1		1							
Lorain	1				1					
Lostwood	1							1		
Mandan	1			1						
Manitou	1							1		
Mannhaven	1				1					
Manning	1			1						
Mohall	3	1		1		1				
Mott	1							1		
New England	2	1				1				

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
North Dakota—Con.										
District No. 3—Con.										
New Leipzig	2					1	1			
New Salem	2	1			1					
Noonan	1					1				
Norma	1								1	
Portal	2			1	1					
Powers Lake	1						1			
Rawson	1			1						
Ray	2			1						1
Reeder	1				1					
Regent	1	1								
Ruso	1			1						
Ryder	1						1			
Sanger	1					1				
Sanish	2			2						
Sawyer	2	1	1							
Selfridge	1						1			
Sentinel Butte	1				1					
Sherwood	1				1					
Shields	1									1
Spring Brook	1			1						
Stady	1				1					
Stanley	2						2			
Stanton	1								1	
Tagus	1			1						
Temple	1							1		
Timmer	1	1								
Tolley	2		1	1						
Trenton	1			1						
Turtle Lake	1			1						
Underwood	1						1			
Van Hook	1			1						
Watford City	3	1		2						
Werner	2			1			1			
Wildrose	3				2					1
Williston	2	1		1						
Ohio	**55**	**2**		**5**	**4**	**1**	**6**	**16**	**11**	**10**
District No. 3	4			1				2		1
College Corner	1							1		
Eldorado	1							1		
Miamisburg	1			1						
West Alexandria	1									1
District No. 4	4				1		1	1		1
Beaverdam	1							1		
Burkettsville	1						1			
Chattanooga	1									1
Pleasant Hill	1				1					

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Ohio—Continued.										
District No. 5	9						2	3	1	3
Antwep	1						1			
Continental	2							1		1
Grover Hill	1									1
Metamora	1								1	
Pioneer	1							1		
Stryker	1						1			
West Unity	1							1		
Willshire	1									1
District No. 6—Beaver	1	1								
District No. 7	5			1				2	2	
Blanchester	1								1	
Franklin	1							1		
Mount Sterling	1								1	
Springfield	1			1						
West Jefferson	1							1		
District No. 8	3				1				2	
Kenyon	1								1	
Mt. Victory	2				1				1	
District No. 9—Port Clinton	1						1			
District No. 10—New Marshfield	1									1
District No. 13	3			1				1		1
Bowling Green	1									1
Huron	1			1						
New Reigel	1							1		
District No. 14	2				1				1	
Amherst	1								1	
Pleasant City	1				1					
District No. 15	3							2	1	
Frazeyburg	1							1		
Lewisville	1								1	
Marietta	1							1		
District No. 16—Port Washington	1								1	
District No. 17	3							1	2	
Lexington	1							1		
Lucas	1								1	
West Lafayette	1								1	

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Ohio—Continued.										
District No. 18	9			1	1		2	3	1	1
Adena	1									1
Amsterdam	1							1		
Barnesville	1			1						
Bethesda	1				1					
Bridgeport	2						1	1		
Jewett	1							1		
Steubenville	1								1	
Yorkville	1						1			
District No. 19—Yorktown	2									2
District No. 22—Cleveland	2	1		1						
District No. 28	2					1		1		
Arcadia	1							1		
Vanlue	1					1				
Oklahoma	**267**	**27**	**41**	**54**	**50**	**21**	**21**	**28**	**5**	**20**
District No. 1	44	5	6	8	7	3	2	4	1	8
Apperson	1				1					
Avant	1									1
Barnsdall	1						1			
Bartlesville	1		1							
Bernice	1			1						
Bixby	2			1						1
Bluejacket	2			1						1
Choteau	2				1			1		
Claremore	1		1							
Cleveland	1									1
Collinsville	2							2		
Delaware	2	1								1
Fairland	1				1					
Grove	3			1		2				
Hallett	1							1		
Jenks	2	1					1			
Jennings	1			1						
Keystone	1									1
Lenapah	2		1	1						
Locust Grove	2				1					1
Mazie	1				1					
Miami	3	2		1						
Nowata	1				1					
Pawnee	1		1							
Pensacola	1		1							
Pershing	1	1								
Pryor	1				1					
Ramona	1								1	
Terlton	1									1
Tulsa	1					1				
Wann	2		1	1						

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Oklahoma—Contd.										
District No. 2	32	2	6	5	2	3	2	7	1	4
Checotah	1							1		
Council Hill	1			1						
Eufaula	3		1		2					
Gore	1		1							
Hanna	2							1	1	
Henryetta	4			2		1				1
Keota	1							1		
Morris	3		1			1				1
Muldrow	1							1		
Muskogee	2		1			1				
Okmulgee	1	1								
Oktaha	1						1			
Park Hill	1		1							
Preston	1	1								
Sallisaw	3			1				2		
Schulter	1			1						
Stigler	2						1	1		1
Vian	1									
Wagoner	1		1							1
Webbers Falls	1									
District No. 3	57	4	9	12	7	6	9	9	1	
Achille	1			1						
Albion	1	1								
Ardmore	2		1	1						
Ashland	1			1						
Atoka	2						2			
Aylesworth	1	1								
Blanco	1			1						
Boswell	1						1			
Broken Bow	2			1			1			
Caddo	1		1							
Calera	1							1		
Cameron	1		1							
Canadian	1			1						
Clayton	1		1							
Crowder	1		1							
Durant	1		1							
Fort Towson	1			1						
Gowen	1				1					
Grant	1				1					
Hartshorne	1							1		
Haworth	2			1			1			
Hugo	4		1			3				
Healdton	1				1					
Idabel	2			1		1				
Indianola	1							1		
Kenefic	1		1							
Kiowa	2			1				1		
Krebs	1							1		
Madill	1							1		
McAlister	3				1			2		
Millerton	2	1				1				
Octavia	1	1								
Orr	1				1					
Pittsburg	1							1		

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Oklahoma—Contd.										
District No. 3—Contd.										
Poteau	1				1					
Savannah	1			1						
Smithville	1						1			
Soper	3			1		1	1			
Stringtown	1						1			
Wilburton	1								1	
Wilson	3		1		1		1			
District No. 4	51	4	5	9	13	4	3	6	1	6
Ada	2	1	1							
Allen	2			1	1					
Asher	1				1					
Atwood	2			1	1					
Bristow	2				1				1	
Bromide	1		1							
Chandler	2				1	1				
Clarita	2		2							
Coalgate	3			1	1			1		
Dale	1				1					
Davenport	1									1
Hoffman	2	1				1				
Kelleyville	1									1
Kiefer	4	2			1		1			
Lehigh	2		1	1						
Milburn	2					1		1		
Mounds	1									1
Oilton	2				1					1
Roff	1							1		
Sapulpa	3			1				1		1
Seminole	1						1			
Shawnee	1				1					
Stuart	1			1						
Tecumseh	1							1		
Tishomingo	2			1			1			
Tupelo	1				1					
Wanette	1			1						
Wapanucka	3				1	1		1		
Weleetka	1									1
Wetumpka	1			1						
Wewaka	1				1					
District No. 5	17	2	8	1	4		2			
Choctaw	1		1							
Edmond	1		1							
Glencoe	1		1							
Gurthrie	3	1	1		1					
Hickory	1						1			
Lindsay	1				1					
Marshall	1				1					
Mulhall	1			1						
Navina	1						1			
Oklahoma City	1		1							
Pleasant Valley	1				1					
Stratford	1		1							
Sulphur	2	1	1							
Yale	1		1							

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Oklahoma—Contd.										
District No. 6	26	4	4	5	6	4	1	1	1	----
Carnegie	1	----	----	----	1	----	----	----	----	----
Cashion	2	----	----	----	1	----	1	----	----	----
Cement	1	----	----	----	1	----	----	----	----	----
Chattanooga	1	1	----	----	----	----	----	----	----	----
Comanche	1	----	1	----	----	----	----	----	----	----
Devol	2	----	----	----	----	1	----	1	----	----
Dover	1	----	----	----	----	----	----	----	1	----
Eakly	1	----	----	----	1	----	----	----	----	----
El Reno	1	----	1	----	----	----	----	----	----	----
Fort Cobb	1	----	----	1	----	----	----	----	----	----
Geronimo	1	----	----	1	----	----	----	----	----	----
Greenfield	1	----	----	1	----	----	----	----	----	----
Hastings	1	1	----	----	----	----	----	----	----	----
Hennessey	1	----	----	----	----	1	----	----	----	----
Hinton	1	----	----	----	----	1	----	----	----	----
Homestead	1	----	----	1	----	----	----	----	----	----
Lawton	3	2	1	----	----	----	----	----	----	----
Minco	1	----	----	----	1	----	----	----	----	----
Mustang	1	----	----	----	1	----	----	----	----	----
Richland	1	----	----	1	----	----	----	----	----	----
Walters	2	----	1	----	----	1	----	----	----	----
District No. 7	13	1	1	6	4	----	1	----	----	----
Arnett	1	----	----	----	1	----	----	----	----	----
Erick	1	----	1	----	----	----	----	----	----	----
Foss	1	----	----	1	----	----	----	----	----	----
Frederick	1	----	----	1	----	----	----	----	----	----
Gage	3	1	----	1	1	----	----	----	----	----
Grandfield	1	----	----	1	----	----	----	----	----	----
Granite	1	----	----	----	----	----	1	----	----	----
Lenora	1	----	----	----	1	----	----	----	----	----
Mount View	1	----	----	1	----	----	----	----	----	----
Shattuck	1	----	----	----	1	----	----	----	----	----
Thomas	1	----	----	1	----	----	----	----	----	----
District No. 8	27	5	2	8	7	1	1	1	----	2
Alva	1	----	----	----	----	----	1	----	----	----
Bliss	2	1	1	----	----	----	----	----	----	----
Boise City	1	----	----	----	1	----	----	----	----	----
Buffalo	1	----	----	----	1	----	----	----	----	----
Carmen	1	----	----	1	----	----	----	----	----	1
Driftwood	2	1	----	----	----	----	----	----	----	----
Gottry	1	1	----	----	----	----	----	----	----	----
Guymon	1	----	----	1	----	----	----	----	----	----
Imo	1	1	----	----	----	----	----	----	----	----
Ingersoll	1	----	----	----	1	----	----	----	----	----
Kenton	1	----	----	----	1	----	----	----	----	----
Lahoma	1	----	----	1	----	----	----	----	----	----
Laverne	1	----	----	----	1	----	----	----	----	----
May	1	----	----	1	----	----	----	----	----	----
Meno	1	1	----	----	----	----	----	----	----	----
Mutual	1	----	----	----	1	----	----	----	----	----
Nash	2	----	----	1	----	1	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Oklahoma—Contd.										
District No. 8—Contd.										
Ponca City	2			1				1		
Richmond	1		1							
Sumner	1				1					
Tonkawa	1									1
Woodward	2			2						
Oregon	**43**	**6**	**5**	**5**	**3**	**3**	**5**	**12**	**3**	**1**
District No. 1	17	2	2		3	2		5	2	1
Astoria	2								1	1
Bandon	1					1				
Bay City	1		1							
Butte Falls	1								1	
Coburg	1					1				
Florence	1							1		
Gold Hill	1				1					
Jefferson	1							1		
Lafayette	1	1								
Newport	1				1					
Seaside	1							1		
Sheridan	1							1		
Sherwood	1		1							
Tillamook	1							1		
Wheeler	1	1								
Waldport	1				1					
District No. 2	23	4	2	5		1	4	7		
Bend	1							1		
Condon	1			1						
Cove	1						1			
Ione	1							1		
Jordan Valley	2	1				1				
Joseph	2			1				1		
Klamath Falls	2	1	1							
Lexington	1							1		
Madras	1						1			
Metoline	1						1			
Nyssa	1			1						
Ontario	1							1		
Papine	1			1						
Pilot Rock	1						1			
Richland	1			1						
Stanfield	1							1		
The Dalles	1		1							
Vale	3	2						1		
District No. 3—Portland	3		1				1		1	

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Pennsylvania	**40**	**4**	**2**	**4**	**2**	**8**	**6**	**8**	**1**	**5**
District No. 8—Parkesburg	1	----	----	----	1	----	----	----	----	----
District No. 10	3	1	----	----	----	----	2	----	----	----
Lancaster	1	1	----	----	----	----	----	----	----	----
Maytown	1	----	----	----	----	----	1	----	----	----
Terre Hill	1	----	----	----	----	----	1	----	----	----
District No. 15—Honesdale	1	----	----	1	----	----	----	----	----	----
District No. 16—Blossburg	1	----	----	----	----	----	----	----	----	1
District No. 22—York	1	----	----	1	----	----	----	----	----	----
District No. 23—Bellefonte	1	----	1	----	----	----	----	----	----	----
District No. 24	4	----	----	----	----	----	----	3	----	1
Dunbar	1	----	----	----	----	----	----	1	----	----
Fayette City	1	----	----	----	----	----	----	1	----	----
Hollsopple	1	----	----	----	----	----	----	1	----	----
Uniontown	1	----	----	----	----	----	----	----	----	1
District No. 25	3	----	----	----	----	1	----	2	----	----
Burgettstown	1	----	----	----	----	1	----	----	----	----
Mt. Morris	1	----	----	----	----	----	----	1	----	----
Waynesburg	1	----	----	----	----	----	----	1	----	----
District No. 26	3	1	----	----	----	2	----	----	----	----
Beaver	1	1	----	----	----	----	----	----	----	----
New Castle	1	----	----	----	----	1	----	----	----	----
Volant	1	----	----	----	----	1	----	----	----	----
District No. 28—Farrell	1	----	----	----	----	----	----	----	----	1
District No. 29	2	----	1	1	----	----	----	----	----	----
Albion	1	----	----	1	----	----	----	----	----	----
Conneautville	1	----	1	----	----	----	----	----	----	----
District No. 31—Webster	1	----	----	----	----	----	----	1	----	----
District No. 34—Pittsburgh	6	1	----	----	----	----	2	2	1	----
District No. 36	3	----	----	----	----	2	----	----	----	1
Carnegie	2	----	----	----	----	2	----	----	----	----
McKeys Rocks	1	----	----	----	----	----	----	----	----	1
Philadelphia	9	1	----	1	1	3	2	----	----	1

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Rhode Island	**3**			**1**		**1**			**1**	
District No. 2—Kingston	1					1				
District No. 3	2			1					1	
Providence	1			1						
Woonsocket	1								1	
South Carolina	**227**	**14**	**18**	**23**	**24**	**43**	**44**	**21**	**22**	**18**
District No. 1	22	1	5	1	2	5	5	2	1	
Bonneau	1	1								
Charleston	7		5				2			
Cottageville	1				1					
Harleyville	1					1				
Lodge	1							1		
Manning	3						2	1		
McClellanville	1					1				
Paxville	1					1				
Reevesville	1						1			
Ridgeville	1				1					
Saint George	3					2			1	
Turbeville	1			1						
District No. 2	35	2		5	3	5	10	5	3	2
Aiken	2			1	1					
Allendale	3				1			2		
Bamberg	3					1			2	
Barnwell	2				1		1			
Beaufort	1						1			
Blackville	1			1						
Brunson	2						1			1
Denmark	2					2				
Dunbarton	1	1								
Edgefield	1					1				
Ehrhardt	2	1							1	
Estill	1							1		
Fairfax	2			1			1			
Hampton	1						1			
Johnston	2			1		1				
Monetta	2						2			
Olar	1							1		
Ridge Spring	1							1		
Scotia	1			1						
Varnville	1						1			
Wagoner	1									1
Windsor	1						1			
Yemassee	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
South Carolina—Con.										
District No. 3	46	3	3	8	2	15	9	----	2	4
Abbeville	3	----	----	----	----	2	----	----	1	----
Anderson	5	2	----	1	----	2	----	----	----	----
Central	2	----	----	----	----	1	----	----	----	1
Coronaca	1	----	----	1	----	----	----	----	----	----
Donalds	1	----	----	----	----	1	----	----	----	----
Due West	2	----	----	----	----	1	1	----	----	----
Easley	1	----	----	----	----	----	----	----	----	1
Greenville	2	----	----	----	----	----	2	----	----	----
Greenwood	3	1	----	1	----	1	----	----	----	----
Honea Path	4	----	2	2	----	----	----	----	----	----
Iva	1	----	----	----	----	1	----	----	----	----
Liberty	2	----	----	----	----	----	2	----	----	----
Lowndesville	1	----	----	----	----	1	----	----	----	----
McCormick	1	----	----	----	1	----	----	----	----	----
Mount Carmel	1	----	----	1	----	----	----	----	----	----
Newberry	1	----	----	----	----	----	----	----	----	1
Ninety Six	1	----	----	----	----	----	1	----	----	----
Norris	1	----	----	----	1	----	----	----	----	----
Parkesville	1	----	1	----	----	----	----	----	----	----
Pelzer	1	----	----	----	----	----	----	----	----	1
Pendleton	1	----	----	----	----	1	----	----	----	----
Pickens	1	----	----	----	----	----	----	----	1	----
Plum Branch	2	----	----	----	----	1	1	----	----	----
Prosperity	1	----	----	----	----	1	----	----	----	----
Sandy Spring	1	----	----	----	----	1	----	----	----	----
Senaca	1	----	----	----	----	----	1	----	----	----
Townville	1	----	----	1	----	----	----	----	----	----
Troy	1	----	----	1	----	----	----	----	----	----
Walhalla	1	----	----	----	----	----	1	----	----	----
Westminster	1	----	----	----	----	1	----	----	----	----
District No. 4	22	----	----	----	4	4	6	----	2	6
Carlisle	2	----	----	----	----	2	----	----	----	----
Clifton	1	----	----	----	----	----	----	----	----	1
Converse	1	----	----	----	----	----	----	----	----	1
Cowpens	1	----	----	----	----	----	----	----	----	1
Cross Anchor	1	----	----	----	1	----	----	----	----	----
Cross Hill	1	----	----	----	----	----	----	----	----	1
Duncan	1	----	----	----	1	----	----	----	----	----
Fountain Inn	2	----	----	----	----	----	2	----	----	----
Gray Court	1	----	----	----	----	----	1	----	----	----
Inman	1	----	----	----	----	----	1	----	----	----
Landrum	1	----	----	----	----	----	1	----	----	----
Laurens	2	----	----	----	----	1	----	----	1	----
Mountville	1	----	----	----	1	----	----	----	----	----
Pacolet	1	----	----	----	1	----	----	----	----	----
Simpsonville	1	----	----	----	----	----	1	----	----	----
Spartanburg	2	----	----	----	----	----	----	----	----	2
Union	1	----	----	----	----	----	----	----	1	----
Woodruff	1	----	----	----	----	1	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
South Carolina—Con.										
District No. 5	17	----	2	1	1	2	3	4	2	2
Blacksburg	2	----	----	----	----	1	----	1	----	----
Camden	2	----	----	1	----	----	1	----	----	----
Cheraw	2	----	----	----	----	----	----	----	2	----
Chesterfield	2	----	1	----	1	----	----	----	----	----
Gaffney	1	----	----	----	----	1	----	----	----	----
Great Falls	1	----	----	----	----	----	1	----	----	----
Jefferson	1	----	----	----	----	----	----	----	----	1
Lancaster	2	----	----	----	----	----	----	1	----	1
Ridgeway	1	----	----	----	----	----	1	----	----	----
Rock Hill	1	----	----	----	----	----	----	1	----	----
Shelton	1	----	1	----	----	----	----	----	----	----
York	1	----	----	----	----	----	----	1	----	----
District No. 6	50	4	4	4	7	8	8	4	11	----
Andrews	2	----	----	----	2	----	----	----	----	----
Bennettsville	2	----	----	----	----	1	1	----	----	----
Cades	1	----	----	----	----	1	----	----	----	----
Clio	4	3	----	----	----	----	1	----	----	----
Coward	1	----	----	----	----	----	----	----	1	----
Darlington	3	----	----	----	----	----	----	1	2	----
Dillon	1	----	----	----	----	----	----	----	1	----
Florence	3	----	----	----	----	1	----	----	2	----
Fork	1	----	----	----	----	----	1	----	----	----
Georgetown	4	----	1	----	1	----	1	1	----	----
Greeleyville	1	----	----	----	----	1	----	----	----	----
Hartsville	1	----	----	----	----	----	----	----	1	----
Hemingway	2	----	1	----	1	----	----	----	----	----
Johnsonville	2	----	----	1	1	----	----	----	----	----
Kingsbury	1	1	----	----	----	----	----	----	----	----
Kingtree	3	----	----	----	----	2	1	----	----	----
Lake City	3	----	----	----	----	----	2	1	----	----
Lamar	2	----	----	----	----	----	----	----	2	----
Lane	1	----	----	----	----	----	1	----	----	----
Latta	1	----	----	----	----	1	----	----	----	----
Little Rock	1	----	1	----	----	----	----	----	----	----
Lovis	1	----	----	1	----	----	----	----	----	----
Lydia	1	----	----	1	----	----	----	----	----	----
Marion	1	----	----	----	1	----	----	----	----	----
McColl	1	----	----	----	----	----	----	1	----	----
Oats	1	----	----	1	----	----	----	----	----	----
Scranton	1	----	----	----	----	----	----	----	1	----
Tatum	1	----	1	----	----	----	----	----	----	----
Timmonsville	2	----	----	----	1	----	----	----	1	----
Trio	1	----	----	----	----	1	----	----	----	----
District No. 7	35	4	4	4	5	4	3	6	1	4
Bowman	2	1	----	----	----	----	----	1	----	----
Branchville	4	2	----	----	----	1	----	----	1	----
Columbia	5	----	1	2	----	----	1	1	----	----
Elliott	1	----	1	----	----	----	----	----	----	----
Elloree	1	----	----	----	1	----	----	----	----	----
Fort Motte	1	----	----	1	----	----	----	----	----	----
Gilbert	2	----	----	----	----	1	----	----	----	1
Lynchburg	3	1	1	----	----	----	1	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
South Carolina—Con.										
District No. 7—Con.										
Mayesville	1				1					
Neeses	1				1					
New Brookland	1							1		
North	3				1	1				1
Orangeburg	2			1						1
Pelion	1									1
Pinewood	2		1					1		
Rowesville	1					1				
Springfield	1						1			
Sumter	2							2		
Swanson	1				1					
South Dakota	**394**	**3**	**9**	**45**	**111**	**64**	**115**	**27**	**7**	**13**
District No. 1	156	3	4	11	53	27	40	12	4	2
Alcester	2						1	1		
Alexandria	2				2					
Alpena	2				1		1			
Argonne	1				1					
Armour	1						1			
Artesion	1				1					
Avon	1						1			
Beresford	2					1	1			
Bijou Hills	1						1			
Bovee	1				1					
Bridgewater	1				1					
Canistota	1					1				
Canova	2	1			1					
Canton	1						1			
Carthage	2				1		1			
Centerville	2					1		1		
Chamberlain	3						2		1	
Chester	2				1	1				
Colman	1						1			1
Colton	3				1	1				
Cuthbert	1					1				
Dante	1					1				
Davis	2	1			1					
Dell Rapids	2					2				
Delmont	1						1			
Dimock	1						1			
Egan	1				1					
Elk Point	1							1		
Ellis	1				1					
Emery	2				2					
Ethan	2			1			1			
Farmer	1				1					
Flandreau	2						2			
Forestburg	1						1			
Fulton	2				2					
Gannvalley	2				2					
Garretson	1			1						
Geddes	3						2		1	
Harrisburg	1				1					
Hartford	2				1	1				

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
South Dakota—Con.										
District No. 1—Con.										
Howard	3			1		2				
Hudson	1					1				
Humboldt	2				2					
Hurley	2			1			1			
Irene	1						1			
Jefferson	2							2		
Kaylor	1				1					
Kimball	4				2	1	1			
Kingsburg	1						1			
Lake Andes	1				1					
Lane	2				1	1				
Lennox	2						1	1		
Lesterville	3		1				2			
Letcher	1				1					
Madison	2					1			1	
Marion	1				1					
Menno	1							1		
Missionhill	1						1			
Mitchell	4			2	2					
Montrose	1				1					
Mount Vernon	1				1					
Olivet	1							1		
Parker	3			1	1	1				
Parkston	2				1		1			
Platte	3						3			
Pukwanna	1						1			
Ravinia	1									1
Renner	1				1					
Romona	1								1	
Roswell	2			1	1					
Rutland	1							1		
Salem	3				1	2				
Scotland	2	1			1					
Sherman	1					1				
Shindler	1							1		
Sioux Falls	5				4	1				
Spencer	1						1			
Springfield	2			1	1					
Storla	2				1		1			
Tabor	2				1	1				
Tea	1			1						
Trent	1				1					
Tripp	1		1							
Tyndall	1					1				
Unityville	1			1						
Utica	1						1			
Valley Springs	1						1			
Vilas	1					1				
Volin	1							1		
Wagner	2					1	1			
Wakonda	2					1		1		
Ward	1					1				
Wentworth	1						1			
Wessington Springs	4		1		2		1			
Winifred	1		1							
Woonsocket	2				1		1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
South Dakota—Con.										
District No. 2	162	----	4	14	34	21	66	11	2	10
Aberdeen	1	----	----	----	----	----	----	1	----	----
Agar	1	----	----	----	----	1	----	----	----	----
Albee	1	----	----	----	----	1	----	----	----	----
Altamont	1	----	----	----	----	----	----	----	----	1
Andover	2	----	----	1	----	----	1	----	----	----
Arlington	1	----	----	----	----	----	1	----	----	----
Ashton	2	----	----	----	----	1	1	----	----	----
Astoria	1	----	----	----	----	----	----	----	----	1
Athol	1	----	----	----	----	----	1	----	----	----
Aurora	1	----	----	----	----	----	1	----	----	----
Badger	1	----	----	----	----	----	----	----	1	----
Barnard	1	----	----	----	----	----	1	----	----	----
Bemis	1	----	----	----	----	----	----	----	----	1
Big Stone City	2	----	----	----	----	1	----	----	----	1
Blunt	1	----	----	----	----	----	1	----	----	----
Bowdle	1	----	1	----	----	----	----	----	----	----
Bradley	2	----	----	1	----	----	1	----	----	----
Brandt	1	----	----	----	----	----	----	1	----	----
Brentford	1	----	----	----	----	----	1	----	----	----
Britton	1	----	----	----	----	----	1	----	----	----
Broadland	1	----	----	----	1	----	----	----	----	----
Brookings	4	----	----	----	2	1	1	----	----	----
Bruce	2	----	----	----	1	----	1	----	----	----
Bryant	2	----	----	----	----	----	2	----	----	----
Bushnell	1	----	----	----	1	----	----	----	----	----
Butler	1	----	----	----	----	----	1	----	----	----
Castlewood	2	----	----	----	1	----	1	----	----	----
Cavour	1	----	----	----	----	----	1	----	----	----
Clair City	1	----	----	----	----	----	1	----	----	----
Claremont	1	----	----	----	----	----	----	1	----	----
Clark	3	----	----	----	----	----	2	----	----	1
Clear Lake	2	----	----	----	----	1	----	----	----	1
Conde	2	----	----	----	----	----	2	----	----	----
Crandall	1	----	----	----	----	----	1	----	----	----
Crandon	1	----	----	----	----	----	1	----	----	----
Crocker	1	----	----	----	----	----	1	----	----	----
Dempster	1	----	----	1	----	----	----	----	----	----
De Smet	3	----	----	----	1	1	1	----	----	----
Doland	2	----	----	----	----	----	2	----	----	----
Eden	1	----	----	----	1	----	----	----	----	----
Elkton	2	----	----	----	1	----	1	----	----	----
Erwin	1	----	----	----	----	----	1	----	----	----
Esmond	1	----	----	----	----	----	1	----	----	----
Estelline	1	----	----	----	----	----	1	----	----	----
Frankfort	2	----	----	----	----	----	2	----	----	----
Garden City	1	----	1	----	----	----	----	----	----	----
Groton	1	----	----	----	----	----	1	----	----	----
Grover	1	----	----	----	----	----	----	1	----	----
Hammer	1	----	----	----	1	----	----	----	----	----
Harrold	2	----	1	----	----	----	1	----	----	----
Hayti	1	----	----	----	1	----	----	----	----	----
Hecla	1	----	----	----	----	----	1	----	----	----
Henry	2	----	----	----	----	----	2	----	----	----
Herreid	1	----	----	----	----	----	----	----	----	1
Hetland	1	----	----	----	----	----	1	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
South Dakota—Con.										
District No. 2—Con.										
Highmore	2				1		1			
Hillhead	1						1			
Holabird	1						1			
Hosmer	1				1					
Huron	4				3	1				
Iroquois	2				1		1			
Labolt	1					1				
Lake City	1						1			
Lake Norden	2				1		1			
Lake Preston	3			1	1	1				
Leola	2						1	1		
Lily	2			1		1				
Lowry	1				1					
Loyalton	1			1						
Manchester	1		1							
Melham	1						1			
Mellette	1						1			
Milbank	2					1	1			
Miller	1							1		
Mina	1					1				
Naples	1									1
Newark	1				1					
New Effington	1							1		
Northville	1					1				
Oldham	2				1	1				
Onida	2				1		1			
Ortley	1						1			
Osceola	1					1				
Peever	2			1	1					
Pierport	1						1			
Pierre	1					1				
Raymond	2				1		1			
Radfield	1				1					
Ree Heights	1							1		
Reville	2			1	1					
Rosholt	2							2		
Roslyn	1			1						
Sinai	1						1			
Sisseton	2				2					
St. Lawrence	1				1					
Strandburg	1				1					
Summit	2			1			1			
Toronto	2						1		1	
Troy	1					1				
Tulare	1					1				
Turton	1				1					
Twin Brooks	2						1			1
Veblen	2			1			1			
Verdon	1			1						
Vienna	1			1						
Virgil	1						1			
Wallace	1					1				
Watertown	1				1					
Waubay	2						2			
Webster	2			1			1			
Wecota	1					1				

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
South Dakota—Con.										
District No. 2—Con.										
Wetonka	1									1
White	1						1			
White Rock	1							1		
Wolsey	1						1			
Yale	1						1			
Zell	1				1					
District No. 3	76		1	20	24	16	9	4	1	1
Ardmore	1					1				
Belle Fourche	1			1						
Bison	1					1				
Bonesteel	3			1		2				
Burke	3				1	1		1		
Carter	1					1				
Chance	1					1				
Colome	1					1				
Cottonwood	1			1						
Dallas	2				1		1			
Deadwood	1				1					
Draper	1			1						
Edgemont	1			1						
Fairburn	1				1					
Fairfax	1			1						
Fort Pierre	1			1						
Fruitdale	1			1						
Gregory	2			1		1				
Hamill	1				1					
Herrick	1			1	1					
Hot Springs	2				2					
Interior	1				1					
Isabel	1				1					
Kadoka	2				1			1		
Kennebec	2						1	1		
Keystone	1			1						1
Laplant	1									
Lemmon	3			1		2				
Lucas	1						1			
Martin	1				1					
McIntosh	1				1					
McLaughlin	1						1			
Meadow	1					1				
Mission	1			1						
Morristown	2				1		1			
Murdo	1						1			
Newell	2			1	1					
Nisland	1				1					
Oelrichs	1			1						
Owanka	1				1					
Philip	1			1						
Piedmont	1				1					
Presho	2				2					
Quinn	1							1		
Rapid City	2			1	1					
Reliance	2			1	1					
Sorum	1				1					

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
South Dakota—Con.										
District No. 3—Con.										
St. Charles	1					1				
Thunder Hawk	1						1			
Timber Lake	2			1		1				
Vivian	1						1			
Wakpala	1								1	
White River	1						1			
Winner	3		1		1	1				
Witten	1					1				
Wood	1			1						
Tennessee	**66**	**3**	**1**	**3**	**6**	**8**	**12**	**17**	**4**	**12**
District No. 1	4						1	1		2
Baileyton	1									1
Chuckey	1						1			
Church Hill	1							1		
Kingsport	1									1
District No. 2	5	1			1		1			2
Jefferson City	1									1
Jellico	1						1			
New Market	1									1
Oliver Springs	1	1								
Talbott	1				1					
District No. 3—Jasper	1									1
District No. 4	7					3	1	1	1	1
Gordonsville	1									1
Lebanon	2					2				
Portland	1						1			
Rome	1							1		
Statesville	1					1				
Waltertown	1								1	
District No. 5	14		1	1		1	3	5		3
Alexandria	2							1		1
Beechgrove	1									1
Bellbuckle	1						1			
Coldwater	1						1			
Mulberry	1							1		
Murfreesboro	1		1							
Smithville	2						1	1		
Temperance Hall	1							1		
Unionville	1									1
Wartrace	1							1		
Woodbury	2			1		1				

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Tennessee—Contd.										
District No. 6	7	1			2	1	1	1	1	
Adams	1							1		
Cedar Hill	1						1			
Green Brier	2				1	1				
Nashville	1	1								
Springfield	1				1					
White House	1								1	
District No. 7	6				1		1	1	1	2
Centerville	1				1					1
Columbia	1									
Erin	1							1		
McEwen	1								1	
Slayden	1									1
West Point	1						1			
District No. 8	6				1	2	1	2		
Atwood	1							1		
Big Sandy	1					1				
Jackson	1					1				
Lexington	1				1					
Somerville	1						1			
Yuma	1							1		
District No. 9	5				1		1	2		1
Dresden	1							1		
Dyersburg	1									1
Franklin	1						1			
Martin	1							1		
Palmerville	1				1					
District No. 10	11	1		2		1	2	4	1	
Bartlett	2			1		1				
Kerrville	1							1		
Memphis	8	1		1			2	3	1	
Texas	**299**	**69**	**31**	**21**	**30**	**39**	**38**	**38**	**23**	**10**
District No. 1	32	2			6	7	3	8	5	1
Annona	1				1					
Avery	2							1	1	
Blossom	1							1		
Bogata	1					1				
Clarksville	1					1				
Cookville	1				1					
Cooper	5					1		2	2	
De Kalb	1							1		
Deport	1							1		
Detroit	1				1					

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Texas—Continued.										
District No. 1—Continued.										
Doglasville	1					1				
Fulbright	2	1					1			
Jefferson	1								1	
Marietta	1								1	
Maud	1	1								
Naples	2							1		1
Nash	1				1					
New Boston	1					1				
Paris	2					1	1			
Petty	1						1			
Sulphur Springs	2					1		1		
Texarkana	1				1					
Winfield	1				1					
District No. 2	17	3	2		3	4	2	1	1	1
Alto	2				1		1			
Burkeville	1					1				
Center	1				1					
Frankston	1	1								
Gary	1		1							
Jacksonville	1	1								
Joaquin	1					1				
Kountzo	1					1				
Lufkin	1					1				
Nacogdoches	1						1			
Orange	1							1		
Ponta	1									1
Port Arthur	1								1	
Woodville	2	1	1							
Zavella	1				1					
District No. 3	16	4	1	2		2	4	2		1
Alba	1							1		
Bullard	1	1								
Elmo	1	1								
Gladewater	1					1				
Golden	1		1							
Henderson	1						1			
Kaufman	1	1								
Kemp	1						1			
Longview	1						1			
Mineola	1			1						
Quitman	1			1						
Scurry	1					1				
Trinidad	1						1			
Troup	1	1								
Winnsboro	2							1		1
District No. 4	33	5	2	2		1	9	9	3	2
Altoga	1						1			
Bonham	1			1						
Celeste	1						1			
Collinsville	1	1								

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Texas—Continued.										
District No. 4—Continued.										
Commerce	2							1	1	
Copeville	1									1
Denison	2	1					1			
Emory	1						1			
Floyd	1						1			
Frisco	2							1	1	
Greenville	2					1	1			
Gunter	2		1				1			
Hagerman	1							1		
Honey Grove	1						1			
Howe	1							1		
Ladonia	2							1	1	
Lone Oak	2						1	1		
Murphy	1	1								
Pottsboro	1							1		
Princeton	1		1							
Quinlan	1			1						
Sadler	1							1		
Southmayde	1	1								
Weston	1							1		
Windom	1	1								1
Wylie	1									
District No. 5	7	1	1		1	3		1		
Addison	1							1		
Coppell	1				1					
Duncanville	1					1				
Ennis	1	1								
Farmers Branch	1					1				
Hutchins	1		1							
Vickery	1					1				
District No. 6	13	4	2	1	1	2	1	1		1
Abbott	1									1
Buffalo	2		1		1					
Calvert	1							1		
Currie	1		1							
Franklin	1	1								
Kirvin	1					1				
Kosse	1	1								
Malone	1			1						
Mt. Calm	1						1			
Oakwood	1	1								
Purdon	1	1								
Teague	1					1				
District No. 7	13	1	1	1	1	2	7			
Cleveland	1					1				
Dobbin	1						1			
Dodge	1		1							
Galveston	2						2			
Hitchcock	1			1						
Magnolia	1						1			
Palestine	1						1			

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Texas—Continued.										
District No. 7—Continued.										
Ratcliff	1						1			
Shepherd	1	1								
Trinity	1					1				
Weldon	1						1			
Winnie	1				1					
District No. 8	11	4		2		2	2	1		
Goose Creek	1						1			
Harrisburg	1					1				
Hempstead	1					1				
Hobby	2	2								
Houston	1	1								
Humble	1	1								
Navasota	1						1			
Plantersville	1							1		
Richmond	1			1						
Rosenberg	1			1						
District No. 9	12	1		2		1		1	6	1
Alvin	1			1						
Eagle Lake	1								1	
El Campo	1	1								
Francitas	1								1	
Halletsville	1								1	
Lagrange	1									1
Louise	1							1		
Markham	1			1						
Nordheim	1								1	
Rock Island	1					1				
Westhoff	1								1	
Yoakum	1								1	
District No. 10	6		1	1			4			
Austin	1						1			
Elgin	1						1			
Granger	1						1			
Manor	2		1				1			
Taylor	1			1						
District No. 11	10	2			1		3	3	1	
Bartlett	1						1			
Belton	1							1		
Crawford	1	1								
Elm Mott	1							1		
Lorena	1								1	
Meridian	1						1			
Morgan	1				1					
Temple	1	1								
Travis	1						1			
Walnut Springs	1							1		

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Texas—Continued.										
District No. 12	14	3	3	1	1	3	----	3	----	----
Aledo	1	----	----	----	----	----	----	1	----	----
Bluff Dale	1	----	----	----	----	1	----	----	----	----
Cleburne	4	1	----	1	----	1	----	1	----	----
Cresson	1	----	----	----	1	----	----	----	----	----
Ft. Worth	4	----	3	----	----	1	----	----	----	----
Keller	1	1	----	----	----	----	----	----	----	----
Mansfield	1	----	----	----	----	----	----	1	----	----
Riovista	1	1	----	----	----	----	----	----	----	----
District No. 13	18	4	2	2	2	4	----	2	2	----
Argyle	1	----	----	----	----	----	----	1	----	----
Bellevue	1	----	----	----	----	----	----	1	----	----
Bradleys Corner	1	1	----	----	----	----	----	----	----	----
Denton	2	----	----	----	----	----	----	----	2	----
Eliasville	1	----	----	----	1	----	----	----	----	----
Era	1	----	----	----	----	1	----	----	----	----
Garza	1	----	----	----	----	1	----	----	----	----
Graham	1	----	----	----	1	----	----	----	----	----
Henrietta	1	----	----	1	----	----	----	----	----	----
Muenster	2	1	1	----	----	----	----	----	----	----
Pilot Point	1	----	----	----	----	1	----	----	----	----
Scotland	1	----	----	----	----	1	----	----	----	----
South Bend	2	1	1	----	----	----	----	----	----	----
Westover	1	----	----	1	----	----	----	----	----	----
Wichita Falls	1	1	----	----	----	----	----	----	----	----
District No. 14	5	2	----	----	1	----	----	1	----	1
Kingsbury	1	----	----	----	----	----	----	----	----	1
Rockport	2	2	----	----	----	----	----	----	----	----
San Antonio	2	----	----	----	1	----	----	1	----	----
District No. 15	15	3	1	2	3	2	----	----	4	----
Alice	1	----	----	----	----	----	----	----	1	----
Donna	1	1	----	----	----	----	----	----	----	----
Eagles Pass	1	----	----	----	----	1	----	----	----	----
Harlingen	2	1	----	----	1	----	----	----	----	----
Laredo	2	----	----	1	----	----	----	----	1	----
Leming	1	----	----	----	1	----	----	----	----	----
Mirando City	1	----	----	1	----	----	----	----	----	----
N. Pleasanton	1	----	----	----	----	----	----	----	1	----
Orangegrove	1	----	----	----	----	----	----	----	1	----
Pearsall	1	----	----	----	1	----	----	----	----	----
Rio Hondo	1	----	----	----	----	1	----	----	----	----
San Juan	1	1	----	----	----	----	----	----	----	----
Three Rivers	1	----	1	----	----	----	----	----	----	----
District No. 16	10	2	2	1	3	----	----	2	----	----
Bronte	1	----	1	----	----	----	----	----	----	----
Cain City	1	----	----	----	----	----	----	1	----	----
Clint	1	1	----	----	----	----	----	----	----	----
El Paso	3	----	----	----	2	----	----	1	----	----
Garden City	1	----	1	----	----	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Texas—Continued.										
District No. 16—Continued.										
Midland	1			1						
Pecos	1				1					
Sherwood	1	1								
District No. 17	46	23	9	3	3	3	2	2	1	
Avoca	1		1							
Bertram	1						1			
Breckenridge	2	2								
Brownwood	1	1								
Caddo	2	1	1							
Cherokee	1				1					
Cisco	1						1			
Coleman	1	1								
Crystal Falls	1	1								
De Leon	1	1								
Desdemona	3	2	1							
Eastland	2	1			1					
Frankell	1			1						
Gorman	1		1							
Gustine	1		1							
Hasse	1	1								
Ivan	1	1								
Kempner	1							1		
Llano	2			2						
Lometa	1					1				
Luray	1	1								
Marble Falls	1				1					
Miles	1		1							
Mineral Wells	1					1				
Moran	1	1								
Mullin	1							1		
Necessity	1	1								
Novice	1	1								
Olden	2	2								
Oplin	1		1							
Palo Pinto	1								1	
Pioneer	1		1							
Ranger	4	3				1				
Sipe Springs	2	2								
Wayland	1		1							
District No. 18	21	5	4	1	4	3	1	1		2
Booker	1	1								
Bovina	1	1								
Clairmont	1			1						
Farwell	2	1	1							
Friona	1	1								
Gail	1		1							
Girard	1					1				
Glazier	1					1				
Groom	1				1					
Idalon	1									1
Lamesa	1							1		
Lockney	1					1				
Longworth	1		1							

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Texas—Contd.										
District No. 18—Contd.										
Miami	1				1					
Paducah	1	1								
Perryton	1				1					
Rule	1						1			
Southland	1									1
Texline	2		1		1					
Utah	**18**	**6**	**3**	**2**	**2**	**1**		**2**	**2**	
District No 1	12	5	2	1		1		2	1	
Delta	1							1		
Duchesne	1	1								
Garland	2	1						1		
Greenriver	1	1								
Kanab	1	1								
Marysvale	1	1								
Myton	2		2							
Oasis	1								1	
Panguitch	1			1						
Tremonton	1					1				
District No. 2	6	1	1	1	2				1	
Bingham Canyon	1				1					
Lehi	1	1								
Midvale	1								1	
Payson	1			1						
Salt Lake City	1		1							
Spanish Fork	1				1					
Virginia	**45**	**6**	**6**	**2**	**4**	**3**	**4**	**4**	**7**	**9**
District No. 1	3	1						1		1
Horsey	1							1		
Milford	1									1
Reedville	1	1								
District No. 2	11	2	3		1		2		2	1
Holland	1						1			
Norfolk	2		2							
Ocean View	1	1								
Portsmouth	3	1			1					1
Sebrell	1		1							
Sedley	1								1	
Walters	1						1			
Windsor	1								1	
District No. 3—Richmond	1		1							

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Virginia—Continued										
District No. 4	6	1	2	----	1	----	----	----	1	1
Disputanta	1	----	1	----	----	----	----	----	----	----
Ford	1	----	----	----	----	----	----	----	----	1
Hopewell	1	1	----	----	----	----	----	----	----	----
Meherrin	1	----	1	----	----	----	----	----	----	----
Petersburg	2	----	----	----	1	----	----	----	1	----
District No. 5	2	1	----	1	----	----	----	----	----	----
Troutdale	1	1	----	----	----	----	----	----	----	----
Virgilina	1	----	----	1	----	----	----	----	----	----
District No. 6	2	----	----	----	----	2	----	----	----	----
Huddleston	1	----	----	----	----	1	----	----	----	----
Moneta	1	----	----	----	----	1	----	----	----	----
District No. 7—Scottsville	1	----	----	----	----	1	----	----	----	----
District No. 8	3	----	----	1	1	----	----	1	----	----
Culpeper	1	----	----	----	1	----	----	----	----	----
Quatico	1	----	----	1	----	----	----	----	----	----
Stafford	1	----	----	----	----	----	----	1	----	----
District No. 9	9	----	----	----	1	----	1	1	3	3
Clinchport	1	----	----	----	----	----	----	----	----	1
Cleveland	1	----	----	----	----	----	----	----	1	----
Coeburn	1	----	----	----	----	----	----	----	1	----
Fort Blackmore	1	----	----	----	----	----	----	----	----	1
Gundy	1	----	----	----	----	----	----	----	----	1
Honaker	1	----	----	----	1	----	----	----	----	----
Ivanhoe	1	----	----	----	----	----	----	1	----	----
Pocahontas	1	----	----	----	----	----	1	----	----	----
Wise	1	----	----	----	----	----	----	----	1	----
District No. 10	7	1	----	----	----	----	1	1	1	3
Craigsville	1	----	----	----	----	----	1	----	----	----
Doe Hill	1	----	----	----	----	----	1	----	----	----
Monroe	2	1	----	----	----	----	----	----	----	1
Mount Sidney	1	----	----	----	----	----	----	1	----	----
Pamplin	1	----	----	----	----	----	----	----	1	----
Stuarts Draft	1	----	----	----	----	----	----	----	----	1
Washington	**56**	**13**	**5**	**5**	**12**	**6**	**2**	**4**	**2**	**7**
District No. 1	5	5	----	----	----	----	----	----	----	----
Black Diamond	1	1	----	----	----	----	----	----	----	----
Georgetown	1	1	----	----	----	----	----	----	----	----
Seattle	3	3	----	----	----	----	----	----	----	----
District No. 2—Anacortes	1	----	1	----	----	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Washington—Contd.										
District No. 3	6	2	----	1	----	----	----	2	----	1
Aberdeen	1	----	----	----	----	----	----	1	----	----
Ilwaco	1	----	----	1	----	----	----	----	----	----
Kelso	1	1	----	----	----	----	----	----	----	----
Napavine	1	----	----	----	----	----	----	1	----	----
Tacoma	1	1	----	----	----	----	----	----	----	----
Vancouver	1	----	----	----	----	----	----	----	----	1
District No. 4	26	5	2	1	8	4	1	1	1	3
Clarkston	2	1	----	----	1	----	----	----	----	----
Colfax	1	----	----	----	----	----	----	----	----	1
Connell	1	1	----	----	----	----	----	----	----	----
Coulee	1	----	----	1	----	----	----	----	----	----
Ephrata	1	----	1	----	----	----	----	----	----	----
Farmington	1	----	----	----	----	----	----	----	----	1
Grandview	1	----	1	----	----	----	----	----	----	----
Hartline	1	----	----	----	----	----	----	1	----	----
Kahlotus	1	----	----	----	1	----	----	----	----	----
Kennewick	1	----	----	----	----	1	----	----	----	----
Lind	1	1	----	----	----	----	----	----	----	----
Neppel	1	----	----	----	----	1	----	----	----	----
Oakesdale	1	----	----	----	----	----	1	----	----	----
Othello	1	1	----	----	----	----	----	----	----	----
Pasco	2	----	----	----	----	2	----	----	----	----
Prosser	1	----	----	----	1	----	----	----	----	----
Ritzville	1	----	----	----	1	----	----	----	----	----
Ruff	1	----	----	----	1	----	----	----	----	----
St. John	1	----	----	----	1	----	----	----	----	----
Sunnyside	1	----	----	----	1	----	----	----	----	----
Waitsburg	1	----	----	----	1	----	----	----	----	----
White Swan	1	----	----	----	----	----	----	----	----	1
Wilsoncreek	1	----	----	----	----	----	----	----	1	----
Yakima	1	1	----	----	----	----	----	----	----	----
District No. 5	18	1	2	3	4	2	1	1	1	3
Bridgeport	1	----	----	1	----	----	----	----	----	----
Chelan	1	----	----	----	----	1	----	----	----	----
Colville	2	----	----	1	----	----	----	----	1	----
Davenport	1	----	----	----	----	1	----	----	----	----
Harrington	1	----	----	----	1	----	----	----	----	----
Leavenworth	1	----	----	----	1	----	----	----	----	----
Mansfield	1	1	----	----	----	----	----	----	----	----
Molson	1	----	----	----	1	----	----	----	----	----
Northport	2	----	----	1	----	----	----	----	----	1
Omak	1	----	----	----	----	----	----	1	----	----
Oroville	2	----	----	----	1	----	1	----	----	----
Rockford	1	----	----	----	----	----	----	----	----	1
Spokane	1	----	----	----	----	----	----	----	----	1
Waterville	1	----	1	----	----	----	----	----	----	----
Withrow	1	----	1	----	----	----	----	----	----	----

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
West Virginia	**34**	**1**	**1**	----	**2**	**4**	**2**	**5**	**5**	**14**
District No. 1	7	1	----	----	----	2	----	1	----	3
Benwood	1	----	----	----	----	1	----	----	----	----
Fairmont	1	----	----	----	----	----	----	----	----	1
Grafton	1	----	----	----	----	----	----	----	----	1
Jacksonburg	1	----	----	----	----	----	----	----	----	1
New Martinsville	1	1	----	----	----	----	----	----	----	----
New Cumberland	1	----	----	----	----	----	----	1	----	----
Pine Grove	1	----	----	----	----	1	----	----	----	----
District No. 2	3	----	1	----	----	----	----	----	----	2
Keyser	1	----	1	----	----	----	----	----	----	----
Philippi	1	----	----	----	----	----	----	----	----	1
Tunnelton	1	----	----	----	----	----	----	----	----	1
District No. 3	10	----	----	----	1	----	----	----	1	8
Auburn	1	----	----	----	----	----	----	----	----	1
Buckhannon	1	----	----	----	----	----	----	----	----	1
Cairo	1	----	----	----	----	----	----	----	----	1
Clarksburg	2	----	----	----	----	----	----	----	----	2
Harrisville	1	----	----	----	----	----	----	----	1	----
Lumberport	1	----	----	----	----	----	----	----	----	1
Pullman	1	----	----	----	----	----	----	----	----	1
Shinnston	1	----	----	----	----	----	----	----	----	1
Wallace	1	----	----	----	1	----	----	----	----	----
District No. 4	5	----	----	----	1	----	----	1	2	1
Grantsville	1	----	----	----	1	----	----	----	----	----
Huntington	2	----	----	----	----	----	----	1	1	----
Point Pleasant	1	----	----	----	----	----	----	----	1	----
Winfield	1	----	----	----	----	----	----	----	----	1
District No. 5	8	----	----	----	----	2	1	3	2	----
Davy	1	----	----	----	----	----	----	1	----	----
Gilbert	1	----	----	----	----	----	1	----	----	----
Matooka	1	----	----	----	----	1	----	----	----	----
Mullens	2	----	----	----	----	----	----	1	1	----
Pineville	1	----	----	----	----	----	----	----	1	----
Welch	1	----	----	----	----	----	----	1	----	----
Williamson	1	----	----	----	----	1	----	----	----	----
District No. 6—Cabincreek	1	----	----	----	----	----	1	----	----	----
Wisconsin	**75**	----	**2**	**11**	**10**	**10**	**11**	**14**	**6**	**11**
District No. 1—Evansville	1	----	----	----	----	1	----	----	----	----
District No. 2	4	----	1	----	1	----	----	----	1	1
Ixonia	1	----	----	----	1	----	----	----	----	----
Jackson	1	----	1	----	----	----	----	----	----	----
Plymouth	1	----	----	----	----	----	----	----	----	1
Rome	1	----	----	----	----	----	----	----	1	----

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Wisconsin—Contd.										
District No. 3	13		1	3		2	1	2	2	2
Albany	1						1			
Blanchardville	1									1
Browntown	1								1	
Darlington	1							1		
Highland	1			1						
Hollandale	1							1		
Lancaster	2			2						
Montfort	1		1							
Mt. Sterling	1					1				
Richland Center	1								1	
Soldiers Grove	1					1				
Sun Prairie	1									1
District No. 6	3			1	1					1
Fond du Lac	1									1
Packwaukee	1			1						
Princeton	1				1					
District No. 7	7			2	1	1				3
Black Hawk	1									1
Granton	1									1
Greenwood	1			1						
Humbird	1									1
Loyal	1			1						
Prairie du Sac	1					1				
Wonewoc	1				1					
District No. 8	4						1	1	1	1
Marion	1								1	
Ogdensburg	1							1		
Scandinavia	1									1
Waukesha	1						1			
District No. 9	3					1		1	1	
Argonne	1								1	
Crandon	1					1				
Crivitz	1							1		
District No. 10	17			2	1	3	6	2	1	2
Allen	1					1				
Alma	1				1					
Altoona	1					1				
Boyceville	1							1		
Cadott	1						1			
Campia	1			1						
Chetek	1						1			
Colfax	1						1			
Cumberland	1									1
Cylon	1							1		
Hammond	1								1	

Number of bank suspensions, by States, congressional districts, and years, 1921–1929—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Wisconsin—Contd.										
District No. 10—Contd.										
Jim Falls	1			1						
Pepin	1						1			
Poskin	1					1				
Rice Lake	1						1			
River Falls	1									1
Wilson	1						1			
District No. 11	23			3	6	2	3	8		1
Bruce	1							1		
Clear Lake	1				1					
Danbury	2					1	1			
Eagle River	1					1				
Fifield	1						1			
Hayward	1				1					
Kennan	1							1		
Ladysmith	1							1		
Prentice	1							1		
Sanborn	1				1					
Saxon	1				1					
Shell Lake	1							1		
Springbrook	1							1		
Superior	1				1					
Three Lakes	1			1						
Tomahawk	1									1
Trego	1						1			
Wanderoos	1				1					
Washburn	2			2						
Westboro	1							1		
Wheeler	1							1		
Wyoming: District No. 1	**60**	**6**	**4**	**9**	**32**	**3**	**3**	**2**		**1**
Baggs	1					1				
Basin	4		1	1	1					1
Buffalo	1				1					
Carpenter	1				1					
Cheyenne	3				3					
Clearmont	1				1					
Cowley	1				1					
Dixon	1			1						
Douglas	1				1					
Dubois	1							1		
Frannie	1		1							
Garland	1	1								
Gillette	2	1		1						
Glendo	2				1		1			
Glenrock	1				1					
Greybull	2				1			1		
Guernsey	2	1			1					
Hillsdale	1				1					
Hudson	1					1				

Number of bank suspensions, by States, congressional districts, and years, 1921-1929—Continued

	Total, 1921-1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Wyoming—Con.										
Jay Em	1				1					
Kane	1		1							
Kaycee	2		1		1					
Keeline	1				1					
Levoye	1					1				
Lingle	2				2					
Lost Springs	1						1			
Lusk	2			1	1					
Manderson	1				1					
Manville	1			1						
Medicine Bow	1			1						
Moorcroft	2	2								
New Castle	2				2					
Osage	1				1					
Pine Bluff	1						1			
Powell	1				1					
Ranchester	1			1						
Riverton	1				1					
Rock River	1			1						
Sheridan	1				1					
Thermopolis	1				1					
Torrington	2				2					
Upton	2	1			1					
Van Tassell	1				1					
Wheatland	1			1						

SUMMARY

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Alabama	**32**	**1**		**2**	**10**	**5**	**2**	**1**		**11**
District No. 1	1							1		
District No. 2	3	1				1				
District No. 3	9			1	3	1				4
District No. 4	2					2				
District No. 5	2				2					
District No. 7	3				2					1
District No. 8	3			1			1			1
District No. 9	5									5
District No. 10	4				2	1	1			
Arizona: District No. 1	**27**	**6**	**4**	**9**	**3**	**3**	**1**	**1**		
Arkansas	**95**	**5**	**4**	**5**	**11**	**8**	**19**	**18**	**14**	**11**
District No. 1	32		1	2	6	1	8	8	4	2
District No. 2	8	1			1	1	2	2	1	
District No. 3	3						1	2		
District No. 4	9	1	1	1	1	2	3			
District No. 5	13	1			2		4	1	1	4
District No. 6	15	1	1	1		3	1	5		3
District No. 7	15	1	1	1	1	1			8	2
California	**31**	**3**	**6**	**2**	**2**	**3**	**5**	**6**		**4**
District No. 1	4		3		1					
District No. 2	2		1							1
District No. 3	2	1			1					
District No. 7	10	1				2	4	3		
District No. 11	8	1	2	1		1		3		
Los Angeles	4			1						3
San Francisco	1						1			
Colorado	**89**	**13**	**8**	**18**	**9**	**15**	**14**	**4**	**3**	**5**
District No. 1	12	1		2		7	1		1	
District No. 2	39	7	2	11	4	4	7		2	2
District No. 3	22	4	4	2	4	2	3	3		
District No. 4	16	1	2	3	1	2	3	1		3
Connecticut	**2**		**1**		**1**					
District No. 2	1				1					
District No. 3	1		1							

Summary—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Delaware: District No. 1	2								1	1
Florida	190	5	5	4	3	1	43	31	35	63
District No. 1	69		3		1		12	4	11	38
District No. 2	26	1	1	3	2		6	5	4	4
District No. 3	7	1				1	3	2		1
District No. 4	88	3	1	1			22	21	20	20
Georgia	319	56	14	11	29	31	102	18	26	32
District No. 1	37	11	2	1	1	2	6	3	2	9
District No. 2	27	3		2	6	2	8	2	3	1
District No. 3	37	7	1		3	3	13	3	4	3
District No. 4	25	4		1		2	13	3	2	
District No. 5	14	1	3		1		7		1	1
District No. 6	16	1				2	5	2	3	3
District No. 7	18	1	1			2	12	1		1
District No. 8	27	2	1	2	5	7	8	1		1
District No. 9	41	8	3	3	5	4	11	3		4
District No. 10	22	5			2	3	5		1	6
District No. 11	19	6		1	2	1	3		5	1
District No. 12	36	7	3	1	4	3	11		5	2
Hawaii	1		1							
Idaho	72	23	8	10	7	8	4	7	2	3
District No. 1	27	8	2	3	2	2	3	4		3
District No. 2	45	15	6	7	5	6	1	3	2	
Illinois	138	10	4	5	14	8	20	29	14	34
District No. 6	13	2	2	3	1					5
District No. 10	1						1			
District No. 11	4							1	1	2
District No. 12	5							1	2	2
District No. 13	7	2	1				1		2	1
District No. 14	12	1			2	2	3	1	2	1
District No. 15	8	2						4		2
District No. 17	13			1	3	1	3	4		1
District No. 18	5					2			1	2
District No. 19	25	2		1	3	1	7	5	5	1
District No. 20	8				2		1	3		2
District No. 21	13				1		1	3	1	7
District No. 22	5		1		1			1		2
District No. 23	3				1			1		1
District No. 24	10	1				1	2	3		3
District No. 25	6					1	1	2		2

Summary—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Indiana	**115**	**7**	**7**	**7**	**4**	**10**	**7**	**25**	**24**	**24**
District No. 1	3	1	----	----	----	----	----	----	2	----
District No. 2	13	1	----	----	1	----	1	----	5	5
District No. 3	4	----	3	----	----	----	----	----	----	1
District No. 4	8	----	1	3	----	1	----	----	2	1
District No. 5	6	1	----	1	----	----	1	1	2	----
District No. 6	3	----	1	----	----	----	----	----	1	1
District No. 7	4	1	----	----	----	----	----	1	2	----
District No. 8	15	----	1	2	----	3	1	2	1	5
District No. 9	14	----	----	----	----	2	1	5	4	2
District No. 10	11	2	----	1	----	1	1	2	2	2
District No. 11	11	----	----	----	1	2	----	5	1	2
District No. 12	13	1	----	----	1	1	2	6	----	2
District No. 13	10	----	1	----	1	----	----	3	2	3
Iowa	**528**	**24**	**12**	**35**	**83**	**84**	**135**	**70**	**51**	**34**
District No. 1	30	1	1	2	6	1	3	6	9	1
District No. 2	25	3	2	2	2	3	2	3	6	2
District No. 3	40	1	2	1	6	11	5	3	6	5
District No. 4	48	2	----	1	7	13	13	4	4	4
District No. 5	26	----	----	----	3	3	8	8	2	2
District No. 6	27	1	----	----	6	6	7	3	1	3
District No. 7	36	1	2	2	8	6	10	5	1	1
District No. 8	33	1	----	1	9	7	4	6	3	2
District No. 9	41	2	1	10	9	4	8	2	2	3
District No. 10	130	2	2	10	16	18	49	17	11	5
District No. 11	92	10	2	6	11	12	26	13	6	6
Kansas	**223**	**14**	**20**	**34**	**16**	**19**	**46**	**36**	**26**	**12**
District No. 1	15	1	2	----	----	1	4	2	3	2
District No. 2	26	3	1	3	3	2	5	5	2	2
District No. 3	40	2	4	6	3	----	13	10	1	1
District No. 4	31	----	2	5	4	4	5	4	5	2
District No. 5	17	3	3	1	----	3	2	3	1	1
District No. 6	42	1	----	7	1	3	13	3	13	1
District No. 7	33	2	5	9	2	3	2	8	----	2
District No. 8	19	2	3	3	3	3	2	1	1	1
Kentucky	**43**	**3**	**2**	**2**	**7**	**6**	**7**	**7**	**7**	**2**
District No. 1	5	1	----	2	----	----	----	----	1	1
District No. 2	3	----	----	----	----	1	1	1	----	----
District No. 3	1	----	----	----	----	----	----	----	1	----
District No. 4	7	----	----	----	2	1	4	----	----	----
District No. 7	2	----	----	----	2	----	----	----	----	----
District No. 8	10	2	2	----	1	1	1	2	----	1
District No. 9	8	----	----	----	1	2	----	4	1	----
District No. 10	5	----	----	----	----	1	----	----	4	----
District No. 11	2	----	----	----	1	----	1	----	----	----

Summary—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Louisiana	**34**	**7**	**4**	**4**	**2**	**3**	**8**	**4**	**2**	----
District No. 2	3	----	----	2	----	----	----	----	1	----
District No. 3	6	----	----	----	1	----	4	1	----	----
District No. 4	4	1	----	1	----	1	----	----	1	----
District No. 5	6	2	3	----	----	----	1	----	----	----
District No. 6	4	----	----	----	----	----	1	3	----	----
District No. 7	6	2	----	----	1	2	1	----	----	----
District No. 8	5	2	1	1	----	----	1	----	----	----
Maine	**3**	----	**1**	**1**	----	----	----	**1**	----	----
District No. 2	1	----	----	1	----	----	----	----	----	----
District No. 3	2	----	1	----	----	----	----	1	----	----
Maryland	**11**	**5**	**2**	----	----	**2**	----	----	**1**	**1**
District No. 1	2	1	1	----	----	----	----	----	----	----
District No. 2	1	----	1	----	----	----	----	----	----	----
District No. 5	2	1	----	----	----	----	----	----	----	1
District No. 6	2	1	----	----	----	1	----	----	----	----
Baltimore	4	2	----	----	----	1	----	----	1	----
Massachusetts	**6**	**5**	----	**1**	----	----	----	----	----	----
District No. 11	5	5	----	----	----	----	----	----	----	----
District No. 13	1	----	----	1	----	----	----	----	----	----
Michigan	**66**	**8**	**4**	**3**	**7**	**5**	**23**	**7**	----	**9**
District No. 2	3	1	----	----	----	----	----	----	----	2
District No. 3	2	----	----	----	----	1	----	----	----	1
District No. 4	7	2	1	----	1	----	2	1	----	----
District No. 5	4	3	----	----	1	----	----	----	----	----
District No. 6	3	----	----	----	----	1	1	----	----	1
District No. 7	19	1	1	----	1	1	12	3	----	----
District No. 8	6	1	2	1	1	----	----	----	----	1
District No. 9	4	----	----	----	1	1	2	----	----	----
District No. 10	12	----	----	1	2	----	5	1	----	3
District No. 11	4	----	----	----	1	----	1	1	----	1
District No. 12	2	----	----	1	----	----	----	1	----	----

Summary—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Minnesota	**411**	**13**	**14**	**45**	**55**	**50**	**92**	**65**	**46**	**31**
District No. 1	28	2	----	3	4	2	8	3	1	5
District No. 2	66	3	1	4	14	6	14	14	10	----
District No. 3	17	1	1	----	4	2	2	1	2	4
District No. 4	6	----	----	----	1	----	3	1	----	1
District No. 6	52	----	1	10	5	9	10	11	4	2
District No. 7	65	5	1	3	5	5	21	11	5	9
District No. 8	14	1	----	1	2	1	4	2	2	1
District No. 9	115	----	4	16	14	17	22	16	19	7
District No. 10	48	1	6	8	69	8	8	6	3	2
Mississippi	**34**	**5**	**10**	**2**	**1**	**1**	**5**	**5**	**4**	**1**
District No. 1	2	----	1	1	----	----	----	----	----	----
District No. 2	5	----	2	----	----	----	----	3	----	----
District No. 3	17	4	4	----	1	1	4	1	1	1
District No. 4	6	----	2	----	----	----	1	1	2	----
District No. 6	1	----	----	1	----	----	----	----	----	----
District No. 7	2	----	1	----	----	----	----	----	1	----
District No. 8	1	1	----	----	----	----	----	----	----	----
Missouri	**296**	**17**	**11**	**20**	**43**	**45**	**58**	**48**	**31**	**23**
District No. 1	33	2	1	3	4	3	4	4	8	4
District No. 2	28	3	1	----	4	8	4	6	1	1
District No. 3	34	----	2	3	5	7	9	7	----	1
District No. 4	22	----	2	2	1	1	9	4	1	2
District No. 5	16	1	----	4	3	----	5	2	----	1
District No. 6	16	1	----	2	1	4	3	----	1	4
District No. 7	20	----	----	1	4	4	5	3	2	1
District No. 8	16	1	----	1	2	----	4	3	4	1
District No. 9	18	1	1	----	3	2	4	1	5	1
District No. 10	1	----	----	----	----	----	----	1	----	----
District No. 13	14	1	1	----	2	6	2	1	----	1
District No. 14	41	3	1	3	4	7	6	10	5	2
District No. 15	18	----	1	1	6	1	1	1	4	3
District No. 16	19	4	1	----	4	2	2	5	----	1
Montana	**203**	**21**	**31**	**77**	**46**	**16**	**8**	**2**	**1**	**1**
District No. 1	43	2	5	9	19	6	2	----	----	----
District No. 2	160	19	26	68	27	10	6	2	1	1
Nebraska	**339**	**28**	**23**	**17**	**17**	**12**	**18**	**25**	**50**	**149**
District No. 1	32	5	2	----	1	----	3	1	3	17
District No. 2	18	3	2	----	----	----	4	2	3	4
District No. 3	107	6	4	5	4	6	4	7	24	47
District No. 4	33	2	4	1	1	1	----	----	9	15
District No. 5	37	----	1	1	2	1	2	4	4	22
District No. 6	112	12	10	10	9	4	5	11	7	44

Summary—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Nevada: District No. 1	**3**	----	**1**	----	----	----	----	----	**1**	**1**
New Hampshire: District No. 2	**1**	----	----	----	----	**1**	----	----	----	----
New Jersey	**3**	----	**2**	----	----	----	----	----	----	**1**
District No. 3	1	----	1	----	----	----	----	----	----	----
District No. 6	1	----	1	----	----	----	----	----	----	----
District No. 7	1	----	----	----	----	----	----	----	----	1
New Mexico: District No. 1	**62**	**5**	**8**	**14**	**22**	**10**	**1**	**1**	----	**1**
New York	**26**	**5**	**1**	**4**	**6**	----	----	**2**	**3**	**5**
District No. 1	1	----	----	----	1	----	----	----	----	----
District No. 31	2	----	1	----	----	----	----	----	1	----
District No. 34	2	----	----	1	----	----	----	----	----	1
District No. 36	3	----	----	1	1	----	----	1	----	----
District No. 37	2	----	----	----	----	----	----	1	----	1
District No. 39	3	1	----	----	1	----	----	----	----	1
District No. 40	2	----	----	1	----	----	----	----	1	----
New York	11	4	----	1	3	----	----	----	1	2
North Carolina	**125**	**15**	**9**	**19**	**13**	**18**	**11**	**14**	**8**	**18**
District No. 1	18	1	2	2	1	3	2	5	----	2
District No. 2	16	2	1	2	1	3	2	1	----	4
District No. 3	13	1	----	5	----	1	1	2	2	1
District No. 4	19	3	1	----	2	5	----	2	1	5
District No. 5	6	1	1	----	1	1	1	----	1	----
District No. 6	25	1	3	7	6	3	1	2	1	1
District No. 7	10	3	----	----	----	1	----	2	2	2
District No. 8	11	2	----	3	1	1	2	----	1	1
District No. 9	7	1	1	----	1	----	2	----	----	2
North Dakota	**429**	**36**	**10**	**106**	**75**	**32**	**59**	**37**	**38**	**36**
District No. 1	153	7	1	26	28	16	19	23	15	18
District No. 2	153	12	5	41	22	9	23	8	18	15
District No. 3	123	17	4	39	25	7	17	6	5	3

Summary—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Ohio	**55**	**2**	----	**5**	**4**	**1**	**6**	**16**	**11**	**10**
District No. 3	4	----	----	1	----	----	----	2	----	1
District No. 4	4	----	----	----	1	----	1	1	----	1
District No. 5	9	----	----	----	----	----	2	3	1	3
District No. 6	1	1	----	----	----	----	----	----	----	----
District No. 7	5	----	----	1	----	----	----	2	2	----
District No. 8	3	----	----	----	1	----	----	----	2	----
District No. 9	1	----	----	----	----	----	1	----	----	----
District No. 10	1	----	----	----	----	----	----	----	----	1
District No. 13	3	----	----	1	----	----	----	1	----	1
District No. 14	2	----	----	----	1	----	----	----	1	----
District No. 15	3	----	----	----	----	----	----	2	1	----
District No. 16	1	----	----	----	----	----	----	----	1	----
District No. 17	3	----	----	----	----	----	----	1	2	----
District No. 18	9	----	----	1	1	----	2	3	1	1
District No. 19	2	----	----	----	----	----	----	----	----	2
District No. 22	2	1	----	1	----	----	----	----	----	----
District No. 28	2	----	----	----	----	1	----	1	----	----
Oklahoma	**267**	**27**	**41**	**54**	**50**	**21**	**21**	**28**	**5**	**20**
District No. 1	44	5	6	8	7	3	2	4	1	8
District No. 2	32	2	6	5	2	3	2	7	1	4
District No. 3	57	4	9	12	7	6	9	9	1	----
District No. 4	51	4	5	9	13	4	3	6	1	6
District No. 5	17	2	8	1	4	----	2	----	----	----
District No. 6	26	4	4	5	6	4	1	1	1	----
District No. 7	13	1	1	6	4	----	1	----	----	----
District No. 8	27	5	2	8	7	1	1	1	----	2
Oregon	**43**	**6**	**5**	**5**	**3**	**3**	**5**	**12**	**3**	**1**
District No. 1	17	2	2	----	3	2	----	5	2	1
District No. 2	23	4	2	5	----	1	4	7	----	----
District No. 3	3	----	1	----	----	----	1	----	1	----
Pennsylvania	**40**	**4**	**2**	**4**	**2**	**8**	**6**	**8**	**1**	**5**
District No. 8	1	----	----	----	1	----	----	----	----	----
District No. 10	3	1	----	----	----	----	2	----	----	----
District No. 15	1	----	----	1	----	----	----	----	----	----
District No. 16	1	----	----	----	----	----	----	----	----	1
District No. 22	1	----	----	1	----	----	----	----	----	----
District No. 23	1	----	1	----	----	----	----	----	----	----
District No. 24	4	----	----	----	----	----	----	3	----	1
District No. 25	3	----	----	----	----	1	----	2	----	----
District No. 26	3	1	----	----	----	2	----	----	----	----
District No. 28	1	----	----	----	----	----	----	----	----	1
District No. 29	2	----	1	1	----	----	----	----	----	----
District No. 31	1	----	----	----	----	----	----	1	----	----
District No. 34	6	1	----	----	----	----	2	2	1	----
District No. 36	3	----	----	----	----	2	----	----	----	1
Philadelphia	9	1	----	1	1	3	2	----	----	1

Summary—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Rhode Island	**3**			**1**		**1**			**1**	
District No. 2	1					1				
District No. 3	2			1					1	
South Carolina	**227**	**14**	**18**	**23**	**24**	**43**	**44**	**21**	**22**	**18**
District No. 1	22	1	5	1	2	5	5	2	1	
District No. 2	35	2		5	3	5	10	5	3	2
District No. 3	46	3	3	8	2	15	9		2	4
District No. 4	22				4	4	6		2	6
District No. 5	17		2	1	1	2	3	4	2	2
District No. 6	50	4	4	4	7	8	8	4	11	
District No. 7	35	4	4	4	5	4	3	6	1	4
South Dakota	**394**	**3**	**9**	**45**	**111**	**64**	**115**	**27**	**7**	**13**
District No. 1	156	3	4	11	53	27	40	12	4	2
District No. 2	162		4	14	34	21	66	11	2	10
District No. 3	76		1	20	24	16	9	4	1	1
Tennessee	**66**	**3**	**1**	**3**	**6**	**8**	**12**	**17**	**4**	**12**
District No. 1	4						1	1		2
District No. 2	5	1			1		1			2
District No. 3	1									1
District No. 4	7									1
District No. 5	14		1	1		3	1	1	1	3
District No. 6	7	1			2	1	3	5		
District No. 7	6				1		1	1	1	
District No. 8	6				1	2	1	1	1	2
District No. 9	5				1		1	2		
District No. 10	11	1		2		1	2	4	1	1
Texas	**299**	**69**	**31**	**21**	**30**	**39**	**38**	**38**	**23**	**10**
District No. 1	32	2			6	7	3	8	5	1
District No. 2	17	3	2		3	4	2	1	1	1
District No. 3	16	4	1	2		2	4	2		1
District No. 4	33	5	2	2		1	9	9	3	2
District No. 5	7	1	1		1	3		1		
District No. 6	13	4	2	1	1	2	1	1		1
District No. 7	13	1	1	1	1	2	7			
District No. 8	11	4		2		2	2	1		
District No. 9	12	1		2		1		1	6	1
District No. 10	6		1	1			4			
District No. 11	10	2			1		3	3	1	
District No. 12	14	3	3	1	1	3		3		
District No. 13	18	4	2	2	2	4		2	2	
District No. 14	5	2			1			1		1
District No. 15	15	3	1	2	3	2			4	
District No. 16	10	2	2	1	3			2		
District No. 17	46	23	9	3	3	3	2	2	1	
District No. 18	21	5	4	1	4	3	1	1		2

Summary—Continued

	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
Utah	**18**	**6**	**3**	**2**	**2**	**1**	----	**2**	**2**	----
District No. 1	12	5	2	1	----	1	----	2	1	----
District No. 2	6	1	1	1	2	----	----	----	1	----
Virginia	**45**	**6**	**6**	**2**	**4**	**3**	**4**	**4**	**7**	**9**
District No. 1	3	1	----	----	----	----	----	1	----	1
District No. 2	11	2	3	----	1	----	2	----	2	1
District No. 3	1	----	1	----	----	----	----	----	----	----
District No. 4	6	1	2	----	1	----	----	----	1	1
District No. 5	2	1	----	1	----	----	----	----	----	----
District No. 6	2	----	----	----	----	2	----	----	----	----
District No. 7	1	----	----	----	----	1	----	----	----	----
District No. 8	3	----	----	1	1	----	----	1	----	----
District No. 9	9	----	----	----	1	----	1	1	3	3
District No. 10	7	1	----	----	----	----	1	1	1	3
Washington	**56**	**13**	**5**	**5**	**12**	**6**	**2**	**4**	**2**	**7**
District No. 1	5	5	----	----	----	----	----	----	----	----
District No. 2	1	----	1	----	----	----	----	----	----	----
District No. 3	6	2	----	1	----	----	----	2	----	1
District No. 4	26	5	2	1	8	4	1	1	1	3
District No. 5	18	1	2	3	4	2	1	1	1	3
West Virginia	**34**	**1**	**1**	----	**2**	**4**	**2**	**5**	**5**	**14**
District No. 1	7	1	----	----	----	2	----	1	----	3
District No. 2	3	----	1	----	----	----	----	----	----	2
District No. 3	10	----	----	----	1	----	----	----	1	8
District No. 4	5	----	----	----	1	----	----	1	2	1
District No. 5	8	----	----	----	----	2	1	3	2	----
District No. 6	1	----	----	----	----	----	1	----	----	----
Wisconsin	**75**	----	**2**	**11**	**10**	**10**	**11**	**14**	**6**	**11**
District No. 1	1	----	----	----	----	1	----	----	----	----
District No. 2	4	----	1	----	1	----	----	----	1	1
District No. 3	13	----	1	3	----	2	1	2	2	2
District No. 6	3	----	----	1	1	----	----	----	----	1
District No. 7	7	----	----	2	1	1	----	----	----	3
District No. 8	4	----	----	----	----	----	1	1	1	1
District No. 9	3	----	----	----	----	1	----	1	1	----
District No. 10	17	----	----	2	1	3	6	2	1	2
District No. 11	23	----	----	3	6	2	3	8	----	1
Wyoming: District No. 1	**60**	**6**	**4**	**9**	**32**	**3**	**3**	**2**	----	**1**

RECAPITULATION

	Total 1929–1920	1821	1922	1923	1924	1925	1926	1927	1928	1929
Alabama	32	1	----	2	10	5	2	1	----	11
Alaska	----	----	----	----	----	----	----	----	----	----
Arizona	27	6	4	9	3	3	1	1	----	----
Arkansas	95	5	4	5	11	8	19	18	14	11
California	31	3	6	2	2	3	5	6	----	4
Colorado	89	13	8	18	9	15	14	4	3	5
Connecticut	2	----	1	----	1	----	----	----	----	----
Delaware	2	----	----	----	----	----	----	----	1	1
Florida	190	5	5	4	3	1	43	31	35	63
Georgia	319	56	14	11	29	31	102	18	26	32
Hawaii	1	----	1	----	----	----	----	----	----	----
Idaho	72	23	8	10	7	8	4	7	2	3
Illinois	138	10	4	5	14	8	20	29	14	34
Indiana	115	7	7	7	4	10	7	25	24	24
Iowa	528	24	12	35	83	84	135	70	51	34
Kansas	223	14	20	34	16	19	46	36	26	12
Kentucky	43	3	2	2	7	6	7	7	7	2
Louisiana	34	7	4	4	2	3	8	4	2	----
Maine	3	----	1	1	----	----	----	1	----	----
Maryland	11	5	2	----	----	2	----	----	1	1
Massachusetts	6	5	----	1	----	----	----	----	----	----
Michigan	66	8	4	3	7	5	23	7	----	9
Minnesota	411	13	14	45	55	50	92	65	46	31
Mississippi	34	5	10	2	1	1	5	5	4	1
Missouri	296	17	11	20	43	45	58	48	31	23
Montana	203	21	31	77	46	16	8	2	1	1
Nebraska	339	28	23	17	17	12	18	25	50	149
Nevada	3	----	1	----	----	----	----	----	1	1
New Hampshire	1	----	----	----	----	1	----	----	----	----
New Jersey	3	----	2	----	----	----	----	----	----	1
New Mexico	62	5	8	14	22	10	1	1	----	1
New York	26	5	1	4	6	----	----	2	3	5
North Carolina	125	15	9	19	13	18	11	14	8	18
North Dakota	429	36	10	106	75	32	59	37	38	36
Ohio	55	2	----	5	4	1	6	16	11	10
Oklahoma	267	27	41	54	50	21	21	28	5	20
Oregon	43	6	5	5	3	3	5	12	3	1
Pennsylvania	40	4	2	4	2	8	6	8	1	5
Rhode Island	3	----	----	1	----	1	----	----	1	----
South Carolina	227	14	18	23	24	43	44	21	22	18
South Dakota	394	3	9	45	111	64	115	27	7	13
Tennessee	66	3	1	3	6	8	12	17	4	12
Texas	299	69	31	21	30	39	38	38	23	10
Utah	18	6	3	2	2	1	----	2	2	----
Vermont	----	----	----	----	----	----	----	----	----	----
Virginia	45	6	6	2	4	3	4	4	7	9
Washington	56	13	5	5	12	6	2	4	2	7
West Virginia	34	1	1	----	2	4	2	5	5	14
Wisconsin	75	----	2	11	10	10	11	14	6	11
Wyoming	60	6	4	9	32	3	3	2	----	1
Total	5, 641	500	356	647	778	611	957	662	487	643

Mr. POLE. Mr. Chairman, on that question you asked a moment ago in reference to chain and group systems——

The CHAIRMAN. Yes.

Mr. POLE. Those systems were not mentioned by name, but simply by number of banks controlled. That will be sufficient?

The CHAIRMAN. Yes.

Mr. POLE. If you want the names they can be made available.

The CHAIRMAN. We will now hear Governor Young.

STATEMENT OF HON. ROY A. YOUNG, GOVERNOR OF THE FEDERAL RESERVE BOARD

Governor YOUNG. Mr. Chairman and members of the committee, I want, first, to refer to a letter that the board wrote to the committee about a week ago and quote excerpts from it.

> The board feels that group, chain, and branch banking presents one of the most important and most difficult problems of our changing banking structure before the country at the present time. It believes that more complete information regarding the forces which have impelled this new development will be necessary before conclusions of value can be arrived at regarding its effects—financial, economic, and social. The board has not yet reached such conclusions and is not, therefore, in a position to designate a representative to appear before your committee and to speak for the board at this time.

That would appear that the board has not done any work in reference to group, chain, and branch banking. In reality it has done a great deal of work. I have watched the records of these hearings with a great deal of interest and much profit. I find much that I am going to present will be a repetition of what the Comptroller of the Currency has already presented. Very much of what I have does not need to be a part of this record, in my opinion.

In this file [indicating] there is a great deal of information that the board has made public at different times over the past eight or nine years in reference to group and chain banking. That is far too much material for anyone to read and there is much repetition in it; so that I have attemtped to condense this in the statement that I will leave with the committee. Even that statement is far too long to read at this meeting to-day.

We can, however, furnish mimeographed copies of it to the members of the committee. It is a digest of all the data in the possession of the Federal Reserve Board on the subject of branch, group, and chain banking.

There are being submitted to the committee at the same time, as exhibits, copies of all material referred to in this digest.

In this connection, however, attention is called to the fact that part of the material submitted is confidential in its nature and probably ought not to be published in any report of the committee's hearings. These confidential reports are indicated both on the exhibits and by explanatory statements in the body of the digest, so that the committee can easily eliminate them if they should decide to publish this digest or any of these exhibits.

I shall try to cover this briefly, Mr. Chairman.

The CHAIRMAN. For the purpose of clarifying the record I understand you will furnish each member of the committee with mimeographed copies of this brief which is for their immediate information.

Governor YOUNG. Correct.

The CHAIRMAN. To be used as the committee sees fit in the conduct of this study?

Governor YOUNG. There is nothing confidential in this report, however—this part of it [indicating].

The CHAIRMAN. It is a separate report you are submitting?

Governor YOUNG. Yes. Some of these other reports are confidential.

Mr. FORT. And there is an indication on the material of which part it is confidential?

Governor YOUNG. Yes, sir.

Mr. BRAND. Have you that ready for distribution now?

Governor YOUNG. I will have it before the day is over.

The CHAIRMAN. When you furnish that we will distribute it to the members of the committee.

Mr. FORT. May that distribution be made tonight so that we will have it ready for cross-examination of Governor Young to-morrow?

The CHAIRMAN. I understand that is the intention.

Mr. FORT. So that we will not waste time with useless questions to-morrow that may be covered in the statement?

The CHAIRMAN. That will be taken care of. Now, let me get this clear——

Governor YOUNG. That will be ready to-night.

The CHAIRMAN. This statement that you are filing with the committee this evening is the same as you have there?

Governor YOUNG. Yes, sir; I can cover that briefly. That covers all the legal research work that the Federal reserve system has done since 1922 and concludes with a statement that the Federal reserve system made in February, containing a digest of all the State laws regarding branch banking in the United States. That is brought up to the last minute.

The CHAIRMAN. I should like to ask you also, Governor, whether you have extra copies of the exhibits or whether that is the only copy available.

Governor YOUNG. That is the only copy I have with me. I think this is condensed in such manner that very few members of the committee will care to refer to this detailed information. If they do, we can furnish it.

Mr. LETTS. If a member of the committee becomes interested in one particular point, he can go to the exhibits and follow it up?

Governor YOUNG. Yes, sir.

The CHAIRMAN. I am wondering whether this statement you are going to go over this morning should not be placed in the record.

Governor YOUNG. I think that it should.

The CHAIRMAN. Without objection this particular document from which Governor Young is speaking now will be inserted in the record and furnished to the members of the committee this afternoon so that it will be available for study before the meeting to-morrow.

Governor YOUNG. Correct.

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

FEDERAL RESERVE BOARD DIGEST OF DATA ON BRANCH, GROUP, AND CHAIN BANKING

The following is a digest of all the data in the possession of the Federal Reserve Board on the subject of branch, group, and chain banking. There is being submitted to the committee at the same time as exhibits, copies of all the material

referred to in this digest. In this connection, attention is called to the fact that part of the material submitted is confidential in its nature and probably ought not to be published in any report of the committee's hearings. These confidential portions are indicated both on the exhibits and by explanatory statements in the body of the digest, so that the committee can easily eliminate them if it should desire to publish this digest or any of the exhibits.

I. Legal research:
   1. September, 1922. Status of branch banking under the laws of the several States.
   2. December, 1924. Comprehensive article on branch banking, including legal status.
   3. March, 1925. Digest of State laws as of December 31, 1924.
   4. June, 1926. Supplement to December, 1924, article.
   5. February, 1929. Branch banking developments to June 30, 1928.
   6. October, 1929. Digest of State laws re ownership of bank stocks by holding companies.
   7. December, 1929. Branch and chain banking developments in 1929.
   8. February, 1930. Digest of State laws re branch banking.

II. Statistical research re branch banking:
   1. June, 1924.
   2. December, 1925.
   3. December, 1926.
   4. February 25 and June 30, 1927.
   5. June, 1928.
   6. June, 1929.
   7. December, 1929.

III. Statistical research on chain banking:
   1. December, 1922.
   2. June, 1926.
   3. June, 1928.
   4. June, 1929.
   5. December, 1929.
   6. Annual report for 1927.
   7. Annual report for 1928.

IV. Branch banking in foreign countries:
   1. Canada.
   2. British Isles.
   3. Germany.
   4. France.
   5. Japan.

V. History, United States:
   1. Branch Banking Before the Civil War: Address by Hon. Edmund Platt.
   2. Branch Banking for Country Banks: Address by Hon. Edmund Platt.
   3. Recent growth of branch banking through 1924.
   4. Branch banking in the United States from June, 1924, to December, 1925.
   5. Branch banking developments in 1926.
   6. Branch banking developments to June 30, 1928.
   7. Branch and chain banking developments to June 30, 1929.

VI. Federal legislation on branch banking.
   1. First bank of the United States.
   2. Second bank of the United States.
   3. National banks.
   4. Postal savings banks.
   5. Federal reserve banks.
   6. Federal land banks and joint-stock land banks.
   7. War Finance Corporation.
   8. Federal intermediate credit banks.
   9. The McFadden Act.
      (*a*) National banks.
      (*b*) State member banks of the Federal reserve system.

VII. Policy of Federal reserve system on branch banking.
1. Annual report for 1915.
2. Recommendations during 1916.
3. Annual report for 1917.
4. Annual report for 1918.
5. Developments during 1919.
6. Annual report for 1919.
7. Recommendation of Federal reserve agents in 1921.
8. Annual report for 1922.
9. Annual report for 1923.
10. Administrative policy of Federal Reserve Board prior to November 1923.
11. Federal Reserve Board's resolution of November 7, 1923.
12. Recommendations on McFadden bill.
13. Administrative policy during 1924.
14. Regulations of 1924.
15. After the McFadden Act.

VIII. Policy of Federal reserve system on chain banking.
1. Conditions of membership.
2. Recommendations for legislation.
3. Correspondence with Hon. Louis T. McFadden regarding administrative control.
4. Annual reports for 1927 and 1928.
5. Conferences of Federal reserve agents and governors of Federal reserve banks, 1927–28.
6. Committee to study chain banking.

IX. Bank failures.
1. Federal Reserve Board's annual report for 1926.
2. Report on bank suspensions, 1921–1927.
3. Study of bank suspensions, 1921–1929.
4. Federal Reserve Board's annual report for 1929.
5. Studies of bank failures by Professor Sprague and Doctor Burgess.

RESEARCH WORK

During the past eight years the Federal Reserve Board has done a great amount of research work in connection with the subject of branch banking, and during the past four years it has made much research in connection with the subject of group and chain banking. It is believed that the results of this research work will be very enlightening and helpful to the committee. There is given below a brief discussion of the various different phases of this research work, and there are attached exhibits containing the principal documents containing the detailed information resulting from this research work.

I. LEGAL RESEARCH

1. During September, 1922, Mr. Robert F. Leonard, secretary to Hon. John R. Mitchell, who was at that time a member of the Federal Reserve Board, prepared a preliminary draft of a digest showing the status of branch banking under the laws of the several States. In this digest it appears that in September, 1922, branch banking was prohibited by law in 15 States and was expressly permitted by law in 13 States. In 12 States there were no specific provisions of law prohibiting branch banking, but the State supervisory authorities did not permit branches to be established. In four States the laws prohibited branch banking, but permitted the establishment of branch offices or agencies; and in 3 States the establishment of branches was permitted without any express authorization of law. In 1 State branch banking was permitted by implication, but there were no branches then in operation in that State. Of the 13 States expressly permitting branch banking, 8 permitted it without any geographical limitations, while 5 permitted the establishment of branches only within certain geographical limits. A copy of this preliminary digest (X–3530) is attached hereto as Exhibit A. It appears that it was never put in final form.

2. In December, 1924, there was published in the Federal Reserve Bulletin (pp. 925–940) a comprehensive article with reference to the entire subject of branch banking, which reviewed the administrative policies of the Federal Reserve Board with reference to this subject, the board's recommendations to Congress, the extent of branch banking in the United States, both within and without the Federal reserve system, and the growth of branch banking. In addition to

much valuable statistical material, this article also contained (pp. 930–931) a summary of the legal status of branch banking in the United States and a map showing in which States branch banking was authorized, in which States it was prohibited and in which States the laws contained no provisions with reference to branch banking. This summary showed that at that time branch banking was expressly prohibited by statute in 17 States and was either expressly or implied permitted by statutory provisions in an equal number of States The free extension of branch banking on a state-wide basis was expressly authorized in 9 States, was impliedly authorized in 2 other States, and was permitted without specific, statutory authority in 2 additional States, making 13 States in all in which state-wide branch banking was permitted. Three States restricted branch banking to the county or territory contiguous to the city or county in which the parent bank was located and two States limited the establishment of branches to the corporate limits of the city in which the parent bank was located. In three States additional offices or agencies, but not full-power branches, were permitted either by statutory provisions or under judicial decisions. A copy of this article is attached as Exhibit B.

3. In March, 1925, there was published in the Federal Reserve Bulletin (pp. 182–187) a complete digest of State laws pertaining to branch banking, which was prepared in the office of the board's general counsel with the assistance of the counsel for the various Federal reserve banks. This digest showed the status of branch-banking legislation in the various States at the close of the year 1924. It showed that branch banking was permitted either specifically or by implication in 20 States and was specifically prohibited in 17 States. It also shows that at that time there were 11 States having no express provisions of law covering branch banking. A copy of this digest is attached hereto as Exhibit I (3).

4. In June, 1926, there was published in the Federal Reserve Bulletin (pp. 401–408) an article with reference to branch banking in the United States, bringing up to date the data contained in the article published in the Federal Reserve Bulletin for December, 1924. With reference to the legal situation in the various States, this article showed that three States had enacted legislation regarding the establishment and maintenance of branches during the year 1925. It showed that, on December 31, 1925, branch banking was permitted in 20 States either expressly or by implication; it was prohibited in 17 States; and there was no legislation on the subject in 10 States. In addition to the 20 States permitting branch banking, New Jersey had recently enacted a statute authorizing banks and trust companies to establish branches within the limits of the city in which the head office was located, if national-banking associations in New Jersey should at the time be permitted by act of Congress to establish branches. A copy of this article is attached as Exhibit D.

5. In February, 1929, there was published in the Federal Reserve Bulletin (pp. 97–103) an article entitled "Branch Banking Developments to June 30, 1928," which not only brought up to date much of the statistical data on this subject but also contained a brief summary of the legal situation existing on June 30, 1928. This showed that in the period which had elapsed since the enactment of the McFadden-Pepper Act of February 25, 1927, several States had enacted legislation expressly forbidding branch banking. A table published in this article indicates that on June 20, 1928, branch banking was permitted in 22 States and in the District of Columbia, but was limited to the city or county in which the head office of the bank was located in 10 of these States and was permitted only in the home county and adjoining counties in 1 State and only in the home city or territory contiguous thereto in 1 other State, so that 12 of the States in all permitted branch banking only within limited geographical limits, while 10 States (not counting the District of Columbia) permitted branch banking without any geographical limitation. Branch banking was prohibited (except as to branches already existing) in 20 States. In only 6 States was there no legislation on the subject of branch banking, and no branches in operation. A copy of this article is attached as Exhibit E.

6. In October, 1929, there was prepared in the office of the board's general counsel, with assistance of counsel to the various Federal reserve banks, a digest of State laws regarding the ownership of bank stock by holding corporations. This was not published, but a copy is attached hereto as Exhibit F. It shows that only 19 States had any legislation affecting this subject either expressly or by implication. In most of these States the legislation obviously was not intended to deal directly with the subject of chain or group banking. Most of the legislation was very general in its character and dealt only with the general powers of banks

to own stock in other corporations or in other banks. Only in the States of New Jersey, Oregon, West Virginia, and Wisconsin did there appear to be any legislation designed specifically to restrict chain banking.

7. In December, 1929, there was published in the Federal Reserve Bulletin (pp. 762–771) an article with reference to branch and chain banking developments during the year 1929. This article pointed out that "the area within which banks were operating branch offices" on June 30 was composed of 28 States and the District of Columbia. In 9 of these States, however, any further extension of branch banking has been prohibited by law, leaving 19 States and the District of Columbia as composing what may be called "the branch-banking area," to which may perhaps be added Wyoming, whose banking code would seem to permit branch banking, although no branch offices have been reported from this State. In 8 of these States (or 9 including Wyoming) State-wide branch banking is permitted, the establishment of branches being restricted in the other 11 States to the home city of the parent bank or territory nearly contiguous thereto. In tables published on pages 768 to 770, giving the data for individual States, the States are grouped with reference to the status of branch banking as defined in the State banking codes. A copy of this article is attached hereto as Exhibit G.

8. In February, 1930, the office of the board's general counsel, with the assistance of counsel to the various Federal reserve banks, completed a preliminary draft of a new digest of State laws regarding branch banking. This digest has recently been completed in final form, and a copy of the final draft is attached hereto as Exhibit H. This digest shows that the establishment of branch banks is prohibited in 22 States; that the establishment of branches is authorized in 19 States, and that there are no specific provisions covering branch banks in 7 States. Of the 19 States permitting branch banking, 9 permit State-wide branch banking and 10 permit branch banking only within limited areas.

II. STATISTICAL RESEARCH ON BRANCH BANKING

1. June, 1924: The first survey made for the Federal Reserve Board on branch banking in the country as a whole, i. e., including nonmember as well as member banks, was prepared as of June, 1924, and the results were published in the 1924 December Bulletin (pp. 925–940). That summary showed that 681 member and nonmember banks, out of a total of 28,468, were operating a total of 2,233 branches. Of this number, 248 were branches of national banks, 1,137 were branches of State bank members, and 848 were branches of nonmember banks. The States in which the largest number of branches were reported at that time were California, 538; New York, 359; Michigan, 332; and Ohio, 203. A copy of the Federal Reserve Bulletin for December, 1924, is attached hereto as Exhibit B.

2. December, 1925: The next survey on branch banking made for the Board was as of December, 1925, and the results are published on pages 401–408 of the June, 1926, Federal Reserve Bulletin. This survey showed that the number of banks operating branches had increased from 686 in June, 1924, to 735 in December 1925, and the number of branches in operation from 2,243 to 2,572. Of the total number of branches in operation in December, 1925, 332 were branches of national banks, 1,280 of State bank members, and 960 of nonmember banks. A copy of the Federal Reserve Bulletin for June, 1926, is attached hereto as Exhibit D.

3. December, 1926: In 1926 the board decided to maintain a complete record of all branches coming into or going out of existance of all banks in the country, and the Federal reserve agents were instructed to prepare the necessary data for this purpose. On the basis of this new record a compilation was prepared as of December, 1926, and presented to the board in Mr. Smead's memorandum of April 27, 1927. Briefly this memorandum summarized the branch banking situation at the end of 1926 as follows:

"The summary shows that out of a total of 28,000 banks in the United States on December 31, 1926, 789 banks in 401 cities were operating 2,777 branches. If mutual savings and private banks are excluded, in order to obtain figures comparable with previous compilations, it is found that 730 banks were operating 2,690 branches at the end of 1926, as compared with 735 banks with 2,572 branches in December, 1925, and 686 banks with 2,243 branches in June, 1924. There was during 1926, therefore, an increase of 118 in the number of branches in operation (exclusive of branches of mutual savings and private banks) and a nominal decrease in the number of parent banks operating the branches, this decrease being more than accounted for by consolidations of banks having branches."

A copy of this report (St. 5334) is attached hereto as Exhibit I. The same statistics, i. e., for December, 1926, were published in somewhat different form in the May, 1927, Bulletin (pp. 315–318 and 384–389), a copy of which is attached hereto as Exhibit J.

4. February 25, and June 30, 1927: Under date of February 17, 1928, Mr. Smead submitted a memorandum to the board summarizing the branch banking situation as of the date on which the so-called McFadden bill was passed. This memorandum also brought the statistics up to date as of the end of June, 1927. The following material taken from the first page of that memorandum shows briefly the status of branch banking at the time the McFadden act was passed, as well as four months later, i. e., in June, 1927:

"On February 25, 1927, the date on which the McFadden amendment to the Federal reserve and national bank acts became effective, there were in the United States 777 banks in 396 cities which were operating a total of 2,902 domestic branches, the figures by classes of banks being as follows:

	Number of banks operating branches	Number of branches
Total	777	2,902
National banks	144	389
State bank members	189	1,562
State bank nonmembers	385	863
Mutual savings banks	50	76
Private banks	9	12

"On June 30, 1927, the latest date for which complete figures for both member and nonmember banks are available, the number of banks operating branches was 788, or about 3 per cent of the total number of banks (about 26,800) in the United States, while the number of branches on the same date was 2,989, about one-tenth the number of banking offices (parent banks plus branches) in the country. Although the majority of the banks—481 out of 788—had branches only in the head-office city, there were 978 branches, or one-third of the total number, that were located outside the head-office city.

"In most cases the size of the individual branch system was small, 442 of the 788 banks having only 1 branch and 136 but 2 branches. Of the 210 banks that had more than 2 branches, 58 were located in cities of less than 100,000 population (where national banks may not hereafter establish more than 2 branches), including 3 national banks, 13 State bank members, and 42 nonmembers. There were 51 banks that had more than 10 branches on June 30, 1927, including the following which had 30 or more branches."

A copy of this report (St. 5656) is attached hereto as Exhibit K.

5. June, 1928: The next tabulation of statistics on branch banking gives the situation at the end of June, 1928, and is covered by Mr. Smead's memorandum to the board of December 1, 1928. The first paragraph of that memorandum contains a condensed statement of the status of branch banking and is quoted below:

"*Branch banking since passage of McFadden Act.*—In the 16-month period between February 25, 1927, the date on which the McFadden Act became effective, and June 30 of the present year, the number of branches of member and nonmember banks in operation in the United States increased from 2,900 to 3,230, or by 330, and the number of banks operating branches increased from 779 to 835, or by 56. While the net increase in the number of banks operating branches was 56, there were really 109 banks operating branches on June 30, 1928, that had no branches whatever when the McFadden bill became a law. The difference between this figure and the net increase of 56 in the number of banks operating branches is accounted for by the fact that 39 banks which on February 25, 1927, were operating branches went out of existence through merger with other banks, 10 banks abolished their branches, and 4 banks suspended operations on account of financial difficulties. Of the 2,900 branches that were in operation on February 25, 1927, 72 were no longer in operation on June 30, 1928, 64 having been abolished or merged with other branches or with the head office, and 8 going out of existence as a result of the suspension of the parent bank. There were 402 branches in operation on June 30, 1928, that were not

in existence when the McFadden Act became effective, including 258 established de novo and 144 that succeeded independent banks."

A copy of this report (St. 5987) is attached hereto as Exhibit L.

6. June, 1929: Under date of October 1, 1929, Mr. Smead submitted a memorandum to the board giving status of member and nonmember banks as of the end of June, 1929. The changes that took place during that year are summarized in the following paragraph quoted from that memorandum:

"Branch banking since June 30, 1928: During the 12-month period between June 30, 1928, when the last report of branches of member and nonmember banks was submitted to the board, and June 30 of the present year, the number of banks operating branches declined from 835 to 818, or by 17, while the number of branches in operation increased from 3,230 to 3,440, or by 210. Although as just stated there was a decrease during the year of 17 in the number of banks operating branches, there were 56 banks operating branches on June 30, 1929, which had no branches in operation a year earlier. This is accounted for by the fact that 51 banks which were operating branches in June, 1928, went out of existence during the year through merger with other banks, 5 banks suspended operation on account of financial difficulties, and 17 abolished their branches. Of the 3,230 branches that were in operation on June 30, 1928, 96 were discontinued during the year, 81 were abolished or merged with other branches, and 15 went out of existence as a result of suspension of the parent bank. There were 306 branches in operation on June 30, 1929, that were not in existence on June 30, 1928, including 171 established de novo, and 135 that succeeded independent banks."

A copy of this report (St. 6335) is attached hereto as Exhibit M. The same statistics, i. e., for June, 1929, were published in somewhat different form in the December, 1929, Federal Reserve Bulletin (pp. 762–770), a copy of which is attached as Exhibit G.

7. December, 1929: These are the latest statistics that we have available on branch banking, but the board's division of bank operations is now finishing the preparation of a complete statement showing the branch-banking situation at the end of the year 1929. A copy of this statement will be furnished to the committee as soon as it is available; and, for convenience, it will here be designated as Exhibit N.

III. STATISTICAL RESEARCH ON CHAIN BANKING

1. December, 1922: The Federal reserve agents were requested (by the division of research and statistics) to gather together what material was available on the subject of chain banking, including a list of the claims and the constituent banks, and to send it to the board. This material was reviewed in the division of research and statistics, but apparently no memorandum on the subject was prepared for the board. A copy of this material is attached as Exhibit O, but apparently it is confidential and should not be released.

2. June, 1926: At the board's request, the Federal reserve agents made another survey of chain banking as of June, 1926, and a memorandum summarizing the results of this survey was presented to the secretary of the board by Mr. Smead under date of May 7, 1927. This memorandum summarized the situation briefly as follows:

"A review of the data submitted indicates that on the whole there is relatively little chain banking in the eastern section of the country, though quite a number of small chains or affiliations are reported in New York and New Jersey. In the Central and Western States, however, in most of which there is little or no branch banking, chain banking appears to be conducted on a considerable scale. The banks in the chains are in most cases controlled by a majority ownership of stock—sometimes through a holding company, but quite often the banks' policies are dominated by interests owning a substantial part but not a majority of the stock. Quite a number of the constituent banks, it will be noted from the statement attached, are national banks, particularly in New York, New Jersey, Minnesota, Kansas, and Oklahoma."

A copy of this report is attached as Exhibit P. Apparently the part typed on white paper (which contains the names of the banks) is confidential and should not be released.

3. June, 1928: Another survey was made by the Federal reserve agents as of the end of June, 1928, and a memorandum summarizing the agents' reports on this subject was presented to the Federal Reserve Board by Mr. Van Fossen of the division of bank operations under date of January 17, 1929. The situation prevailing at that time was summarized in the memorandum as follows:

"Attached hereto is a summary showing the extent of chain banking in the various States, grouped in accordance with the provisions of State laws as regards branch banking. It will be noted, as might be reasonably expected, that chain banking has had very little development in those States in which state-wide branch banking is permitted by State law. Generally speaking, also, chain banking has not developed extensively in those States in which branch banking restricted as to location is permitted. The greatest development of chain banking exists in those States which either prohibit branch banking or in which, while there is no prohibitory legislation, branch banking is not practiced.

"In States which permit either state-wide or local branch banking there is, of course, little occasion for the operation of a number of local banks in a chain, and as a matter of fact, except in the case of Chicago and Pittsburgh, where branch banking is prohibited, there are no known instances of a banking chain located either entirely or chiefly within a large city. The Old Colony Trust Co., of Boston, and the Marine Trust Co., of Buffalo, each have banking chains confined to banks located within a comparatively short distance of Boston and Buffalo, respectively, and constituting in effect extensions of their branch systems restricted by law to within the head-office city. The only other notable instances of large city banks controlling a chain of banks consisting of or including banks located outside of the head-office city are encountered in California and may be due in part to the restrictions of the McFadden Act against state-wide branch banking by member banks. The typical chain banking system is, in fact, apparently a group of country banks, usually including one or more members of the Federal reserve system, united by common stock ownership, in most instances by an individual or group of individuals, into a banking combination that under State law could not exist in the more obvious form of a branch banking system."

A copy of this report is attached as Exhibit Q. The entire report is marked "confidential," though the summary on the first few pages probably could be released if names of banks are deleted.

4. June, 1929: A fourth survey was made by the Federal reserve agents as of June, 1929, and, in order to insure uniformity in the reports on the subject, in so far as practicable, each Federal reserve agent was supplied with a copy of the reports rendered the year before covering the entire country. The survey for June, 1929, was felt, therefore, to be much more comprehensive and reliable than any that had been previously made.

A memorandum summarizing the chain banking situation in June, 1929, was presented to the board by Mr. Snead on September 20, 1929. Following is an extract from this memorandum.

"Reports of the agents indicate that on June 30, 1929, there were 231 chains comprising 1,563 banks of which 597 were national banks and 966 State banks. It is noteworthy that as of the same date, June 30, 1929, there were 818 banks operating 3,440 branches which taken together with the chain banks makes a total of over 5,800 banking offices belonging to branch or chain banking groups. As there were about 28,550 banking offices in the United States on June 30, the number connected with branch and chain banking groups constitute over 20 per cent of the total.

"The States in which chain or group banking has had its principal growth are Minnesota, New York, Iowa, Illinois, Michigan, Arkansas, Nebraska, North Dakota, Washington, Oklahoma, Kansas, Utah, and New Jersey. Branch banking is prohibited by law in seven of these States, in three others it is limited to the city in which the head office is located, and in the other three there is no provision in the State law regarding branch banking and there are no branches in operation."

There is available at this time only one carbon copy of the record for June, 1929, but the memorandum prepared for the board and the accompanying list of banking chains or groups is attached as Exhibit R.

After the data on chain banking as well as branch banking as of June, 1929, had been presented to the board, the material was written up and published in somewhat different form in the December, 1929, Federal Reserve Bulletin. That part of the article pertaining particulary to chain banking appears on pages 765 and 771, a copy of which is attached as Exhibit G.

5. December, 1929: There are still some reports outstanding on the subject of chain banking as of December, 1929, but they probably will not affect materially the preliminary summary of the situation as given in a memorandum of February

15, 1930. The situation is pretty well summarized on the first page of the memorandum, the first two paragraphs of which read as follows:

"We have just completed a preliminary compilation on chain banking as of the end of 1929, subject to some revision upon receipt of additional data in a few instances. On the basis of the data now available it appears that there were 287 banking chains or groups in the United States at the end of December embracing 2,069 banks, as compared with 274 groups embracing 1,806 banks at the end of June. The 2,069 banks reported as belonging to banking groups or chains at the end of the year constituted about one-twelfth of the 25,000 banks in the country, while the loans and investments of the chain banks were about $10,500,000,000 or nearly one-sixth of the aggregate loans and investments of all banks in the United States.

"National banks reported as members of banking chains or groups numbered 791 at the end of December as compared with 646 in June, State-bank members 134 compared with 111 in June, and nonmember banks, 1,144 compared with 1,049 in June. Loans and investments of the national banks belonging to the banking groups were approximately $5,600,000,000, or about one-fourth of the total for all national banks, while loans and investments of State-bank members belonging to the groups aggregated $3,000,000,000, and of nonmember banks $1,800,000,000."

A copy of this preliminary report is attached as Exhibit S. It is marked "Confidential," but part of it could be released if names are deleted.

6. Annual report, 1927: The subject of chain banking was discussed in the board's annual report for the year 1927 (p. 31), as follows:

"During the past few years the expanding operations of financial companies specializing in the purchase of bank stock have presented special problems to Federal and State officials charged with the responsibilities of bank supervision. Such companies have been organized in increasing numbers to operate extensively in the field of banking, not simply as investment agencies but specifically in individual instances to acquire control of corporately independent banking institutions, through stock ownership, and to exercise this centralized control in effecting bank mergers; in extending identical or virtually single corporate control over companies operated as subsidiaries in special fields of banking; in building up branch systems in States which permit branch banking; and in building up in these and in other States—but particularly in States which do not permit branch banking—chain systems, embracing in individual instances banking institutions operating under national and State charters in several States. Since such companies are not directly engaged in the business of banking as defined in Federal or State statutes, they have not been subject to supervision or regular examination by banking authorities. In some respects the control exercised through stock ownership over a group of banks operated as a system is similar to that exercised by a parent bank over its branch offices. This character of the financial company brings it clearly within the field of banking activities, and banking officials have been urged to subject developments of this character to careful scrutiny."

A copy of this report is attached as Exhibit T.

7. Annual report, 1928: In this report the subject is discussed in somewhat greater length on pages 30–31 and the report shows the number of chains in operation in each State in June, 1928. A copy of the report is attached as Exhibit U.

IV. BRANCH BANKING AND ITS EFFECT IN FOREIGN COUNTRIES

In order to ascertain the possible effect of unrestricted branch banking in this country, the board has caused investigations to be made of the history of branch baking in foreign countries with special reference to its effect on unit or single office banks in those countries. The information obtained is very enlightening and will be summarized below:

1. *Canada.*—Among banks doing a general banking business, the unit bank has disappeared. As of December 31, 1928, 10 chartered banks controlled general banking in the Dominion. Each of these is a branch banking system, with none having less than 30 branches. The three largest banks, the Royal Bank of Canada, the Bank of Montreal, and the Canadian Bank of Commerce, have $2,500,000,000 in assets out of $3,500,000,000, the aggregate of all 10. Of the 3,966 domestic branches and agencies of the chartered banks, these three largest banks have 2,219.

The progress of concentration from 1868 to 1928, which resulted in the decrease of the total number of banks from 21 to 10, is shown by a table contained in a report attached hereto as Exhibit V.

2. *British Isles.*—Among banks doing a general deposit business, the unit bank has practically disappeared in the British Isles. Only seven small institutions doing all their business at one office exist. Indeed, most of these are doubtfully classified as deposit banks, some classifications placing them among acceptance or discount houses. Forty-two concerns are in the general deposit banking business in the British Isles, with 12,837 offices in all. The five big banks have 8,050 of these offices and have 67 per cent of the banking assets. Twenty-six concerns, including the big five, each with more than 100 offices, have 93 per cent of the assets.

A century ago banking in the British Isles was done by private banking houses. By 1862 joint-stock banks were not uncommon, but real impetus to their organization was given in that year by an act which permitted the registration of such banks with limited shareholder liability. Before 1880 Lloyds Banking Co. had participated in a number of amalgamations, and concentration moved rapidly after that date. However, it was not until 1896 that 20 private banking concerns united in Barclays Banking Co., and the fifth of the present big five began its career.

During the period between 1895 and 1928, the total number of banks in the British Isles was decreased from 154 to 42.

More detailed information on this subject is contained in a report attached hereto as Exhibit W.

3. *Germany.*—In Germany, the movement from the unit bank to a branch banking system among banks doing a general banking business advanced considerably in the 20 years from 1888 through 1907.

In 1888, 164 credit or joint-stock banks with 173 branches were in existence. By 1907, there were 421 such banks with 1,064 branches. Of the total number existent in that year almost 200 were small unit banks with paid-in capital of less than 1,000,000 marks. These small banks controlled less than 2 per cent of the aggregate paid-in capital of the 421 credit banks. By the end of 1926, out of a total of 488 credit banks, as many as 354 were classified as having less than 1,000,000 marks capital. Unfortunately no figures for all credit banks are available to us since that date. However, the absorption of the smaller banks by the larger ones has progressed rapidly since that time, it is said.

For a long period of years, four great Berlin banks have been in the forefront of German banking—Deutsche, Disconto-Gesellschaft, Dresdner, and Darmstadter. The first two have recently merged. Among the 100 largest credit banks in Germany in 1907, these four banks controlled 27 per cent of the aggregate capital and in September 1929, 42 per cent.

More detailed information is contained in a report attached hereto as Exhibit X.

4. *France.*—The unit bank in France has suffered severely from the competition of extensive branch banking systems and has been losing ground in recent years. Four great French banks, doing a general business, control approximately one-half the commercial banking business in France, it has been estimated. Three of these have a large net-work of branches throughout the country; Credit Lyonnais, 1014 branches; Societe Generale, 1,350 branches; Comptoir d'Escompte, over 250 branches. The fourth, the Credit Industriel et Commercial, has many branches in Paris but none outside the city.

In addition to these large banks there are several sizable banks which have many branches in particular regions of the country. For example, there are the Credit du Nord (branches in 75 places), Societe Nancienne (105 branches and agencies), Banque Privee (more than 200 branches and agencies), and Societe Marseillaise (107 branches and agencies). Figures for branches are as of 1922. No satisfactory figures exist as to how many banks of a purely local importance survive. It was estimated for the National Monetary Commission (1911) that there were 2,700–2,800 banks (probably a loose classification) in France. The growth of the four big banks and the regional banks has been at the expense of the local bank, which is said to play a small role in French banking to-day.

More detailed information is contained in a report attached hereto as Exhibit Y.

5. *Japan.*—The unit bank in Japan is losing ground rapidly in the face of a progressive branch banking movement. In the past few years the tendency has been deliberately fostered by the government based on the belief that larger organizations would contribute to stability. Between 1913 and 1928 the total number of banks was reduced from 2,156 to 1,163.

Of the 1,163 banks in existence in 1928, 100 were savings banks, 32 special banks, and the remainder ordinary banks which do a general banking business. The special banks were individually chartered to further some particular end, often as public or semipublic institutions. In this group are the Bank of Japan, Bank of Chosen, Bank of Taiwan, Yokohama Specie Bank, and the agricultural and industrial banks. Moreover, these figures do not include Japanese trust companies and cooperative banks.

Fourteen important ordinary banks at the end of 1928 had deposits equal to 55 per cent of all the deposits of the ordinary banks. The Big Five alone had 34 per cent of the aggregate of such deposits.

More detailed information is contained in a report attached hereto as Exhibit AA.

V. HISTORY OF BRANCH BANKING IN THE UNITED STATES

The early history of branch banking within the United States has been the subject of research word done by Hon. Edmund Platt, vice governor of the Federal Reserve Board, in connection with certain speeches delivered by him. The more recent history of branch banking in the United States is very well covered by a series of articles published in the Federal Reserve Bulletin, commencing with the number for December, 1924. This material will be discussed briefly and copies will be attached as exhibits.

1. *Branch Banking Before the Civil War.*—In an address on this subject delivered before the national bank section of the New York State Bankers' Association at Ithaca, N. Y., on June 22, 1925, Mr. Platt points out that branch banking was very much in evidence in this country before the Civil War, especially in the West and in the South.

In 1848, out of 48 banks in Ohio, 29 were branches of the Ohio State Bank; Indiana had 17 branches of one State bank and no independent banks, Missouri had 1 bank and 5 branches, Kentucky 3 banks and 13 branches, Tennessee 3 banks and 17 branches, Virginia 6 banks and 30 branches, North Carolina 4 banks and 14 branches, South Carolina 12 banks and 2 branches, Georgia 13 banks and 7 branches, Delaware 5 banks and 3 branches, and Alabama 2 banks and 4 branches. At the same time no branches were listed in the eastern States except two each in the States of New York, Maryland, and New Jersey.

In 1860 the situation was similar, though Illinois appeared with 75 banks, Indiana with 13, all of which were branches of the State Bank of Iowa, and Missouri had 42 banks of which 33 were classed as branches. The two branches existing in New York in 1848 had disappeared in 1860, and apparently branch banking was forbidden in New York, Pennsylvania, Massachusetts, and Connecticut.

Mr. Platt's address contains an interesting discussion of the motive for the establishment of such branches (which appeared to be the facilitation of the issue of bank notes which would be difficult to redeem) and also the reasons for the opposition to the establishment of branches in Eastern States.

A copy of Mr. Platt's address is attached as Exhibit BB.

2. *Branch banking for country banks.*—On May 20, 1927, Mr. Platt made an address at Birmingham, Ala., before a meeting of the American Bankers' Association, at which he discussed the above subject. In this address he pointed out that, in the early days of banking in the United States, the right of any bank to establish branches was rarely questioned; both the first and second banks of the United States had branches; many of the early State banks established branches; and branches were looked upon as the natural means of providing banking facilities and convenience to the smaller communities.

He discussed the development of banking in the United States, commencing with the first incorporated bank in Philadelphia in 1781 and pointed out that the Philadelphia Bank, chartered in 1804, established branches in many of the interior towns of Pennsylvania, pursuant to an act of the legislature passed in March, 1809. It also appears that the Bank of Manhattan Co. had at least three branches outside of New York in 1811. It appears that most of these branches in the Eastern States were replaced by smaller independent banks during the early part of the nineteenth century.

This speech also reviews again the cause leading up to legislation in the Eastern States restricting the establishment of branches, which apparently was due to the fact that banks were frequently located in remote places with branches in the financial centers at which their circulating notes were redeemed at a discount. From this, Mr. Pratt reached the conclusion that the early legislation restricting branch banking was not really aimed at branch banking itself, but at the issuance of "wild-cat currency."

In the South and the West, however, branch banking was the general rule. In this connection much of the statistical data incorporated in Mr. Platt's earlier speech with reference to branches in the Southern and Western States in 1848 and 1860 is covered again.

Mr. Platt states that the branch banking systems in the South and West successfully weathered the panic of 1857; and it seems to have been expected in 1866, when the State bank notes were taxed out of existence, that the successful banks in the Western States would convert into national banks and retain their branches. It appears, however, that they did not do so but reorganized as national banks and reorganized their branches as independent unit banks.

Mr. Platt points out that in 1860 the country banks in the South and West had a much larger average capitalization than at present, but that the authority contained in the national bank act for the organization of banks with a capital of only $50,000 furnished an impetus for the organization of small banks and that some of the Western States "ran wild in the effort to provide banking facilities in the very smallest towns by permitting the organization of independent banks with a capital as small as $10,000, and even in a few States $5,000."

Mr. Platt then traces the difficulties arising out of the organization of numerous small independent banks and calls attention to the number of failures among them in the panic of 1893. From about that time he traces the modern development of branch banking, which apparently started in the Southern States and in California.

Mr. Platt then discusses the number of bank failures in small banks during the years 1921 to 1926, inclusive, and calls attention to the fact that almost two-thirds of the suspended banks had a capital of $25,000 or less and that 72 per cent of them had a capital of less than $50,000. He points out that, in his annual report for the year 1898, Mr. Charles G. Dawes, then Comptroller of the Currency, recommended that branch banking be authorized in communities of less than 2,000 inhabitants, since many of such communities were not able to support independent banks. He then compares the experience of farmers in the wheat sections of the United States where the independent bank system was in operation and in Canada where the branch banking system was in operation and concludes that "The Canadian farmers have lost nothing from the bank failures while $298,070,000 in deposits has been tied up and at least 50 per cent of it lost, in the bordering States of Montana, North and South Dakota, and Minnesota in 1,134 bank suspensions in the past six years, nearly all of them in small towns and small banks."

Mr. Platt states that he does not advocate nation-wide branch banking for the United States, but believes that we need and must have "larger country banks with a limited number of branches along the lines of the development that has taken place in many of the Southern States for many years." He claims that the McFadden Act discriminates against country banks and in favor of banks in the big cities. He reviews the statistics with reference to the number of branch banking organizations in the United States and concludes with a plea for branch banking in the country districts.

A copy of Mr. Platt's speech is attached hereto as Exhibit CC.

3. *Recent growth of branch banking through 1924.*—On pages 925 to 940, inclusive, of the Federal Reserve Bulletin for December, 1924, there is published an article entitled, "Branch Banking in the United States," which contains a comprehensive survey of the recent growth of branch banking in this country through the year 1924. No attempt will be made to summarize this article here, but its scope may be indicated by listing its various headings, which are as follows:

Limitations upon Federal Control of Branch Banking.
Administrative Policy of the Board Prior to November, 1923.
Branch Banking Recommendations to Congress.
Resolution on Branch Banking Adopted by the Board on November 7, 1923.
Further Definition of the Board's Branch Banking Policy. (In the Regulations of 1924.)
Extent of Branch Banking in the United States.
Legal Status of Branch Banking.
Branch Banking within and without the Federal Reserve System.
Resources of Banks Operating and Not Operating Branches.
Banks Operating Home City and Outside Branches.
Size of Branch Systems.
Branches in and Outside of the Home City of the Parent Bank.
Parent Banks and Branches Classified by Population of Community in Which Located.

Growth of Branch Banking, 1865–1924.
Classification of Parent Banks and Branches by Federal Reserve Districts.
State Totals.
A copy of this article is attached hereto as Exhibit B.

4. *Branch banking in the United States from June, 1924, to December, 1925.*—On pages 401 to 414, inclusive, of the Federal Reserve Bulletin for June, 1926, there is published an article entitled, "Branch Banking in the United States," which describes the development of branch banking from June, 1924, to the end of December, 1925, and thus supplements the article published in the Federal Reserve Bulletin for December, 1924. It contains not only a discussion of the development of branch banking during this period but also a classification of the States with reference to their branch banking laws as of December 31, 1925, and certain valuable statistical material with reference to the status of branch banking in this country on the same date. A copy of the Bulletin containing this article is attached as Exhibit D.

5. *Branch banking developments in 1926.*—On pages 315 to 318, inclusive, of the Federal Reserve Bulletin for May, 1927, there is published an article describing the development of branch banking in the United States during the year 1926, which supplements the earlier articles on this subject. It contains discussions of the legal status of branch banking, the extent of branch banking, branch banking in California, and the method of establishing branches, and also valuable statistical tables showing the status of branch banking at the end of the year 1926. A copy of the Bulletin containing this article is attached hereto as Exhibit J.

6. *Branch bank developments to June 30, 1928.*—On pages 97 to 103, inclusive, of the Federal Reserve Bulletin for February, 1929, there is published a discussion of branch banking developments in the United States from the end of the year 1926 to June 30, 1928, which supplements the earlier articles on this subject. This article is especially interesting because it describes the effect of the McFadden-Pepper Act of February 25, 1927, during the first 18 months of the functioning of that act. It contains a table showing the States permitting, restricting, and prohibiting branch banking to June 30, 1928, tables showing the number of banks operating branches and the number of branches in operation, together with the increase in these numbers from February 25, 1927, to June 30, 1928, together with other valuable statistical material. A copy of this article is attached as Exhibit E.

7. *Branch and chain banking developments to June 30, 1929.*—On pages 762 to 771, inclusive, of the Federal Reserve Bulletin for December, 1929, there is published an article discussing the branch and chain banking developments in the United States during the year ending June 30, 1929. This not only supplements the information with reference to branch banking published in earlier articles, but contains much valuable material with reference to chain banking. The scope of the article may be indicated by the captions in the text and the headings of the tables, which are as follows:

Changes, 1927 to 1929.
Banks Initiating and Discontinuing Branch Banking and Branches Established and Discontinued; 1927–1929.
Branch Banking Area.
Size of Branch Systems.
Size of Branch Systems for Parent Banks Located in Large and Small Cities; June 30, 1929.
Urban and Rural Systems.
Chain Banking.
Summary of Branch Banking Developments; 1924 to 1929.
Branch Systems with Head Offices in Selected Cities.
Banks Operating Domestic Branches and Number of Branches, by States; June 30, 1929.
Banks Operating Domestic Branches and Number of Branches, by States; June, 1924–June, 1929.
Size of Branch Systems and Location of Branches; June, 1929, and 1928.
Chains and Banks in Chain Systems, by States; June 30, 1929.
A copy of this article is attached as Exhibit G.

VI. FEDERAL LEGISLATION ON BRANCH BANKING

Congress has in several instances enacted legislation authorizing the establishment of branch banking systems. In the early years of this country, 1791 and 1816, Congress authorized the establishment of the First Bank of the United States and the Second Bank of the United States. Both of these banks were

authorized to establish branches in any part of the United States. The national bank act did not expressly forbid the establishment of branches; and the amendment of March 3, 1865 (sec. 5155 of the Revised Statutes), authorized State banks having branches, with capital assigned to the head office and branches in definite proportions, to convert into national banks and retain their branches, regardless of their location.

Branch banking systems for particular purposes were also authorized when Congress authorized the establishment of the postal savings banks, Federal reserve banks, Federal land banks, joint-stock land banks, Federal intermediate credit banks, and the War Finance Corporation. The establishment of branches in each of these systems, however, was permitted only under certain conditions and subject to certain restrictions and safeguards. In determining what legislation should now be enacted with reference to the establishment of branches by commercial banking institutions, it would be advisable to examine carefully the restrictions and safeguards which Congress has thrown about the establishment of branches in the banking systems it has heretofore authorized.

The legislation authorizing these various systems of branch banks will be discussed very briefly.

1. *First Bank of the United States.*—In 1791 Congress chartered the First Bank of the United States. The charter of this bank provided that its head office should be located at Philadelphia and authorized its board of directors to establish branch offices within the United States wherever thought fit, for purposes of discount and deposit. It appears that eight branches of the First Bank of the United States were established in various parts of the country.

2. *Second Bank of the United States.*—In 1816 Congress authorized the establishment of the Second Bank of the United States with its head office in the city of Philadelphia. The charter of this bank authorized its directors to establish branch offices wherever they thought fit within the United States, for purposes of discount and deposit. It appears that 18 of such branches were established by this bank.

3. *National banks.*—The national bank act did not expressly forbid the establishment of branches, and it was not until January 28, 1924, when the Supreme Court of the United States rendered its decision in the famous case of First National Bank in St. Louis *v.* State of Missouri (263 U. S. 640), that it was definitely and finally settled that national banks could not establish branches under the provisions of that act. Even after that decision, it was contended that, in the exercise of their incidental powers, national banks could establish "additional offices" for the performance of certain limited functions within the limits of the city or town in which they were located.

Although the national bank act did not expressly authorize the establishment of branches by national banks, the amendment of March 3, 1865 (sec. 5155 of the Revised Statutes) specifically provided that State banks having branches with capital assigned to the head office and branches in definite proportions could convert into national banks and retain their branches, regardless of the location of such branches. Moreover, under the act of November 7, 1918, a national bank having branches retained upon conversion from a State bank could consolidate with another national bank and the consolidated bank could retain the branches. Where the State law was suitable, therefore, national banks could acquire branches by the device of organizing a State bank with branches, converting it into a national bank, and consolidating with it. In 1925 there were in existence 103 branches of national banks acquired under these Statutes.

All of this, of course, was changed by the McFadden Act of February 25, 1927, which expressly authorized national banks to establish branches within the limits of the city or town in which their head offices are located but expressly forbids them to establish or acquire, by consolidation or otherwise, branches beyond the limits of the city, or town in which their head offices are located, except that they may retain or acquire by consolidation or conversion branches lawfully established and in actual operation prior to the passage of that act. This will be discussed in more detail under a separate heading.

In this connection, it may be pointed out that, under the provisions of section 25 of the Federal reserve act, any national bank having a capital and surplus of $1,000,000 or more with the permission of the Federal Reserve Board and upon such conditions and under such regulations as may be prescribed by the board, may establish branches in foreign countries or dependencies or insular possessions of the United States; but this privilege is denied to State member banks of the Federal Reserve System under the provisions of the McFadden Act.

4. *Postal Savings banks.*—In 1910 Congress authorized the establishment of the Postal Savings System. (U. S. C., title 39, ch. 20.) This system is under the control, supervision, and administration of a board of trustees consisting of the Postmaster General, the Secretary of the Treasury, and the Attorney General. Every post office designated by the Postmaster General may act as a postal-savings depository and receive deposits of funds from the public. Such funds may be received from any one person in amounts of $1 or multiples thereof, but not more than an aggregate amount of $2,500 may be received from any one person. Interest at the rate of 2 per cent per annum is to be paid upon such deposits. These deposits may be withdrawn under such regulations as the Postmaster General may prescribe. The law contemplates that 5 per cent of postal-savings deposits shall be kept with the Treasurer of the United States as a reserve and that the balance of such deposits shall be deposited in banks located in the city, town, or village of the postal-savings depository which receives such deposits, or under certain circumstances with the treasurer of the board of trustees. The law also provides that under certain circumstances these deposits may be invested in bonds or other securities of the United States. Depositors in the Postal Savings System may surrender their deposits in certain specified amounts and receive therefor bonds of the United States. It appears from these facts that the Postal Savings System is a form of branch banking with the controlling and supervising board located in Washington, D. C., and with branches located in the various post offices designated by the Postmaster General in different parts of the country.

It appears from the Annual Report of the Postmaster General for the fiscal year ending June 30, 1929, that at the close of that year there were 6,770 postal-savings depositories in operation in the various post offices, including 794 such depositories located in branch post offices. Postal-savings deposits held for depositors at the end of that fiscal year amounted to $158,055,538.55 and there were 416,580 depositors.

5. *Federal Reserve Banks.*—In 1913 Congress enacted the Federal reserve act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford a means of rediscounting commercial paper, and to establish a more effective supervision of banking in the United States. (U. S. C., title 12, ch. 3.) This act authorized the division of the continental United States, exclusive of Alaska, into not more than 12 districts and the establishment in each district of one Federal reserve bank. The act authorized such Federal reserve banks to exercise certain banking powers and to perform certain functions for the national and State banks which were required or permitted to become members of the Federal reserve system by the purchase of stock in a Federal reserve bank. It provided for the creation of the Federal Reserve Board with supervisory powers over the entire Federal reserve system, and section 3 of the Federal reserve act authorizes the Federal Reserve Board to permit or require any Federal reserve bank to establish branch banks within the Federal reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Pursuant to this authority the board has permitted the Federal reserve banks to establish branches within their respective districts. The total number of such branches which have been established is 25. It will thus be seen that, when Congress enacted the Federal reserve act, it authorized the establishment of a system of banks having branches with the supervisory power over such system vested in the Federal Reserve Board, with its offices in Washington, D. C., and the banking functions vested in the Federal reserve banks and their branches located in various parts of the United States. It will be noted that Congress in this instance restricted the establishment of branches of a Federal reserve bank to the district in which the particular Federal reserve bank is located, except in those cases where a Federal reserve bank may have been suspended.

6. *Federal land banks and joint-stock land banks.*—In 1916 Congress enacted the Federal farm loan act to provide for loans on farm lands secured by mortgages. (U. S. C., title 12, ch. 7.) This act authorized the creation of the Federal Farm Loan Board with supervisory powers and the creation of Federal land banks and joint-stock land banks with power to make farm loans and, with the approval of the Federal Farm Loan Board, to issue farm loan bonds. It was provided that the continental United States, exclusive of Alaska, should be divided into 12 districts and that in each district there should be established one Federal land bank. It was not required, however, that only one joint-stock land bank be established in each district. Such Federal land banks and joint-stock land banks were authorized, with the approval of the Federal Farm Loan Board,

to establish branches within the district in which such banks are located. The Federal Farm Loan Board was also authorized to designate a Federal land bank which might establish a branch in Porto Rico and to designate a Federal land bank which might establish a branch in the Territory of Alaska. It will be seen that in this instance Congress has again provided for the establishment of a banking system with branches with the supervisory powers over such system vested in a board with offices in Washington, D. C., and the banking functions vested in banks and branches thereof located in various parts of the country. It is significant that here also Congress has restricted the right of each bank to establish branches to the area of the district in which it is located.

It appears that no branches of either Federal land banks or joint stock land banks have been established in the United States. One branch of a Federal land bank, however, has been established in Porto Rico.

7. *War Finance Corporation.*—In 1918 Congress enacted legislation to create the War Finance Corporation and authorized this corporation to make loans to persons, firms, or corporations whose operations were necessary or contributory to the prosecution of the war. (U. S. C., title 15, ch. 9.) By a later amendment the corporation was also authorized to make loans for agricultural purposes. This corporation was also authorized to issue its notes or bonds. The management of the corporation was vested in a board of directors consisting of the Secretary of the Treasury and four other persons appointed by the President, with the advice and consent of the Senate. It was provided that the principal office of the corporation should be located in the District of Columbia, but the corporation was authorized to establish agencies or branch offices in any city, or cities, of the United States, under rules and regulations prescribed by its board of directors. Congress thus authorized the establishment of a branch banking system for a particular purpose and subject to certain restrictions and provision.

At the peak of its activity the War Finance Corporation had 33 loaning agencies or branches in operation in various parts of the country in connection with its loans for agricultural purposes.

8. *Federal intermediate credit banks.*—In 1923 Congress amended the Federal farm loan act so as to authorize the creation of Federal intermediate credit banks. (U. S. C., title 12, ch. 8.) This amendment provided for the establishment of 12 Federal intermediate credit banks, 1 to be located in each of the cities in which a Federal land bank is located, and authorized these institutions to make loans for agricultural purposes and to issue debentures. The powers granted to these institutions are to be exercised under the supervision and control of the Federal Farm Loan Board. It appears that in this instance also Congress has approved a form of branch banking. In this case the control and supervisory functions are vested in the Federal Farm Loan Board, with its offices in Washington, D. C., and the banking functions are vested in the Federal intermediate credit banks located in different parts of the country.

9. *The McFadden Act.*—No discussion of congressional legislation of branch banking would be complete without a discussion of the McFadden Act of February 25, 1927, though the provisions of that act are familiar to everyone who has made any study of the subject of branch banking.

(a) *National banks.*—The provisions of the McFadden Act with reference to branches of national banks may be summarized as follows:

(1) Any national bank may retain and operate such branch or branches as it had in lawful operation on February 25, 1927, regardless of their location.

(2) Any national bank which has continuously maintained and operated not more than one branch for a period of more than 25 years immediately preceding February 25, 1927, may continue to maintain and operate such branch, regardless of the legality of the establishment of such branch or the maintenance of it prior to the enactment of the McFadden Act.

(3) Where a State bank converts into a national bank such national bank may retain and operate any and all branches of such State bank which any bank had in lawful operation on February 25, 1927, regardless of their location.

(4) If a State bank consolidates with a national bank, such consolidated national bank may retain and operate any and all branches of either the State bank or the national bank which any bank had in lawful operation on February 25, 1927, regardless of their location.

(5) Where two or more national banks consolidate, such consolidated national bank may retain and operate any and all branches of any one of the constituent national banks which any bank had in lawful operation on February 25, 1927, regardless of their location.

(6) After February 25, 1927, national banks may establish and operate new branches subject to the following conditions and limitations:

(*a*) Such branches may be established and operated only within the limits of the city, town, or village in which the parent bank is situated;

(*b*) Such branches may be established and operated only in those States the laws of which permit State banks to establish and operate similar branches;

(*c*) No such branch may be established in a city, town or village of which the population by the last decennial census was less than 25,000;

(*d*) Not more than one such branch may be established in any city, town or village of which the population by the last decennial census does not exceed 50,000;

(*e*) Not more than two such branches may be established in any city, town or village of which the population by the last decennial census does not exceed 100,000;

(*f*) In any city, town or village the population of which exceeds 100,000 the determination of the number of branches which may be established by national banks is left to the Comptroller of the Currency; and

(*g*) No such branch shall be established or moved from one location to another without first obtaining the consent and approval of the Comptroller of the Currency.

(7) The term "branches" as here used includes any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or territory of the United States or in the District of Columbia where deposits are received, checks paid or money lent.

(8) This section of the McFadden Act does not affect the establishment or maintenance of branches by national banks in foreign countries or dependencies or insular possessions of the United State pursuant to the provisions of section 25 of the Federal reserve act.

(9) The words "State bank," "State banks," "bank," or "banks" as used in this section includes trust companies, savings banks, or other such corporations or institutions carrying on the banking business under authority of State laws.

(10) National banks are expressly authorized to transact at branches established or maintained in accordance with the provisons of the McFadden Act any and all business which might be lawfully transacted at the head office.

(b) State member banks of the Federal reserve system: Under the McFadden Act, any State bank which, on February 25, 1927, had established and was operating a branch or branches in conformity with the State law, may retain and operate such branch or branches while remaining or upon becoming a member of the Federal reserve system. In other words, any nonmember State bank which, on February 25, 1927, had established and was operating a branch or branches in conformity with the State law and which becomes a member of the Federal reserve system is entitled by law to retain such branch or branches, regardless of the number or location thereof; and any State member bank which, on February 25, 1927, had established and was operating a branch or branches in conformity with the State law is lawfully entitled to retain and operate such branches while remaining a member of the Federal reserve system, regardless of the location or number of such branches.

The only restriction on the establishment of branches by State member banks is that no State bank may become a member of the Federal reserve system or may remain a member of the Federal reserve system except upon relinquishing any branch or branches established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is located. In other words, no nonmember State bank may become a member of the Federal reserve system except upon relinquishing any branch or branches established after February 25, 1927, beyond the limits of the city, town, or village in which the parent bank is situated; and any State member bank which establishes a branch or branches beyond the limits of the city, town, or village in which the parent bank is located after February 25, 1927, must either relinquish such branch or branches or give up its membership in the Federal reserve system.

The McFadden Act prescribed no limitations upon the number of branches which State member banks may establish or maintain within the limits of the city, town, or village in which the parent bank is located, nor does it require any specified population of the cities, towns, and villages in which State member banks may establish or maintain branches.

On the other hand, no exception is made as to foreign branches of State member banks and the Attorney General has held that they may not lawfully establish foreign branches and remain members of the Federal reserve system since the

passage of the McFadden Act, although the right of national banks to establish foreign branches under the provisions of section 25 of the Federal reserve act is expressly preserved.

There are many inequalities in the branch banking provisions of the McFadden Act as they affect national banks and State member banks, respectively, and to a certain extent that act fails to place these two classes of banks on an equality with respect to the establishment of branches.

VII. POLICY OF FEDERAL RESERVE SYSTEM ON BRANCH BANKING

1. *Annual report for 1915.*—In its annual report for the year 1915, page 22, the Federal Reserve Board recommended to Congress that national banks be permitted to establish branch offices within the city, or within the county in which they were located. The Federal Advisory Council, under date of September 21 and November 16, 1915, had recommended that the national bank act be amended so as to permit national banks to establish branches under certain conditions.

2. *Recommendations during 1916.*—Consistently with this recommendation, the board in 1916 prepared and transmitted to Congress the draft of an amendment to the Federal reserve act. In the terms of this amendment national banks located in cities of 100,000 and over having a capital and surplus of $1,000,000 or more would have been permitted to establish branches within the corporate limits of the cities in which they were located, and any national banks located in other places would, with the approval of the Federal Reserve Board and under such regulations as the board might prescribe, have been permitted to establish branches within the limits of the county in which they were located or within a radius of 25 miles, irrespective of county lines, but not in any case outside the State or Federal reserve district of the parent bank. (Federal Reserve Bulletin, pp. 323, 327; 1916 annual report, pp. 29, 145.)

Under date of November 20, 1916, the Federal advisory council renewed its recommendation regarding the establishment of branches by national banks but added that the privilege of establishing branches should apply to all banks in the national banking system and not only to such national banks as were located in States which permitted State institutions to establish branch banks. (See pp. 28 and 34 of 1916 Recommendations.)

An amendment drawn in compliance with the recommendations of the board was adopted by the Senate, during 1916, and together with other amendments, was referred to a conference committee of the House and Senate. In conference it developed that the amendment was not acceptable to the House conferees and the Senate on recommendation of its conferees receded from its proposal. (1916 annual repot, p. 135.)

3. *Annual report for 1917.*—In its 1917 annual report to Congress (p. 33), the board recommended an amendment to the Federal reserve act to provide that any national bank located in a city or incorporated town of more than 100,000 inhabitants, and possessing a capital and surplus of $1,000,000 or more, may, under such rules and regulations as the Federal Reserve Board may prescribe, establish branches, not to exceed 10 in number, within the corporate limits of the city or town in which it is located, provided that no such branch shall be established in any State in which neither State banks not trust companies may lawfully establish branches. The board stated that "State banks which become members of the Federal reserve system are allowed by law to retain any branches which may already be in existence and, with the approval of the board, to establish new branches. National banks which have taken over State banks having branches are permitted to continue the operations of these branches. There seems to be no reason for such discrimintaion between members of the Federal reserve system, and with the view of placing them more nearly upon terms of equality, besides affording in many cases better service to the public, it is recommended that provision be made for the establishment of branches by national banks, under proper limitations."

4. *Annual report for 1918.*—In its annual report for the year 1918 (p. 83) the board renewed its recommendation, expressing the opinion that national banks were "at a serious disadvantage in meeting the competition of State banks with branches," and that "the proper development of the Federal reserve system makes it necessary to coordinate as far as possible the powers of all member banks." This coordination of powers could not be effected without amendment of existing laws under which "some member banks, both National and State, are given advantage over other member banks." The board renewed its recommend-

ation of previous years, being confident that the proposed amendment would "prove beneficial to the Federal reserve system, as well as to the communities concerned." The Federal advisory council also renewed its recommendation that an amendment of this character should be enacted. (P. 6, 1918 recommendations of Federal advisory council.)

5. *Developments during 1919.*—In 1919, a bill was passed by the Senate which proposed to authorize national banks in cities of 500,000 or more population having a capital and surplus of $1,000,000 or more, to establish not exceeding 10 branches within the corporate limits of the cities in which they were located, provided State law extended a similar privilege to State banking institutions. Under date of September 16, 1919, the Federal advisory council urged the Federal Reserve Board to use every effort to secure the passage of this bill in the interest of sound banking and the granting of equal banking facilities to all people in the same business. (P. 19 of 1919 Recommendations of Federal Advisory Council.)

6. *Annual report for 1919.*—The board in its annual report for the year 1919 (p. 64) made substantially the same recommendation regarding the branch banking amendment as it had made in its annual report for the year 1918, and commented upon the bill above referred to as follows:

"Under the present law national banks can not afford the same facilities to the public as are given by State banks having branches, except in cases where State banks and trust companies operating branches have merged with national banks, when existing branches may be continued by the national banks. * * * While the board would prefer to have this privilege (of establishing branches) extended to national banks in cities of not less than 100,000 inhabitants, or, failing that, have the population limit raised to 200,000, it wishes to point out that the limit fixed in the Senate bill does not affect the principle involved, and it therefore respectfully recommends once more that national banks be permitted to establish branches in cities in which they are located under such limitations as in the wisdom of Congress may be deemed desirable."

7. *Recommendation of agents' conference in 1921.*—The conference of Federal reserve agents held in October, 1921, adopted a resolution favoring the establishment of branches in the same city in which a national bank is located, provided State banks are permitted that privilege under State law. (Pp. 111–115 of proceedings of October, 1921, Conference of Federal Reserve Agents.)

8. *Annual report for 1922.*—Again in its report for 1922 (pp. 5–6) the board commented briefly upon branch-banking developments, noting that the establishment of branches by the larger State banks "had gone so far in a few States, notably California, and in a few large cities, including New York, Cleveland, and Detroit, as to reduce greatly the number of national banks." The board expressed the opinion that the action of the Comptroller of the Currency in permitting national banks to open "additional offices" within the corporate limits of the cities in which they were located in States which permitted branch banking "does not meet the situation in California and does not fully meet it in the cities mentioned," and that "an amendment to the national banking act allowing national banks the same privilege given to State banks in States where branch banking is permitted is much to be desired."

In this connection the board noted a suggestion made by the joint commission of agricultural inquiry in its report to Congress dealing with the problem of rural credit, to the effect that "a system of limited branch banking might furnish a possible solution of this problem." Upon this suggestion the board commented as follows:

"Such systems are in fact already established in some sections of our country, notably in California, and appear to have gone far toward solving the problem. Branch banking has lowered the rate of interest in some of the leading agricultural sections of California, and at the same time has provided added security for the deposits of the farmers. There are interesting neighborhood branch banking groups in other States, which appear to be serving their communities well."

9. *Annual report for 1923.*—Finally, in its 1923 report, page 48, the board notes the difficulties which originate in the differences of State laws and the competitive disadvantages under which national banks operate in States which permit branch banking, and expresses the hope "that it can by administrative measures find some reasonable method of harmonizing existing differences of interest of State and national banks in the matter of branch banking, and thus lay the basis for a policy which will result in shaping the development and practice of branch banking in the United States along useful and serviceable lines."

10. *Administrative policy of the board prior to November, 1923.*—In acting upon application of State member banks for permission to establish additional branches within the system the board, prior to November, 1923, had considered each case

upon its merits, giving consideration to public convenience and to the parent bank's capacity for properly organizing the branch and assimilating the business taken over. As a matter of general policy rather than specifically of branch banking policy, the board in individual cases withheld its approval until satisfied that establishment of the additional branch or branches in question would not impair the solvency or liquidity of the parent bank. It gave consideration to the rate of expansion of the given branch system; coordination of branches already acquired; head-office control, supervision, and personnel; affiliation with outside corporations, relation of capital and surplus to deposit liabilities, especially in rapidly expanding branch systems; methods of acquiring branches; and generally to local conditions and needs in so far as they could be clearly defined. The board distinguished branches from paying and receiving stations not vested with discretionary power to make loans, except for inconsiderable sums and, while reserving the right to reconsider in case such offices in any instance developed into full fledged branches, it made approval of such outside offices more or less a matter of form, except where it appeared that the expense of maintaining them might impair the capital of the bank.

Although the board had not formulated any arbitrary rule requiring simultaneous examinations of head offices and branches, it had nevertheless regarded any evidence of inability on the part of State authorities to conduct proper examinations of banks maintaining extensive branch systems as being in itself adequate justification for limiting further expansion of such systems. It felt that responsibility for the conduct of adequate examinations must, in the case of member as of nonmember banks, be assumed primarily by State authorities rather than, in the case of member banks, by the Federal reserve bank of the given district.

In general, it may be observed that, prior to November, 1923, the board permitted expansion of member bank branch systems under State supervision and control, in so far as such expansion was consistent with sound banking principles of efficient administration, adequate State supervision, and complete solvency.

11. *Resolution of November 7, 1923.*—On November 7, 1923, the Federal Reserve Board adopted a resolution (X–3881) formulating certain general principles for guidance of the board in acting upon individual cases presented to it in applications for admission to membership of State banks operating branches outside the city or town or contiguous territory in which the parent bank was located and in applications of State member banks for permission to establish such branches.

This resolution reads as follows:

"*Resolved*, That the board continue hereafter as heretofore to require State banks applying for admission to the Federal reserve system to agree as a condition of membership that they will establish no branches except with the permission of the Federal Reserve Board; be it further

"*Resolved*, That, as general principle, State banks with branches or additional offices outside of the corporate limits of the city or town in which the parent banks are located or territory contiguous thereto ought not be admitted to the Federal reserve system except upon condition that they relinquish such branches or additional offices; be it further

"*Resolved*, That, as general principle, State banks which are members of the Federal reserve system, ought not be permitted to establish or maintain branches or additional offices outside the corporate limits of the city or town in which the parent bank is located or territory contiguous thereto; be it further

"*Resolved*, That in acting upon individual applications of State banks for admission to the Federal reserve system and in acting upon individual applications of State banks which are members of the Federal reserve system for permission to establish branches or additional offices, the board, on and after February 1, 1924, will be guided generally by the above principles; be it further

"*Resolved*, That the term 'territory contiguous thereto' as used above shall mean the territory of a city or town whose corporate limits at some point coincide with the corporate limits of the city or town in which the parent bank is located; be it further

"*Resolved*, That this resolution is not intended to affect the status of any branches or additional offices established prior to February 1, 1924, either those of banks at the present time members of the Federal reserve system or those of banks subsequently applying for membership in said system."

The Federal advisory council, however, was not inclined to favor this resolution. Under date of November 19, 1923, it stated with reference to the resolution that "it believes that the resolution, if carried into effect, will give a position of monoply to those State banks that have established state-wide system of branches, while those State banks that have refrained from branch banking will be placed in a position of great disadvantage." (P. 11 of 1923 recommendations of Federal advisory council.)

12. *Recommendations re McFadden bill.*—On February 11, 1924, the so-called McFadden bill was introduced in Congress giving to national banks the right to establish branches and imposing some restrictions upon the establishment of branches by State member banks of the Federal reserve system. As has been shown above, the board had repeatedly recommended the enactment of legislation authorizing the establishment of domestic branches by national banks and a number of bills designed to accomplish this general purpose were introduced from time to time. These bills were iu various forms and contained various limitations and restrictions, but none of them was ever passed by Congress.

On May 26, 1924, and April 23, 1926, in letters addressed to Congressman McFadden and Senator McLean, respectively, the board expressed its general approval of the McFadden bill. The Federal advisory council in 1924, 1925, and 1926 also recommended enactment of the bill, and on February 25, 1927, it was finally enacted into law.

13. *Administrative policy during 1924.*—At its meeting on January 7, 1924, the board gave consideration to the applications of three banks for permission to establish branches from time to time over a period of several months in accordance with contemplated programs of development, and adopted a resolution to the following effect: That no blanket authority to establish branches would be granted; that each application must be presented separately in regular form and manner, subject to approval of the State banking authorities and a recommendation of the Federal reserve bank of the district; that applications to establish branches in noncontiguous territory, filed before February 1 (under the board's resolution of November 7) might be considered by the board after that date; and that the board reserved right to pass on each application on its merits. (See X–3937.)

14. *Regulations of 1924.*—On March 27, 1924, the board issued a revised and further elaboration of its regulations formulated under that general provision of the Federal reserve act which authorizes it to prescribe conditions of membership for State banking institutions applying for admission to the system. In these regulations, as amended a month later, on April 7, the board took occasion to give more formal statement than it had previously given to principles which would govern it in approving the establishment of branches.

By Section IV of its Regulation H, as amended April 7, 1924, the board stated that it would prescribe the following conditions of membership for every State bank thereafter admitted to the Federal reserve system:

"(4) Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, establish any branch, agency, or additional office.

"(5) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest."

These conditions were prescribed for all State banks and trust companies which were admitted to membership between April 7, 1924, and February 25, 1927, and were conditionally prescribed for all institutions admitted between February 26, 1927, and January 3, 1928. Prior to April 7, 1924, these conditions, or conditions substantially similar thereto, were prescribed for special reasons for a number of State banks and trust companies admitted to the system.

In Section VI of the same regulation, the board stated the administrative policy which it would pursue in acting upon applications for permission to establish branches under these conditions of membership as follows:

"SECTION VI. PRINCIPLES GOVERNING ESTABLISHMENT OF BRANCHES

"In passing upon applications by State banks and trust companies for permission to establish branches, agencies, or additional offices, under condition No. 4 of Section IV, or under any similar condition which may have been prescribed by the Federal Reserve Board and agreed to by any bank or trust company heretofore admitted to the Federal reserve system, the Federal Reserve Board will observe the following principles:

"(1) The Federal Reserve Board will as a general principle restrict the establishment of branches, agencies, or additional offices by such banks or trust companies to the city of location of the parent bank and the territorial area within the State contiguous thereto, as said territory has been defined in the board's resolution of November 7, 1923, excepting in instances where the State banking authorities have certified and the board finds that public necessity and advantage render a departure from the principle necessary or desirable.

"(2) The Federal Reserve Board as a general principle will not consider an application by such bank or trust company for a permit to establish a branch, agency, or additional office, unless the authorities of the State in which such bank is located regularly make simultaneous examinations of the head office and all branches, agencies, or additional offices of such bank, nor unless the examinations made by the State authorities are, in the judgment of the Federal Reserve Board, of such character in every respect as to furnish the Federal Reserve Board with sufficient information as to the condition of such bank and the character of its management to enable the Federal Reserve Board fully to protect the interests of the public.

"(3) The Federal Reserve Board as a general principle will require each bank or trust company which establishes or maintains branches, agencies, or additional offices to maintain for itself and such branches, agencies, or additional offices an adequate ratio of capital to total liabilities and an adequate percentage of its total investments in the form of paper or securities eligible for discount or purchase by Federal reserve banks.

"(4) The Federal Reserve Board will not consider any application to establish a branch, agency, or additional office until the State banking authorities have approved the establishment of such branch, agency or additional office, and the directors or executive committee and the Federal reserve agent of the Federal reserve bank of the district in which such bank or trust company is located have made a report upon the financial condition of the applying bank or trust company, the general character of its management, what effect the establishment of such branch, agency or additional office would have upon other banks or branches in the locality in which it is to be established, and whether in their opinion, it would be in the interest of the public in such locality, together with their recommendation as to whether or not the application should be granted.

"(5) When permission is granted for the establishment of such branch, agency or additional office same shall be established and opened for business within six months after such permission is granted. If such branch, agency or additional office is not established within such time the permit shall become void, unless the time is extended by the board for good cause.

"(6) The Federal Reserve Board reserves the right to cancel any permit which it may grant hereafter to establish any branch, agency or additional office whenever it shall appear, after hearing, that such branch, agency or additional office is being operated in a manner contrary to the interest of the public in the locality in which it is established."

15. *After the McFadden Act.*—As a result of the amendments to the Federal reserve act contained in the McFadden Act, the board issued a new set of regulations applicable to member banks which became effective on January 3, 1928. Before these new regulations became effective and after the passage of the McFadden Act, a number of State banks and trust companies were admitted to membership in the system. These banks and trust companies were admitted subject to certain conditions of membership which usually included the conditions in the 1924 regulations regarding the establishment of branches, and such conditions were subject to any changes which the board found to be necessary on account of the amendments to the Federal reserve act contained in the McFadden Act. After the board's 1928 regulations became effective (January 3, 1928) these banks were advised of the new conditions of membership to which they were subject. As the McFadden Act prescribed the conditions under which branches might be established by State member banks, the board did not include a condition in these new regulations in that connection. In Section V of Regulation H,

however, it stated its interpretation of the provisions of the McFadden Act regarding branches of State member banks as follows:

"1. Any State member bank which, on February 15, 1927, had established and was actually operating a branch or branches in conformity with the State law is permitted to retain and operate the same while remaining a member of the Federal reserve system, regardless of the location of such branch or branches.

"2. Any nonmember State bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with State law may, if otherwise eligible, become a member of the Federal Reserve system and retain and operate such branches, regardless of their location.

"3. In order to remain a member of the Federal reserve system, every State member bank must relinquish any branch or branches established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated.

"4. Any State member bank which establishes any branch or branches after February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated must either (*a*) relinquish such branch or branches or (*b*) forfeit all rights and privileges of membership and surrender its stock in the Federal reserve bank.

"5. No State bank which has established any branches subsequent to February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated may become a member of the Federal reserve system except upon relinquishment of every such branch.

"6. State member banks may establish branches within the corporate limits of the city, town, or village in which the parent bank is situated without obtaining permission of the Federal Reserve Board."

VIII. POLICY OF FEDERAL RESERVE SYSTEM ON CHAIN BANKING

1. *Conditions of membership.*—Prior to the enactment of the McFadden Act, the board prescribed conditions of membership under which State banks could be admitted to the Federal reserve system, in order to effect some degree of control over chain banking. One of the conditions with which State banks entering the Federal reserve system were required to comply, reads as follows:

"(5) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch banks as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest."

This condition of membership was incorporated in the board's regulations of 1924 and was prescribed for every State bank admitted to membership between April 7, 1924, and January 3, 1928. As a result of an amendment to section 9 contained in the McFadden Act (February 25, 1927), there is some doubt whether the board now has authority to prescribe this broad condition and, therefore, it has been unable to exercise the same degree of control over chain banking. It has, however, prescribed the following condition of membership for every State bank or trust company admitted to memberhsip since January 3, 1928.

"(3) Except after applying for and receiving the permission of the Federal Reserve Board, such bank or trust company shall not acquire an interest in any other bank or trust company, through the purchase of stock in such other bank or trust company."

2. *Recommendations for legislation.*—As early as January 8, 1926, the board addressed a letter to Congressman McFadden (X–4500) recommending that there be incorporated in the pending McFadden bill certain provisions designed to secure adequate information regarding national and State member banks which are closely related in management, operation or interests to other banking institutions and, in particular, to afford some check upon the abuses frequently occurring from chain banking. These suggestions were not adopted by Congress. A copy of the board's letter is attached hereto as Exhibit DD.

3. *Correspondence with Hon. Louis T. McFadden re administrative control.*—Under date of May 2, 1927, Congressman McFadden addressed a letter to the Comptroller of the Currency, suggesting that he adopt administrative measures calculated to control or prevent the growth of chain banking among national

banks and sent a copy of his letter to the Federal Reserve Board with the suggestion that the board should adopt similar administrative measures with reference to State member banks of the Federal reserve system. The board, under date of May 18, 1928 (X–4854) replied that it was powerless under the law to take any such action. The board called attention to the fact that it had suggested legislation along this line, but that Congress had not adopted its suggestions, and also called attention to the fact that Congress in the McFadden Act had amended the law so as apparently to take away the board's power to control this practice through conditions of membership. The board's letter, a copy of which is attached as Exhibit EE, concluded with the statement that the remedy lies with Congress.

4. *Annual reports for 1927 and 1928.*—In addition to the correspondence with Congressman McFadden above referred to, the board has in its annual reports for the years 1927 and 1928 brought to the attention of Congress the fact that the expanding operations of financial companies specializing in the purchase of bank stock have presented special problems to Federal and State officials charged with the responsibilities of bank supervision. It was pointed out that such companies have been organized in increasing numbers and that since they are not directly engaged in the business of banking as defined in Federal and State statutes, they have not been subject to supervision or regular examination by banking authorities. (See pp. 31, 32 of 1927 annual report.) The difference between branch and chain banking was explained and it was pointed out that the more considerable developments in chain banking have been generally in States which prohibit the establishment of branch offices by banks. The chain banking situation in the United States was also summarized for the information of Congress. (See pp. 30, 31 of the 1928 annual report.)

5. *Conferences of Federal reserve agents and governors of Federal reserve banks in 1927 and 1928.*—The 1927 fall conferences of Federal reserve bank governors and Federal reserve agents considered the development of investment companies for the purchase of bank stock, and the Federal reserve agents were of the opinion that a dangerous situation is developing which should be brought to the attention of the Federal Reserve Board and the banking authorities with the view that some legislation should be obtained placing such companies under the jurisdiction of the banking departments. The Federal reserve bank governors felt that the possible dangers incident to a widespread development of such companies make it a matter for the consideration of the Federal reserve system. The governors discussed this question further at their April, 1928, conference and while nothing definite was recommended, it was stated that the question is a matter that deserves thoughtful consideration.

6. *Committee to study chain banking.*—The question of branch, chain, and group banking development in the United States with particular reference to the effects of bank stock ownership by investment trusts and holding corporations, was considered by the Federal advisory council in 1929, and, on November 19, 1929, it recommended that "the Federal Reserve Board appoint a committee to study the merits of the branch banking system as practiced in this and other countries (conditions in Canada being apparently more comparable with our own), the group or chain banking system as developed in this country and elsewhere, and the unit banking system of this and other countries; and further, the effect of ownership of bank stocks by investment trusts and holding corporations, in order that the Federal Reserve Board may be in possession of accurate and authoritative information on this important subject."

The December, 1929, conference of Federal reserve bank governors and Federal reserve agents voted to concur in and indorse the recommendation of the Federal advisory council that a committee be appointed to study the subject of branch, chain, and group banking.

Accordingly, on February 27, 1930, the board appointed a committee for this purpose, naming as members thereof, Messrs. Goldenweiser and Smead of the board's staff, and Messrs. Rounds, Fleming, and Clerk, deputy governors of the Federal reserve banks of New York, Cleveland, and San Francisco, respectively.

IX. BANK FAILURES

In connection with the subject of branch, group, and chain banking, some consideration must be given to the unfortunately large number of bank suspensions and failures in the United States, especially in view of the fact that the advocates of branch banking contend that the solution of the problem of bank failures lies in the substitution of branches of strong, well-managed banks for

small-unit banks in the rural communities. Fortunately, the Federal Reserve Board has reliable statistics with regard to bank failures and has made some study of the causes of these failures.

1. *Federal Resere Board Annual Report for the Year 1926.*—On pages 10 to 13, inclusive, of the text of this report the board called attention to the fact that during the year 1926, 956 banks, with deposits of nearly $275,000,000, had suspended, as compared with 612 suspensions, involving deposits of about $175,000,000 in 1925, and 777 suspensions, involving deposits of about $215,000,000 in 1924. Certain statistics were given with reference to the number and percentage of member and nonmember bank failures and the causes of these failures were discussed briefly. One of the fundamental causes appeared to be that in many communities, and especially in small communities, there were more banks than could profitably engage in the local banking business, and many of these banks had insufficient capital. A statistical table brought out the fact that nearly two-thirds of the banks which failed during 1926 had a capital of $25,000 or less and were situated in towns of less than 1,000 inhabitants.

The situation described in the following paragraph, appearing on page 12, undoubtedly accounts for the present tendency to build up chains of banks with strong management or supervision in view of the legal restrictions on branch banking:

"Some small banks in small communities have found it difficult to make adequate earnings by conducting their business along strictly conservative lines, and have not been able to afford the expense of engaging skillful and experienced managers. The volume of business done by small banks in rural communities, furthermore, has diminished in recent years, as the result of improvement in roads and the widespread use of automobiles, which has led many bank customers to prefer to drive to the county seat or other near-by center and to use the facilities of the larger banks in these towns."

The general economic conditions leading up to the failures during the year 1926 were discussed concisely on page 13; and, on pages 190 to 196, inclusive, there were published a series of tables containing valuable statistics on bank suspensions during the years 1921 to 1926, inclusive.

A copy of this report is attached hereto as Exhibit FF.

2. *Report on bank suspensions, 1921–1927.*—Under date of April 11, 1928, Mr. E. L. Smead, chief of the division of bank operations, submitted to the Federal Reserve Board a comprehensive report on bank suspensions in the year 1927 and during the years 1921 to 1927, inclusive. A copy of this report is attached hereto as Exhibit GG.

This report showed that, during the year 1927, there was a total of 662 bank suspensions involving total deposits of $194,000,000, and detailed figures were given for the various classes of banks.

The report also showed that, during the 7-year period, 1921–1927, 4,513 banks with an aggregate capital of $169,000,000 and deposits of $1,351,000,000 had suspended operations. During the same period 559 banks with a capital of $21,000,000 and deposits of $200,000,000 had reopened, leaving net failures of 3,954 banks with an aggregate capital of $148,000,000 and deposits of $1,151,000,000. Detailed statistics are given for the various classes of banks. These statistics showed that, of the total of 4,513 banks that suspended operations during this 7-year period, 3,609 were located in places having a population of less than 2,500 and that more than 60 per cent of all suspended banks were located in places having less than 1,000 inhabitants. It also showed that nearly 40 per cent of the suspended banks had a capital of less than $25,000 and that over 63 per cent of them had a capital of $25,000 or less.

On page 5 of this report the principal causes of bank failures during this 7-year period were discussed as follows:

"The principal cause of bank suspensions during the 7-year period was reported as the accumulation of a large proprotion of worthless, slow or past-due paper, but in quite a number of cases poor management and heavy withdrawals were assigned as largely responsible for the suspension. The causes of suspension listed in the order of importance, i. e., based on the number of times shown as having been a primary or contributory cause, are as follows:

"1. Doubtful, slow or past-due paper.
"2. Heavy withdrawals.
"3. Poor management.
"4. Depreciation of securities.
"5. Loans to officers and directors.
"6. Defalcation.

"7. Loans to enterprises in which officers and directors were interested.
"8. Failure of banking correspondent.
"9. Failure of other large debtors."

While "doubtful, slow or past due paper" was given as the most important cause of bank failures and "loans to officers and directors" and "loans to enterprises in which officers and directors were interested" were listed as separate causes, it might well be argued that these causes could all be grouped under the head of "poor management," making that the principal cause of bank failures.

Some statistics are given with reference to the number of failures of banks operating branches and, on page 6, there is an interesting discussion of the failure of certain chain systems, notably the Witham System, with 179 banks in Georgia, and Florida and 10 in New Jersey and New York.

3. *Study of bank suspensions, 1921–1929.*—A similar report covering the 9-year period, 1921–1929, is now in course of preparation. The information pertaining to the causes of failures has not yet been completely tabulated, but it appears that the relative importance of the causes of suspensions will not be very different from that shown in the report for the years 1921–1927.

4. *Federal Reserve Board Annual Report for the Year 1929.*—While it has not yet been completed, a preliminary draft of that portion of the board's annual report for the year 1929 which discusses bank failures is attached hereto as Exhibit HH.

From this it appears that 642 banks with aggregate deposits of $235,000,000 suspended operations during the year 1929. This was larger than any year except 1926, when both the number and deposits of suspended banks were the largest on record. Although member banks constitute only about one-third of the total number of banks in the United States, only about one-eighth of the total number of banks which suspended during the year were member banks; and although the deposits of member banks are approximately three-fifths of the aggregate deposits of all banks in the country, the deposits of the member banks that suspended during the year 1929 were only about one-fourth of the aggregate deposits of all suspended banks.

During the 9-year period, 1921–1929, a total of 5,642 banks were reported as having suspended operations either temporarily or permanently on account of financial difficulties, and of this number 657 have since been reopened, leaving 4,985 as the net number of bank failures. The deposits of the banks which suspended operations during this 9-year period aggregate about $1,720,000,000 and the deposits of the reopened banks about $240,000,000, leaving the net deposits of failed banks aggregating $1,480,000,000.

A number of interesting tables are included in this draft of the report and one of them shows that over 62 per cent of all the banks which failed during this 9-year period had a capital of $25,000 or less and that over 60 per cent of the total number were located in town with a population of 1,000 or less; 91.6 per cent of all these banks were located in towns with a population of 10,000 or less, and only 8.4 per cent were located in towns with a population exceeding 10,000 inhabitants. This clearly lends some support to the opinion that branches of strong banks are needed in small rural communities.

5. *Studies of bank failures by Professor Sprague and Doctor Burgess.*—In April, 1925, the board employed Prof. O. M. W. Sprague, professor of banking and finance at Harvard University, as a research assistant in the board's division of research and statistics, for the purpose of studying the question of needed banking legislation. During the course of Professor Sprague's employment with the board he made a study of the causes of bank failures. He published an article on this subject in the Journal of the American Bankers' Association for April, 1927, at pages 703 and 704; and the report of the committee on economic changes of the President's conference on unemployment, published in volume 2 of Recent Economic Changes (pp. 393–396), contains a discussion of bank failures, which was prepared by Professor Sprague and Dr. Randolph Burgess, assistant Federal reserve agent of the Federal Reserve Bank of New York. Quotations of certain portions of these articles discussing the causes of bank failures will be of interest.

The following is quoted from Professor Sprague's article on The Cause of Bank Failures, published in the Journal of the American Bankers' Association for April, 1927, pages 703 and 704:

"Scattered banks in other parts of the country, and particularly banks in the larger cities, also enjoy the advantage of local diversity in loans and have funds available for other employment. But thousands of banks in the West and South are in a strikingly different position. They are established in localities in which there is but slight diversity in occupation, localities also in which the local de-

mand for accommodation commonly tends to absorb all of the resources of the local banks and at higher rates than can be secured on outside investments.

"The more conservative banks, as a matter of wise policy, do not employ all resources locally, and these banks may properly resort to reserve banks or to city correspondents for accommodation to take care of seasonal or other temporary requirements. At the opposite extreme are the numerous banks that make local loans to the full extent of their own local resources, and in addition acquire outside deposits, both public and individual, by the offer of a high interest rate, and still further enlarge the supply of bank credit in the locality by securing accommodation from reserve banks and city correspondents.

"Banks which follow this course may acquire prestige in their communities and earn large profits for shareholders in years of abounding prosperity; but clearly they are in no position to withstand successfully a long period of adverse conditions. Failure is probable unless quite extraordinary care and discrimination have been exercised in the determination of the amount of credit extended to each individual borrower. It is a reasonable presumption, however, that the lack of caution manifested in the general policy of a bank will also be exhibited in the quality of the particular loans that it makes.

"When the problem of bank failures is approached with full recognition of the powerful influence unfavorable to safety in banking exerted by the absence of industrial diversity and by the intense local demand for credit, it becomes evident that policies governing the establishment of banks have not been sufficiently directed toward the maintenance and improvement of standards in the management of banks.

* * * * * * *

"While there is no exact relationship between the size and number of banks in a locality and the strength of the banking position, it is certain that these are factors which have a decided bearing upon competence in management. A community with aggregate banking resources of, say, $5,000,000 will be better served in every way, including safety, by two or three banks than by six or more. The excessive number of banks induces cutthroat competition for accounts, and tends to undermine conservative standards in the granting of credit. A decided increase in minimum capital requirements would do much to restrict the number of banks within more desirable limits, but whatever may be accomplished in this direction should be coupled with the specific grant of power to the appropriate authority, as in the State of New York, to decline to approve new charters where it is evident that a community is already well served by existing banking institutions, and that additional competition will serve no useful purpose.

* * * * * * *

"No doubt bank examinations might be improved, and in some States very materially improved, but incomplete information about the condition of the banks is not the most serious defect in existing supervisory arrangements. The opinion may be ventured that, aside from a few instances of exceptionally skillful dishonesty, and the special situation created by chains of banks, successive examinations preceding failure have regularly disclosed an increasingly unsatisfactory condition. But in making effective use of this information, almost insurmountable obstacles are encountered. Governmental authorities may criticize unwise policies, but they can only take action when statutes are violated, or upon clear evidence of impairment of capital or insolvency. Moreover, even within the field of violations of statutes, effective administration is hampered by the common failure of legislation to provide penalties other than the cessation of business or a receivership."

The following is quoted from volume 2 of a book on "Recent Economic Changes" containing the report of the President's conference on unemployment (pp. 693–696):

"Dishonesty and gross mismanagement account for a small number of these failures The suspension of a larger number was precipitated by adverse conditions of a purely local character, such as a succession of crop failures or the sudden collapse of real estate booms in particular towns and cities. But the great majority of banks failed because they were unable to withstand the stress exerted by the persistence of unprofitable prices for the products of agriculture and animal husbandry—stress that was particularly severe because it was experienced after years of a bounding prosperity and extreme appreciation in the value of farm property, and a large increase in the number of farms mortgaged and the amount of mortgage indebtedness.

"These adverse conditions alone, it can hardly be too strongly emphasized, do not furnish a complete explanation of the numerous bank failures of the last

seven years. By no means all, or even a majority, of the banks in the localities most seriously affected have been obliged to suspend operations. Financially weak and unskillfully managed banks have been weeded out; strong, well-managed banks have no doubt experienced heavy losses, but they survive.

* * * * * * *

"There are hundreds of small banks throughout the country which are ably managed and abundantly strong, and which overcome the handicap of an absence of industrial diversity in the communities which they serve by the exercise of exceptional judgment and caution. On the other hand, while there is no exact relationship between the number and size of the entire group of banks in a locality and the strnegth of its banking position, it is certain that no community can hope to enjoy the benefits of safety in banking if the business is organized in units so numerous as to exceed the available supply of competent officers and responsible directors, and with insufficient earning power to be able to absorb inevitable losses.

* * * * * * *

"No community can possibly provide adequate resources, competent officers, and experienced directors for one bank to every 750 of its inhabitants as in North Dakota, or to 1,400 as in Iowa. And the situation in these States was not exceptional; on the contrary, an excessive number of banks have been established throughout those sections of the country that are mainly devoted to agriculture. Banking troubles were inevitable with the advent of adverse conditions, and for the severity of these conditions the unwise use of credit administered by an inordinate multiplicity of banks was in no small degree responsible."

The CHAIRMAN. Go ahead, now, Governor.

Governor YOUNG. That also covers all the statistical and research work that we have done in reference to the development of branch banking in the United States and recently of group and chain banking, with the statements that we have issued at various times.

It covers a short synopsis of branch banking in several foreign countries with the development and results as near as we can find out in this country.

It covers the history of banking in the United States—a very short synopsis of it.

It covers Federal legislation in the United States in reference to branch banking from the time of the first branch bank in the United States.

It covers the policy of the Federal reserve system on branch banking from the annual report in 1915 up to the passage of the McFadden Act.

It coves the policy of the Federal reserve system on chain banking since that has been a rapid development in the United States.

It covers the reports of bank failures in the United Staes and the causes for those failures as we or experts have seen them.

While it is a very lengthy document, we have condensed it as much as we can possibly for the benefit of the committee.

The CHAIRMAN. This is prepared under the direction of the Federal Reserve Board?

Governor YOUNG. Really it was prepared under my direction, with the research department.

The CHAIRMAN. Does that include the study that has been made by the special committee of the 12 Federal reserve banks?

Governor YOUNG. It does not. That committee was only recently organized. Our research and statistical division is so busy with many other problems that come before us that we have recently employed a man who spends all of his time on that particular subject.

The CHAIRMAN. But there will be further additional information available from this other committee, I imagine?

Governor YOUNG. At any time we get it, we will be glad to pass it on to the members of the House committee. We expect to get a great deal out of your conferences up here and in your investigations.

That is all I have to present to-day. I think the members of the committee will profit——

The CHAIRMAN. Do you desire to make a statement to the committee and give an expression of the board's view or your personal view on the subject?

Governor YOUNG. I have stated the board's view here [indicating], and I am not prepared to make a statement in reference to branch, group, or chain banking at this moment.

The CHAIRMAN. Do you, as governor, care to make a statement to the committee, or as an individual?

Governor YOUNG. I would prefer, Mr. Chairman, to get all the information that is available rather than make an impulsive statement at the moment—yes. On the other hand, I am here to answer any questions that the members of the committee care to ask me.

The CHAIRMAN. Inasmuch, then, as we have not had an opportunity to make a study of the data you have presented, I am going to suggest that the committee do now adjourn until to-morrow at 10.30.

Mr. GOLDSBOROUGH. Mr. Chairman, may we have an executive session before adjourning?

The CHAIRMAN. Very well, the committee will go into executive session.

(Whereupon, at 12 o'clock, noon, the committee went into executive session, at the conclusion of which the committee adjourned until Wednesday, March 19, 1930, at 10.30 o'clock a. m.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, MARCH 19, 1930

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

The committee met, in the committee room, Capitol, at 10.50 a. m., Hon. Louis T. McFadden (chairman) presiding.

The committee will come to order.

Mr. WINGO. Mr. Chairman, I want it understood that we will waive the rule we adopted and permit those members who missed their turn this morning by reason of their being detained, to cross-examine when they come in.

STATEMENT OF HON. ROY A. YOUNG—Resumed

The CHAIRMAN. Governor, I understand you have some additional data you want to put into the record?

Governor YOUNG. Yes, sir; Mr. Chairman. This will be ready for distribution late this evening.

The Comptroller of the Currency furnished the committee with statistics and information in reference to group and chain set-ups in the United States at the present time, showing that approximately one-sixth of the resources of the banking structure of the country was either in groups or chains. That was up to the end of the year.

Since then the board has prepared, through its statistical division, information showing group, chain, and branch banks. That will be ready, in mimeographed form, this evening and I would like to have that inserted in the record.

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

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

The tabulation of the data received from the Federal reserve agents on the above subject as of December 31, 1929, has been completed and there is presented herewith a summary thereof as of that date.

Experience with our branch banking record during the past three years leads us to believe that it is substantially complete and accurate, even as to non-member banks. In the case of the chain and group banking statistics, the present compilation is probably the most complete that has thus far become available, but due to the difficulty of obtaining information on this subject it is quite likely that it does not include a few small chains for which no information is available, and it may not include all the banks in some of the groups or chains. It is also possible that the management or controlling interests do not regard some of the banks that are included in our figures as constituting group or chain systems. On the whole, however, the information as submitted on chain and group banking is believed to be substantially correct.

The material is presented under three general heads. The first part relates to branch, chain, and group banking taken as a whole, the second to chain and group banking alone, and the third to branch banking.

No account is taken in this memorandum of Morris plan banks or small loan agencies which operate in a number of States.

BRANCH, CHAIN, AND GROUP BANKING

General summary.—According to statistics just compiled, there were in operation in the United States at the end of 1929, 24,645 [1] banks and 3,547 branches, or a total of 28,192 banking offices. Of this total of approximately 28,200 banking offices, there were 6,353 banks and branches that belonged to branch-bank systems, to chain or group-bank systems, or to both. This leaves 21,839 banking institutions that might be definitely termed as "independent unit banks"—having no branches and being in no way connected with other banks through chain or group affiliation.

As a measure of the banking resources of the banks falling into the different categories, we have tabulated the figures of total loans and investments. On this basis it appears that at the end of 1929 all banks in the country had total loans and investments of approximately $58,500,000,000.[1] On the same date the branch, chain, and group banking systems, embracing a total of 6,353 banks and branches, had total loans and investments of approximately $30,000,000,000. In other words, the banking resources of the branch, group, and chain systems were more than one-half the total of all banks in the country.

The branch-banking systems at the end of 1929, taken alone, embraced 822 banks and 3,547 branches with aggregate loans and investments of $25,100,000,000, but these figures include 119 banks with 1,415 branches and loans and investments of $6,300,000,000 that were also reported as belonging to bank groups or chains. There were 287 chain or group bank systems reported in existence at the end of 1929, embracing 2,103 banks with loans and investments of $11,200,000,000. These figures, like those given for the branch systems, include a certain amount of duplication, that is to say, they include 119 banks with 1,415 branches and loans and investments of $6,300,000,000, which were reported as belonging to chain or group systems. This duplication is, however, eliminated from the combined statistics given in the two preceding paragraphs.

The table following shows the number and loans and investments of branch, chain, and group banking systems at the end of 1929, in comparison with figures for all banks in the country.

Number and loans and investments of all banks in the United States and of branch, chain, and group bank systems at the end of 1929

	Number of banks (or branches)	Loans and investments
All banks (head offices) in United States [a]	24,645	[b]
Branches	3,547	[b]
Total, all banking offices	28,192	$58,461,000,000
Banks that belong to chains or groups but operate no branches	1,984	4,913,000,000
Banks that belong to chains or groups and operate branches:		
Head offices (parent banks)	119	[c] 6,264,000,000
Branches	1,415	[b]
Banks that do not belong to chains or groups but operate branches:		
Head offices (parent banks)	703	[c] 18,839,000,000
Branches	2,132	[b]
Independent unit banks (banks that do not belong to chains or groups and do not operate branches)	21,839	28,445,000,000

[a] Exclusive of private banks not under State supervision. For two States the December figures were not available for State banks, and the latest available figures were therefore used.
[b] Separate figures not available.
[c] Includes branches, separate figures not being available.

[1] Excluding private banks not under State supervision. For two States the December figures for State banks are not available, and in these cases the latest available abstract was used.

Branch, chain, and group banking areas.—Taken generally and looking at the situation from the standpoint of the number of banks involved, chain and group banking exists on the widest scale on those States in which branch banking is prohibited entirely, for example, in Minnesota, North Dakota, Kansas, Iowa, Illinois, Oklahoma, and Texas. It has, however, grown to considerable proportions in so-called restricted branch banking States—where branches may be established only in the head office city, notably Michigan and New York. From the standpoint of banking resources controlled by the members of the groups and chains, chain and group banking is also found on an extensive scale in certain additional States, including particularly California, Florida, Georgia, and Montana.

As is generally known, chain and group banking has had its most rapid development in recent months in the Northwestern States, but considerable activity has been reported in some of the eastern and southern States. There are relatively few States where it does not exist to a substantial extent, but the predominant chain or group banking area may be said to comprise the Middle Western, Western and Central States. There seem to be at present very few legal restrictions on the formation of bank groups or chains, and the continued growth of this system, which might be termed indirect branch banking, is thus possible generally throughout the country.

The growth of branch banking, on the other hand, has been restricted by law in many States, and the branch banking area has not changed materially in recent years. State-wide branch banking has, of course, had its greatest development in California, but it has also developed to a considerable extent in Maryland, North Carolina, Rhode Island, South Carolina, and Virginia. The other States embraced in the principal branch banking areas are those in which the establishment of branches is restricted as to location, including New York, Michigan, Ohio, Pennsylvania, Louisiana, New Jersey, and Massachusetts. The branch banking area is, therefore, much less extensive than that in which chains or groups operate. It includes most of the Eastern States, and Michigan, Louisiana, and California, but very little of the central and middle western sections of the country.

Member banks of Federal reserve system.—The branch, chain, and group banking systems, which in the aggregate had approximately $30,000,000,000 of loans and investments at the end of 1929, included 923 national banks with loans and investments of $11,800,000,000 and 278 State bank members of the Federal reserve system with loans and investments of $10,800,000,000, or a total of 1,201 member banks with aggregate loans and investments of $22,700,000,000. These banks therefore controlled approximately 63 per cent of the banking resources (as measured by loans and investments) of all member banks of the Federal reserve system.

In some States the member banks that operate branch systems or belong to chains or groups control the greater part of the banking resources of all of the member banks in the State, as is brought out in Table No. 4 submitted herewith. It will be noted from this table that in the following States the loans and investments of member banks that operate branch systems or belong to chains or groups constitute more than one-half of the loans and investments of all member banks in the State:

California.	Maryland.	North Dakota.
Delaware.	Massachusetts.	Ohio.
District of Columbia.	Michigan.	Rhode Island.
Florida.	Minnesota.	South Dakota.
Georgia.	Montana.	Tennessee.
Kentucky.	New Jersey.	Washington.
Louisiana.	New York.	

Tables.—For reference purposes, the following tables relating to branch, chain, and group banking are attached:

Table 1: Number and loans and investments of all banks and branches in the United States and of branch, chain, and group banking systems, December 31, 1929, by classes of banks.

Table 2: Number of banks and branches and number of branch, chain, and group banking systems, by States, December 31, 1929.

Table 3: Loans and investments of all banks and of branch, chain, and group banking systems, by States, December 31, 1929.

Table 4: Number and loans and investments of all member banks in each State and of member banks that operate branches or belong to groups or chains, December 31, 1929.

More detailed information on chain and group banking and on branch banking is given in the separate sections relating to these subjects.

CHAIN AND GROUP BANKING

Definition.—When the Federal reserve agents were requested to furnish the board with reports on chain and group banking, the term "chain and group banking" was defined as comprising those systems "in which any person, group of persons, partnerships, association or corporation has actual or potential control over the operations or policies of three or more banking units, each working on its own capital and under its own personnel." It is on this basis that the statistics submitted herewith have been prepared. It should be realized, of course, that under any definition of the term, many difficulties present themselves in endeavoring to make a comprehensive survey of the subject, particularly where nonmember banks are involved. The sources of the information obtained by the Federal reserve agents include examination reports of member banks, national-bank examiners, State banking departments, the management or controlling interest of some of the groups, and in some instances press reports or similar information.

No attempt has been made in the present tabulation to distinguish between "chain banking" and "group banking," but it is of interest in this connection to note that the Comptroller of the Currency, in a statement made before the House Banking and Currency Committee on February 25, made a distinction between the two terms as follows:

"The term 'chain banking' has been in use for many years in this country to describe a condition in which a number of banks were owned or controlled by the same individual or by a group of individuals. These so-called chains were situated very largely in the rural districts and the member banks of the chain were principally small country banks. This condition was and still is quite prevalent in the agricultural regions of the West and South. Many of these chains have come to disaster through the failure of all of the banks which constituted them. During the many years this type of bank ownership has been in existence it was not considered as a trend toward a fundamental change in our banking system nor did it relate itself to the question of branch banking. On account of the failures of several of these chains the term 'chain banking' began to carry with it an element of disfavor.

"The term 'group banking' is of very recent origin and is being used to describe what appears to be a major movement in our banking system. The principal factor in group banking is that each group is centered around a city or metropolitan bank through means of a holding company which owns the majority of the stock of each bank thereby creating a system of banks more or less integrated in management with the central bank of the group. Its one common factor with the older type of chain banking is that several country banks may be owned by a single agency. In this discussion, therefore, I shall use the term 'group banking' to mean the ownership and some element of operating control of several banks through the medium of a bank holding company."

Summary for the United States.—As has already been noted, some of the banks that belong to chains or groups also operate branches, in fact, the two largest branch systems—the Bank of Italy National Trust & Savings Association, San Francisco, and the Bank of America of California, Los Angeles, with a total of 447 branches, are included in the Transamerica Corporation group of New York. If all chain and goup banks are included, whether or not they operate branches, the statistics show that at the end of 1929 there were 287 bank chains and groups in the United States embracing 2,103 banks, as compared with 275 chains and groups embracing 1,821 banks at the end of June. The 2,103 banks reported as belonging to bank chains or groups at the end of last year constituted about one-twelfth of the banks in the country, while their loans and investments were about $11,200,000,000 or nearly one-fifth of the aggregate loans and investments of all banks in the United States.

Summary by classes of banks.—National banks reported as members of banking chains and groups numbered 802 at the end of December, as compared with 645 in June; State bank members 136, compared with 111 in June; and nonmember banks 1,165, compared with 1,065 in June. Loans and investments of the national banks belonging to the banking chains and groups were approximately $5,900,000,000 or over one-fourth of the total for all national banks, while loans and investments of State bank members belonging to the groups aggregated $3,400,000,000 and of nonmember banks $1,900,000,000.

The following table gives a summary comparison for the country as a whole by classes of banks, for June and December, 1929:

	Number of banks		Loans and investments (in millions of dollars)	
	Total	Members of groups and chains	Of all banks	Of members of groups and chains [1]
All classes of banks:				
December [2]	24,645	2,103	58,461	11,177
June	25,110	1,821	58,474	8,300
National banks:				
December	7,403	802	21,584	5,908
June	7,530	645	21,457	4,159
State bank members:				
December	1,119	136	14,350	3,397
June	1,177	111	14,254	2,509
Nonmember banks:				
December	16,123	1,165	22,527	1,872
June	16,403	1,065	22,763	1,632
Number of groups and chains:				
December		287		
June		275		

[1] Based largely on condition figures published in July, 1929.
[2] For 2 States the December figures for State banks are not available and the latest available abstracts were used in these cases.

Principal chain and group banking States.—Chain and group banking has reached its greatest development in the Northwestern States, but it embraces a considerable number of banks and a relatively large proportion of the banking resources in many other States. There were, as a matter of fact, 25 States at the end of 1929 in which chain and group banks constituted a substantial part of the number of banks or of the banking resources, as indicated in the following table:

States	Number of banks		Loans and investments (in millions of dollars)	
	Total	Members of groups and chains	Of all banks	Of members of groups and chains [1]
Minnesota	1,046	308	901	584
Michigan	743	135	2,021	1,262
North Dakota	412	114	112	58
New York	1,127	102	17,222	2,011
Kansas	1,069	88	404	46
Iowa	1,257	87	782	90
Illinois	1,765	84	3,802	1,212
Oklahoma	617	85	401	103
Texas	1,308	84	1,036	104
Washington	340	75	460	189
Nebraska	804	73	359	62
South Dakota	387	61	137	47
New Jersey	568	60	2,388	396
Wisconsin	960	58	917	212
Arkansas	415	72	198	50
California	437	49	3,420	1,528
Massachusetts	450	45	4,225	871
Montana	195	45	144	81
Pennsylvania	1,566	48	5,703	803
Florida	235	40	258	134
Idaho	137	41	81	37
Oregon	234	36	260	82
Missouri	1,277	36	1,199	158
Utah	104	26	162	50
Georgia	405	22	334	166
All other States	6,787	229	11,535	841
Total	[2] 24,645	2,103	[2] 58,461	11,177

[1] Based largely on condition figures published in July, 1929.
[2] For 2 States the December figures for State banks are not yet available and the latest available abstracts were used in those cases.

Recent developments.—The first survey of chain banking made by the Federal reserve agents for the Federal Reserve Board was in December, 1922, the second in June, 1926, the third in June, 1928, and the last complete survey in June, 1929. Since that time monthly supplements on changes in chain and group banking have been submitted to the board by the Federal reserve agents. The data submitted prior to June, 1929, however, are not sufficiently complete to make it possible to compare the present situation with that which existed in earlier years, in fact even the figures as reported six months ago have since had to be revised considerably. It is during the last six months, however, that group banking has been expanding so rapidly.

Increases in the number of banks belonging to chains and groups since June are confined largely to 9 States, and most of the growth is the result of the rapid expansion of a relatively small number of groups, notably the Northwest Bancorporation, of Minneapolis, which increased from 20 banks in June to 92 in December, the First Bank Stock Corporation, of Minneapolis, from 12 to 78, and the Guardian Detroit-Union group, of Detroit, which was not in existence in June but comprised 35 banks in December. The number of chain and group banks at the end of June and December in each of the 9 States in which the principal increases occurred was as follows:

	Increase June to December	Number of group or chain banks	
		December	June
Minnesota	47	308	261
Michigan	49	135	100
North Dakota	14	114	81
New York	21	102	80
Washington	16	75	59
Arkansas	[1] 17	72	55
Montana	13	45	32
Massachusetts	12	45	4
Kentucky	12	16	
Total	201	912	711

[1] Some of this increase may represent simply banks that were not known to be or were not previously reported as belonging to chains and groups.

Principal chains and groups.—Recent months have witnessed the rapid rise of quite a number of bank groups of the type referred to by the Comptroller in his recent statement before the Committee on Banking and Currency. This type of bank group is generally centered around a city or metropolitan bank through means of a holding company which owns the majority of the stock of each bank. Examples of these newly formed groups, which are the ones in which the greatest interest centers at present, are the Northwest Bancorporation and the First Bank Stock Corporation, of Minneapolis; the Guardian Detroit-Union group, of Detroit; the First National-Peoples Wayne County group, of Detroit; the Marine Midland Corporation, of Buffalo; and the First Wisconsin National Bank group, of Milwaukee. Some of these groups have expanded their fields of operations beyond State lines and in one case beyond Federal reserve district lines. The chain systems which have been in existence for years, in most of which the control is held by one or more individuals and which generally are composed of banks in the rural communities, do not appear to have grown materially in recent months.

The principal groups and chains, with the number and loans and investments of banks included therein, are as follows:

Name and address of management or controlling interest	Number of banks in group or chain in December	Loans and investments [1]
Principal groups:		
Northwest Bancorporation, Minneapolis, Minn	92	$339,754,000
First Bank Stock Corporation, Minneapolis, Minn	78	339,267,000
Guardian Detroit-Union group, Detroit, Mich	35	403,996,000
First Security Corporation, Ogden, Utah	25	34,723,000
Old National Corporation, Spokane, Wash	22	32,981,000
First National-Peoples Wayne County group, Detroit, Mich	21	705,032,000
Southwest Corporation, Tulsa, Okla	21	77,753,000
First National-Old Colony Corporation, Boston, Mass	20	568,312,000
Marine Midland Corporation, Buffalo, N. Y	19	425,436,000
Transamerica Corporation, New York, N. Y	18	1,418,361,000
First Wisconsin National Bank, Milwaukee, Wis	18	168,466,000
Anglo-National Corporation, San Francisco, Calif	17	146,138,000
First Securities Corporation, Syracuse, N. Y	14	115,559,000
First National Bank, Atlanta, Ga	7	104,954,000
Principal chains:		
Rogers Caldwell [2], Nashville, Tenn	66	131,308,000
Otto Bremer, St. Paul, Minn	71	52,932,000
Foreman Family, Chicago, Ill	14	270,719,000
James F. Toy, Sioux City, Iowa	17	13,056,000
A. E. Sleeper, Bad Axe, Mich	16	5,612,000
Thurmond Bros., Oklahoma City, Okla	15	4,664,000
Geo. Wingfield, Reno, Nev	12	18,911,000

[1] Based largely on condition figures published in July, 1929.
[2] Includes 38 banks formerly reported in A. B. Banks chain of Arkansas.

Size of banking chains or groups.—In order to have the board's record of chain and group banks include all banking institutions that might reasonably be classified as constituting groups or chains, the Federal reserve agents were requested to include groups comprising as few as three banks. As shown in Table 6 submitted herewith, there were at the end of 1929 only nine chains or groups that comprised more than 20 banks, and only 26 additional groups that included from 11 to 20 banks. Following is a distribution, according to the number of banks included in the groups, of the 287 bank chains and groups reported at the end of 1929:

Number of groups with—	
3 banks	64
4 to 6 banks	127
7 to 10 banks	61
11 to 20 banks	26
21 to 30 banks	4
More than 30 banks	5
Total	287

Type of chains or groups.—While it is difficult in many instances to obtain definite information as to the degree and method of actual or potential control exercised by the management or controlling interest of the chains or groups, three rather distinct types have been reported as follows:

1. Control by a holding corporation which in the first instance is generally formed by interests connected with one or more of the principal banks belonging to the chain.
2. Control held or exercised by the principal bank in the group, either through direct ownership of stock by such principal bank or through ownership by the stockholders or directors of such principal bank.
3. Ownership of substantial or controlling interest in a number of banks by a single individual, family, or group of individuals.

At the end of 1929 there were 53 groups of the first type, 44 of the second, and 190 of the third, but this classification according to type of control is general only, because the relationship between the banks is such as to make it impossible in some cases to make a definite classification. In one case, for example, a trust company whose stock is entirely trusteed for the benefit of the stockholders of a national bank has organized an associate company, and the latter in turn owns

a majority of the stock of a number of national and State banks. Furthermore, the method of control is sometimes changed to meet the needs of the occasion, but regardless of how control is exercised it seems to be quite evident that in most of the recently formed groups there is one particular metropolitan bank that exercises the dominating influence over the other banks in the group.

Examples of banks or groups that fall into each of the three classes above mentioned, on the basis of the information reported at the end of 1929, follow:

Name and address of management or controlling interest	Number of banks in group or chain in December	Loans and investments[1] (in thousands)
Type 1 (control by holding corporation):		
Northwest Bancorporation, Minneapolis, Minn.	92	$330,754
First Bank Stock Corporation, Minneapolis, Minn.	78	330,267
Transamerica Corporation, New York, N. Y.	18	1,418,300
Guardian-Detroit Union group, Detroit, Mich.	35	403,300
First Nat.-Peoples Wayne group, Detroit, Mich.	21	705,032
Marine-Midland Corporation, of Buffalo, N. Y.	19	425,430
First Nat.-Old Colony Corporation, Boston, Mass.	20	568,312
Southwest Corporation, Tulsa, Okla.	21	77,735
First Security Corporation, Ogden, Utah.	25	34,720
Old National Corporation, Spokane, Wash.	22	32,980
Type 2 (control by principal bank):		
American National Bank, Nashville, Tenn.	15	35,470
First National Bank, Chicago, Ill.	7	512,000
Peoples Pittsburgh Trust Co., Pittsburgh, Pa.	7	167,180
Hartford, Conn., Trust Co, Hartford, Conn.	7	37,740
First National Bank, Tampa, Fla.	8	21,682
Peoples Trust & Guarantee Co., Hackensack, N. J.	9	25,427
Fletcher Savings & Trust Co., Indianapolis, Ind.	7	29,850
First National Bank, Dothan, Ala.	8	8,000
First National Bank, Atlanta, Ga.	7	104,830
Union Trust Co., Pittsburgh, Pa.	6	455,000
Type 3 (control by individual or group of individuals):		
Otto Bremer, Minneapolis, Minn.	71	52,932
Rogers Caldwell, Nashville, Tenn.	66	131,308
James F. Toy, Sioux City, Iowa.	17	13,030
A. E. Sleeper, Bad Axe, Mich.	16	5,412
Thurmond Bros., Oklahoma City, Okla.	15	4,000
Foreman family, Chicago, Ill.	14	270,170
Geo. Wingfield, Reno, Nev.	12	18,917
O. S. Hanson, Grand Forks, N. Dak.	14	8,000

[1] Based largely on condition figures published in July, 1929.

Investment trusts specializing in bank stocks.—The present survey does not include any instances where a substantial amount of bank stock is owned by an investment trust purely as an investment—without any control. Such cases, through the acquisition of additional stock, may of course give rise to actual control over a group of banks in the course of time. There is one group included in the present compilation that is perhaps of this sort—that of the Goldman Sachs Trading Corporation of New York which at the end of 1929 was reported as substantially controlling 3 banks in New York, 1 in California, and 1 in Pennsylvania, with aggregate loans and investments of $816,000,000.

Subsidiary investment and finance companies belonging to groups or chains.—The statistics that are here presented as to banks that belong to chains or groups do not include investment banking houses, joint stock land banks, trust companies engaged solely in trust operations, and so-called commercial credit or finance companies. The Federal reserve agents were not requested to list such investment or finance institutions in reporting on chains and groups, but in many cases some information along this line was furnished. Examination of the reports indicates that the inclusion of such institutions in the group is not at all uncommon, in fact the indications are that at least some of the groups had definitely in mind the organization of such subsidiary investment and finance companies as would make it possible for them to engage in all forms of financial operations—not only commercial banking, savings bank and trust operations, but also in the underwriting and flotation of security issues, furnishing of short-time commercial credit for financing such purchases as automobiles and household goods, etc.

An example of such affiliations are certain subsidiaries of the Transamerica Corporation, shown in the American Banker of February 20. This group, in addition to controlling one bank in New York and 17 in California with aggregate

loans and investments of over $1,400,000,000 appears to have control over the following institutions:

National Bankitaly Co.
Ameritalia Corporation.
Banca d'America e d'Italia, Milan, Italy.
Bancamerica-Blair Corporation.
Corporation of America.
Pacific National Fire Insurance Co.
Bankitaly Mortgage Co.
Bankitaly Co. of America.
Bankitaly Agricultural Credit Co.
California Joint Stock Land Bank.

Another instance is the Guardian Detroit Union Group, which in addition to controlling 35 banks with loans and investments of $400,000,000 was reported as controlling the following financial institutions:

Guardian Detroit Co., Detroit.
Guardian Detroit Co. of California, Detroit.
Guardian Safe Deposit Co., Detroit.
Kean Higbie Co., Detroit.
Union Co., Detroit.
Union Title & Guaranty Co., Detroit.
National Union Co., Jackson.
Peoples National Co., Jackson.
New Union Building Co., Detroit.
Guardian Holding Co., Detroit.
Ohio-Penna Joint-Stock Land Bank, Cleveland.
Union Joint-Stock Land Bank, Detroit.

Suspension or failure of chain and group banks.—A comparison was recently made of the board's record of all banks suspended during the period 1921–1929 with lists of bank chains and groups submitted as of December, 1922, June, 1926, June, 1928, and June, 1929, and monthly supplements since June, 1929. Due to the difficulty of obtaining definite information on chain or group banking, particularly for the earlier years, such a comparison may not show all of the suspended banks that were members of so-called groups or chains, and on the other hand, it may include some suspended banks which were reported as belonging to chains or groups, though the maangement may have operated them entirely independently of the other banks under the same control.

On the basis of the best information available, however, it appears that a total of 226 banks with deposits of $102,000,000, reported as belonging to 50 different chains, suspended operations during the 9-year period. Of this number, 61 banks with deposits of $35,000,000 were reported as having subsequently reopened. This compares with a total of 5,642 banks suspended during the 9-year period with deposits of $1,720,000,000. In other words the chain banks that were reported as having suspended operations represented about 4 per cent of the total number of suspensions and about 6 per cent of the total deposits of all suspended banks.

State laws bearing on chain or group banking.—The board's general counsel, with the assistance of the counsel of the various Federal reserve banks, recently prepared an analysis (X–6392) of State laws affecting the ownership of bank stock by holding corporations. No attempt has been made, however, to classify the States so as to show in which States the growth of chain or group banking is likely to be retarded as a consequence of the provisions of State laws, in fact the analysis covers 19 States only, the remaining States apparently not having adopted any laws on this subject.

Tables on chain or group banking.—The following tables are submitted to supplement the above discussion on chain or group banking, in addition to the general tables previously referred to which relate to both branch banking and to chain and group banking:

Table 5: Number and loans and investments of banks reported as belonging to chains and groups, by classes of banks and by States, December 31 and June 30, 1929.

Table 6: Number of bank chains and groups distributed according to size of systems and according to type of control, by States, December 31, 1929.

A complete list of bank chains and groups, showing the number and loans and investments of chain and group banks, by classes for both December 31 and June 30, 1929, has also been prepared. A copy of this list is printed as part of the statement by the Comptroller of the Currency in Part II of Volume I of the Hearings on Branch, Chain, and Group Banking before the Committee on Banking and Currency of the House of Representatives.

BRANCH BANKING

Summary for United States and by classes of banks.—At the end of 1929 there were 822 banks in the United States that were operating branches. The total number of branches operated by these banks at the end of the year was 3,547, and the aggregate loans and investments of the banks and their branches was $25,100,000,000 or over 40 per cent of the total loans and investments of all banks in the country. Adding the total number of branches, 3,547, to the total number of banks in operation in the country, 24,645, gives a total of approximately 28,200 banking offices in the United States. About one-eighth of all the banking offices were, therefore, branches. As stated in the first part of this memorandum, 119 of the branch systems with 1,415 branches and loans and investments of $6,300,000,000 were also reported at the end of the year as belonging to bank chains or groups.

There were 166 national banks that were operating 1,027 branches at the end of the year, and the loans and investments of these national bank branch systems aggregated $9,000,000,000, or more than 40 per cent of the total for all national banks in the country. State bank members operating branches at the end of 1929 numbered 180, their branches 1,299, and their loans and investments $9,900,000,000. There were 476 nonmember banks (including mutual savings and private banks), with loans and investments of $6,200,000,000, operating 1,221 branches, at the end of 1929.

Developments during last six months of 1929.—Since the last report was submitted on branch banking as of the end of June, 1929, there has been a net increase of 107 in the total number of branches in operation and a net increase of 4 in the number of branch systems. This net increase in the number of branches is at about the same annual rate as during the last three years. Some of the large branch banking States, however, show but little increase in the number of branches in operation for the 6-month period; for example, California, and Michigan. The principal increases for the period were in New York, Ohio, Pennsylvania, and Massachusetts.

Although there was a net increase of only 4 in the number of branch systems during the last half of 1929, there were actually 36 banks operating branches at the end of 1929 that had no branches whatever in June, this gross addition to the list of branch systems being offset partly by the fact that 25 branch systems went out of existence through merger with other banks, 6 banks suspended operations, and 1 bank abolished its branches.

The net increase of 107 in the total number of branches in operation in the 6-month period is the result of the establishment of 82 de novo branches and the conversion of 81 banks into branches, partly offset by the discontinuance of 49 branches through merger with other branches or otherwise and the closing of 7 branches following the suspension of the parent banks. In other words, there were 163 new branches in operation at the end of 1929, as compared with June of the same year, while 56 of the branches that were in operation six months earlier went out of existence.

Branch banking since passage of McFadden Act.—At the time that the McFadden Act was passed, on February 25, 1927, there were 779 banks in the United States that were operating 1,929 branches in the head-office cities and 971 branches located outside such cities, or a total of 2,900 branches. Since that time there has been a net increase of 43 in the number of branch bank systems and a net increase of 647 in the number of branches in operation. Most of the increase represents branches located in head-office cities, the number of which increased from 1,929 to 2,432, or by 503. The number of branches located outside of head-office cities increased from 971 to 1,115, or by 144. The annual increase in the number of branches has averaged over 200, and this rate has been maintained in the last six months.

Although there were 206 banks operating branches at the end of 1929 that had no branches whatever when the McFadden bill became a law, there has been a net increase of only 43 in the number of branch systems since the passage of that act. This is due to the fact that 120 branch systems went out of existence through merger with other banks, 15 suspended operations, and 28 abolished their branches. Of the 28 banks that have abolished their branches since February 25, 1927, 26 had only 1 branch each and 2 had 2 branches each.

It is also found that of the 2,900 branches that were in operation on February 25, 1927, 224 have since gone out of existence—194 having been discontinued or merged with other branches and 30 going out of existence following the suspension of the parent bank. There was a gross increase of 871 in the number

of branches, of which 511 were established de novo and 360 were independent banks that were purchased and converted into branches. Since the passage of the McFadden Act there have been a number of mergers of some rather large size branch bank systems, thus bringing to existence even larger systems, the principal ones being as follows:

Pacific Southwest Trust & Savings Bank, Los Angeles, with 100 branches consolidated with First National Bank and its 1 branch to form the Los Angeles-First National Trust & Savings Bank.

Security Trust & Savings Bank, Los Angeles, with 54 branches, consolidated with Los Angeles-First National Trust & Savings Bank and its 95 branches to form the Security-First National Bank.

Peoples State Bank, Detroit, Mich., with 46 branches, consolidated with the Wayne County & Home Savings Bank and its 47 branches to form Peoples-Wayne County Bank.

The number of branches operated by national banks and by State bank members of the Federal Reserve System has been materially affected by the nationalization of a number of large bank branch systems in California, either directly or by merger with existing national banks. These include the Bank of Italy of San Francisco, the Pacific Southwest Trust & Savings Bank of Los Angeles, and the Security Trust & Savings Bank of Los Angeles, which had a total of 425 branches when the McFadden bill became a law. Therefore, it is found that partly because of this fact the number of branches of national banks increased from 390 on February 25, 1927, to 1,027 at the end of 1929, while the number of branches of State bank members declined from 1,560 on February 25, 1927, to 1,299 at the end of last year. There has also been a considerable increase in the number of branches of nonmember banks, of which there were 950 on February 25, 1927, and 1,221 at the end of 1929.

Following is a summary showing the number of branch systems and the number of branches in operation on February 25, 1927, and December 31, 1929, by classes of banks:

Class of bank	Number of banks operating branches		Number of branches	
	Dec. 31, 1929	Feb. 25, 1927	Dec. 31, 1929	Feb. 25, 1927
Total	822	779	3,547	2,900
National banks	166	145	1,027	390
State bank members	180	189	1,299	1,560
State bank nonmembers	407	387	1,115	863
Mutual savings banks	65	50	99	76
Private banks	4	8	7	11

Developments since June, 1924.—The first complete statistics gathered by the board on branches of both member and nonmember banks were for June, 1924, at which time 714 banks were reported as operating a total of 2,293 branches. There was, therefore, an increase of approximately 600 branches in the three years preceding the McFadden Act, about the same rate of growth as has taken place since that act was passed. National banks at the end of June, 1924, were operating 248 branches, State bank members 1,137 branches and nonmember banks (including mutual savings and private banks) 908 branches. Of the total number of branches in operation in June, 1924, 785 were located outside the head-office cities and 1,508 in the head-office cities.

In the five and one-half years ending with December, 1929, there was an increase of 330 in the number of branches located outside head-office cities and an increase of 924 in the number of branches located in head-office cities, or a total increase of 1,254 branches. This comparison is shown in more detail in accompanying tables.

Principal branch banking States and cities.—The 3,547 branches in operation at the end of 1929 were located in 30 States, 1,286 being located in 10 States in which State-wide branch banking is permitted by law or implication, 2,207 in the 12 States in which the operation of branches is permitted but restricted as to location, and 54 in 8 States in which the further extension of branch banking is prohibited by law. There are, therefore, branches in operation in three-fifths of the States, but the great majority of the branches are located in a relatively

few States, in fact two-thirds of the total number are in 5 States—California, New York, Michigan, Ohio, and Pennsylvania. Four other States, however, also had more than 100 branches in operation at the end of 1929—Massachusetts, New Jersey, Louisiana, and Maryland.

What might be termed as "local" branches, i. e., branches located in the same city as the parent banks, are largely confined to a few of the principal cities of the country, in fact 10 cities account for 1,659 of 68 per cent of the total 2,432 local branches. The number of branches in operation in each of these cities at the end of 1929 was as follows:

New York	580	Cleveland	85
San Francisco	[a] 97	Buffalo	73
Los Angeles	[a] 201	Baltimore	65
Detroit	[a] 309	Boston	66
Philadelphia	133	Cincinnati	[a] 50

Size of branch bank systems.—At the end of 1929 there were 18 banks that were operating more than 30 branches, the two largest being the Bank of Italy National Trust & Savings Association, San Francisco, and the Bank of America of California, Los Angeles, both of which are controlled by the Transamerica Corporation group. Three of the other large systems also belong to a single group, viz., the Peoples-Wayne County Bank, the First National Bank and the Peninsular State Bank of Detroit, Mich., which had a total of 158 branches at the end of 1929 and which are all part of the First National-Peoples Wayne County group. In addition to the 18 branch systems that were operating 30 or more branches at the end of 1929, there were 41 banks operating 11 to 30 branches and 41 other banks operating 6 to 10 branches. More than half of the branch systems, however (448 out of 822) had only 1 branch each, 150 had only 2 branches, and 124 had 3 to 5 branches.

On February 25, 1927, when the McFadden bill became a law, there were 12 branch systems with 30 or more branches.

The following list shows the large branch systems in operation both on February 25, 1927 and December 31, 1929, and the disposition made of those systems which were in operation when the McFadden Act was passed but have since merged with other systems:

Location and name of parent bank	Number of branches	
	Feb. 25, 1927	Dec. 31, 1929
Bank of Italy National Trust & Savings Association, San Francisco	[1] 278	287
Bank of America of California, Los Angeles [2]	[3]	169
Security-First National Bank, Los Angeles	[4]	139
Pacific Southwest Trust & Security Bank, Los Angeles	98	[4]
Security Trust & Savings Bank, Los Angeles	49	[4] 56
California Bank, Los Angeles [2]	45	
Merchants National Trust & Savings Bank, Los Angeles	34	[5] 31
Citizens National Trust & Savings Bank, Los Angeles	[6] 24	94
American Trust Co., San Francisco	92	94
Peoples-Wayne County Bank, Detroit	[7]	
Peoples State Bank, Detroit	46	[7]
Wayne County & Home Savings Bank, Detroit	45	[7] [8] 33
First National Bank, Detroit	2	31
Peninsular State Bank, Detroit	29	67
Corn Exchange Bank, New York City	62	64
Bank of Manhattan Trust Co., New York City	40	[8] 57
Bank of United States, New York City	6	[8] 45
Manufacturers Trust Co., New York City	14	37
National City Bank, New York City	18	33
Public National Bank, New York City	27	[8] 34
Bank of America, N. A., New York City	7	37
Cleveland Trust Co., Cleveland	52	33
Marine Trust Co., Buffalo	32	

[1] This was a State bank member on Feb. 25, 1927.
[2] Not members of the Federal reserve system.
[3] This branch system is the result largely of mergers of smaller branch systems and the purchase and conversion into branches of a number of independent banks.
[4] The Security-First National Bank is the successor of the First National Bank, the Pacific Southwest Trust and Savings Bank and the Security Trust and Savings Bank.
[5] Absorbed by the Bank of America of California.
[6] This was a nonmember bank on Feb. 25, 1927.
[7] The Peoples-Wayne County Bank resulted from the conversion of the Peoples State Bank and the Wayne County and Home Savings Bank.
[8] Increase in the number of branches due largely to the absorption of other branch systems.

[a] Exclusive of those branches whose head offices are located in other cities.

Branches located in small cities.—In connection with the branches located outside the head office, numbering 1,115, or nearly one-third of all branches in operation at the end of 1929, it is interesting to find that by far the greater number of these "outside" branches are located in small towns and cities. Of the 1,115 outside branches, 612 were in fact located in places that had less than 2,500 population in 1920, including 208 in California, 54 in Louisiana, 44 in Maine, 52 in Maryland, 46 in North Carolina, 34 in South Carolina, 32 in Tennessee, 28 in Virginia, 21 in Mississippi, and 93 in 15 other States. Besides these 612 branches located in places of less than 2,500 population, there were 136 branches in places that had a population of 2,500 to 5,000 and 86 in places with population of 5,000 to 10,000. There were 281 "outside" branches reported as being located in cities with a population of 10,000 or more, but this figure represents largely branches of the state-wide branch systems in California whose headquarters are in San Francisco and Los Angeles but which have branches in such other large cities as Oakland, Sacramento, San Diego, Long Beach, and Pasadena.

The first tabulation made of branch banking according to size of towns in which the branches are located was for June, 1928, at which time there were 572 branches in places having a population (in 1920) of 2,500 or less. During the ensuing year and a half, therefore, there has been an increase of 40 in the number of branches located in such small places.

Method of establishment of branches.—More than two-thirds of the branches that were in operation at the time that the McFadden bill became a law were so-called de novo branches, i. e., established as branches in the first instance. Most of the remaining branches had at one time been in operation as independent banks, having been purchased and converted into branches, but in a number of instances the method of establishment was not ascertained. The number of de novo branches has increased by 383—from 1,996 to 2,379—since the passage of the McFadden bill, while the number of independent banks purchased and converted into branches (including branches for which the method of establishment was not reported) has increased by 264.

De novo branches of national banks numbered 635 at the end of 1929 out of a total of 1,027 branches; State bank members operated 967 de novo branches out of a total of 1,299; and nonmember banks (including mutual savings and private banks) 777 out of a total of 1,221. National banks show a considerable increase, since the passage of the McFadden Act, in the number of branches resulting from the conversion of independent banks, but this is due largely to the fact that some of the large State bank branch systems nationalized or were consolidated with national banks after the passage of the McFadden Act.

The following table gives a classification of the number of branches in operation on February 25, 1927, and December 31, 1929, according to method of establishment:

	Total branches	De novo branches	Independent banks converted into branches	Method of establishment not reported
All classes of banks:				
Feb. 25, 1927	2,900	1,996	735	169
Dec. 31, 1929	3,547	2,379	1,017	151
National banks:				
Feb. 25, 1927	390	279	88	23
Dec. 31, 1929	1,027	635	368	24
State-bank members:				
Feb. 25, 1927	1,560	1,034	471	55
Dec. 31, 1929	1,299	967	296	36
State-bank nonmembers:				
Feb. 25, 1927	863	627	174	62
Dec. 31, 1929	1,115	697	351	67
Mutual savings banks:				
Feb. 25, 1927	76	53	2	21
Dec. 31, 1929	99	77	2	20
Private banks:				
Feb. 25, 1927	11	3	----------	8
Dec. 31, 1929	7	3	----------	4

Interstate branch banking.—There are two instances of banks operating branches in States other than those in which the parent banks are situated. The Bank of California, N. A., San Francisco, a conversion of the Bank of California into a national bank in 1910, operates 1 branch in Portland, Oreg.; 1 in Seattle, Wash.; and 1 in Tacoma, Wash., all of which became branches of the Bank of California in 1905. Prior to 1905 they were branches of the London and San Francisco Bank (Ltd.), which was succeeded by the Bank of California. The other case is that of the First Camden National Bank & Trust Co., New Jersey, which operates a branch in Philadelphia. This branch originally came into existence in 1813.

Suspension or failure of branch bank systems.—On the basis of reports submitted to the Federal Reserve Board on bank failures or suspensions and on branch banking, it appears that during the 9-year period 1921–1929, a total of 41 branch bank systems suspended operations. These branch systems were operating 9 branches in head office cities and 71 branches outside such cities. The total deposits of the 41 banks and their branches were $49,000,000. Five of the branch systems, 4 of which were operating 1 branch each and 1 operating 2 branches, subsequently reopened. Later one of the systems again closed.

Of the 41 branch systems that were reported as having suspended during the period 1921–1929, 29 had only 1 branch each, 6 had 2 branches, 2 had 3 branches, 2 had 4 branches, 1 had 5 branches, and 1 had 20 branches. The latter bank and its branches at the time of suspension were reported to have had deposits of $2,805,000.

Following is a summary covering the suspension of branch bank systems during the 9-year period.

Year	Number of branch bank systems suspended	Total deposits	Number of branches in operation		Branch systems reopened		
			In head office city	Outside head office city	Number	Deposits	Number of branches
1921	5	$10,917,000	----------	5	----------	----------	----------
1922	[1] 1	1,151,000	----------	1	----------	----------	----------
1923	1	28,000	----------	1	----------	----------	1
1924	4	1,365,000	----------	5	1	$46,000	----------
1925	2	2,209,000	1	1	----------	----------	2
1926	11	7,448,000	----------	33	2	814,000	----------
1927	3	2,851,000	----------	7	----------	----------	----------
1928	4	2,895,000	1	7	----------	----------	2
1929	10	19,955,000	7	11	1	5,882,000	----------
Total	41	48,819,000	9	71	4	6,742,000	5

[1] This bank reopened but closed again and is not therefore included with the reopened banks.

State laws relating to branch banking.—The board's counsel, with the assistance of the counsel to the various Federal reserve banks, recently prepared an up-to-date digest (X–6528) of State laws relating to branch banking. The summary statement that accompanied this digest, in which the States are classified into four groups, is shown below. It will be noted that under the provisions of State laws, state-wide branch banking is permitted in 9 States; it is permitted within limited areas in 10 States; and in 22 States it is prohibited entirely (except as to branches in operation at the time the prohibitory legislation was enacted). Seven States have no legislation regarding branch banking, but this includes Kentucky, in which the establishment of additional offices or agencies is permitted under court decisions, and Michigan, where the State banking department has raised no objection to the establishment of branches in cities in which the parent banks are located. There were 28 branches in operation in Kentucky at the end of 1929 and 439 in Michigan, as compared with 13 and 401, respectively, on February 25, 1927, when the McFadden bill became a law. The District of Columbia is not included in this summary, but banks in Washington may establish branches anywhere in the district.

According to information which has come to our attention, four States—Montana, Nebraska, Iowa, and West Virginia—have enacted legislation prohibiting the establishment of branches since the passage of the McFadden Act. The State of Georgia passed similar legislation in 1927, but in 1929 the law was again

amended to permit the establishment of branches in head-office cities, provided such cities have a population of not less than 200,000. In New Jersey the State law was amended in 1927 to permit the establishment of branches under the same conditions as govern national banks. In Pennsylvania, legislation was enacted in 1927 permitting the establishment of branches within the corporate limits of those cities in which national banks were operating branches on March 1, 1927. In Vermont legislation was recently enacted permitting the establishment of agencies, which for all practical purposes seem to the be same as branches.

Summary of State laws

States permitting state-wide branch banking (9)	States permitting branch banking within limited areas (10)	States prohibiting branch banking (22)	States having no legislation regarding branch banking (7)
Arizona.	Georgia.[2]	Alabama.	Kentucky.[12]
California.	Louisiana.[3]	Arkansas.	Michigan.[13]
Delaware.	Maine.[4]	Colorado.	New Hampshire.
Maryland.	Massachusetts.[5]	Connecticut.	North Dakota.
North Carolina.	Mississippi.[6]	Florida.	Oklahoma.
Rhode Island.	New Jersey.[7]	Idaho.	South Dakota.
South Carolina.	New York.[8]	Illinois.	Wyoming.
Vermont.[1]	Ohio.[9]	Indiana.	
Virginia.	Pennsylvania.[10]	Iowa.	
	Tennessee.[11]	Kansas.	
		Minnesota.	
		Missouri.	
		Montana.	
		Nebraska.	
		Nevada.	
		New Mexico.	
		Oregon.	
		Texas.	
		Utah.	
		Washington.	
		West Virginia.	
		Wisconsin.	

[1] No provisions regarding branches, but state-wide establishment of "agencies" permitted.
[2] City or municipality.
[3] Municipality or parish.
[4] County or adjoining county.
[5] Same town.
[6] Same city.
[7] Same city, town, township, borough, or village.
[8] City limits.
[9] Same city or city or village contiguous thereto.
[10] Corporate limits of same place.
[11] County.
[12] No provisions regarding branches, but court decisions permit establishment of additional offices or agencies to receive deposits and pay checks.
[13] Industrial banks may establish branches in city or village of head office, but no provisions covering establishment of branches by other banking institutions.

TABLE 1.—*Number and loans and investments of all banks and branches in the United States and of branch and chain or group banking systems, December 31, 1929, by classes of banks*

[Loans and investments in millions of dollars]

	Total, all classes of banks		National banks		State-bank members		Nonmember banks, including mutual savings and private banks	
	Number of banks or branches	Loans and investments	Number of banks or branches	Loans and investments	Number of banks or branches	Loans and investments	Number of banks or branches	Loans and investments
All banks (head offices) in United States [1]	24,645	(2)	7,403	.....	1,119	.....	16,123	.....
Branches	3,547	(2)	1,027	.....	1,299	.....	1,221	.....
Total, all banking offices	28,192	58,461	8,430	21,584	2,418	14,350	17,344	22,527
Banks belonging to chains or groups but operating no branches	1,984	4,913	757	2,825	98	901	1,129	1,186
Banks belonging to chains or groups and opearting branches:								
Head offices (parent banks)	119	6,264	45	3,083	38	2,496	36	686
Branches	1,415	(2)	550	.....	600	.....	265	.....
Banks that do not belong to chains or groups, but operate branches:								
Head offices	703	18,839	121	5,906	142	7,448	440	5,484
Branches	2,132	(2)	477	.....	699	.....	956	.....
Independent unit banks (banks that do not belong to chains or groups and do not operate branches)	21,839	28,445	6,480	9,770	841	3,505	14,518	15,171

[1] Excluding private banks not under State supervision. For 2 States the December figures for State banks are not available, and in these cases the latest available abstract was used.
[2] Separate figures not available.

TABLE 2.—*Number of banks and branches and number of branch and chain or group banking systems, by States, December 31, 1929*

State	Total number of banks (head offices)	Total number of branches	Total number of banking offices	Number of banks that belong to chains or groups			Banks that do not belong to chains or groups, but operate branches		Independent unit banks
				Operating no branches	Operating branches	Number of branches operated	Number of banks	Number of branches	
United States	24,645	3,547	28,192	1,984	119	1,415	703	2,132	21,839
Alabama	350	19	369	22	.....	.....	5	19	323
Arizona	46	22	68	6	.....	.....	7	22	33
Arkansas	415	3	418	72	.....	.....	2	3	341
California	437	863	1,300	41	8	547	45	316	343
Colorado	274	.....	274	16	.....	.....	.....	.....	258
Connecticut	237	.....	237	8	.....	.....	.....	.....	229
Delaware	47	13	60	3	.....	.....	7	13	37
District of Columbia	41	24	65	.....	.....	.....	12	24	29
Florida	235	.....	235	40	.....	.....	.....	.....	195
Georgia	405	39	444	19	3	20	13	19	370
Idaho	137	.....	137	41	.....	.....	.....	.....	96
Illinois	1,765	.....	1,765	84	.....	.....	.....	.....	1,681
Indiana	[1] 981	9	990	16	1	5	3	4	961
Iowa	1,257	.....	1,257	87	.....	.....	.....	.....	1,170
Kansas	1,069	.....	1,069	88	.....	.....	.....	.....	981
Kentucky	572	28	600	13	3	13	7	15	549
Louisiana	225	106	331	8	2	9	40	97	175

[1] Includes June 30, 1929, figures for State banks.

TABLE 2.—*Number of banks and branches and number of branch and chain or group banking systems, by States, December 31, 1929*—Continued

State	Total number of banks (head offices)	Total number of branches	Total number of banking offices	Number of banks that belong to chains or groups			Banks that do not belong to chains or groups, but operate branches		Independent unit banks
				Operating no branches	Operating branches	Number of branches operated	Number of banks	Number of branches	
Maine	133	63	196	7	5	21	19	42	102
Maryland	230	124	354				30	124	200
Massachusetts	450	161	611	32	13	53	75	108	330
Michigan	743	439	1,182	109	26	353	36	86	572
Minnesota	1,046	6	1,052	306	2	6			738
Mississippi [1]	311	25	336	20	1	2	10	23	280
Missouri	1,277		1,277	36					1,241
Montana	195		195	45					150
Nebraska	804	2	806	73			2	2	729
Nevada	35		35	13					22
New Hampshire	123		123						123
New Jersey	568	103	671	47	13	27	42	76	466
New Mexico	56		56	9					47
New York	1,127	722	1,849	84	18	271	88	451	937
North Carolina	416	77	493				39	77	377
North Dakota	412		412	114					298
Ohio	1,015	268	1,283	3	3	18	52	250	957
Oklahoma	617		617	85					532
Oregon	234	1	235	36			1	1	197
Pennsylvania	1,566	185	1,751	41	7	13	73	172	1,445
Rhode Island	33	35	68	2	1	14	10	21	20
South Carolina	217	57	274	2			11	57	204
South Dakota	387		387	61					326
Tennessee	484	68	552	21	11	37	21	31	431
Texas	1,308		1,308	84					1,224
Utah	104		104	26					78
Vermont	104	10	114	1			7	10	96
Virginia	474	61	535				39	61	435
Washington	340	5	345	74	1	2	2	3	263
West Virginia	297		297						297
Wisconsin	960	9	969	57	1	4	5	5	897
Wyoming	86		86	32					54

[1] Includes Oct. 4, 1929, figures for State banks.

TABLE 3.—*Loans and investments of all banks and of branch and chain or group banking systems, by States, December 31, 1929*

[Amounts in millions of dollars]

State	All banks in United States (including branches)	Banks that belong to chains or groups		Banks that do not belong to chains or groups but operate branches	Independent unit banks
		Operating no branches	Operating branches		
United States	58,461	4,913	6,264	18,839	28,445
Alabama	282	32		13	237
Arizona	198	18		25	155
Arkansas	81	50		2	29
California	3,420	178	1,350	1,339	553
Colorado	262	30			232
Connecticut	1,336	37			1,298
Delaware	167	1		106	60
District of Columbia	245			147	98
Florida	258	134			124
Georgia	334	31	135	28	140
Idaho	81	37			44
Illinois	3,802	1,212			2,590
Indiana	[1] 897	19	22	26	830
Iowa	782	90			692
Kansas	404	46			358
Kentucky	554	37	87	70	360
Louisiana	429	17	16	231	165
Maine	433	21	49	81	282
Maryland	837			316	521
Massachusetts	4,225	91	780	1,043	2,311
Michigan	2,021	302	960	225	534
Minnesota	901	402	181		315
Mississippi	[2] 222	12	3	27	180
Missouri	1,199	158			1,041
Montana	144	81			63
Nebraska	359	62		8	289
Nevada	38	20			18
New Hampshire	311				311
New Jersey	2,388	160	236	829	1,163
New Mexico	41	3			38
New York	17,222	226	1,785	10,362	4,849
North Carolina	370			151	219
North Dakota	112	58			54
Ohio	2,691	32	54	1,379	1,226
Oklahoma	401	103			298
Oregon	260	82		1	177
Pennsylvania	5,703	668	135	1,807	3,093
Rhode Island	533	11	142	233	147
South Carolina	169	8		57	104
South Dakota	137	47			90
Tennessee	430	23	126	70	211
Texas	1,036	104			932
Utah	162	50			112
Vermont	250	1		27	222
Virginia	551			191	360
Washington	460	120	68	3	269
West Virginia	345				345
Wisconsin	917	77	135	40	665
Wyoming	58	22			36

[1] Includes June 30, 1929, figures for State banks.
[2] Includes October 4, 1929, figures for State banks.

TABLE 4.—*Number and loans and investments of all member banks in each State, and of member banks that operate branches or belong to groups or chains, by States, December 31, 1929*

[Loans and investments in millions of dollars]

State	All member banks		Total member banks that belong to groups or chains or operate branches		Member banks that belong to chains or groups but operate no branches		Member banks that belong to chains or groups and operate branches		Member banks that do not belong to chains or groups but operate branches		Independent unit member banks	
	Number	Loans and investments	Number	Loans and investments	Number	Loans and investments	Number	Loans and investments	Number	Loans and investments	Number	Loans and investments
United States	8,522	35,934	1,201	22,659	855	3,726	83	5,579	263	13,354	7,321	13,275
Alabama	119	211	14	31	13	31			1	(1)	105	180
Arizona	17	42	3	21	1	6			2	15	14	21
Arkansas	94	125	17	33	17	33					77	92
California	217	2,474	43	2,124	26	159	4	1,018	13	947	174	350
Colorado	123	218	11	23	11	23					112	195
Connecticut	67	306	4	4	4	4					63	302
Delaware	20	80	2	47					2	47	18	33
District of Columbia	12	127	6	82					6	82	6	45
Florida	61	164	19	120	19	120					42	44
Georgia	115	245	18	176	11	29	3	135	4	12	97	69
Idaho	60	54	15	26	15	26					45	28
Illinois	544	2,575	29	919	29	919					515	1,656
Indiana	234	436	5	39	3	5	1	22	1	12	229	397
Iowa	291	350	34	69	34	69					257	281
Kansas	252	203	25	26	25	26					227	177
Kentucky	145	328	15	180	9	31	3	87	3	62	130	148
Louisiana	42	283	12	196	5	17	1	13	6	166	30	87
Maine	55	145	6	18	5	15			1	3	49	127
Maryland	85	322	5	164					5	164	80	158
Massachusetts	177	1,691	57	1,310	24	71	10	764	23	475	120	381
Michigan	273	1,460	73	1,236	32	143	21	931	20	162	200	224
Minnesota	276	535	134	469	132	288	2	181			142	66
Mississippi	38	77	3	9	2	8			1	1	35	68

[1] Less than $500,000.

TABLE 4.—*Number and loans and investments of all member banks in each State, and of member banks that operate branches or belong to groups or chains, by States, December 31, 1929*—Continued

[Loans and investments in millions of dollars]

State	All member banks		Total member banks that belong to groups or chains or operate branches		Member banks that belong to chains or groups but operate no branches		Member banks that belong to chains or groups and operate branches		Member banks that do not belong to chains or groups but operate branches		Independent unit member banks	
	Number	Loans and investments	Number	Loans and investments	Number	Loans and investments	Number	Loans and investments	Number	Loans and investments	Number	Loans and investments
Missouri	187	856	14	137	14	137	----	----	----	----	173	719
Montana	88	113	21	69	21	69	----	----	----	----	67	44
Nebraska	160	190	24	54	22	46	----	----	2	8	136	136
Nevada	10	18	3	8	3	8	----	----	----	----	7	10
New Hampshire	57	73	----	----	----	----	----	----	----	----	57	73
New Jersey	364	1,525	69	816	32	98	8	109	29	609	295	709
New Mexico	29	30	5	2	5	2	----	----	----	----	24	28
New York	666	11,005	124	9,798	55	170	15	1,692	54	7,936	542	1,207
North Carolina	72	174	6	57	----	----	----	----	6	57	66	117
North Dakota	122	71	44	44	44	44	----	----	----	----	78	27
Ohio	388	1,958	30	1,247	2	30	3	54	25	1,163	358	711
Oklahoma	294	331	55	97	55	97	----	----	----	----	239	234
Oregon	120	214	24	75	23	74	----	----	1	1	96	139
Pennsylvania	948	3,705	54	1,700	21	589	4	128	29	983	894	2,005
Rhode Island	14	328	7	303	1	7	1	142	5	154	7	25
South Carolina	55	98	6	45	1	3	----	----	5	42	49	53
South Dakota	101	69	34	37	34	37	----	----	----	----	67	32
Tennessee	104	285	15	162	6	6	5	99	4	57	89	123
Texas	689	861	28	92	28	92	----	----	----	----	661	769
Utah	42	86	10	32	10	32	----	----	----	----	32	54
Vermont	46	70	1	1	1	1	----	----	----	----	45	69
Virginia	172	391	11	156	----	----	----	----	11	156	161	235
Washington	146	317	32	171	30	100	1	69	1	2	114	146
West Virginia	131	202	----	----	----	----	----	----	----	----	131	202
Wisconsin	172	480	24	219	20	46	1	135	3	38	148	261
Wyoming	28	34	10	15	10	15	----	----	----	----	18	19

TABLE 5.—*Chain or group banking at the end of December and June, 1929: Summary by States and classes of banks, showing number and loans and investments of banks belonging to chains or groups*

[Figures of loans and investments for both December and June are based largely on June, 1929, Bankers' Directory, and are in millions of dollars]

State	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
United States	2,103	1,821	802	645	136	111	1,165	1,065	11,177	8,300	5,908	4,159	3,397	2,509	1,872	1,632
Alabama	22	19	13	10			9	9	32	7	31	7			1	1
Arizona	6	6	1	1			5	5	18	18	6	6			12	12
Arkansas	72	55	15	10	2	2	55	43	50	41	22	15	11	011	17	14
California	49	51	29	30	1	3	19	18	1,528	1,476	952	848	225	226	350	402
Colorado	16	16	11	11			5	5	30	30	23	23			7	7
Connecticut	8		4				4		37		4				33	
Delaware	3	3					3	3	1	1					1	1
District of Columbia																
Florida	40	43	19	14			21	29	134	129	120	94			14	35
Georgia	22	20	9	8	5	4	8	8	166	157	144	143	21	14	2	1
Idaho	41	41	11	11	4	4	26	26	37	37	17	17	9	9	11	11
Illinois	84	79	20	19	9	8	55	52	1,212	996	729	663	190	61	293	271
Indiana	17	10	3	2	1	1	13	7	41	30	4	4	22	22	14	3
Iowa	87	83	33	31	1	1	53	51	90	73	68	51	1	1	21	21
Kansas	88	85	24	22	1	1	63	62	46	44	24	22	1	1	20	20
Kentucky	16	4	10	4	2		4		124	8	78	8	40		7	
Louisiana	10	10	6	6			4	4	33	33	30	30			3	3
Maine	12	5	5	2			7	3	70	53	15	10			55	43
Maryland																
Massachusetts	45	33	27	19	7	6	11	8	871	530	762	281	73	225	36	25
Michigan	135	86	28	9	25	12	82	65	1,262	428	366	21	708	348	188	59
Minnesota	308	261	132	103	2	2	174	156	584	269	467	194	2	2	115	74
Mississippi	21	21	2	2			19	19	15	15	8	8			8	8
Missouri	36	34	9	9	5	5	22	20	158	157	26	26	111	111	20	20
Montana	45	32	16	8	5	3	24	21	81	45	41	13	29	23	12	9
Nebraska	73	68	22	18			51	50	62	27	46	14			16	13
Nevada	13	16	3	4			10	12	20	23	8	9			12	14
New Hampshire																
New Jersey	60	56	26	25	14	14	20	17	396	358	97	98	109	76	190	184
New Mexico	9	8	5	5			4	3	3	3	2	2			1	1

TABLE 5.—*Chain or group banking at the end of December and June, 1929: Summary by States and classes of banks, showing number and loans and investments of banks belonging to chains or groups*—Continued

[Figures of loans and investments for both December and June are based largely on June, 1929, Bankers' Directory, and are in millions of dollars]

State	Number of banks								Loans and investments							
	Total		National		State member		Nonmember		Total		National		State member		Nonmember	
	December	June	December	June	December	June	December	June	December	June	December	June	December	June	December	June
New York	102	81	52	45	18	16	32	20	2,011	1,571	624	576	1,238	861	149	134
North Carolina																
North Dakota	114	100	44	30			70	70	58	44	44	30			14	14
Ohio	6		2		3		1		86		31		54		2	
Oklahoma	85	82	54	45	1	1	30	36	103	96	97	89			6	7
Oregon	36	33	18	16	5	5	13	12	82	82	71	69	3	3	8	10
Pennsylvania	48	48	15	15	10	10	23	23	803	782	344	344	374	352	86	86
Rhode Island	3	3	1	1	1	1	1	1	153	153	7	7	142	142	4	4
South Carolina	2	2	1	1			1	1	8	8	3	3			4	4
South Dakota	61	54	31	24	3	3	27	27	47	39	36	28	2	2	9	9
Tennessee	32	23	11	8			21	15	149	92	105	62			44	30
Texas	84	79	25	21	3	3	56	55	104	89	78	62	14	14	12	12
Utah	26	27	6	6	4	4	16	17	50	50	29	29	3	3	18	18
Vermont	1		1						1		1					
Virginia																
Washington	75	59	28	22	3	1	44	36	189	79	154	63	15	1	20	15
West Virginia																
Wisconsin	58	53	21	19			37	34	212	205	181	175			31	30
Wyoming	32	32	9	9	1	1	22	22	22	22	15	15			6	6

TABLE 6.—*Chain or group banking at the end of December, 1929; number of groups in each State, distributed according to size and according to type of group*

State	Total number of groups [1]	Number of groups controlling					Number of groups controlled by—		
		3 banks	4 to 6 banks	7 to 10 banks	11 to 20 banks	Over 20 banks	Holding companies	Banks	Individuals
United States	287	64	127	61	26	9	53	44	190
Alabama	4	1	1	2			1	2	1
Arizona	1		1						1
Arkansas	3		1	1	1				3
California	5	1	3		1		3		2
Colorado	3	1	1	1					3
Connecticut	1		1						
Delaware	1	1							1
Florida	6		3	3			1	5	
Georgia	5	2	1	2			1	1	3
Idaho	3	1		2			1		2
Illinois	12	1	5	4	2			3	9
Indiana	3	1		2			1	1	1
Iowa	12	2	5	1	4				12
Kansas	19	4	13	2					19
Kentucky	3		2	1			2	1	
Louisiana	2		2					2	
Maine	2	1		1			1	1	
Massachusetts	5		3	1	1		3	1	1
Michigan	11	1	4	1	3	2	3		8
Minnesota	37	1	20	9	4	3	3		34
Mississippi	3		1	2				1	2
Missouri	7	1	3	3			1		6
Montana	2		1	1					2
Nebraska	10		6	4					10
Nevada	1				1				1
New Hampshire									
New Jersey	15	10	3	2			1	10	4
New Mexico	2	1	1				1		1
New York	20	7	8	2	3		12	2	6
North Carolina									
North Dakota	6	1	2	1	2				6
Ohio	2		2				1		1
Oklahoma	8	1	3	2	1	1	1		7
Oregon	7	4	1	2			5		2
Pennsylvania	12	7	4	1			1	7	4
Rhode Island	1	1						1	
South Carolina									
South Dakota	5		4	1					5
Tennessee	4	2			1	1		3	1
Texas	16	4	8	3	1		1	1	14
Utah	5		2	2		1	1	1	3
Vermont									
Virginia									
Washington	12	5	4	2		1	7		5
West Virginia									
Wisconsin	6	1	4		1		1		5
Wyoming	5	1	4						5

[1] Represents number of groups whose headquarters are located in the State, and not the number operating in the State, as some of the groups operate in several States.

TABLE 7.—*Summary of branch banking in the United States, 1924–1929*

	Dec. 31, 1929	June 30, 1929	June 30, 1928	Feb. 25, 1927	June 30, 1924
Number of banks:					
Total	24,645	25,115	25,950	[1] 26,973	28,996
Operating branches	822	818	835	779	714
By classes of banks—					
National banks	166	164	169	145	108
State bank members	180	190	186	189	191
State bank nonmembers	407	398	415	387	387
Mutual savings banks	65	62	58	50	28
Private banks	4	4	7	8	[2]
By location of branches—					
Only in head office city	517	518	526	476	391
Only outside office city	257	252	262	261	283
Both in and outside head office city	48	48	47	42	40
By population (in 1920) of cities in which parent banks are located—					
100,000 or more	351	359	372	353	-------
50,000 to 100,000	81	84	81	65	-------
25,000 to 50,000	75	70	66	61	-------
Less than 25,000	315	305	316	300	-------
By size of branch systems—					
1 branch	448	443	469	446	-------
2 branches	150	153	150	127	-------
3 to 5 branches	124	130	126	124	-------
6 to 10 branches	41	37	35	35	-------
11 to 30 branches	41	38	41	35	-------
Over 30 branches	18	17	14	12	-------
Number of branches:					
Total	3,547	3,440	3,230	2,900	2,293
In head office city	2,432	2,362	2,214	1,929	1,508
Outside head office city	1,115	1,078	1,016	971	785
Location of "outside" branches in places with population of—					
Less than 2,500	612	591	572	[2]	[2]
2,500–5,000	136	133	128	[2]	[2]
5,000–10,000	86	84	79	[2]	[2]
10,000 or over	281	270	237	[2]	[2]
By classes of banks—					
National banks	1,027	993	941	390	248
State bank members	1,299	1,298	1,220	1,560	1,137
State bank nonmembers	1,115	1,046	973	863	908
Mutual savings banks	99	96	86	76	[3]
Private banks	7	7	10	11	[3]
Method of establishment—					
De novo (as branches)	2,379	2,329	2,214	1,996	-------
Independent banks purchased and converted into branches	1,017	958	853	735	-------
Not reported	151	153	163	169	-------

[1] March, 1927.
[2] Not available.
[3] Not separately tabulated; included with "State bank nonmembers."

TABLE 8.—*Number of banks operating branches and number of branches in operation, June, 1924, to December, 1929, by States*

	Number of banks operating branches				Number of branches			
	Dec. 31, 1929	June 30, 1929	Feb. 25, 1927	June 30, 1924	Dec. 31, 1929	June 30, 1929	Feb. 25, 1927	June 30, 1924
Total, United States	822	818	779	714	3,547	3,440	2,900	2,293
National	166	164	145	108	1,027	993	390	248
State member	180	190	189	191	1,209	1,298	1,560	1,137
State nonmember	407	398	387	387	1,115	1,046	863	908
Mutual savings	65	62	50	28	99	96	76	(1)
Private	4	4	8	(1)	7	7	11	(1)
State-wide branch banking permitted								
Total	216	215	226	237	1,286	1,265	1,120	835
Arizona	7	7	8	6	22	22	23	20
California	53	54	72	99	863	861	762	538
Delaware	7	7	5	5	13	12	14	18
District of Columbia	12	11	10	11	24	23	20	19
Maryland	30	33	35	27	124	125	113	88
North Carolina	39	42	40	40	77	77	74	66
Rhode Island	11	11	11	9	35	35	29	21
South Carolina	11	12	8	9	57	50	25	20
Vermont	7				10			
Virginia	39	38	37	31	61	60	60	45
Branches restricted as to location								
Total	581	578	526	447	2,207	2,121	1,726	1,397
Georgia	16	16	21	21	39	34	39	53
Kentucky	10	9	5	4	28	26	13	12
Louisiana	42	42	41	34	106	108	106	93
Maine	24	24	24	23	63	61	54	47
Massachusetts	88	86	79	61	161	154	133	98
Michigan	62	61	68	63	439	433	401	332
Mississippi	11	11	11	11	25	25	25	25
New Jersey	55	53	14	14	103	103	21	21
New York	106	106	106	77	722	682	517	362
Ohio	55	58	53	51	268	259	231	203
Pennsylvania	80	81	82	67	185	169	131	98
Tennessee	32	31	22	21	68	67	55	53
Branch banking prohibited by law [2]								
Total	25	25	27	30	54	54	54	61
Alabama	5	5	5	5	19	19	19	19
Arkansas	2	2	2	2	3	3	3	3
Florida				1				1
Indiana	4	4	4	4	9	9	8	8
Minnesota	2	2	2	3	6	6	6	11
Nebraska	2	2	2	2	2	2	2	2
Oregon	1	1	1	1	1	1	1	1
Washington	3	3	4	5	5	5	6	7
Wisconsin	6	6	7	7	9	9	9	9

[1] Not separately tabulated.
[2] Branches reported were established prior to prohibitory legislation.

No branches in operation: Colorado, Connecticut, Idaho, Illinois, Iowa, Kansas, Missouri, Montana, Nevada, New Mexico, Texas, Utah, West Virginia.
No provision in State law regarding branch banking: New Hampshire, North Dakota, Oklahoma, South Dakota, Wyoming.

TABLE 9.—*Banks operating domestic branches on December 31, 1929, by States*

States	Number of banks operating branches				Number of branches					
						Operated by			Location	
	Total	National	State members	Nonmembers	Total	National banks	State bank members	Nonmember banks	In head office city	Outside head office city
United States	822	166	180	476	3,547	1,027	1,299	1,221	2,432	1,115
State-wide branch banking permitted: Total	216	37	23	156	1,286	526	189	571	475	811
Arizona	7	------	2	5	22	------	12	10	------	22
California	53	12	5	36	863	480	105	278	318	545
Delaware	7	------	2	5	13	------	2	11	3	10
District of Columbia	12	6	------	6	24	12	------	12	24	------
Maryland	30	3	2	25	124	8	24	92	68	56
North Carolina	39	3	3	33	77	4	7	66	11	66
Rhode Island	11	2	4	45	35	2	26	7	16	19
South Carolina	11	3	2	6	57	8	2	47	8	49
Vermont	7	------	------	7	10	------	------	10	------	10
Virginia	39	8	3	28	61	12	11	38	27	34
Branches restricted as to location: Total	581	121	151	309	2,207	484	1,099	624	1,930	277
Georgia	16	4	3	9	39	21	4	14	16	23
Kentucky	10	4	2	4	28	10	14	4	25	3
Louisiana	42	1	6	35	106	8	35	63	49	57
Maine	24	------	1	23	63	------	3	60	6	57
Massachusetts	88	17	16	55	161	63	27	71	142	19
Michigan	62	11	30	21	439	72	309	58	436	3
Mississippi	11	1	------	10	25	1	------	24	1	24
New Jersey	55	18	19	18	103	33	39	31	93	10
New York	106	32	37	37	722	189	463	70	721	1
Ohio	55	8	20	27	268	19	167	82	235	33
Pennsylvania	80	16	17	47	185	43	38	104	176	9
Tennessee	32	9	------	23	68	25	------	43	30	38
Branch banking prohibited by law:[1] Total	25	8	6	11	54	17	11	26	27	27
Alabama	5	------	1	4	19	------	1	18	------	19
Arkansas	2	------	------	2	3	------	------	3	------	3
Indiana	4	1	1	2	9	2	5	2	8	1
Minnesota	2	2	------	------	6	6	------	------	6	------
Nebraska	2	2	------	------	2	2	------	------	2	------
Oregon	1	1	------	------	1	1	------	------	------	1
Washington	3	1	1	1	5	2	2	1	3	2
Wisconsin	6	1	3	2	9	4	3	2	8	1

[1] Branches reported were established prior to prohibitory legislation.

No branches in operation: Colorado, Connecticut, Florida, Idaho, Illinois, Iowa, Kansas, Missouri Montana, Nevada, New Mexico, Texas, Utah, West Virginia.

No provision in State law regarding branch banking: New Hampshire, North Dakota, Oklahoma, South Dakota, Wyoming.

NOTE.—Of the 2,432 branches located in head-office cities, 687 were operated by national banks, 1,163 by State bank members, and 582 by nonmember banks. Of the 1,115 branches located outside head-office cities, 340 were operated by national banks, 136 by State bank members, and 639 by nonmember banks

Mr. WINGO. Will the governor, just at this point, give us some totals? It seems that some of the information that he has supplied here, and which I have hastily glanced over, is so contradictory of the information we have had before, I think it ought to be pointed out at this time.

The CHAIRMAN. You can furnish that, Governor?

Mr. WINGO. Let him read it now. It is so contrary to what we have been told before, I am startled by it.

Governor YOUNG. According to the statistics just compiled, there were in operation in the United States, at the end of 1929, 24,645 banks and 3,547 branches, or a total of 28,192 banking offices.

Of this total of approximately 28,200 banking offices, there were 6,353 banks and branches that belonged to branch banking systems, to chain or group banking systems or to both. This leaves 21,839 banking institutions that might be definitely termed as independent unit banks, having no branches and being in no wise connected with other banks, through chain or group affiliation.

As a measure of the banking resources of the banks falling into the different categories, we have tabulated the figures of total loans and investments.

On this basis, it appears that, at the end of 1929, all the banks in the country had loans and investments of approximately $58,500,000,000.

On the same date, the branch, chain, and group banking systems, embracing a total of 6,353 banks and branches, had total loans and investments of approximately $30,000,000,000 in other words, the banking resources of the branch, group and chain systems were more than one-half of the total of all banks in the country.

The branch banking systems, at the end of 1929, taken alone, embraced 822 banks and 3,547 branches, with aggregate loans and investments of $25,100,000,000, but these figures include 119 banks with 1,415 branches with loans and investments of $6,300,000,000 that were also reported as belonging to banking groups or chains.

There were 287 chains or group banking systems reported in existence at the end of 1929, embracing 2,103 banks, with loans and investments of $11,200,000,000. These figures, like those given for the branch systems, include a certain amount of duplications; that is to say, they include 119 with 1,415 branches and loans and investments of $6,300,000,000 which were reported as belonging to the chain or group systems. This duplication is, however, eliminated from the combined statistics given in the two preceding paragraphs.

Following is a table comparing them.

I might say, of course, those figures include the banks in the large metropolitan areas, such as New York City, that have branches. That is quite a lengthy report.

Mr. WINGO. In other words, includes all the banks?

Governor YOUNG. Includes all the banks; yes, sir. That is quite a lengthy report, but I am sure that the committee will get much information out of it.

The CHAIRMAN. Before we start general questions, that is a very important statement, indicating development in regard to chain and group banking, particularly, as well as branch banking. I am sure

we will be glad to have your views on what this development means to the Federal reserve system.

Governor YOUNG. Well, in so far as the Federal reserve system is concerned, we have lost very little in the way of member banks through the group, chain, and branch development. That is not true of the national banking system.

The national banking system has lost quite heavily over the past two or three years, but most of these large set-ups, groups or chains, continue their membership in the Federal reserve system, and it has been my belief that the larger the set-up the more necessary the membership is to that set-up.

The first indication that the board has received of any loss of members through group and chain set-ups—and really branch set-ups—came in a letter this morning from one of the reserve banks, citing the members that they had lost because those banks had gone into a branch system. That was in the States where branches are permitted.

The CHAIRMAN. That were not members of the Federal reserve system?

Governor YOUNG. They were members of the Federal reserve system and many of them national banks. They have since gone into a branch banking set-up.

The CHAIRMAN. That was not a member of the Federal reserve system?

Governor YOUNG. That was not a member of the Federal reserve system, and of course under the terms of the Federal reserve act it could not be a member of the Federal reserve system now.

The CHAIRMAN. Do you find, Governor, that in the operation of the Federal reserve system, the forms of these large groups, taking over independent banks, interferes in any manner with the operation of the Federal reserve system? In other words, does it permit as easy a cooperation as previously, or more so?

Governor YOUNG. I would say just as much.

The CHAIRMAN. So far as the operation of the Federal reserve system is concerned, you do not note any particular change?

Governor YOUNG. Except this one particular case I have cited this morning.

The CHAIRMAN. Where you have lost some members?

Governor YOUNG. Yes, sir.

The CHAIRMAN. That was because members of the Federal reserve system were leaving the system and joining a system not operated under the Federal reserve law?

Governor YOUNG. A branch system; yes. Had they gone into a chain or group system they would have remained. There are advantages, apparently, that the group and chain system do not give.

Mr. FORT. And the branch system overrunning the city limit does give?

Governor YOUNG. Yes, sir.

The CHAIRMAN. The only reason, then, that such institutions are not members of the Federal reserve system is because of the limitation now in the law confining branches to the cities in which the parent bank is located?

Governor YOUNG. Correct.

Mr. WINGO. I did not catch that.

The CHAIRMAN. The reason they are leaving is to join in a State system where they can carry on branches beyond the city limits in which the parent bank is located.

Mr. WINGO. I got the impression that you made the point that that was the exclusive reason. I happen to know better in one instance. Is that the exclusive reason for it?

Governor YOUNG. It was so reported to me, Mr. Congressman. I will correct that. It was reported to me, and I will give the exact language of the letter. It says:

> There is reason to believe that all of these banks would have remained in the system but for the law prohibiting branches in their cases.

The CHAIRMAN. How many banks left the system on account of that one particular reason?

Governor YOUNG. I will have to check that, Mr. Chairman. I got that letter just before I came up to the committee.

Mr. WINGO. In order to follow the statement you put in a moment ago, I am correct in assuming that mere numbers of banks is not the thing you are looking to? You look more to strength in assets? Is that the main thing?

Governor YOUNG. Yes, sir; but we look to both, of course.

The CHAIRMAN. I am going to suggest that we proceed in the regular order.

The first on the list is Mr. Strong.

Mr. WINGO. Is not the governor going to make a general statement, first?

The CHAIRMAN. The governor filed his statement yesterday. Mr. Fenn.

Mr. FENN. I have not had an opportunity, Mr. Chairman—although that is probably my own fault—of going entirely through this statement. I just received it this morning. However, I have a few questions I should like to ask at this time.

Is there a general desire, as far as you know, in the country that the present banking system should be changed, radically changed; in other words, is there enough desire for that to warrant a change?

Governor YOUNG. Well, Mr. Congressman——

Mr. FENN. Or is there really a desire on the part of the great banking institutions to absorb the banking facilities of this country and wipe out of existence the unit banking system?

Perhaps my question is a long one, but I think you will understand it. In other words, is there a general desire—a public desire—that there should be a centralization of banking to the exclusion—which would be a practical exclusion from the statements that have been made here—of the unit banking system? I do not say that is my position. I simply ask for information.

Governor YOUNG. That question is debatable. There are two factions. There is the unit banker that wants to continue; there are the group, chain, or branch bankers that want to expand.

Mr. FENN. I am not speaking of the financial position of these representative groups—of these two groups—but take the individual; that is, in the aggregate. Of course, I presume that the unit banks want to continue as unit banks. I take that as a presumption.

Governor YOUNG. Correct.

Mr. FENN. And also I take it as a presumption that the great banks, so to characterize them, desire to do as much of the unit banking business as possible by absorption of the unit banks.

The CHAIRMAN. Your question is whether there is a public demand for this or whether it emanates from the operating banks?

Mr. FENN. That is what I wanted to get at—so far as you know, Governor?

Governor YOUNG. I doubt whether there is a popular public demand for group, chain, or branch banking. Traditionally we are a unit people.

As I see the whole situation, Mr. Congressman, the group and chain banks have developed because of necessity, even though the law has not encouraged it to any great extent. It therefore seems to me a natural development and certainly these figures that I have given to the committee this morning must convince the members of the committee that this is a tremendous growth in the country that must come from some reason.

Mr. FENN. Take, for instance, the great amalgamation in New York. I believe it has gone through. Take this amalgamation of the Chase National Bank and the trust company and the Interstate Bank. In its aggregate, the great amount of assets, capital, etc., would far exceed probably a thousand unit banks?

Governor YOUNG. Far exceed the entire ninth Federal reserve district.

Mr. FENN. Now, what I want to know is should we consider the desire of this combination of capital, assets, and so forth to be the wish of the public of New York City, for instance?

Governor YOUNG. I do not know, Mr. Congressman.

Mr. FENN. I did not suppose you did. I presume that before the hearing is over that will be presented to us.

Now, I notice here in just casually glancing at this statement, in relation to the history of branch banking in this country, it refers to branch banking, I believe, in Mr. Platt's address previous to 1860. Has anybody considered that a successful system?

Governor YOUNG. If I remember correctly, the national banking act——

Mr. FENN (interposing). That was passed in 1860.

Governor YOUNG (continuing). Was passed in 1863 and gave some very decided advantages to the unit system, under a national charter.

Mr. FENN. In other words, they rather took away the branch banking system and encouraged the unit banking system?

Governor YOUNG. I think that is correct.

Mr. FENN. Was not that due to the sad experience that the country had gone through in connection with the branch banking system, before the Civil War? It seems to me there was a natural inference from it.

Governor YOUNG. It was either that or a war measure.

Mr. FENN. Of course I think you are quite correct in saying that the national banking system was induced by the war, in order to stabilize the money of the country?

Governor YOUNG. I think so.

Mr. FENN. What I have to ask, Governor, is simply for information and not because of any position I have taken in the matter.

The CHAIRMAN. Mr. Beedy.

Mr. BEEDY. This material has just come to my office, and I am not prepared, at this time, to ask any questions.

The CHAIRMAN. Mr. Hooper?

Mr. HOOPER. I have not had an opportunity yet to read the statement of the governor.

The CHAIRMAN. Mr. Letts?

Mr. LETTS. Mr. Chairman, I have just one question to ask at this time. It is twofold.

Governor Young, would it be desirable, if a way can be found to accomplish the result, to separate banking activities from all other activities that are now indulged in by banking groups?

My thought is this: I have noticed a tendency on the part of banking institutions to go into many lines of business—the handling of securities; the handling of mortgage business; agencies for the sale of real estate—to the point that I understand the Transamerica Corporation has announced that it has the necessary funds to put over any enterprise that they wish to take hold of.

They have included in their enterprises, insurance, which I think embraces every branch of insurance. It seems to me that this evidences the tendencies of the time and I am wondering whether it would be desirable, if possible, to separate these activities, so that banking activities will stand alone, and if it is desirable, whether you have any suggestion as to how that result might be accomplished.

Governor YOUNG. That is an extremely difficult question to answer, Mr. Congressman, because it is very hard to unscramble. The national law has permitted many things in the way of fiduciary powers, in handling securities, and so forth. It has been in operation a great many years.

Many of the banks have learned that they can operate those to advantage with independent corporations. They have developed and they are here with us. There are many things in the group and chain banking that must necessarily be in the experimental stage. I think that is one of the reasons that there has been hesitancy on the part of the Federal Reserve Board to commit itself one way or the other.

In reply to the second part of your inquiry, I say that I have nothing at the moment to suggest to correct that situation, if it needs correction.

Mr. LETTS. Is there danger that a policy of this kind will lead to the point where financial institutions will serve themselves and their affiliates and not the public?

Governor YOUNG. I doubt that very much. These large groups——

Mr. LETTS. In other words, will they compel men in business as individuals or in corporate capacity, to play hand in hand with the financial groups, in order to get necessary accommodations?

Governor YOUNG. I doubt that very much. It seems to me that that would be a very short-sighted policy on the part of large groups and others, and if business and commerce and agriculture are not served in a credit way by the large corporations and set-ups, some-

thing else will be developed to take their places, because those industries have got to be served, and it seems to me it would be a very short sighted and disastrous policy on the part of those large groups to do anything along those lines.

Mr. LETTS. My concern is in regard to the powers that may be acquired through the policies of holding companies that sit back of the screen and control the activities of the banking institutions in a community and many other lines of industry. It is conceivable it may even go to the point of involving the control of companies that are engaged in the distribution of our foods and other necessaries of life.

Governor YOUNG. That is a possibility, but, in my opinion, highly improbable.

Mr. LETTS. That is all I have at this time, Mr. Chairman.

The CHAIRMAN. Mr. Wingo.

Mr. FORT. Mr. Chairman, I should like to know whether we are to come along with our questions later. I notice that you have skipped us on this side.

Mr. WINGO. Mr. Fort, for your information, I asked for unanimous consent to waive the rule in behalf of you gentlemen who have been detained. However, I shall be pleased to have you go ahead now.

Mr. FORT. No; I should like to have you go ahead. I would prefer that. I just wanted to know the practice.

Mr. WINGO. Governor, I notice in the table that you have inserted in the record, giving the number of banks or branches and also the loans and investments, that the total number of banks is given as 24,645. The total number of branches is 3,547.

Now, of that number, there are 1,984 group or chain banks that do not have any branches. Those chains and groups are located principally in what States, Governor?

Governor YOUNG. Michigan, Wisconsin, Minnesota, North and South Dakota, Montana, Wyoming, Nebraska, Iowa, Utah, Oklahoma, and the New England States.

The CHAIRMAN. And the State of Georgia?

Governor YOUNG. I will have to check that. My answer to that would not be correct.

Mr. WINGO. The table will show that?

Governor YOUNG. Yes, sir.

Mr. WINGO. Now, there are chain and group banks operating in the State of New York that do not have branches, are there not?

Governor YOUNG. I will ask Mr. Smeed to correct me if I am wrong. I will say yes, there are groups in the State of New York that do not operate branches.

Mr. WINGO. The State of New York authorizes branches of State institutions, does it not?

Governor YOUNG. It does.

Mr. WINGO. Now, some of these chains and groups are not confined in their operations to one State, are they?

Governor YOUNG. That is correct.

Mr. WINGO. In other words, for illustration, there is one group whose headquarters are at Nashville, Tenn., that has chains and groups covering more than one State—Tennessee, Arkansas, and possibly some other States. That is true, is it not?

Governor YOUNG. And Kentucky—that is true; yes sir.

Mr. WINGO. And those chains and groups are among those that have no branches.

Now, I notice that the banks that belong to chains or groups that operate no branches have loans and investments of $4,913,000,000.

Now, I notice that you also have 119 banks that belong to chains or groups and also these 119 banks operate 1,415 branches. Some of the larger of thse banks—these 119 banks—are located in New York, are they not?

Governor YOUNG. In New York City?

Mr. WINGO. New York State, which would include, of course, the city of New York.

Governor YOUNG. I am not sure.

Mr. WINGO. Now, I am asking for information, Governor, and if you are not sure——

Governor YOUNG. I am not sure. I do not think that would apply to New York City.

Mr. WINGO. You do not think there is any bank in New York City that has both a chain or group controlled by it or by the same group and also has branches either of the parent bank or of some of the banks that belong to the group or chain?

Governor YOUNG. I do not think so, but I am not sure of that.

Mr. WINGO. Now, Governor, do not think that I have taken any definite position in this matter. I am simply trying to get information in every question I ask. Will you undertake to ascertain and furnish, for the record, at the close of your testimony here, this information—those States which have the larger or the most important ones of these groups and chains which also authorize branch banks by their State laws, if any. Do you catch the question?

Governor Young. I do.

The CHAIRMAN. Might I suggest if that is already covered in the papers submitted, you make reference to the part where that appears. I think that will save duplication.

Mr. WINGO. If it is covered, why it is not necessary to duplicate it.

Governor YOUNG. It is covered in there.

Mr. WINGO. In other words, this statement you are going to perfect and put in, will show the States, whose State laws authorize branch banks that have located in them banks which are group and chain banks but which have no branches, and will also show those States which authorize branches and in which these 119 banks, which are chain and group banks and also operate branches, are located?

Governor YOUNG. Yes.

Mr. WINGO. Will it undertake to show, though, the larger ones of these banks measured by assets or loans and investments?

Governor YOUNG. I think your entire inquiry is covered by that report. But, if it is not, we will supplement it and give you all the information.

Mr. WINGO. I doubt if your tabulation will show the last item, which possibly you did not catch, and that is this: In what States are located the outstanding groups, measured by loans and investments, and in what States, naming the principal outstanding groups and chain banking systems and giving their loans and investments——

Governor YOUNG. I think that is all in there.

Mr. WINGO. I do not think it will give the individual chains and groups.

Governor YOUNG. I think it will.

Mr. WINGO. Mr. Chairman, suppose I devote no more time to that until I get a chance to examine the data. Possibly it will save some duplication. I will go on now with something else.

Governor YOUNG. Does not this show that [exhibiting]?

Mr. WINGO. Will it indicate which of these groups or chains in these States—indicate which States authorize branches?

Governor YOUNG. That exhibit is a complete digest of all the States of the Union.

Mr. WINGO. But you have to wade through that to make a tabulation. If it is already tabulated in there, all right. However, suppose I lay off of that, because possibly all those things may be disclosed there.

I caught, from the statement you made awhile ago, that you feel that the fact that there has been a development of branches—branch banking and chain banking and group banking in this country—that that indicates there is a sound banking reason for such development.

Governor YOUNG. I think so.

Mr. WINGO. The outstanding fact in your tabulation, according to the first page of it, is that over one half of the resources of banking in the United States is now in banks that are either group, chain, or branch banks. That shows the growth of those three types of banking as contradistinguished from the independent unit bank?

Governor YOUNG. Correct.

Mr. WINGO. The independent unit banks are only superior in point of number of individual banks?

Governor YOUNG. Correct.

Mr. WINGO. Measured by assets, power, and influence, the chain, group, and branch systems have already taken over the banking business of the United States?

Governor YOUNG. Yes, sir; taken over over half of it.

Mr. WINGO. And you also suggested, in response to a question——

Governor YOUNG. May I correct that answer?

Mr. WINGO. Yes.

Governor YOUNG. You may have a bank in New York City with total resources of $500,000,000, classified as a unit bank. Up to the moment it establishes a branch, which it has authority of law to do—while that still has all the earmarks of a unit bank, independently operated, the fact that it has 1, 2, 3, or 4, or 5 branches, involving three, four, or five million dollars, it comes within this classification of one-half of the assets of the United States.

Mr. WINGO. Of course, the old law of relativity covers everything when you come to measuring influence, power, and assets; and it is true that the largest part of the banking assets of the country are to be found, naturally, in the large business and commercial centers of the country?

Governor YOUNG. Yes, sir.

Mr. WINGO. New York, Chicago, Kansas City, St. Louis—these large industrial centers where there is large business, which naturally and legitimately demands large credits. Naturally the large banking facilities will be congregated there?

Governor YOUNG. Yes, sir.

Mr. WINGO. Because the credit facilities have to be close to the business it serves?

Governor YOUNG. Yes, sir.

Mr. WINGO. Is there anything in this contention that has been made that as the business of the country proceeds along the line of its apparent present tendency to be gathered into the hands of larger units—for illustration, in the automobile industry, such a concern as General Motors and in the steel industry, such concerns as the United States Steel Corporation and the Bethlehem—that they are forced to do that by what the proponents of such development contend is the economic necessity to have mass production and the economies that flow from large units and all such things as that—I say, is there anything to the contention that, as the natural development in the business and industrial world takes place, that that carries with it a corresponding demand for greater capacity of the individual credit agency to meet the needs of these larger business units?

Governor YOUNG. There seems to be very strong evidence of that, Mr. Congressman.

Mr. WINGO. In other words, where a business is done by larger units on larger scales, their credit demands come in what you might call larger blocks, which a small bank, by reason of its proper limitations, could not meet and serve?

Governor YOUNG. That is true; but, on the other hand, the large unit can not neglect the small borrower. It has got to serve that small borrower as that small borrower has been served in the past.

Mr. WINGO. Do you think it is correct, as contended, that even though these larger units will naturally better serve the public, the larger units of banking will better serve the larger units of commerce and industry and will also be in a better position to serve the needs of the smaller business man and smaller corporation?

Governor YOUNG. I think it would be a very short-sighted policy on their part if they do not do it.

Mr. WINGO. I am talking about their capacity now?

Governor YOUNG. I think they have the capacity to serve the small borrower.

Mr. WINGO. It is contended by men whose capacity and character command respect, that the natural tendency of our industrial organizations will necessarily compel the grouping or rather the vesting of banking capital and banking activities in larger units in the 25 or 30 large industrial centers of the country and they in turn—these larger units in these different industrial centers, in those particular industrial centers—will furnish the necessary competition to insure service aside from the natural desire to profit by the service extended; that also these larger units of banks, through the branches that they will establish in the smaller cities and towns in their particular trade area, zone or whatever you may call it—that the furnishing of these branches by these different large units in these centers, the competition between those larger units in establishing branches, will also protect the small cities and towns against the evils of monopoly.

What is your opinion about that?

Governor YOUNG. I believe that is correct and, in addition to that, we must remember that there are many unit banks left in the United States. They are large in number and cover a wide area, and particularly in the territory that I am familiar with, the Northwest, embracing some 2,700 banks. There are still 2,500 individual unit banks in this territory.

Mr. WINGO. Will not those large unit banks be compelled, by necessity, to meet competition by establishing branches in their territory?

Governor YOUNG. You mean county-wide?

Mr. WINGO. Whatever area you may have. Candidly, I think the development with reference to geographical lines will be one that will be determined by necessity and the development of our economic structure, rather than any arbitrary rule of statute; in other words, the statute will be made to conform to the necessities.

Do you not think the large unit banks, when they are face to face with this competition of the branches of the larger systems, will be compelled, in order to meet the needs of their clientele, to establish branches?

To give you a concrete illustration, we will take two banks in the city of Chicago. One of them is a large independent unit bank, to which you referred. The other is a large bank that has branches. They are competitors. Each one is going after the business, say, of an industrial concern located in a small outlying city or town. The bank that has branches will say to these business men over there, the owners of the factories or whatever they are:

> We can give you better service than our competitor because we have a branch bank in your own town.

Will not the independent unit bank, in order to meet that competition, have to establish a branch in that town?

Governor YOUNG. That has happened in many cases, but in many cases it has not. The territory that has had branch banking longer than any other section is probably California. The unit banker there is still able to operate profitably and has not been forced into any competitive group.

It is very hard to say what the future will bring forth.

Mr. WINGO. Have there not been complaints from some unit bankers, or suggested by some independent unit bankers in California, that they have lost some of their good customers in outlying towns where a branch bank was established in that outlying town and that they had to choose between the necessity of establishing branches or losing the business? Has not that been the contention of at least one independent unit banker in California?

Governor YOUNG. Not that I know of.

Mr. WINGO. Is there not a general rule, applicable to banking, as well as other activities that, in competition, the giving of the thing that the customer wants, either in quality of quantity—but measured in the banking business mostly by service—is not that the thing that controls the flow of the business?

Governor YOUNG. Absolutely.

Mr. WINGO. I mean the general thing. Of course, in that community, you may have some outstanding man that, by reason of his character and integrity, will maintain a small shop beside a large

department store; yet, as a general rule, the business concern that gives the greater amount of service, either of quality or quantity, gets the business?

Governor YOUNG. That is correct.

Mr. WINGO. That is a natural tendency in the present competitive field, is it not?

Governor YOUNG. Yes, sir.

Mr. WINGO. Now Gresham's law operates just inversely in the business field—the good service drives out the bad?

Governor YOUNG. Yes, sir; correct.

Mr. WINGO. And so far as money is concerned, bad money drives out the good?

Governor YOUNG. Yes, sir.

Mr. WINGO. In the business competitive field, Gresham's law is reversed, and that business concern, whether an automobile factory or a steel business or a department store or a bank, that gives the greatest measure of service, either quality or quantity, naturally outstrips its competitor that does not match that service? Is not that true?

Governor YOUNG. Yes, sir.

Mr. WINGO. There are exceptions, of course.

Governor YOUNG. Yes, sir.

Mr. WINGO. You suggested awhile ago that there are some States where you lost banks from the system because they could not establish branches and you indicated or said that there were some advantages in branch banking that did not obtain in group or chain banking. I have had urged on me by group and chain bankers two major reasons why they would like to change from chains or groups into branches. Those two major reasons are that it requires less capital. That is one—that it requires less capital for the same volume of business; and secondly, they could have a more efficient control of the business by reason of the elimination of the cumbersome local directorate that now dominates their local banks which are members of the chain or group, and substitute for it more efficient centralized management that would give the public quicker and more efficient service.

Now, those are their two contentions. Can you name any other advantages that you conceive, and which the advocates of branch banking conceive, to be an advantage of branch banking over chain and group banking?

Governor YOUNG. Economy of operation.

Mr. WINGO. Well, that is included in the first or in the latter, rather.

Governor YOUNG. Yes.

Mr. WINGO. Suppose you just name the advantages you think branch banking has over chain and group banking.

Governor YOUNG. I will repeat those two that you cited, and add economy of operation, and in so far as the local loans are concerned, in a local community, the local directors can handle those very nicely, perhaps much better than the parent officers can handle them; that is, assuming that the local directors are conservative business men. With the surplus funds that the branch has, obviously the man in the center is more familiar with the bond market and more familiar

with the bill market, and he can invest much more advantageously than the small local man.

Another reason that I can give is that the national banking act has permitted national banks to exercise fiduciary powers. In my opinion, there is a tremendous field in the United States for that work. It may take a long time for it to develop. It is a highly specialized work. Many of the smaller banks are not thoroughly equipped to handle it the way they should handle it.

A large branch set-up can afford to employ the proper kind of men to handle that, and it seems to me, with a branch banking set-up in the United States, with the assurance of proper administration of fiduciary trusts, there is a tremendous opportunity for branch banks to develop a business that will be profitable for many years to come, a business that the small local bank can not always get. That procedure has already been adopted by both the large groups in the Northwest.

Mr. WINGO. Then I presume also, along the line you have just suggested, that a smaller bank attempting to act in a fiduciary capacity, not only would be limited in its activities—it could not undertake to act in such capacity except on a smaller scale—but you also would include the element of greater safety that is to be found in the larger capitalized institutions?

Governor YOUNG. In making that statement, there is no reflection on the small country banker. My sympathy is with him, but a highly-trained man could render greater service than the small country banker could afford to employ.

Mr. WINGO. I am trying to get your judgment on the contention of those who come to me, and say, "Now, Wingo, you are opposed to chain, group, and branch banking. I agree with you in theory, but we are facing a condition and not a theory." He points to the facts disclosed by your table here, that the great bulk of the assets of the banking institutions has already gone into that type of banking, which is other than the old individual unit type of bank; that there are good, sound reasons why that is done. "Now, why not legislate," he contends, "in the face of this situation, regardless of theory, recognizing existing facts and trying to arrive at what is best, by way of legislation, in shaping this trend, so as to protect the public and the depositors, and insure that banks, which are credit merchants, which render the fundamental duty of credit merchants, render the greatest possible service to the business world?"

Now, in connection with that fiduciary capacity, is it true that, as contended by some, there is less danger of a larger bank being permitted to fail than there is of a small bank?

I do not know whether you grasp what I mean or not. Here is a large bank where it would be represented to the comptroller and the Federal reserve bank that if you permitted this large bank to fail, serious consequences would follow, that it numbers among its correspondents, say, 80 banks. I remember a case in Topeka, Kans., I believe, a few years ago, where the Federal reserve bank was urged to save one bank that there was a run on, because they said that it had a large number of correspondents and if the bank was permitted to go down there was no telling where the crash would lead to. It was like a row of 10 pins; if you knocked down one pin, you knocked

down the whole thing, and it was argued that that was a different situation from that of a small unit bank, whose failure would be confined in its evil effects to a very small area.

Is it true that that is a reason why it is less probable that a larger bank would be permitted to fail than a smaller one?

Governor YOUNG. I would not want to give that as a reason, Mr. Congressman, as a public official and the operator of a reserve bank. I would want to believe that I gave just as much consideration to the small as to the large bank, and I thoroughly recognize the seriousness of the failure of a large bank. Of course, I will have to admit that a large bank, with a number of correspondents, going down not only carries down that bank but seriously cripples the correspondents and perhaps brings some of them down. Whether unconsciously we give more consideration to a large bank or not, I am not prepared to say.

Mr. WINGO. I am talking about the fact that inconsciously men naturally will treat with greater concern and will take greater risk in a situation where there is greater welfare involved or greater evil threatened than they will in connection with smaller things. That is human nature.

Governor YOUNG. That is human nature; yes.

The CHAIRMAN. Mr. Fort.

Mr. FORT. Governor Young, I want to ask you one or two general questions preliminarily.

Is the function of the Federal Reserve Board, as you view it, that of controlling the policy of banking generally and the forms of codes of banking, or is it simply to administer definite, prescribed duties?

Governor YOUNG. I would describe the board, Mr. Congressman, as a central body with certain supervisory powers and many regulatory powers, that functions more and more in accordance with the intent of the act and the traditions of our country when it operates as a coordinating supervisory body rather than an administrative body.

Mr. FORT. Then that implies really a function to advise Congress as well as to advise banks, does it not, as to what is proper banking?

Governor YOUNG. I think the function of advising banks as to what is proper banking is a function that comes under the supervisory powers of the Comptroller of the Currency rather than the Federal Reserve Board.

Mr. FORT. But you have State banks also as members of your system.

Governor YOUNG. Generally speaking, that is left to the supervisory authorities in the many States.

Mr. FORT. But you have not answered whether you feel you have a function to advise Congress as to what, if any, changes should be made in the code of law governing national banks and the Federal reserve system in its power over State banks.

Governor YOUNG. I think we not only have the function, but we have a duty.

Mr. FORT. Is there any concurrence of opinion in the board at the present time toward recommending to Congress any changes in the banking code, either as it relates to national banks or as it relates to State member banks of the system, or as to the powers of the board over either of those types of banks?

Governor YOUNG. The board has sent, both to the Senate and the House, during the past two or three years, recommendations for changes in legislation, largely technical, in connection with—I am going to say offhand—14 or 15 amendments since Christmas of this year. The board is not prepared to make any recommendation to the Congress of the United States in reference to this question of branch, group, or chain banking, as was stated in my letter the other day.

Mr. FORT. Yes; I understood that.

Governor YOUNG. My colleagues preferred to see the results of this investigation, and they preferred to make a further study with their own committee before making any recommendations, and I would like to have it understood by the committee here this morning that any statement I made was as an individual and not an expression on behalf of my colleagues or an expression of the titular head of the Federal Reserve Board, known as the governor.

Mr. FORT. You not only have no recommendation as a board on matters of the general code of banking, but you have no recommendations as to any change in the powers of the board itself dealing with changed conditions?

Governor YOUNG. The board, if I remember correctly, and you will find that in the brief submitted, recommended several years ago that it be given certain regulatory powers in reference to development of group and chain banking.

Mr. FORT. Are those now renewed?

Governor YOUNG. No, they are not; not at this time.

Mr. FORT. I notice——

Governor YOUNG. If I may just go ahead and finish this——

Mr. FORT. Certainly; go ahead.

Governor YOUNG. The Federal Reserve Board, under the Federal reserve act, if we read it correctly and interpret it correctly, has almost unlimited powers in dealing with reserve banks which, fortunately, the board has very seldom exercised.

I think that completes the answer to your original question.

Mr. FORT. I notice on page 56 of your memorandum a reference to a condition which the board had prescribed in its 1924 regulations relating to State banks, which provided that they should not consolidate without the permission of the board, nor absorb nor purchase the assets of other banks, nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in any other bank in excess of 20 per cent of the stock; and I notice further that on the same page you say that as a result of the amendment of section 9 of the McFadden Act, there is some doubt whether the board now has authority to prescribe this condition and therefore it has been unable to exercise the same degree of control over chain banking, and yet the regulation which I have quoted from has now been changed, as set out on page 57, so as to eliminate all reference to the acquisition of control indirectly by any State bank or trust company.

I take it from the occurrence of that language in the memorandum that you now feel powerless to deal with the acquisition of control through affiliate corporations?

Governor YOUNG. Correct.

Mr. FORT. Do you feel that you should have that power conferred upon you?

Governor YOUNG. I think that my colleagues would prefer to see the conclusions of this investigation and their own investigation before asking for it again.

Mr. FORT. Even as to the grant of power? That does not require its exercise.

Governor YOUNG. On the theory, Mr. Congressman, that it is hard to unscramble. Earlier this might have worked to our advantage, but this has all taken place.

Mr. FORT. It is not a complete process yet, is it? I mean that there are still further possible absorptions through affiliates or otherwise, are there not?

Governor YOUNG. That is true.

Mr. FORT. I am not now asking you whether you feel we should diretly legislate to enact the particular thing that was your old regulation, but I am simply asking you whether you feel we should relodge the power in your body to make such a regulation if in your judgment such regulation was desirable?

Governor YOUNG. Under the present conditions and what has developed, individually I would say no.

Mr. FORT. In other words, you would feel that it was wiser to leave no power anywhere except in Congress to interferre with it?

Governor YOUNG. Correct.

Mr. FORT. If Congress, as a matter of policy, however, felt that it was undesirable to permit this further extension of acquisition of control, would you feel that we should directly legislate upon it and make it always illegal, or that we should confer upon you the power to determine whether it should be allowed or not be allowed?

Governor YOUNG. In other words, that would make it mandatory with the board, or discretionary? I would like more time to think that over, Mr. Congressman.

Mr. FORT. All right, sir.

Governor YOUNG. I am not trying to be evasive on these things.

Mr. FORT. I understand that. I appreciate that in your official position you should be very slow to express opinions.

We have had some indications, some of us, that a condition is possibly arising in some—perhaps only one at the present time—of the Federal reserve districts where control of the elections of the directors of the Federal reserve banks is being in effect vested in one or two holding companies. Would you feel that it was desirable that such a condition should be permitted by law?

Governor YOUNG. Could you state the district you are referring to?

Mr. FORT. I have refrained from injecting names into this discussion where possible, but I can do so very easily.

Governor YOUNG. I think I can answer that without having any specific district.

I think the combination of certain groups, with what they now have, could elect two of the nine directors of the Federal reserve bank, theoretically. Through their influence, they might go beyond that, but I do not see how those groups could elect and maintain a control of the Federal reserve bank.

Mr. FORT. Is it or is it not possible under the law and the method of the selection of the directors that a group or two groups—and, of course, if two could, one could—could acquire sufficient control in a district to enable them to directly influence the election of a majority of the directors of the Federal reserve bank of that district?

Governor YOUNG. If they owned and controlled more than half of the member banks of that district, they could do it; otherwise not.

Mr. FORT. Is that a condition that we should permit to happen?

Governor YOUNG. I think that the supervisory and regulatory powers of the Federal Reserve Board are such that if there should be any abuse whatever of the powers of those directors, the board would be in position to correct it very quickly.

Mr. FORT. Is it a sound practice to permit, even though the evils resulting from it might thereafter be corrected?

Governor YOUNG. I do not think it is possible, Mr. Congressman.

Mr. FORT. For one group to acquire such control?

Governor YOUNG. No.

Mr. FORT. Why not?

Governor YOUNG. They would have to own half of the banks in the district in the first place, member banks.

Mr. FORT. You just said that a single bank in New York City is to-day larger than the entire resources of one whole Federal reserve district. Why is it not possible for a single holding company to acquire complete control in a district?

Governor YOUNG. It is possible.

Mr. FORT. If they thought it desirable?

Governor YOUNG. Yes.

Mr. FORT. And were willing to pay the necessary price?

Governor YOUNG. Correct.

Mr. FORT. Would you feel that that was a condition that we should leave as a possibility?

Governor YOUNG. That is possible, but highly improbable, in my opinion. If it should develop, legislation could correct that very quickly. I see no necessity for it at the moment.

Mr. FORT. Except that it is more difficult to unscramble than to let it be set up, as you very properly said?

Governor YOUNG. Well, not in a case of six directors that are elected.

Mr. FORT. But I mean that the ownership and control of the banks that do the electing, once acquired, is very difficult to——

Governor YOUNG. Oh, yes; it is hard to unscramble.

Mr. FORT. You have said that there is no fear of the large banking systems leaving the Federal reserve, have you not?

Governor YOUNG. Yes; that is my opinion.

Mr. FORT. You think that we are in a fairly favorable position to stiffen up any regulation that we may think needs stiffening without the fear that by so doing we will weaken the Federal reserve system's membership, substantially?

Governor YOUNG. It might be so drastic that it would force some of them to move out. For instance, if legislation forcing the unscrambling of some of these groups should develop, it might result in serious loss to the Federal reserve banks in the way of members.

Mr. FORT. Which it seems might be a further reason for legislation before the scrambling went so far as to make the unscrambling impossible.

Has the Federal Reserve Board as a board given any consideration to the very rapid entry of banks into the investment business, either directly or through affiliates?

Governor YOUNG. It has given consideration to it.

Mr. FORT. But is has no definite policy to recommend?

Governor YOUNG. Correct. It has felt that it is one of those things that the board is powerless in, the same as the comptroller's office.

Mr. FORT. Does the board, or do you, individually, have any opinion as to the soundness as a banking function of the purchasing and selling of bank stocks by banks, for the account of the bank, which is permitted now by some States in connection with their banks?

Governor YOUNG. That is confined, is it not, Mr. Congressman, to preferred stocks?

Mr. FORT. No; not in all States.

Governor YOUNG. Are there not some restrictions?

Mr. FORT. The laws of the different States, as I understand it, differ on that point. I would be very glad if, as a part of your testimony you could give us a digest from your records of the State laws on that question.

Governor YOUNG. We have State laws regarding the ownership of bank stocks by holding corporations.

Mr. FORT. I am not speaking of stocks held by holding corporations. In my own State, for example, one State bank or trust company can own stock of another bank, State or national, in its own name; it can own the stock of an industrial corporation or a railroad, and I would like to have a digest of the laws on that throughout the United States, if I can have it.

Mr. WINGO. Would it not be wise if you not only had a digest which would show the laws of the States separately with reference to ownership of other bank stocks, but also a separate digest which would show the different laws of the States with reference to owning stock generally?

Governor YOUNG. That will be prepared for you, Mr. Congressman.

Mr. FORT. I will be very glad to have it.

Governor YOUNG. In reply to the other part of your inquiry, Mr. Congressman, I will report that the Federal Reserve Board in the past, when it has admitted a State bank to membership, in exercising its statutory authority has usually laid down a condition of membership which prohibits that bank from acquiring stock in another bank except with the permission of the Federal Reserve Board.

Mr. FORT. That is, as to future acquisition.

Governor YOUNG. The board, however, has never issued any regulation or requirements in reference to acquiring stocks in other corporations.

Mr. FORT. What I am trying to get at is whether, in your judgment—for which I have a very high respect—the dealing in stocks is a proper banking function.

Governor YOUNG. I would say, Mr. Congressman, that the buying and selling of stocks for a profit and turning them over is not a proper function for a bank. The investment of all surplus funds in seasoned stocks and bonds solely for the income might be a proper function for a bank.

Mr. FORT. Along with that, then, if the buying and selling for the purpose of profit is not a proper function, is the underwriting of large issues and the merchandising of them a proper banking function?

Governor YOUNG. National banks are not permitted to do that.

Mr. FORT. No, sir.

Governor YOUNG. Some State banks are.

These inquiries come to me out of a clear sky, Mr. Congressman, and I would like a little more time to think that over.

Mr. FORT. And, while you are thinking that over, because I am going to ask you some more questions on that, or I will ask them of some other member of the board, would you also consider the propriety and wisdom of it being done indirectly through the security affiliate which is in the public mind tied in with the bank, if it is not a proper function for the bank itself to do, because that is being done by national banks as well as State banks?

Governor YOUNG. Well, I am going to ask for a little more time on that.

Mr. FORT. I will gladly concede it, as I have been thinking about it for several years and have not reached a final decision in my own mind.

We have had some testimony from Comptroller Pole on the need of branch banking in country districts because of a lack in part of the difficulty of maintaining a bank with adequate capital in small towns because of the lack of profit possibilities in these small towns. That is perfectly sound, I think. I wonder if there is in the record yet, or in any of the exhibits you have given us, any statement of the profits actually made by banks by any classification as to size, of the percentage of profit on invested capital—or if such a thing could be gotten up for us?

Governor YOUNG. Not in anything that has been submitted by me.

Did the comptroller's office furnish anything along those lines?

Mr. AWALT. We have some information in regard to their earnings, classified by States.

Mr. FORT. But not by size of banks?

Mr. AWALT. Not by size of banks, I am sure.

Mr. FORT. I wonder if it would be too difficult to get for us some information as to the banks in the various capital classes, with some range—I do not mean each size, but the smaller banks and the banks of over half a million dollars, and the banks of over $5,000,000, as to their percentage of profit on invested capital?

Governor YOUNG. Doctor Goldenweiser informs me we have published that from time to time.

Mr. FORT. We would be glad if it could be put in the record.

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

(There was no objection, and the information referred to will be printed at the conclusion of Mr. Young's testimony.)

Mr. AWALT. The comptroller has some confidential information on earnings, I think, that he wants to lay before the committee in executive session some time, but I do not believe that he wants the information he has along that line to go into the public record.

Mr. FORT. The Federal reserve figures would show State banks as well as national banks, and they would be more useful than the comptroller's figures alone.

There has been a complete transformation in banking practice in the larger towns, has there not, Governor Young, in the last few years, with respect to the shift from loans on name paper to loans on secured paper?

Governor YOUNG. Yes; there has been a very large change in the assets of the banks.

Mr. FORT. And that shift necessarily requires the banker to be a man who has some understanding of securities and of their fundamental values, does it not?

Governor YOUNG. Yes, sir.

Mr. FORT. And in contrast to the old-fashioned banker, who could rely entirely on his Dun and Bradstreet and his judgment of character?

Governor YOUNG. That is correct.

Mr. FORT. That may furnish some sound reason, may it not, for larger institutions having a contact with the investment and securities phases of modern banking spreading out into the districts where that type of information is not so readily accessible?

Governor YOUNG. That is correct.

Mr. FORT. And also perhaps furnishes us some basis for branch banking. The better information that a large institution is able to get on securities and security values would be a possible reason in sound banking for the larger institution itself to exist.

Governor YOUNG. I believe that is an accurate statement. It is like all of those statements, however; there are some exceptions to it, Mr. Congressman.

The CHAIRMAN. Would you permit a question at that point?

Mr. FORT. Yes.

The CHAIRMAN. I was interested in the colloquy that has just taken place, and I ask you how much of that change from eligible paper to notes secured by investment securities was caused by the banks themselves, or has it been caused by a more intense development of investment banking and distribution of securities?

Governor YOUNG. I would say it is caused by more intensive development of the securities business.

The CHAIRMAN. In other words, industry has changed its method of financing itself from the old method of borrowing on its own notes to that of securing its financing through investment houses, which results in the issuance of securities, but which ultimately gets back into the banks?

Governor YOUNG. That is the way I see it, Mr. Congressman.

The CHAIRMAN. That, of course, then is a changed situation which confronts the operation of the Federal reserve system, is it not, in getting more investment securities into the system rather than

commercial paper and eligible paper that was issued as a direct result of settlements of trade transactions?

Governor YOUNG. When you say in the system, do you mean the members of the system?

The CHAIRMAN. Yes.

Governor YOUNG. That is correct.

Mr. WINGO. Mr. Fort, in connection with that underwriting question, may I ask a question?

Mr. FORT. Let me develop it and see if I do not cover it.

Governor Young, you have spoken also of the tremendous growth of the fiduciary powers and operations of banks. Is there any statement now in the record, or could one be put in, showing the amount of assets now in the control of the members of the Federal reserve system in their fiduciary capacity, apart from their own resources?

Governor YOUNG. I think that that can be furnished, Mr. Congressman, in so far as the national banks are concerned. I think we experienced some difficulty in securing that information from the State member banks.

Mr. FORT. And the State member banks, of course, constitute the old trust companies?

Governor YOUNG. They are the old trust companies.

Mr. FORT. And, therefore, there is far more of it likely to be in their hands than in the hands of the national banks?

Governor YOUNG. That is correct.

Mr. FORT. And you have no such figures for the State banks, or none that you feel are complete?

Governor YOUNG. They are not complete.

Mr. FORT. Will you put such as you have into the record, both with respect to National banks and State banks?

Governor YOUNG. I will be glad to.

Mr. Smead tells me there is very little in reference to State member banks that is of value.

Mr. FORT. Do you or do you not feel that that is something you should have complete information on in regard to your member banks?

Governor YOUNG. We thought so, Mr. Congressman, but, as you say, the old trust companies that have been in operation in this country for a great number of years did not accumulate these statistics as the national banks have accumulated them, because the national banks have been more recent in that connection, and that information has been asked for.

Mr. FORT. Would you not be able to get it if you put into effect a regulation of the Federal Reserve Board requiring it to be given?

Governor YOUNG. We made a very courteous request at one time that they give us that information, with such a reaction that we abandoned the idea of attempting to get it. There was a very strong complaint from many of the State member banks that they had already furnished us so much information and that the compilation of what we wanted would be so expensive to them that they asked us not to require it.

Mr. FORT. It seems to me, as a member of this committee, that it is one of the very vital things that we should know in considering this whole question of the aggregation of economic power in chain,

group, or branch banking, that we should get those figures somehow. If you can not get them, I think we ought to.

Governor YOUNG. Mr. Smead informs me that it would take weeks to get that information, even though there was a willingness on the part of the State member banks to furnish it.

Mr. FORT. If it is difficult for the Federal Reserve Board to get it, I assume that this committee, under its powers, can get it if it thinks it wants it from any bank, and perhaps they might be more willing to have it furnished to us by you in lump form than they would to furnish it in the shape of individual reports.

The reason I asked that question is that it has a bearing directly on this whole question of chain banking and of investment banking. The modern banker, certainly in the larger cities, is operating generally either directly or through affiliated organizations as a house of issue of investment securities and as a seller and purchaser of securities for his own account. He also is operating as a fiduciary charged with the duty of considering the investment of trust funds solely from the interest of the cestui que trust. In private enterprise there has grown up the class of house known as investment counsel, who advise as to investments, but who exercise no purchasing or selling functions in connection with them and make no profit whatever out of any dealings in securities, but simply advise.

Governor YOUNG. And charge a commission.

Mr. FORT. Charge a commission for advice based on principal or income. The trustee is compensated legally by a commission, either on principal or on income. It has seemed to me that the growth of the investment counsel idea was based upon the theory that human psychology was such that the man who did the advising as to the nature of the investment ought not to have any interest in or possible profit out of the making of the investment.

I wondered if you had given any thought as to the propriety of the exercise of fiduciary powers by banks, including the undisturbed right to sell or purchase securities for profit for their own account or that of an affiliate?

Governor YOUNG. Yes; I have given some thought to that.

Mr. FORT. What is your judgment on it?

Governor YOUNG. Well, the national bank law permits banks to buy bonds, permits banks to exercise fiduciary powers, and I am inclined to agree with you that human nature is the same one place as it is in another. It has prompted the development of these investment counsels, and what the future of those will be will depend, I expect, entirely upon what the public thinks about them.

That is not answering your question directly, and I do not want to be evasive, but could I answer in in this way: Is there any great harm, or have any great losses developed, through the set-up that we have in our banking systems to date, or is it too early to determine?

Mr. FORT. If you are asking me that question, I think I would answer "yes" both times.

Governor YOUNG. Well, that is information that I have not got, Mr. Congressman.

Mr. FORT. It all leads, however, to the general consideration—and I had wondered just how much consideration you had given to it and whether you had reached any final conclusion in your own mind—as to whether the psychology of men is such that it is wise to

mix the traditional functions of a banker, as a receiver of deposits and a lender of funds, with the function of the dealer in securities, particularly in a time when the great bulk of the investments and loans of the banks is based on securities.

Governor YOUNG. I am going to answer that, Mr. Congressman, by saying that I have given some thought to it, but not sufficient thought to it.

Mr. FORT. Do you not feel that perhaps it is one of the lines of thought to which this committee ought to direct its attention and to which perhaps the Federal Reserve Board ought to direct its attention in any revamping of our law, if we are going to revamp it at all?

Governor YOUNG. I think so, but, Mr. Congressman, we have to keep in mind all the time that the Federal reserve system is a very important credit structure in this country. Drastic legislation is liable to cripple that system. The competition of State banks and State laws and State trust companies has always been a hard one to overcome, and perhaps always will be. I think it is safe to say that much of our Federal legislation has been enacted in an attempt to meet that competition. In other words, there is always a liberalization of the national law.

Mr. FORT. Mr. Luce of this committee, described the situation very aptly, I thought, the other day, when he spoke of the finer and the baser systems of banking, using the State system with its greater freedom and flexibility, as the baser system, and speaking of the danger of the flow from the finer to the baser, which is somewhat, I think, what you have in mind. But, assuming that we had the power to control the major systems, at least the larger banks, through the Federal reserve, whether they be State or national, is it not wiser perhaps for us to consider legislation which is not necesssarily drastic at this time and place all banking upon a somewhat sounder basis than it would be perhaps to let ourselves five years from now be thrown into a situation where we might have to adopt some very drastic legislation?

Governor YOUNG. If that could be done, I should think it would be much better.

Mr. FORT. Do you favor the locking up of the stock control of a bank in voting trusts, as a matter of policy?

Governor YOUNG. I would rather see branch banking.

Mr. FORT. If you had a large branch banking system, would you favor a proviso by law that that stock could be put either in a voting trust or consolidated into a holding corporation, either one, or would you prefer legislation that would compel its being left free?

Governor YOUNG. I would prefer the legislation that it be left free.

Mr. FORT. That reaches right to the whole question of chain and group banking, does it not?

Governor YOUNG. Correct.

Mr. FORT. There is some power at present in the board, is there not, to control the number of banks of which a man can be a director?

Governor YOUNG. Under the Clayton Act; yes, sir.

Mr. FORT. But there is some discretion in the Federal Reserve Board to allow a man to be a director in more than one bank, is there not?

Governor YOUNG. In not more than three banks, any one of which has combined resources in excess of $5,000,000.

Mr. FORT. But as long as it is a large chain of small banks, there would be no interference with it under the present law, would there, and no supervisory power?

Governor YOUNG. It would not even be referred to the Federal Reserve Board. The law would permit them to serve.

Mr. FORT. One of the forms of legislation that we could use if we desired to control the chain and group banking would be further limitation of the right of a director to serve in more than one institution, would it not?

Governor YOUNG. That would be some control.

Mr. FORT. And a requirement that the majority of a board must be local men?

Governor YOUNG. That is a requirement under the national banking act now, is it not, Mr. Awalt?

Mr. AWALT. Yes.

Mr. FORT. Is that an absolute requirement?

Mr. AWALT. I am not sure. May I look it up for you?

Mr. FORT. While that is being looked up, I only have one or two other questions.

Mr. Wingo asked you some questions about the tendency to protect a larger bank from failure rather than a smaller. As I take it, it is not so much that the Federal Reserve Board would exert its powers in that direction as that other large banks would step into the situation and rescue the bank—is not that a fact?

Governor YOUNG. That is correct.

Mr. FORT. Where they would not feel the same obligation to protect a small one.

Mr. WINGO. If you will pardon me, that is what I really had in mind. I was not limiting it simply to his organization, but to the banking world generally.

Mr. FORT. There have been some notable illustrations of that in recent years, have there not? I do not want to go into names, but is not that a fact?

Governor YOUNG. I have been trying to think of the Northwest, the territory that I am familiar with, and I think every effort was exerted by the Federal reserve system and the Comptroller of the Currency and the State banking authorities and the larger banks in the large centers, including Chicago, New York, Minneapolis, St. Paul, to save every bank in the Northwest that possibly could be saved.

Mr. FORT. I am not disputing that; do not misunderstand me; I am not trying to argue that everything has not been done that could have been done, but it is a psychological fact, as I think you admitted, that a tremendous effort would be made, even at the chance of considerable loss, on the part of those cooperating, to protect any of the major banks of the country from failure in a time of stress?

Governor YOUNG. Yes; I think that that would be just human nature—not for that particular bank, but for the number of banks that may be involved.

Mr. FORT. That is what I was coming to. Is not that effort, where a bank has a large number of small correspondent banks, quite as

much in the interest of the small correspondent bank as it is in the interest of the major bank itself?

Governor YOUNG. More so.

Mr. FORT. So that where the banks and the Federal Reserve Board are making a particular effort to save a large structure, it is not solely for the benefit of the stockholders of the large structure, but it is for the preservation of all of the correspondent banks and all others having dealings with them?

Governor YOUNG. That is correct.

Mr. FORT. As well as the maintenance of public confidence. I just wanted to get that view of the matter into the record.

Mr. AWALT. I now have this information for you.

Section 5146 of the Revised Statutes, as amended by the act of February 25, 1927, known as the McFadden Act, provides in part that three-fourths of the directors of a national bank must be residents of the State in which the bank is located or within 50 miles of the location of the bank.

Mr. FORT. But there is nothing limiting them to the immediate locality of the bank, to the corporate limits?

Mr. AWALT. No; and that only applies to three-fourths of the directors.

Mr. WINGO. Three-fourths of them shall live either within the city or within 50 miles of it. There is a peculiar reason why that was put in there.

Mr. FORT. I think that is all. I am sorry to have taken so much of your time, Governor.

Governor YOUNG. Mr. Chairman, some reference was made to eligible paper. Anticipating that some inquiries might be made about it, I have had prepared some information in reference to eligible paper, which shows the total amount held by all member banks in the United States, subdivided into central reserve cities, reserve cities, and country banks, showing the percentage of their assets that is in eligible paper at the present moment. It further divides it by Federal reserve districts, and one Federal reserve district divides it by banks.

I do not know that that would be of any benefit to the committee?

Mr. FORT. I think it would be very good to have it in the record.

Let me ask one additional question on that subject.

Mr. WINGO (presiding). In the absence of objection, we will put that statement in the record right here.

(There was no objection, and the statement referred to is reproduced below.)

FEDERAL RESERVE BOARD,
March 17, 1930.

To Governor Young.
From Mr. Smead.

Mr. Wyatt gave me a copy of his memorandum to you to-day on "Questions which you will probably be asked during hearings on branch banking," and in this connection I am handing you herewith Table No. 79 taken from the galley proof of the board's 1929 annual report which shows the gross and net earnings and disposition made of net earnings of each Federal reserve bank and of all the banks combined, by years from 1914 to 1929. I have also compiled certain data relating to eligible paper held by member banks which you may find helpful in case this subject is brought up.

The following table shows, by classes of banks, the amount of eligible paper and of United States securities—net, i. e., after deduction of United States securities pledged to secure national bank notes outstanding; and the ratios of

eligible paper to total loans and of eligible paper plus United States securities—net to total loans and investments:

December 31, 1929

[In millions of dollars]

	All member banks	Central reserve city banks	Reserve city banks	Country banks
Eligible paper	4,397	1,310	1,403	1,684
United States securities—net	3,218	1,189	1,215	814
Total	7,615	2,499	2,618	2,498
Ratio of eligible paper to total loans (per cent)	17	16	15	19
Ratio of eligible paper plus United States securities—net, to total loans and investment (per cent)	21	24	22	19

We have also compiled the following table to show this information by Federal reserve districts:

[In millions of dollars]

Federal reserve district	Eligible paper	Government securities, net	Total	Ratio of eligible paper to total loans	Ratio of eligible paper plus United States securities, net, to total loans and investments
				Per cent	*Per cent*
Boston	252	172	424	13.2	16.6
New York	1,382	1,258	2,640	15.2	21.4
Philadelphia	271	138	409	14.6	15.2
Cleveland	272	327	599	11.3	17.3
Richmond	194	72	266	20.0	20.9
Atlanta	205	70	275	24.1	24.7
Chicago	621	321	942	16.5	19.1
St. Louis	202	82	284	21.1	21.3
Minneapolis	180	108	288	32.0	31.6
Kansas City	268	149	417	33.4	34.4
Dallas	235	85	320	32.9	34.2
San Francisco	315	435	750	14.0	23.5
Total	4,397	3,217	7,614	16.8	21.1

We have just completed the tabulation for one district—Richmond—of the data recently requested by the board as to the distribution of eligible paper among individual member banks. The figures for the Richmond district are as follows:

	Number of member banks	Eligible paper	Loans
Number eligible paper	25	----------	$18,000,000
Eligible paper equal to following percentage of total loans:			
Less than 5 per cent	31	$1,000,000	42,000,000
5 to 10 per cent	53	9,000,000	127,000,000
10 to 20 per cent	128	62,000,000	412,000,000
20 to 30 per cent	102	53,000,000	215,000,000
30 to 40 per cent	69	26,000,000	75,000,000
40 to 50 per cent	51	22,000,000	50,000,000
50 to 60 per cent	29	11,000,000	19,000,000
60 to 80 per cent	22	10,000,000	16,000,000
80 per cent and over	4	1,000,000	1,000,000
Total	514	194,000,000	974,000,000

Mr. FORT. Is there any view on the part of the Federal Reserve Board as to whether the growth of loans upon security in contradistinction to loans on name paper should be followed by any modification of the rules as to what constitutes eligible paper in the Federal reserve system?

Governor YOUNG. The board has made one recommendation to both the House and the Senate, and that is that debentures of the intermediate credit banks which we are now permitted to buy under the law be made eligible as collateral for 15-day notes, provided that they do not have a maturity to exceed six months.

Mr. FORT. That is the limit of the recommendation?

Governor YOUNG. That is the limit of the recommendation of the board.

Mr. FORT. There is no feeling on the part of the board that this condition which Mr. McFadden so clearly described, where corporations, instead of being borrowers, are financing themselves by the sale of securities and trusting to individuals to find that money by borrowing on the securities, justifies extending the eligible paper rules of the Federal reserve system so as to embrace collateral loans for rediscount?

Governor YOUNG. I can not answer for the board; I can answer for myself. These figures will show that the member banks of the United States now have $7,615,000,000 of eligible paper. That represents 17 per cent of the total investments.

I believe that the eligibility regulations are sufficiently broad at present. I think that the restrictions no doubt contributed in a large way toward enabling business to get money at a reasonable rate for the last two years. Eligible paper was preferred by the banks; they paid a premium for it by keeping the rate down.

I do not know how to illustrate it, but if that entire $7,615,000,000 were under rediscount at the Federal reserve banks, we would think that there was sufficient eligible paper in America.

Now, the time may come in the future when we will have to liberalize the eligibility requirements, but I do not think that time is here at the moment. If it does come, I am inclined to agree with Governor Harding, of the Federal Reserve Bank of Boston, who has had a great deal of experience in the operation of the Federal reserve system, that we should resort to the Lombard loan rather than pick out any particular kind of paper.

Mr. FORT. Just what is the Lombard loan?

Governor YOUNG. The foreign banks of issue have a straight collateral note where they loan on most any kind of collateral that is acceptable to them. That Lombard loan usually carries a higher rate than the prevailing rate for bills, but that would have to be approached very carefully in this country, in my opinion. If the Lombard loan were ever adopted, I think it should be used only in an emergency, and then only with the approval of the Federal Reserve Board.

Mr. WINGO. You may have covered this when I was not listening, but have you stated your personal views with reference to the branch banking proposal of the Comptroller of the Currency? Do you favor that proposal or not?

Governor YOUNG. I do. I think there should be a liberalization of the national banking law in reference to the establishment of branches.

Mr. WINGO. Would you make that extend to a particular area, or make it nation-wide or state-wide or a trade area?

Governor YOUNG. I have given a good deal of consideration to that. I have thought of it from the county-wide standpoint, and that does not permit proper diversification, in my opinion. I have considered it from the standpoint of state-wide, and there have been some difficulties with that. I have considered it from the standpoint of being district-wide, and that would work out very nicely in some districts, but in others it would not. I have considered it from the standpoint of being state-wide or district-wide, together with a radius of 100 miles, and there are some difficulties with that.

So I have come down to the same conclusions that the Comptroller of the Currency has, that a trade area is the proper thing at the moment. To describe a definite trade area is extremely difficult. If the Federal reserve act intended to have the Federal reserve system do it, I might say that they did it as well as they could with 12 regional banks, and we have since extended that by the establishment of 25 branches, and even that is not 100 per cent perfect.

Mr. WINGO. Would you have that trade area defined by legislative enactment, or by some administrative authority?

Governor YOUNG. Do you mean in the future?

Mr. WINGO. Yes. If we amended the law, liberalizing as you say the branch banking operations of national banks, would you have that legislative enactment define the trade areas which you say in your judgment are preferable, or would you leave the definition of a trade area and the division of the country into trade areas to an administrative authority?

Governor YOUNG. I would leave it to an administrative authority or authorities, because trade areas are changing continuously.

Mr. WINGO. You would make it flexible, then?

Governor YOUNG. I would.

Mr. WINGO. Mr. Seiberling is next.

Mr. SEIBERLING. I have not had a chance to read the governor's statement at all. I would very much prefer to question him tomorrow morning.

Mr. WINGO. Mr. Busby.

Mr. BUSBY. Not this morning.

Mr. WINGO. Is there any member of this committee that wishes to question Governor Young at this session, or do all of you prefer to wait until you have read this statement of his before you question him further? Our time is about up, anyway; we only have just about 12 minutes.

If there are no further questions, then we will adjourn until Friday morning.

Mrs. Pratt, I beg your pardon; did you have any questions you wanted to ask the governor this morning?

Mrs. PRATT. No; I would rather wait.

Mr. WINGO. I thought you had indicated that before.

Mr. SEIBERLING. I would like to have Mr. Young put into the record the branches of the Federal reserve banks and where they are located.

Mr. WINGO. Yes; that can be done.

(The information referred to will be printed at the conclusion of Mr. Young's testimony.)

Mr. WINGO. Then, Governor, I presume there will be some members of the committee Friday morning who will be prepared to question you further. Will that suit your convenience?

Governor YOUNG. At 10.30?

Mr. WINGO. At 10.30.

Governor YOUNG. Yes.

Mr. WINGO. In the absence of objection, we will now adjourn until 10.30 o'clock Friday morning to resume the questioning of Governor Young.

(Thereupon, at 12.45 o'clock p. m., the committee adjourned to meet at 10 o'clock a. m. on Friday, March 21, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

FRIDAY MARCH 21, 1930

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

The committee met in the committee room, Capitol, at 10.30 o'clock a. m., Hon. James G. Strong presiding.

Mr. STRONG. The committee will come to order.

I understand that Mr. Seiberling is ready to continue the examination of Governor Young. You will proceed, Mr. Seiberling.

STATEMENT OF HON. ROY A. YOUNG—Resumed

Mr. SEIBERLING. Mr. Young, you stated in the record that some of the information which you placed on the table is confidential. Will you tell us why this information is confidential?

Governor YOUNG. Mr. Congressman, when we furnished that information originally, we had listed many of these groups by name. That was information that was collected by the Federal reserve agents, and it was a question in our mind as to whether that should be a public document.

However, that same information has been introduced by the Comptroller of the Currency in the record, so that it is no longer confidential information, and therefore I think I am safe in saying that there would be nothing else that would be of a confidential nature.

Mr. SEIBERLING. My purpose in making that inquiry was that the record showed that the information put on the table here in open meeting was considered confidential, and unless some reason was given why it should be confidential it might be very misleading.

Governor YOUNG. Yes.

Mr. SEIBERLING. Now, under a branch bank plan with trade areas, the number of members of the Federal reserve system would decrease, would it not?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. That is, if a main branch bank took over a member bank and made it a branch, the branch would cease to be a member of the Federal reserve system, would it not?

Governor YOUNG. It would be a member.

Mr. SEIBERLING. It would be a member through the main bank—is that what you mean?

Governor YOUNG. Yes.

Mr. SEIBERLING. In other words, there is no point in having any bank in a group a member bank except the main bank?

Governor YOUNG. That is correct.

Mr. SEIBERLING. Because all the branches would have the facilities of the Federal reserve system through the main bank?

Governor YOUNG. That is right.

Mr. SEIBERLING. Now, in the great number of researches that you have made, as shown by your reports, you seem to have taken into consideration only the number, location, and assets of the various forms of banking organizations—is that correct?

Governor YOUNG. I think that covers the things we did take into consideration.

Mr. SEIBERLING. And from my reading of your report, I take it that the logical conclusion to be derived from your statistics would be that the Comptroller of the Currency was correct in his advocating of branch banking, instead of chain and group banking?

Governor YOUNG. Answering personally for myself and not for the board, I would say yes.

Mr. SEIBERLING. How many individuals out of our 120,000,000 people do you think are directly interested in banking as stockholders?

Governor YOUNG. I have not any idea.

Mr. SEIBERLING. Do you think there would be a million people interested in banks as stockholders?

Governor YOUNG. That would be an average of 40 stockholders per bank. I would say yes, that there are a million people interested in banks as stockholders.

Mr. SEIBERLING. The number of stockholders in the present progress or evolution of the banking system is constantly decreasing, is it not?

Governor YOUNG. If you eliminate the holding company, yes. If you include the holding company, I would say that they are increasing very rapidly.

Mr. SEIBERLING. That is more or less of an indirect interest, however, is it not?

Governor YOUNG. From a practical standpoint, it is a pretty direct interest.

Mr. SEIBERLING. If all the banks of the country were taken into chain, branch, or group organizations, you do not think the increase in stockholders would be as great as the decrease, do you?

Governor YOUNG. If you include the group and chain organizations, I would say that there would be an increase. I am guessing a good deal at this.

Mr. SEIBERLING. I am just asking you for your judgment.

Now, in the researches that you have made of branch, chain, and group banking, I do not find that you have made any researches as to which form of banking renders the best public service.

Governot YOUNG. I think that is what we will go into with our committee that we now have.

Mr. SEIBERLING. Do you not think that that would be the most important research that could be made and that it would bring forth the most valuable information on which this committee could base legislation?

Governor YOUNG. It would.

Mr. SEIBERLING. Since the estimate is that only one out of every 120 people in our country is interested in the financial side of bank-

ing, what would be the chief interest of the 119,000,000 people in reference to our banking system?

Governor YOUNG. They would have two interests; one as depositors and another as borrowers.

Mr. SEIBERLING. I wonder if we could agree on these fundamental principles: I have listed here, first, safety of deposit as the prime interest. Would you say that that was the prime interest?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. I have listed as second, availability of necessary funds for legitimate business at all times.

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. And, third, rate of interest paid by banks on deposits.

Governor YOUNG. I do not get just what you mean by that, Mr. Congressman.

Mr. SEIBERLING. I am speaking of the public interest of the 119,000,000 people who are not interested in the banks as stockholders.

Governor YOUNG. I see. I think as a rule that depositors are more interested in safety.

Mr. SEIBERLING. But I am putting this third. Safety I put first.

Governor YOUNG. That is a consideration on the part of the public, of course. Competition controls that a good deal, though.

Mr. SEIBERLING. I know, but do you not think that the public, that has invested in deposits fifty-eight billions of money, is interested in the rate of interest that it receives on those deposits—vitally interested?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. I have put as fourth the rates of interest charged for loans by banks. I am speaking now of public service.

Governor YOUNG. Yes, sir; I would include that.

Mr. SEIBERLING. Again having the public interest in mind, would you say that I had listed these in substantially the order of their importance?

Governor YOUNG. Yes; I will agree with that order.

Mr. SEIBERLING. Now, I have looked over your reports quite carefully, and I find that the word "interest," in its application to the rate paid on money, appears only once in all the material that you have furnished, and that is on page 46, where you quote from the report of the joint commission on agriculture, where the report says:

> Branch banking has lowered the rate of interest in some of the leading agricultural sections of California and at the same time provided an additional security for depositors.

I am assuming that the reason that you have not gone into that subject is because you have not yet made your research?

Governor YOUNG. That is correct.

Mr. SEIBERLING. When do you expect to complete that kind of a research?

Governor YOUNG. We have employed a man for not to exceed a year. It will take three or four months, at least, Mr. Congressman, unless the material that this committee gets can help us.

Mr. SEIBERLING. It is apparent that these agriculturists were quick to discover the reduction of the rate of interest on loans.

Governor YOUNG. Yes, sir.

Mr. STRONG. Will you ask him whether or not it will be desirable to give us the name of the gentleman that they have employed to make this investigation?

Mr. SEIBERLING. Yes; I will be very glad to.

Governor YOUNG. The board has authorized me to negotiate with a man by the name of John Riddle.

Mr. SEIBERLING. What is to be the scope of his research?

Governor YOUNG. Well, Mr. Congressman, I have not that before me. I can furnish that to the committee.

Mr. SEIBERLING. Is it to cover this other line of what kind of a banking organization renders the best service to the people?

Governor YOUNG. That will be covered. Everything we can think of will be covered.

Mr. STRONG. Do you not think it would be well to put into the record who Mr. Riddle is, and what his connections are?

Mr. SEIBERLING. You just ask him the question.

Mr. STRONG. No; you go right ahead.

Mr. SEIBERLING. Will you tell us who Mr. Riddle is, and what his connections are?

Governor YOUNG. May I have Doctor Parry answer that?

Mr. SEIBERLING. Surely.

Doctor PARRY. Mr. Riddle was formerly chief of the Division of Financial and Economic Research of the United States Treasury, and subsequently he served on the staff of the transfer committee of the reparations commissions in Berlin, and more recently has been connected with a financial house in New York.

Mr. WINGO. What financial house?

Mr. SEIBERLING. Yes; what financial house?

Doctor PARRY. I can not give you the name of that.

Mr. WINGO. Mr. Seiberling, have you ascertained the character of his work?

Mr. SEIBERLING. Can you find out what financial house he is with, and insert that information in the record?

Doctor PARRY. Yes.

Mr. SEIBERLING. And the character of work he has been doing.

Mr. STRONG. And all the connections he has had in the last 10 years.

Doctor PARRY. I can put that in the record.

Mr. SEIBERLING. Have you had anything to do with the employing of this man?

Doctor PARRY. I have been consulted.

Mr. SEIBERLING. Who has to do with the employing of that man?

Doctor PARRY. The board has a committee for the study of this subject, consisting of Mr. Goldenweiser and Mr. Smead of the board's staff, Mr. Rounds, of the Federal Reserve Bank of New York, Mr. Fleming, of the Federal Reserve Bank of Cleveland, and Mr. Clark, of the Federal Reserve Bank of San Francisco; and, by authorization of the board, this committee, under the chairmanship of Mr. Goldenweiser, has negotiated with Mr. Riddle. This committee has general charge of the direction of the investigation.

Mr. SEIBERLING. Have they employed Mr. Riddle?

Doctor PARRY. Yes.

Mr. SEIBERLING. You have had something to do with it, but you do not know what banking connections he had in New York?

Doctor PARRY. I have forgotten the name of the house.

Mr. SEIBERLING. Do you know, Mr. Goldenweiser?

Doctor GOLDENWEISER. I have forgotten the name of the firm for the moment.

Mr. SEIBERLING. Can you telephone and find out?

Doctor GOLDENWEISER. Yes.

Mr. SEIBERLING. I wish you would.

(The information called for with respect to Mr. Riddle appears later.)

Mr. SEIBERLING. Mr. Young, a business man or any other borrower would show poor management if he placed himself in a position where he had to dispose of the principal of his estate to pay interest, would he not?

Governor YOUNG. There might be circumstances that would force him to do that.

Mr. SEIBERLING. But he would be a poor business manager if he did that, would he not?

Governor YOUNG. It would weaken his position; yes.

Mr. SEIBERLING. Not many men do get themselves into that kind of a position.

Governor YOUNG. Maybe I misunderstood your question.

Mr. SEIBERLING. It was only a general question.

I will ask you another question. Interest is always paid, if possible, out of net earnings, wages, or sale of farm products. Would you say that that is a correct statement?

Governor YOUNG. I will have to ask you to repeat it again.

Mr. SEIBERLING. We will go into more detail. An industry pays its interest, if possible, out of net earnings, does it not?

Governor YOUNG. You mean on its borrowing?

Mr. SEIBERLING. Yes; interest is paid out of net earnings?

Governor YOUNG. Yes.

Mr. SEIBERLING. And industry does not expect to sell a part of its capital to pay interest, does it?

Governor YOUNG. Not as a rule.

Mr. SEIBERLING. And railroads do not do that?

Governor YOUNG. No, sir.

Mr. SEIBERLING. A laboring man who borrows money has to pay interest out of his earnings. He can not sell his home to pay interest, can he?

Governor YOUNG. That is correct.

Mr. SEIBERLING. And a farmer has to sell his product to pay the interest on the money he borrows?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. He can not sell his farm in order to pay the interest?

Governor YOUNG. No, sir.

Mr. SEIBERLING. Now, interest received on deposits and interest paid on borrowed money are therefore the chief factors of concern to the public at large that needs banking facilities, and the public at large is not interested in banking profits. Is that statement correct?

Governor YOUNG. Correct.

Mr. SEIBERLING. I believe you stated that the total deposits in the banks in this country are about fifty-eight billions?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. If a monopoly of banking could secure by such monopoly, an additional 1 per cent per annum upon the total deposits by the reduction of the rate of interest paid on deposits and by an increase in the rate of interest charged on borrowed money, such additional earnings, if that were possible, would amount to $580,000,000 per year, would they not?

Governor YOUNG. That is correct.

Mr. SEIBERLING. Do you think that if there were a monopoly of banking, and all banks were either in a chain or group or branch banking system with a great metropolitan institution and with billions of assets, that it would be possible to increase the earnings to the extent of 1 per cent per annum on deposits?

Governor YOUNG. It might be.

Mr. SEIBERLING. As a matter of fact, the Government securities are sold now and have been for two or three years past at approximately what rate of interest?

Governor YOUNG. I will have to correct this, but I think 3 was the minimum and 5⅛ the maximum over the last three years, i. e., 1927 to 1929, inclusive.

Mr. SEIBERLING. You may correct it; it is the fact that I am after, and I do not want you to put in something the record that is not correct.

The Government secures money at this low rate of interest, first on account of the nontaxability of its securities—is that one of the features?

Governor YOUNG. One of the features.

Mr. SEIBERLING. And another feature is because the money is apparently safe?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. Now, if we had a monopoly of the banking business and deposits backed up by the vast billions of the great metropolitan centers, then it would be an easy matter for the banks to reduce interest that they paid on deposits because of the safety of the depositor's money. Would not that be a good, logical argument?

Governor YOUNG. Not in competition with the many other forms of investment that there are in the country. Banks are compelled to follow the market to a certain degree, and if the banks are out of line with what other forms of investment offer, the depositor goes where he thinks he can get the best for his money.

Mr. SEIBERLING. Yes; Mr. Young, but do you not appreciate the fact that there are millions of people who deposit their money in the banks and who do not know how to buy a bond or a share of stock?

Governor YOUNG. There is a great number.

Mr. SEIBERLING. Millions of them.

Governor YOUNG. Well, they are being educated from day to day and from year to year.

Mr. SEIBERLING. They were educated last fall, a good many of them.

Governor YOUNG. I think they were educated during all the liberty loan campaigns into the purchase of securities.

Mr. SEIBERLING. Yes; but there is still a vast number of people in the class I have referred to?

Governor YOUNG. Yes.

Mr. SEIBERLING. And they have to take just what they can get from their deposits in the banks.

Governor YOUNG. Not from the complaints that I have heard from the banks at different times. I know that when the Government bond rate got above the bank rate, there was very serious complaint because depositors were investing in Government bonds.

Mr. SEIBERLING. I am talking about the monopoly of the banking business.

Governor YOUNG. Is not that an improbable thing? You do not expect that to develop, do you?

Mr. SEIBERLING. I think there are rapid strides in that direction.

Governor YOUNG. Will there not always be competition, even though these large groups do develop? There will be more than one of them and competition, in my opinion, will be just as keen as it is to-day, and maybe more so.

Mr. SEIBERLING. Well, now, if this 1 per cent could be made of additional earnings, that would pay 6 per cent dividends annually on $9,666,000,000 of banking capital, would it not?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. Do you know what the total banking capital of the country is to-day?

Governor YOUNG. Capital and surplus and undivided profits?

Mr. SEIBERLING. Just capital.

Governor YOUNG. Roughly, I would say, $5,000,000,000. It is usually 10 for 1.

Mr. SEIBERLING. A very small margin of additional profit on the deposits would therefore mean a tremendous thing as far as earnings are concerned, would it not?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. On page 59 of your report you speak of a dangerous situation developing in connection with investment companies acquiring bank stock. Would you care to explain to us what constitutes that dangerous condition?

Governor YOUNG. You will observe on page 59 that it quotes the Federal reserve agents, that the Federal reserve agents were of the opinion that a dangerous situation is developing which should be brought to the attention of the Federal Reserve Board and the banking authorities with the view that some legislation should be obtained placing such companies under the jurisdiction of the banking departments.

I can not speak for the agents, but I suspect that what they have in mind are holding companies.

Mr. SEIBERLING. Why are they dangerous?

Governor YOUNG. I think that the thought they had in mind was that they might be dangerous.

Mr. SEIBERLING. Why?

Governor YOUNG. Lack of supervision, first, and, second, some of the holding companies might not be financially strong and in event

of difficulty with the bank there would be difficulty in collecting the double assessment.

Mr. SEIBERLING. You do not think that the danger referred to was danger to the public at large by reason of the concentration of banking power and money?

Governor YOUNG. It may have been in their minds at that time.

Mr. SEIBERLING. That does not occur to you as being a danger, I take it?

Governor YOUNG. No, I do not think so, Mr. Congressman.

Mr. SEIBERLING. You have spoken about human nature two or three times in your testimony. Do you think from your knowledge of human nature that it is perfectly safe to permit banking to approach a State where there is a monopoly of the business?

Governor YOUNG. I do not think there is going to be a monopoly.

Mr. SEIBERLING. No; but we are going that way, are we not?

Goveror YOUNG. I do not think so, Mr. Congressman. If there is a monopoly in anything, and it becomes tremendously profitable, that just induces other people to go into it; that is all. I do not think this country is going to end up with one large bank or two large banks or three large banks; I think it will end up with a number of large groups and, furthermore, I think that the unit bank will continue.

Mr. SEIBERLING. I want to put into the record here a paragraph from an editorial in the Washington Post of March 20. The editorial is headed, "Biggest Bank in the World." It is in connection with the consolidation of the Chase National Bank, the Equitable Trust Co., and the Interstate Trust Co. I will read the last paragraph:

> If the merger movement continues a money monopoly ultimately may be created. The new Chase National will have 52 branch offices; National City has that many or more. As the consolidation movement proceeds, branch banking promises to play a more and more important part in the financial life of the nation. Somewhere a halt must be called.

What do you think the editor who wrote that editorial in the Washington Post had in mind in reference to that admonition?

Governor YOUNG. I think he had a fear of monopoly.

Mr. SEIBERLING. Do you know, as a matter of fact, that there is restricted competition now in large financial operations in New York that, as a matter of ethics, the bank that contacts with the customer first is to have a preference and that the other banks will lay off of that customer?

Governor YOUNG. No, sir; I do not.

Mr. SEIBERLING. You do not know that?

Governor YOUNG. No, sir. It has not been the ethics of banking.

Mr. SEIBERLING. That has been the ethics for 10 years in New York, as far as back as 1920, has it not?

Governor YOUNG. I never worked in New York City, so I do not know, Mr. Congressman. Banking business is solicited continuously, and the customer at any time is free to go where he wants to go.

Mr. SEIBERLING. That is true, but he can not get any accommodations. Let us assume that he is in financial difficulty and he takes up his matter with one group of banks in New York; do you mean to tell me that the other group will take up his situation until he gets through with the first one?

Governor YOUNG. I do not know, Mr. Congressman. There might be conditions when they would, and there might be other conditions when they would not. In my banking experience I have frequently had men come to me that were refused by my competitor and I did business with them, and I repeatedly refused customers where they did business with my competitor afterwards. That is a matter of judgment, as to whether you want to take the business or whether you do not.

Mr. SEIBERLING. Do you not know that there is very strong suspicion that sometimes a banking group will pay another banking group a consideration to lay off and to let them handle that situation?

Governor YOUNG. No, sir; I do not know that.

Mr. SEIBERLING. You do not believe that is so?

Governor YOUNG. I should not think so.

Mr. SEIBERLING. I want to ask you a few questions about the call money rate. Do you know who fixes the call money rate in New York from day to day, and how it is fixed?

Governor YOUNG. I have been informed that it has been fixed by the stock clearing committee—I think that is the name of it—in the Stock Exchange. They meet every morning at 10 o'clock, and information is furnished to them through banking and other sources as to the condition of the money market. I think it is fixed by three men, and it is announced, if I remember correctly, at 10.30, the renewal rate.

Mr. SEIBERLING. Who appoints the three men?

Governor YOUNG. One of them is the president of the New York Stock Exchange; the other is the president of the Stock Clearing Corporation, and the third man I do not know.

Mr. SEIBERLING. Then the fixing of the call money rate is purely a New York Stock Exchange proposition, is it?

Governor YOUNG. No, sir.

Mr. SEIBERLING. Who else is connected with it?

Governor YOUNG. If that rate is not near the market and not accurate, the banks are still permitted to go into the market themselves and make loans, and you frequently see the outside market quoted sometimes above the official rate and, more often, below the official rate. Competition fixes that rate.

Mr. SEIBERLING. If a bank needed money badly, they could pay more for money?

Governor YOUNG. The banks would be the lenders.

Mr. SEIBERLING. But sometimes a bank needs money, too?

Governor YOUNG. They go to the Federal to borrow.

Mr. SEIBERLING. I would like to get this call money situation straight, because I think the public is very much interested in it.

You say that the rate of call money is fixed every morning at 10 o'clock on the New York Stock Exchange by a committee of three men selected by the New York Stock Exchange?

Governor YOUNG. I think I am correct about that, Mr. Congressman.

Mr. SEIBERLING. Is there any question about it, Mr. Young? You certainly ought to know who fixes the call money rate.

Governor YOUNG. I know that those three men fix the call renewal rate, yes.

Mr. SEIBERLING. The renewal rate?

Governor YOUNG. The original rate in the morning. The rate is fixed at 10.30 in the morning, and is known as the renewal rate. Then the rate is fixed during the day at various intervals. That is fixed by those three men in the New York Stock Exchange.

Mr. SEIBERLING. How do they determine whether the rate shall be 5 per cent, 10 per cent, or 22 per cent, the high point it went to last year?

Governor YOUNG. Why, they take a number of factors into consideration, Mr. Congressman, in arriving at what the rate should be I regret that I am unable to give the details at the moment. I think that the stock exchange, however, has issued a pamphlet in reference to that explaining it in detail, and I will attempt to get it and furnish it for the record here.

(The information requested will be inserted at the conclusion of Governor Young's testimony.)

Mr. SEIBERLING. I understood you to say that the banks themselves had something to do with the fixing of that rate.

Governor YOUNG. If the banks are not satisfied with the call rate and they can do better in the outside market, of course, they lend their money that way. I am informed, however, that it has been the experience of the banks in New York that over a long period they get better returns by lending at the call-loan post.

Mr. SEIBERLING. The man who is lending the money would be interested in putting the call rate just as high as he could, would he not?

Governor YOUNG. In so far as return is concerned; yes.

Mr. SEIBERLING. And a bull on the market would want to keep the rate down, would he not?

Governor YOUNG. Yes.

Mr. SEIBERLING. And a bear would want to put it up?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. So that right in the heart of the New York Stock Exchange, where they have the bulls and the bears, this call money rate is fixed, is it not?

Governor YOUNG. Well, there are many other factors besides those two that you mentioned, Mr. Congressman. In fact, the bull and the bear have not very much to do with the call rate. They are the borrowers in the market; they are the customers.

Mr. SEIBERLING. Of course, there is no shortage of money, since we have the Federal reserve bank, is there, Mr. Young?

Governor YOUNG. There has been repeatedly a shortage of credit for certain forms of investment.

Mr. SEIBERLING. That is because the Federal Reserve Board issued an order to that effect. It was not because the Federal reserve system did not have ample money and resources?

Governor YOUNG. That is correct.

Mr. STRONG. Mr. Seiberling, will you develop for whom and in whose interest this board acts?

Mr. SEIBERLING. Yes. Going back to the call money board——

Mr. BEEDY. Would you mind, Mr. Seiberling, getting an answer to your question? I understood you to ask if the call money rate is

fixed in the heart of the New York Stock Exchange, where the bulls and bears operate?

Mr. SEIBERLING. Yes.

Mr. BEEDY. Would you like to have an answer to that?

Mr. SEIBERLING. Yes.

Governor YOUNG. It is fixed there. Many factors, however, outside of the stock exchange fix the rate.

Mr. BEEDY. What are they?

Mr. SEIBERLING. What are those factors? I understood you were going to give them to us.

Governor YOUNG. The demand for call money, the supply the banks have to lend, the gold movements in and out of the country, the currency requirements, the seasonal requirements, the business requirements, and many other factors have to be taken into consideration in connection with what that rate is going to be.

Mr. SEIBERLING. In whose interest is the rate fixed, the public interest or private interest?

Governor YOUNG. I would say it is a combination of both. It is fixed in the interest of the borrower and in the interest of the lender.

Mr. SEIBERLING. In New York?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. Is any consideration paid to the citizen who lives way out in the Middle West or the West?

Governor YOUNG. There was for the past two years, when that call rate in New York was disturbing the entire credit structure of the world. Every banker and every business man and everybody associated with the Federal reserve system were using everything they had at their command to attempt to give interest rates to business at a lower rate, and, in fact, that call rate did disturb the situation, and we know and everybody knows that the call rate did disturb the situation.

Mr. SEIBERLING. Then do you mean to say that these three men sitting in the New York Stock Exchange at 10 o'clock in the morning take action which disturbs the financial equilibrium of the world?

Governor YOUNG. No, sir; I did not say that.

Mr. SEIBERLING. That is the import I got from what you said.

Governor YOUNG. They fix the rate, Mr. Congressman, but conditions and many factors force them to fix the rate at a certain figure.

Mr. SEIBERLING. What the rate shall be each morning at 10 o'clock, considering these factors, is a matter of human judgment, is it not?

Governor Young. Somewhat, yes.

Mr. SEIBERLING. Might it not be possible that sometimes they would put the rate too high?

Governor YOUNG. Sometimes.

Mr. SEIBERLING. They might not know that the Federal reserve banks were willing to release a lot of credit and money, and put it too high?

Governor YOUNG. They might.

Mr. SEIBERLING. Do they have to cooperate closely with your board to know what you are going to do?

Governor YOUNG. No, sir; they do not. They can change their rate every half hour.

Mr. SEIBERLING. But if you released credit, then they have to put the rate down?

Governor YOUNG. Provided that there were no other counteracting forces.

Mr. SEIBERLING. Your rate, that you fix from day to day, has a lot to do with the call-money rate, does it not?

Governor YOUNG. I would not say so. The call rate is fixed every day, whereas discount rates are fixed only about once a month.

Mr. SEIBERLING. Does not the call-money rate go up and down as the Federal reserve rate goes up and down? Do they not practically parallel?

Governor YOUNG. Not always. Call rates were averaging around 10 per cent and in August of last year the New York bank raised its discount rate from 5 to 6 per cent and the call rate came down to an average of around 6 per cent—just the opposite direction.

Mr. SEIBERLING. What was the effect of this high call-money rate? It went to 22 per cent, did it not, at the highest point?

Governor YOUNG. I was going to say 25.

Mr. SEIBERLING. That means at the rate of 25 per cent per annum?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. Of course, no borrower could afford to pay such a rate as that very long, could he?

Governor YOUNG. I do not think he could.

Mr. SEIBERLING. What was the effect of that high call money rate on the circulating medium of this country?

Governor YOUNG. Bad.

Mr. SEIBERLING. To what extent do you think it affected the present industrial condition of the country?

Governor YOUNG. It was a contributing factor.

Mr. SEIBERLING. To what extent do you think it was a contributing factor?

Governor YOUNG. Well, it is hard, Mr. Congressman, to measure that.

Mr. SEIBERLING. Was it to a considerable extent a contributing factor?

Governor YOUNG. I think so.

Mr. SEIBERLING. Then we are driven to this conclusion, that three men sitting at 10 o'clock in the morning in the New York Stock Exchange can take action which affects to a material extent the industrial and business conditions of this country, are we not?

Governor YOUNG. No, sir. The work of those men, Mr. Congressman, is largely mechanical. For instance, to-morrow they could not put in a 25 per cent rate, they could not put in a 15 per cent rate or a 10 per cent rate; they could not put in a 5 per cent rate and make it stand, with the conditions we have in the country to-day.

Mr. SEIBERLING. No; because the Federal reserve bank is now liberalizing credits and is endeavoring to assist in the rehabilitation of the industrial situation of the country. That is correct, is it not?

Governor YOUNG. That is correct, and I think another factor is that the tremendous demand for speculative credit has subsided.

Mr. SEIBERLING. There had to be a limit to the height to which call money went in New York.

Governor YOUNG. There always is a limit to anything of an inflationary nature.

Mr. SEIBERLING. Suppose that the limit would have been 8 per cent, fixed by law. What effect would that have had on the situation?

Governor YOUNG. I do not know. The probabilities are, Mr. Congressman, that had there been an 8 per cent limit for call money this speculative hysteria would have extended much further than it did go, and the crash would have been that much more severe when the inevitable crash did come.

Mr. SEIBERLING. Is it not possible that you would not have had this big bull movement in New York if the rate had been limited to 8 per cent? You would not have had the money to operate with to start with.

Governor YOUNG. Well, I can not agree with you there.

Mr. SEIBERLING. Did not the call money rate bring millions of dollars into New York?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. And the higher they put the call money rate, the more millions came in?

Governor YOUNG. Yes.

Mr. SEIBERLING. And the more millions that came in, the higher they could put the stock market?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. If they had been limited to 8 per cent, they could not have gotten the money to speculate with.

Governor YOUNG. I think they could.

Mr. SEIBERLING. Where? From the Federal reserve bank?

Governor YOUNG. No, sir. I think you overlook the fact that the demand for that type of credit was far in excess of what the banks were willing to lend, and that is what attracted the nonlenders into that market.

Mr. SEIBERLING. This stock market collapse has been a very serious thing for this country, has it not?

Governor YOUNG. Very.

Mr. SEIBERLING. And if they had had this rate fixed by law so that they could not have had this great boom in the stock market, we would have been saved this disastrous condition?

Governor YOUNG. Yes. If the boom could have been stopped by such action.

Mr. SEIBERLING. If they could not have put the call-money rate up, they would not have had the money to operate with.

Governor YOUNG. I think they would have.

Mr. SEIBERLING. Where would they have gotten it?

Governor YOUNG. Eight per cent will attract a lot of money; 6 per cent will.

Mr. SEIBERLING Let us make the rate six. Suppose it had been put at 6 per cent?

Governor YOUNG. If you had done that, Mr. Congressman, it would not have had the restraining influence of a higher rate.

Mr. SEIBERLING. You remember, Mr. Young, that we started with the proposition that there had to be a limit somewhere, and the limit was 25 per cent. Now, if there has got to be a limit, why can we not have a lower rate just as well as a higher one?

Governor YOUNG. If I stated that that was the limit, I misstated it. I stated, I thought, that that was the highest point it had gone to as well as I could remember. Now, call rates have gone to 100 per cent.

Mr. SEIBERLING. And 150.

Governor YOUNG. Ten or 15 years ago.

Mr. SEIBERLING. In past panics, 150. As a matter of fact, it went to 1 per cent a day one time in New York, did it not?

Governor YOUNG. I do not know about that.

Mr. SEIBERLING. I think I can show you the authority for that.

Since there is no limit to which this committee can put call money, do you not think, in the interests of the country, Congress should put a limit on it?

Governor YOUNG. I am not going to agree with you, Mr. Congressman, that that committee has any such power to put that rate where they want to put it. They put it where conditions force them to put it.

Mr. SEIBERLING. It does not make any difference who is responsible for it; is it not in the interests of the country that there be a limit to the call money rate that can be fixed in New York?

Governor YOUNG. Well, that is a question that has been debated for years. I can not help but feel that those things control themselves eventually, Mr. Congressman.

Mr. SEIBERLING. They do not control themselves, Mr. Young, because you have stated here, if I remember correctly, that the Federal Reserve Board took a hand in this stock speculation and put the brakes on—is that correct?

Governor YOUNG. It attempted to.

Mr. SEIBERLING. Then they do not control themselves, do they?

Governor YOUNG. I think they eventually do control themselves.

Mr. SEIBERLING. Did you put the whole power of the Federal Reserve Board into this stock market situation, to stop this high, sky-rocketing of stocks?

Governor YOUNG. Not a drastic power into it, no. And for the purpose of controlling credit not the price of stocks.

Mr. SEIBERLING. No, because you could not put a drastic power into it, but you put such power on as you thought would be effective.

Governor YOUNG. We attempted that.

Mr. SEIBERLING. Then things do not take care of themselves after all, do they?

Governor YOUNG. They did.

Mr. SEIBERLING. After you put on the brakes.

Governor YOUNG. It was a long time after we put on the brakes.

Mr. SEIBERLING. You know, Mr. Young, that if you let things take care of themselves, it is a question whether we would not be better off than we are now, because it is a fact that if economic conditions are permitted to run their course, that may cause us less difficulty than putting on the brakes; but, since we are going to have brakes somewhere, should not the brakes be put on by Congress?

Governor YOUNG. I do not want to be evasive, Mr. Congressman, but in what way?

Mr. SEIBERLING. By limiting the rate they can charge on call money.

Governor YOUNG. Throughout the United States? That is debatable, Mr. Congressman, as to whether Congress should fix the maximum rate.

Mr. SEIBERLING. I can see that you have not made up your mind about that.

Governor YOUNG. Did you say that I have or have not?

Mr. SEIBERLING. That you have not. You think it is debatable; you have not arrived at any conclusion, I assume.

Governor YOUNG. That is correct.

Mr. SEIBERLING. You would not be for or against it?

Governor YOUNG. After I have studied it more, I would be one way or the other.

Mr. SEIBERLING. Do you not think that when fifty-eight billions of value has been swept out in this country in the stock market collapse, that people who have a hand in the responsibility should study the situation?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. When do you expect to make that study?

Governor YOUNG. From day to day.

Mr. SEIBERLING. I noticed this morning in the Federal Reserve Bulletin for March, on pages 99 and 100, a schedule of distribution of member-bank credit, exclusive of loans to banks, by classes of banks during 1929. Why do you exclude from that statement loans to banks?

Governor YOUNG. May I look at the statement?

I am going to answer that, and, Doctor Goldenweiser, correct me if I am not correct in my answer. Loans to banks may be on securities; they may be on agricultural paper; they may be on commercial paper; they may be on United States Government bonds; and they may be on municipal warrants or what not. We do not get the detailed classification of that, and therefore we exclude it.

Mr. SEIBERLING. You have the aggregate amount, do you not?

Governor YOUNG. We have, and, in addition, that is a duplication, Mr. Congressman. If it is reported in what the bank has loaned, and then reported the second time where the second bank lends to the first bank, that would be a duplication.

Mr. SEIBERLING. Have you a schedule showing how much money was loaned by the Federal reserve to member banks during the latter part of the year 1929, during this peak of stock market prices, and the subsequent collapse?

Governor YOUNG. Have I answered this other question correctly, Mr. Goldenweiser?

Mr. GOLDENWEISER. Yes; I think you have.

Governor YOUNG. Now, to your pending question, that would be in October, November, and December?

Mr. SEIBERLING. Could you give it to us by months during the year 1929?

Governor YOUNG. That is, on rediscounts?

Mr. SEIBERLING. Yes.

Governor YOUNG. I am going to say that in September, the rediscounts in the system——

Mr. SEIBERLING. Mr. Chairman, I hope I am not taking up too much time.

Mr. STRONG. That is what we are here for.

Mr. STEAGALL. You may have some of my time, if necessary.

Governor YOUNG. I have the figures right here.

September 4 the rediscounts in the system were $1,046,000,000. On September 25 they were $944,000,000. The average for the month of September was, I would say, about $960,000,000. The average in October was about $850,000,000; average in November about $950,000,000; average in December approximately $800,000,000.

Mr. SEIBERLING. You were pulling down your loans during those months?

Governor YOUNG. No; during that period we were buying bills very freely.

Mr. SEIBERLING. But you were pulling down your loans to member banks?

Governor YOUNG. No.

Mr. SEIBERLING. Does not the amount show that?

Governor YOUNG. The amount went down, but simultaneously we increased our bill portfolio from $183,000,000 to $392,000,000. We increased our Government bond holdings from $149,000,000 to $511,000,000.

Mr. SEIBERLING. Were you buying those bonds from banks?

Governor YOUNG. We bought them in the market. I assume that they were owned by banks or individuals, it does not make any difference. In other words, there was during that period a $500,000,000 increase in acceptances and securities. As we take on acceptances, and as we buy Government securities, that enables the banks to reduce the discounts, providing no other factors interfere, such as gold movements or currency requirements, and during this period there was the seasonal requirement that comes every fall, so that the reduction in discounts is not quite as large as the amount we took in in acceptances and Government bonds.

Mr. SEIBERLING. Well, the stocks were going upon the New York Stock Exchange. Were your loans increasing to member banks?

Governor Young. Over what period?

Mr. SEIBERLING. Do not give me the detail, because it takes too much room in the record. Let us take the year preceding October.

Governor YOUNG. The discounts on September 5, 1928, Mr. Congressman, were $1,080,000,000. On September 4, 1929, they were $1,046,000,000, practically the same. During the interim, of course, they went up and down, with seasonal requirements.

Mr. SEIBERLING. To what extent do you think that the contraction of credit by the Federal reserve put a brake on the speculation in New York?

Governor YOUNG. It was somewhat of a restraining influence, I think, Mr. Congressman. If I see the picture correctly of that entire period from 1927 to 1929, when we had an unusual speculative situation, that was just in the minds of the public and they insisted upon speculating and they did speculate, and restraining influences were very slow in operation, and whether those restraining influences were effective to a considerable degree or whether the public had changed its mind is a debatable question, but I am inclined to think that the public had changed its mind and that is why the speculation ceased.

Mr. SEIBERLING. You helped them to change their minds, did you not?

Governor YOUNG. We tried to.

Mr. SEIBERLING. I understand that you made an address down at the Willard yesterday.

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. A lawyer from my home town stated that you made the statement that the Federal Reserve Board was of material assistance in this crisis.

Governor YOUNG. I have not a copy of my talk here, but I made the statement that I thought the courageous manner in which the banks of the larger centers handled the situation between October 23 and October 30 was of tremendous assistance. I further made the statement that the system did use its powers, the discount rate and the bill rate and the open market operations, and direct action as restraining influences, and I did point out that under those conditions the main thing the Federal reserve system could do was to attempt to keep its own system in such shape that when the inevitable crash did come it would be in a position to function and function quickly.

Mr. SEIBERLING. Well, now——

Governor YOUNG. I tried, Mr. Congressman, to make a very modest statement in my talk yesterday, and I think that I did.

Mr. SEIBERLING. I merely asked this gentleman what you said, and he replied that you stated that the Federal reserve did a great deal to help the country in the crisis.

Doctor GOLDENWEISER. There is a complete text of it in the United States Daily.

Governor YOUNG. This is perhaps what he has reference to, and I think I give a little more credit to the member banks than I do to the Federal reserve system.

> Money rates were in fact advanced in all principal countries to the disadvantage of business throughout the world. This state of affairs was not only puzzling to the bankers of America, but caused them great concern. That they gave the matter careful study and laid definite and positive plans for handling the situation when it should break is clearly evidenced by the courageous manner in which the bankers did handle the situation, particularly in the larger centers, during that critical week of October 23 to October 30, and in my opinion if they had not acted as quickly and as courageously as they did, this country would have witnessed one of the greatest panics it had ever experienced.

There, Mr. Congressman, I was speaking about the member banks.

Mr. SEIBERLING. Mr. Young, that is very commendable, of course, but what I am trying to get at are the causes which created a situation where such heroic measures had to be taken.

Now, you will agree with me, I take it, that the Federal reserve bank, by releasing credit and by contracting it, can have a very marked effect upon commodity prices, business, and everything that has to do with the finances of the country. Am I correct about that?

Governor YOUNG. It has an influence, more as a contributing influence than a determining influence.

Mr. SEIBERLING. But as credits are released and money becomes cheap, bonds, preferred stocks, commodities and all things of that kind go up, do they not?

Governor YOUNG. The odd part of it is at the moment that commodities are going down with that program.

Mr. SEIBERLING. I notice that bonds and preferred stocks are going up.

Governor YOUNG. Yes; and that is the reason I hesitated. That is not always true. There may be other conditions and other factors that would present themselves.

Mr. SEIBERLING. But, in a general way, that is a correct economic statement, that as credits are released and money becomes cheaper, prices go up, and as credits are contracted and money becomes scarce, prices go down?

Governor YOUNG. That is debatable. A year ago easier money might have stimulated the stock market. To-day it does not stimulate the stock market; it has not so far.

Mr. SEIBERLING. Everybody is scared out of the stock market.

Governor YOUNG. I say that there are always other factors that you must take into consideration.

Mr. SEIBERLING. You have to give them time to coax them back in.

Governor YOUNG. I am not coaxing them back in.

Mr. SEIBERLING. I am not speaking of you personally, but, as the propaganda goes out, they will gradually get them back in again. Do you not believe that is so?

Governor YOUNG. I hope not.

Mr. SEIBERLING. I notice on page 99 that you speak of the condition of the money market and of the increase in total loans and investments of banks at the end of the year, that they were larger than on October 4. That was after the stock market crash?

Mr. BEEDY. You are referring to what document?

Mr. SEIBERLING. That is from the Federal Reserve Bulletin for March, 1930.

Governor YOUNG. That is in New York City, is it not, Doctor?

Doctor GOLDENWEISER. Yes.

Mr. SEIBERLING. The point I want to make is this: It is said here that this increase is attributable in part to loans taken over by these banks from nonbanking lenders in October and November, in part to temporary increases in loans occasioned by end-of-year developments, and in part also to investments made during the period of easy money after the stock market broke.

To what extent do you think that the New York banks were able to take advantage of easy money after the stock market broke and to buy stocks when they were cheap?

Governor YOUNG. I do not think the New York banks buy stocks. National banks certainly do not.

Mr. SEIBERLING. Their securities companies do, do they not?

Governor YOUNG. They may.

Mr. SEIBERLING. Do you not know?

Governor YOUNG. I do not think they buy stocks as a trading proposition.

Mr. SEIBERLING. Do they not have enormous investments in stocks and bonds and securities of all kinds?

Governor YOUNG. They have in bonds; yes.

Mr. SEIBERLING. And stocks, too?

Governor YOUNG. For trading purposes?

Mr. SEIBERLING. They buy them and carry them for trading purposes?

Governor YOUNG. All I know about that is what is public information, that a group of New York banks through their securities companies went into the market very heavily in October to prevent a calamity. That was closed out 30 days ago, I think.

Mr. SEIBERLING. They did not buy stocks at the high prices?

Governor YOUNG. No.

Mr. SEIBERLING. They bought them after the break?

Governor YOUNG. They bought them during the break, when they were on the way down. That was not done, in my opinion, Mr. Congressman, as a money-making program.

Mr. SEIBERLING. I have gotten off my line of questioning and I want to go back.

Now, as to this call money rate, do you know as a matter of fact whether the high call money rate affected the rate on all marginal accounts in the United States?

Governor YOUNG. It did not—you mean, affected them up to 25 per cent?

Mr. SEIBERLING. Not as high as that, but affected them, I say.

Governor YOUNG. It affected them all.

Mr. SEIBERLING. So that the average of these high call money rates was taken by the brokers and charged back to their customers all over the United States?

Governor YOUNG. That is correct.

Mr. SEIBERLING. I know that in many instances customers had to pay a higher rate of interest on their marginal accounts than the usury laws of the States in which they resided permitted, on account of the high money rate.

Governor YOUNG. That would be possible.

Mr. SEIBERLING. These contracts and purchases were made in the States in which they lived and yet this call money committee in New York can compel these people to pay a higher rate of interest than the laws of their States permit?

Governor YOUNG. You can not compel them.

Mr. SEIBERLING. You can make them sell out. They have either to pay it or sell their securities?

Governor YOUNG. That is correct.

Mr. SEIBERLING. That is considerable pressure on them, is it not?

Governor YOUNG. That is considerable pressure, but it did not work very well, as they apparently did not sell out. Mr. Congressman, in dealing with a broker I am not quite sure but that the contract is in the State of New York. Is it not?

Mr. SEIBERLING. I do not think it is. I think it is in the local office of the broker.

Governor YOUNG. I am under the other impression.

Mr. SEIBERLING. You may be right.

Governor YOUNG. I think that I am.

Mr. SEIBERLING. But it had the same effect, did it not, nevertheless?

Governor YOUNG. The same effect.

Mr. SEIBERLING. You probably know that New York has no usury laws as to call money, bank loans, and corporation loans.

Governor YOUNG. It has on time loans.

Mr. SEIBERLING. I am talking about not on call money; not on bank loans secured by collateral, stock exchange loans, or corporation loans.

Governor YOUNG. I do not remember the law, Mr. Congressman, but I think there is no limit on a demand collateral loan except when made by an individual and not below $5,000, but I am not sure about that.

Mr. SEIBERLING. Well, the fact there is no limit in New York has compelled Pennsylvania and Illinois to repeal their usury laws as to call money, so as to prevent withdrawal and transmission to New York of funds from Philadelphia, Pittsburgh, and Chicago.

Governor YOUNG. That is correct.

Mr. SEIBERLING. Now if it has done that with these three States, it will mean that eventually all other States with large centers will have to do that, will they not?

Governor YOUNG. I think so.

Mr. SEIBERLING. And you still think, in view of all that, that it is a good thing to let New York fix the call money rate at any rate they see fit?

Governor YOUNG. I do not agree with you.

Mr. SEIBERLING. Well, any limit in their judgment they think the situation warrants?

Governor YOUNG. I can not agree with you. All that committee in New York does is to fix that rate in a mechanical way in which many factors contribute as to what the rate is or what it shall be.

Mr. SEIBERLING. Did you ever look up the usury rates——

Mr. BEEDY. Will you pardon me?

Mr. SEIBERLING. Yes.

Mr. BEEDY. Will you frame your question—granted they take into consideration all these factors, do you still think that it is best for the country, as a whole, to permit these three men to perform arbitrarily what you term this mechanical duty or act?

Mr. SEIBERLING. I will adopt that.

Governor YOUNG. I will reply that it is the best that has been devised so far.

Mr. SEIBERLING. Did you ever look up the usury rates of the American Colonies?

Governor YOUNG. I never have.

Mr. SEIBERLING. I have here on page 27 of this work by Franklin W. Ryan, M. B. A., Ph. D., instructor in business reports, graduate school of business administration, Harvard University, the early usury laws in the American Colonies.

This reads as follows:

Connecticut: Date of statute, 1718; legal rate and maximum limit 6 per cent; penalty for usury, voidance of contract.

Delaware: Date of statute, 1759; legal rate and maximum limit 6 per cent; penalty for usury, forfeiture of whole debt.

Georgia: Date of Statute 1759; legal rate and maximum limit 8 per cent; penalty for usury, forfeiture of thrice the amount of the contract.

Maryland: Date of statute 1692; legal rate and maximum limit 6 per cent; penalty for usury, forfeiture of treble the principal.

Massachusetts: Date of statute, 1661; legal rate and maximum limit, 8 per cent; penalty for usury, voidance of contract.

Massachusetts: Date of statute, 1693; legal rate and maximum limit, 6 per cent.

New Hampshire: Date of statute, 1791; legal rate and maximum limit, 6 per cent; penalty for usury, forfeiture of three times the excess of interest.

New Jersey: Date of statute, 1738; legal rate and maximum limit, 7 per cent; penalty for usury, forfeiture of contract.

New York: Date of statute, 1717; legal rate and maximum limit, 6 per cent; penalty for usury, forfeiture of contract.

New York: Date of statute, 1718; legal rate and maximum limit, 8 per cent.

New York: Date of statute, 1737; legal rate and maximum limit, 7 per cent.

North Carolina: Date of statute, 1741; legal rate and maximum limit, 6 per cent; penalty for usury, voidance of contract and forfeiture of twice the amount of the contract.

Pennsylvania: Date of statute not known; legal rate and maximum limit, 8 per cent; penalty for usury, forfeiture of contract.

Pennsylvania: Date of statute, 1700; legal rate and maximum limit, 6 per cent.

Pennsylvania: Date of statute, 1705; legal rate and maximum limit, 8 per cent.

Pennsylvania: Date of statute, 1723; legal rate and maximum limit, 6 per cent.

Rhode Island: Date of statute, 1767; legal rate and maximum limit, 6 per cent; penalty for usury, forfeiture of the excess of interest.

South Carolina: Date of statute, 1719; legal rate and maximum limit, 10 per cent; penalty for usury, forfeiture of three times the principal.

South Carolina: Date of statute, 1748; legal rate and maximum limit, 8 per cent; penalty for usury, forfeiture of three times the principal.

South Carolina: Date of statute, 1777; legal rate and maximum limit, 7 per cent; penalty for usury, forfeiture of three times the principal.

Virginia: Date of statute, 1730; legal rate and maximum limit, 6 per cent; no penalty for usury.

Virginia: Date of statute, 1734; legal rate and maximum limit, 5 per cent; penalty for usury, none.

This schedule shows that the American Colonies' maximum rate permitted was 8 per cent, with the exception of South Carolina, that permitted 10 per cent from 1719 to 1748, and every single State, with the exception of Virginia, had a usury law with a penalty attached.

I now want to submit, if consent is given, and insert in the record, the schedule of the usury laws of all the States as of 1921, with the penalties attached, which appears on pages 28, 29, 30, and 31 of this work. These schedules read:

Alabama: Legal rate, 8 per cent; lawful limit, 8 per cent; penalty for usury, forfeiture of all interest and costs.

Alaska: Legal rate, 8 per cent; lawful limit, 12 per cent; penalty for usury, forfeiture of double the amount of usurious interest.

Arizona: Legal rate, 6 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of all interest.

Arkansas: Legal rate, 6 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of principal and interest. Negotiable paper tainted with usury is void in the hands of an innocent holder.

California: Legal rate, 7 per cent; lawful limit, 12 per cent; penalty for usury, forfeiture of three times the excess. Imprisonment and fine for evasions.

Colorado: Legal rate, 8 per cent; lawful limit, no limit; penalty for usury, no penalty.

Connecticut: Legal rate, 6 per cent; lawful limit, 12 per cent; penalty for usury, no action shall be brought to collect either principal or interest.

Delaware: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury, contract is vitiated, and anyone may sue usurer for amount equal to sum loaned.

District of Columbia: Legal rate, 6 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of all interest.

Florida: Legal rate, 8 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of all interest.

Georgia: Legal rate, 7 per cent; lawful limit, 8 per cent; penalty for usury, forfeiture of entire interest.

Idaho: Legal rate, 7 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of entire interest. Can recover excess only if paid. Forfeiture also of 10 per cent of principal to school fund.

Illinois: Legal rate, 5 per cent; lawful limit 7 per cent; penalty for usury, forfeiture of entire interest. Can not recover anything if paid.

Indiana: Legal rate, 6 per cent; lawful limit, 8 per cent; penalty for usury, forfeiture of excess interest over 6 per cent.

Iowa: Legal rate, 6 per cent; lawful limit, 8 per cent; penalty for usury, forfeiture of interest and costs.

Kansas: Legal rate, 6 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of double the amount of usurious interest.

Kentucky: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury, forfeiture of excess interest.

Louisiana: Legal rate, 5 per cent; lawful rate, 8 per cent; penalty for usury, forfeiture of interest.

Maine: Legal rate, 6 per cent; lawful limit, no limit; no penalty for usury.

Maryland: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury, forfeiture of excess interest.

Massachusetts: Legal rate, 6 per cent; lawful limit, none; penalty for usury, none, except on loans of less than $1,000.

Michigan: Legal rate, 5 per cent; lawful limit, 7 per cent; penalty for usury, forfeiture of all interest.

Minnesota: Legal rate, 6 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of all interest.

Mississippi: Legal rate, 6 per cent; lawful limit, 8 per cent; penalty for usury, forfeiture of all interest.

Missouri: Legal rate, 6 per cent; lawful limit, 8 per cent; penalty for usury, forfeiture of excess interest.

Montana: Legal rate, 8 per cent; lawful limit, 12 per cent; penalty for usury, forfeiture of twice the interest.

Nebraska: Legal rate, 7 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of all interest.

Nevada: Legal rate 7 per cent; no lawful limit; and no penalty for usury.

New Hampshire: Legal rate, 6 per cent; no lawful limit; no penalty for usury.

New Jersey: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury, forfeiture of interest and costs.

New Mexico: Legal rate, 6 per cent; lawful limit, 12 per cent; penalty for usury, forfeiture of double the interest if paid. Usury is also a misdemeanor punishable by a fine.

New York: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury, forfeiture of both principal and interest. Also misdemeanor. In case of banks, loss of interest only, or, if already paid, twice the amount. This does not apply to call loans upon which there is no legal limit for interest to be charged. Corporations can not plead usury.

North Carolina: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury, forfeiture of interest. Double the amount may be recovered if paid.

North Dakota: Legal rate, 6 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of all interest. Double the amount may be recovered if paid.

Ohio: Legal rate, 6 per cent; lawful limit, 8 per cent; penalty for usury, forfeiture of excess over 6 per cent.

Oklahoma: Legal rate, 6 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of twice the interest.

Oregon: Legal rate, 6 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of principal.

Pennsylvania: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury, forfeiture of excess interest.

Rhode Island: Legal rate, 6 per cent; lawful limit, 30 per cent; penalty for usury, loss of principal and interest. Also fine and misdemeanor.

South Carolina: Legal rate, 7 per cent; lawful limit, 8 per cent; penalty for usury, forfeiture of entire interest. Double the amount may be recovered if paid. Corporations can not plead usury.

South Dakota: Legal rate, 7 per cent; lawful limit, 12 per cent; penalty for usury, forfeiture of interest. Usury is a misdemeanor.

Tennessee: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury, forfeiture of excess interest. Usury is a misdemeanor.

Texas: Legal rate, 6 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of all interest. Double the amount may be recovered if paid.

Utah: Legal rate, 8 per cent; lawful limit, 12 per cent; penalty for usury, forfeiture of principal and interest. Also misdemeanor.

Vermont: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury forfeiture of excess interest.

Virginia: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury, forfeiture of all interest.

Washington: Legal rate, 6 per cent; lawful limit, 12 per cent; penalty for usury, forfeiture of amount of accrued interest, but, if interest be paid, then forfeiture of twice the amount.

West Virginia: Legal rate, 6 per cent; lawful limit, 6 per cent; penalty for usury, forfeiture of excess interest. Corporations can not plead usury.

Wisconsin: Legal rate, 6 per cent; lawful limit, 10 per cent; penalty for usury, forfeiture of all interest. Three times the excess may be recovered if paid.

Wyoming: Legal rate, 8 per cent; lawful limit, 12 per cent; penalty for usury, forfeiture of interest and costs.

By the way, the District of Columbia has a usury law, does it not, with a limit of 10 per cent?

Governor YOUNG. I am not familair with the District of Columbia law. I am informed that it is 8 per cent.

Mr. SEIBERLING. This is 1921. It has been reduced to 8 per cent?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. Congress has passed a usury law for the District of Columbia?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. And Congress has been very careful in authorizing loans of the Federal Farm Board and the Joint Stock Board, to fix the maximum rate at 6 per cent?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. And in the recent $500,000,000 appropriation, do you remember what the maximum rate was there?

Mr. WINGO. The Farm Board appropriation?

Mr. SEIBERLING. Yes. It was much less than 6 per cent; was it not?

Mr. BRAND. Not over 4 per cent.

Mr. SEIBERLING. Not over 4 per cent; so that this matter of interest to be charged the American people has been safeguarded by Congress in the loans it has authorized its agents to make on behalf of the Government?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. Now, just a few more questions: Do you not think we ought to have the Federal usury law so that private industries that need money—private business—in times of stringent money markets may have a limit in the amount of interest and other considerations that can be extracted from them for accommodations?

Governor YOUNG. Many States have put in laws of that kind. I believe the Federal reserve gives some protection to the business interests of the country; and that is evidenced by the business rates that prevailed during all this high call-money rate—8 and 10 per cent. Business rates did not get above 6 per cent, generally speaking.

Mr. SEIBERLING. Whenver a railroad company or private industry puts out securities at a discount and redeemable at a premium, that discount and that premium and the interest on it has to be earned by some one, does it not?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. And in the case of a great railroad system, where bonds are sold at a discount—and I understand an issue was sold some time ago at $200,000,000, one of the important systems of this country, out of which the railroad got 92½.

Mr. STRONG. At what rate?

Mr. SEIBERLING. Six per cent. A railroad system that was of absolute necessity to this country and yet they had to sell their 6 per cent bonds, amounting to a little over $200,000,000, at a discount of $15,000,000. That affects passenger and freight rates on that railroad system, does it not?

Governor YOUNG. Indirectly; yes.

Mr. SEIBERLING. And it affects the price of every commodity and every product that is shipped over that road to the consumer, does it not?

Governor YOUNG. Yes, sir. Rates are a contributing factor.

Mr. SEIBERLING. Of course, we all believe in reasonable and fair and proper compensation for every task rendered, but to the extent that these discounts and premiums are excessive, that puts an unnecessary burden on the people of the country—to the extent they are excessive?

Governor YOUNG. If they are excessive; yes.

Mr. SEIBERLING. In a private industry, where that happens, of course, the labor has to earn that discount and premium and the labor and consumer who buy the product together, have to pay that somewhere?

Governor YOUNG. Generally speaking; yes, sir.

Mr. SEIBERLING. So that when securities are issued, in the absence of a usury law, where a State has no usury law, a great financial center can impose, in times of stress, almost any terms they want on corporations that need money?

Governor YOUNG. I do not suppose they can impose punitive terms.

Mr. SEIBERLING. What is to prevent them from doing it?

Governor YOUNG. A man does not have to take it.

Mr. SEIBERLING. Suppose it is a great industry such as—well, I will say such as Armour & Co., who were in trouble in 1920, furnishing food supplies to the whole country: You could not let an industry like that go down; it would not be policy to let it go down?

Governor YOUNG. No.

Mr. SEIBERLING. And men of long reputation and great pride in their business, a profitable business for many years, would pay almost any price to save the industry, would they not?

Governor YOUNG. I think they would.

Mr. SEIBERLING. And where there is no usury law and no limit, the bankers can charge an excessive rate and, understanding human nature as you say you do, do you not think there should be a limit?

Governor YOUNG. Well, is there not a limit in practically every State?

Mr. SEIBERLING. Not in New York?

Governor YOUNG. No.

Mr. SEIBERLING. But these bonds and securities are all taken to New York and executed there to make them a New York contract?

Governor YOUNG. Yes, sir; but you are citing specific cases with which I am not familiar, Mr. Congressman. Why a solvent railroad whose securities are perfectly good should pay more for underwriting its bonds than competition would prompt them to pay or anything that is punitive, I can not see.

I would like to take the other side of it just for a moment. You ask about the limit on interest rates. You have a limit with the land banks and with the intermediate credit banks. There was a time in 1928 and 1929 when it was extremely difficult, if not impossible, for the intermediate credit banks to sell their debentures in the markets of America or elsewhere to enable them to lend at the limit which was fixed by Congress, with the result that the intermediate credit banks came to the Federal reserve banks in 1928 and again in 1929. We bought their debentures—those that we were permitted to buy under the law with six months maturity. Now, the market is entirely changed, and they do not have any difficulty in floating them and do not owe the Federal Reserve banks anything at all.

Mr. SEIBERLING. You do not need usury laws now, but you need them when there is a stringent money market, when people need protection.

Do you mean to say that there would be competition in New York for a $200,000,000 loan?

Governor YOUNG. I should think so.

Mr. SEIBERLING. Not very much?

Governor YOUNG. I think there would be plenty of houses anxious to handle a $200,000,000 loan if it was a good one.

Mr. SEIBERLING. Do you think there are more than three houses in the United States that would undertake to handle a $200,000,000 loan?

Governor YOUNG. By grouping others with them. Yes.

Mr. SEIBERLING. I am not asking that. You think there are more than two or three houses that would undertake a loan of that size?

Governor YOUNG. Yes.

Mr. SEIBERLING. Now, I have just one more question, and this is rather hypothetical. I have several more questions. I have a telegram I want to ask you something about.

Assuming that a large corporation with many thousand stockholders needed financing in a stringent money market and a reorganization was necessary, the financial difficulty being caused entirely by the depreciation of raw materials and reasonable commitments for raw materials for which the management was in nowise to blame, having only supplied themselves with such materials as were necessary and they had to have money and the best terms at which they could get it—the actual amount of money furnished; the actual cash being furnished by underwriters—was $24,300,000, and they made a profit or had the opportunity of making a profit on the securities issued, including the peak of the price for the stock that was given as a bonus for making the loan—they had an opportunity for making a profit exceeding $41,350,000 in the last 10 years, besides getting substantially 9 per cent on their money. Would you think that that was a proper kind of transaction to be permitted under the laws of this country?

Governor YOUNG. Is that quite fair, Mr. Congressman, to put that kind of question up to me when I do not know all the details of it or anything?

Mr. SEIBERLING. I have given you the details.

Governor YOUNG. Well, I can not answer that, Mr. Congressman.

Mr. SEIBERLING. You do not think that we should have a law to prevent such refinancing as that?

Governor YOUNG. Was there a great deal of risk with that?

Mr. SEIBERLING. All of the securities have been paid off and redeemed in six years.

Governor YOUNG. It could not have looked very attractive at the time or somebody else would have taken it.

Mr. SEIBERLING. I am talking about a stringent money market now.

Governor YOUNG. Well, even under those conditions.

Mr. SEIBERLING. You think under any stringent money conditions of the country any group of financiers should be able to drive a bargain like that?

Governor YOUNG. Supposing the stringency had continued: What would their profit have been?

Mr. SEIBERLING. You can not have a continuing stringency in the country with the Federal reserve bank, can you?

Governor YOUNG. You did have quite a period. Suppose it had continued for a year longer?

Mr. SEIBERLING. It did continue for a year longer.

Governor YOUNG. Suppose it continued for two years longer?

Mr. SEIBERLING. Well, it is not reasonable to suppose a thing like that, is it? Past history does not justify such an assumption?

Governor YOUNG. I know in 1927 everybody thouught it could not last much longer then, but it did last for two years longer.

Mr. SEIBERLING. As I understand it, you think that people who put through a reorganization like that should be trusted by the people of the country as a whole and that no restrictions should be enacted by law to prevent such a thing as that?

Governor YOUNG. I think that competition will put a restriction on that, Mr. Congressman.

Mr. SEIBERLING. Now, I have a telegram here in reference to liberalizing the kind of paper which can be rediscounted in the Federal reserve. Banks over in Ohio seem to think that they are not getting the service out of the Federal reserve bank they are entitled to because of the limited paper that can be rediscounted.

Now, do you think that municipal bonds, for instance—paper secured by municipal bonds—should be permitted to be rediscounted in the Federal reserve bank provided such municipal bonds should be approved by the——

Governor YOUNG. At the present time?

Mr. SEIBERLING. Yes.

Governor YOUNG. I should say not. The law does permit us to buy warrants of political subdivisions that have maturities not exceeding six months and are issued in anticipation of revenue. We can go that far now. I think in the entire history of the Federal reserve system, covering 16 years, we have not had, at any time, to exceed a million dollars of those.

Mr. GOLDENWEISER. Yes, Governor, in the early years we had more.

Governor YOUNG. I will say in the last 10 years we never had over $500,000 under rediscount at any one time.

Mr. SEIBERLING. You know the Government permits municipal bonds to be deposited as protection to postal savings deposits?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. And yet you do not think paper with municipal bonds as collateral should be rediscountable at the Federal reserve bank?

Governor YOUNG. I stated the other day, Mr. Congressman, my views on eligible paper. There is held by the member banks at the present time, including Government bonds, approximately $7,600,000,000 in eligible paper. I think that is sufficient to take care of anything that would develop in the country. If, at some future date, there is to be a liberalization of paper that would be eligible for rediscount at the Federal reserve bank, I would prefer to see the Lombard loans permitted and not pick out any particular class of paper.

In addition to that, we have made a recommendation to both the House and the Senate that the debentures of the intermediate credit banks with maturity not to exceed six months, which we are now permitted to buy in open-market operations, be made eligible for a 15-day collateral note. That is the only recommendation of the board.

Mr. SEIBERLING. You have not recommend what you call Lombard loans?

Governor YOUNG. No; I do not think it is necessary at the moment.

Mr. SEIBERLING. Of course, you could not have legislation passed when the emergency arises. You must have it before that time.

Governor YOUNG. If the Lombard loan is permitted, I would only permit it to be used in an emergency and only then with the approval of the reserve board.

Mr. SEIBERLING. I thank you, Governor Young, and members of the committee for indulging me. I appreciate I am a new member and have taken more time than I should. I apologize for that.

Governor YOUNG. I have a few things that I should like to report on, if I may; some information that I was asked to get day before yesterday.

Mr. SEIBERLING. Will you tell us something about Mr. Riddle?

Mr. GOLDENWEISER. Mr. Riddle was a graduate of the University of Davis and Elkins in West Virginia and then did three years graduate work in Princeton. After that he did two years in colleges—Dartmouth and Davis and Elkins— and then was employed by the New York Reserve Bank for two years and after that he was with the United States Treasury for four years organizing a division on statistical research for the Treasury.

After that he went to Berlin with Mr. Parker Gilbert as a member of the economic staff in connection with the Agent-General of Reparations and he came back about a year ago and became connected with the Guardian Investors Corporation in May of 1929 and remained with them until just now.

Governor YOUNG. There were six requests made of me Wednesday. I want to report on those.

First. Digest of State laws relative to the powers of banks to invest in stocks.

This is being prepared in the counsel's office but it will take some time to get that out.

Second. Statistics relative to earnings of banks grouped according to size of banks.

That is being prepared but not ready to-day.

Mr. FORT. May I interject there, Governor?

Governor YOUNG. Yes.

Mr. FORT. That is being prepared on the basis of percentage to invested capital? That includes capital, surplus, and undivided profits?

Governor YOUNG. Yes.

Third. Statistics as to trust business in national banks.

That is being compiled. That is not ready to-day but will be ready shortly.

Fourth. Statistics as to trust business of State banks and trust companies.

As stated the other day it was almost impossible to get that information. We have tried to get it and have been unable to get it.

Fifth. Location of Federal reserve banks and branches.

I have that report ready to put into the record. In addition to that I am filing this little map [exhibiting] that gives all the reserve banks and branches and the territory assigned to each one. If the members of the committee would be interested in that, I can furnish additional copies.

Mr. STRONG. If satisfactory to the committee, I would suggest that when the data is finally prepared, the data be inserted at this point.

Mr. WINGO. I understand it will require some time to prepare that. You would not want to hold up the record for that?

(The information referred to is as follows:)

LIST OF FEDERAL RESERVE BANKS AND BRANCHES

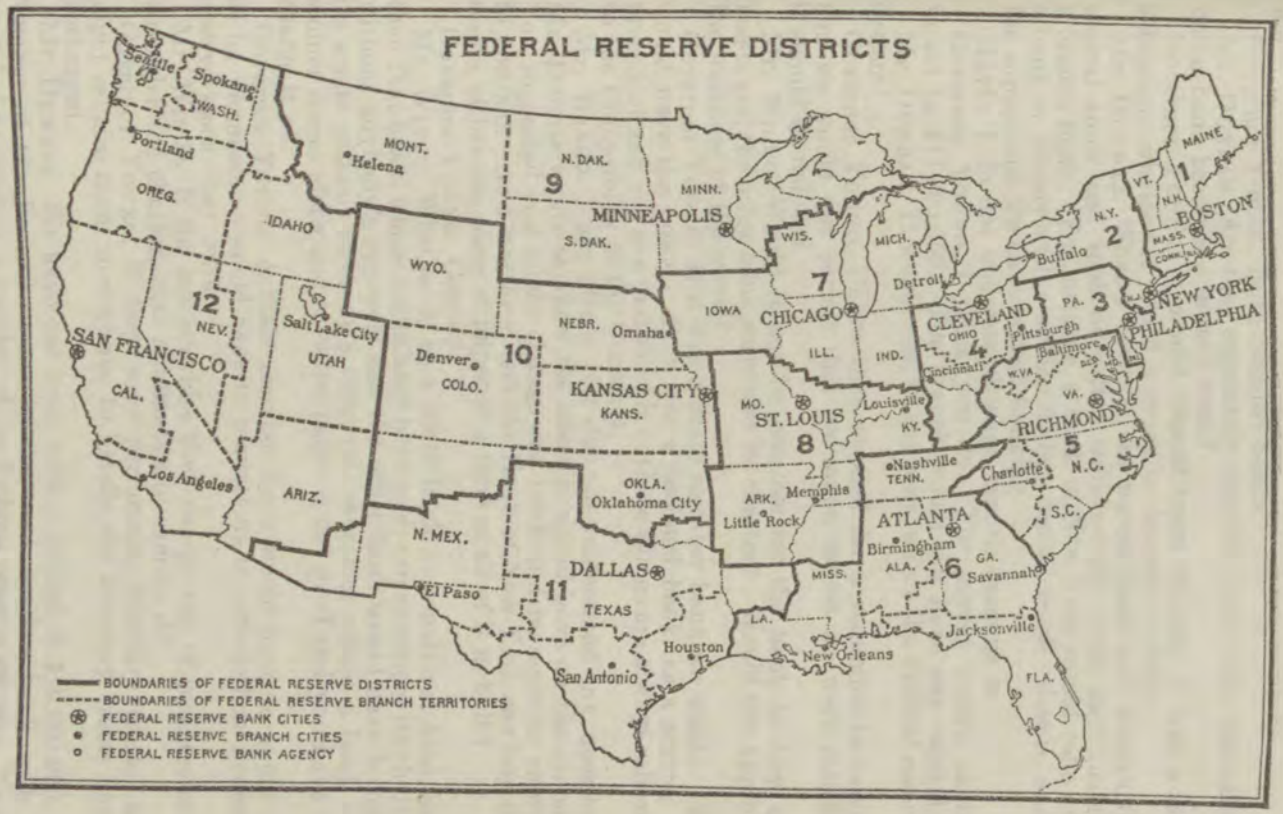
Boston: No branches.
New York: Buffalo.
Philadelphia: No branches.
Cleveland: Cincinnati, Pittsburgh.
Richmond: Baltimore, Charlotte.
Atlanta: New Orleans, Jacksonville, Birmingham, Nashville.
Chicago: Detroit.
St. Louis: Louisville, Memphis, Little Rock.
Minneapolis: Helena.
Kansas City: Omaha, Denver, Oklahoma City.
Dallas: El Paso, Houston, San Antonio.
San Francisco: Los Angeles, Portland, Salt Lake City, Seattle, Spokane.

The CLERK. We will make the proper reference to it when it is submitted.

Mr. STRONG. Then, that will be satisfactory.

The ACTING CHAIRMAN (Mr. Strong in the chair). Mr. Dunbar, have you any questions to ask?

Mr. DUNBAR. Mr. Young, a bank with a capital stock of $10,000,000, a member of the Federal reserve system, takes over a bank with a million dollars capital, a member of the Federal reserve system, and that bank which had a million dollars capital continues to enjoy the benefits of the Federal reserve system through its parent bank,



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having $10,000,000 capital, which took it over. That is true, is it not?

Governor YOUNG. Both member banks?

Mr. DUNBAR. Are they separately member banks after the million dollar bank becomes a branch bank?

Governor YOUNG. It would depend upon whether it was a consolidation, whether it joined a group or became a chain.

Mr. DUNBAR. What I mean is the parent bank had $10,000,000 capital stock and took over this million-dollar bank and made it a branch bank. For instance, a bank in New York would take over a bank in Albany with a million dollars capital stock—that is, under the supposition we have branch banking.

Maybe I do not understand what branch banking is.

Governor YOUNG. I think you do. The parent bank's capital would be $11,000,000. The branch would not have any capital.

Mr. DUNBAR. It would not, in any way, affect the Federal reserve system?

Governor YOUNG. Unless they applied for a reduction in capital and we would not permit that reduction unless we were satisfied it should be reduced.

Mr. WINGO. Would it not be possible for the bank to buy the assets and the other bank surrender its charter? Would you approve the purchase of the assets?

Governor YOUNG. If it was a State member bank we would. We would have the power. If it was a national bank, as a matter of precedent and not as a matter of law, those things are always referred to the Comptroller of the Currency.

Mr. WINGO. I am afraid you did not understand my question. Mr. Dunbar wants to know the effect it would have on the system. You suggested you might change one bank and increase its capital $1,000,000. As a matter of fact the Bank of New York can buy the assets, either one piece of paper at a time or all of it in bulk?

Governor YOUNG. Correct.

Mr. WINGO. Whether it be a State bank or a national bank and then that bank, whose assets have been sold, can surrender its charter without anybody's approval and the other bank would have bought its assets without anybody's approval, save and except a bank examiner comes along and says the paper is not good and you have to charge it off.

Governor YOUNG. A State member bank would have to apply to us for permission—would have to request us to cancel their Federal reserve stock they own.

Mr. WINGO. If the law provides they can go out of business and surrender the charter, that automatically cancels it?

Governor YOUNG. If they were performing fiduciary trusts, we might require them to continue to handle the fiduciary trusts until discharged.

Mr. DUNBAR. We have one bank with a capital of $10,000,000, a member of the Federal reserve system and another bank with a capital of $1,000,000, a member of the Federal reserve system. Now, the bank with the capital of $10,000,000 buys this bank with a capital of $1,000,000 and makes it a branch of the $10,000,000 bank. Before the purchase you had two members of the Federal reserve

system. Now you only have one member of the Federal reserve system?

Governor YOUNG. Yes; that is correct.

Mr. DUNBAR. Now, then, how will the Federal reserve system be affected by just having one member instead of two?

Governor YOUNG. In the reserves that they are required to carry with us or in the stock that they hold in the Federal reserve or in what influence they might exercise in electing directors of the bank?

Mr. DUNBAR. Well, you have the Federal reserve system——

Governor YOUNG. It would have no effect upon the stock holdings or reserves they carry unless the second bank happened to be in a smaller community and then if they were taken over by a larger bank, they would have to carry a larger reserve than before.

Mr. DUNBAR. Would you consider it detrimental for a branch bank to be established under those circumstances?

Governor YOUNG. It would be detrimental.

Mr. DUNBAR. Would not affect it one way or the other?

Governor YOUNG. No, sir.

Mr. DUNBAR. The Federal reserve system now has about one-half of its members belonging to branch, chain, and group banks. Now, are very many national banks going out of existence?

Governor YOUNG. I have not the figures, but I think the Comptroller of the Currency left those figures here the other day. National banks have lost in the last two or three years.

Mr. DUNBAR. Very largely?

Governor YOUNG. Yes, sir.

Mr. DUNBAR. Now, national banks are going out of the national bank system because they claim under the State charters they have very much more liberal courses of action? That is true, is it not?

Governor YOUNG. Yes.

Mr. DUNBAR. Now, what is there that we can do for national banks that would keep them in the national bank system by liberalizing their business methods?

Governor YOUNG. I think——

Mr. DUNBAR. First, do you consider it desirable that national banks be continued in the system?

Governor YOUNG. Very.

Mr. DUNBAR. What could we do then to continue them in the system?

Governor YOUNG. I did not read all of the comptroller's testimony before this committee, but I think that was one of his strongest arguments for an extension of branch banking.

Mr. DUNBAR. All the national banks, I think, have a currency circulating privilege under bonds which are redeemable in 1932. Is that correct?

Governor YOUNG. 1930.

Mr. DUNBAR. 1930?

Governor YOUNG. I think those bonds are all due now. It is discretionary with the Secretary of the Treasury as to whether he takes up the bonds or not.

Mr. DUNBAR. Those bonds are 2 per cent?

Governor YOUNG. Nothing but 2 per cent now carry the circulation privilege. The 4 per cent bonds were retired.

Mr. DUNBAR. The Government gives the difference between 2 per cent and 3½ or 4 per cent in the amount of interest paid by reason of the national banks being paid but 2 per cent on those bonds on which they base their circulation?

Governor YOUNG. Yes, sir.

Mr. DUNBAR. You consider it very desirable that national banks continue in the system. Would it be economic and just for the Federal Government to pay them more money on the bonds which are used to redeem their circulation?

Governor YOUNG. I think it is still profitable, Mr. Congressman, for banks to buy the 2 per cent bonds and issue circulation against them even where they pay a premium of 2 points.

Mr. DUNBAR. Then, if it is still profitable for them to do that, why do they leave the system?

Governor YOUNG. The profit is so small that it does not amount to very much.

Mr. DUNBAR. Do you believe one way to keep the national banks in the system would be to pay them part of the interest money saved by reason of their receiving but 2 per cent interest, whereas the Government pays from 3½ to 4¼ per cent interest.

Governor YOUNG. Then you are further extending the national bank currency that has clearly demonstrated that it is not an elastic currency such as a Federal reserve note. I do not believe that would be good.

Mr. DUNBAR. Well, then, you do not believe that the national banks confer any great benefit upon the banking system or currency system?

Governor YOUNG. No, sir.

Mr. DUNBAR. That is your idea?

Governor YOUNG. That is right.

Mr. DUNBAR. The Federal Government benefits by the 2 per cent interest they receive on bonds which national banks buy to secure their currency. What suggestions have you to make that would be more favorable to the operation of national banks, so they could be kept in the Federal reserve system?

Governor YOUNG. That is the hardest question I have had so far, Mr. Congressman.

Mr. DUNBAR. Then, it is a subject for future consideration?

Governor YOUNG. It is. It is very hard to do anything for the national banks that you should not do for the State member banks. There is a very strong feeling throughout the country now that the member banks of the Federal reserve system should be paid a greater return on their stock holdings other than the 6 per cent they now get. I, myself, believe that that dividend should be increased. Of course, if you do that for national banks, obviously you would have to do it for the State member banks too.

The ACTING CHAIRMAN (Mr. Strong in the chair). Had we not better adjourn for the roll call?

Mr. DUNBAR. Very well, I can take up my questioning when we meet again.

The ACTING CHAIRMAN. Then, if there is no objection, we will adjourn until Tuesday, at 10.30.

(Whereupon, at 12.25 o'clock, p. m., the committee adjourned to meet at 10 o'clock a. m., on Tuesday, March 25, 1930.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

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

MARCH 25 AND 26, 1930

VOLUME 1

Part 5

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1930

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, MARCH 25, 1930

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

The committee met in the committee room, Capitol at 10.35 o'clock, p. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order.

STATEMENT OF GOVERNOR ROY A. YOUNG—Resumed

The CHAIRMAN. Mr. Dunbar, I believe you had not finished with your questions.

Mr. DUNBAR. Governor Young, when we adjourned the other day, we were talking about what inducements could be offered to national banks so that they would remain within the Federal reserve system. You stated that that was a very hard question to answer.

Now, the Federal reserve system is becoming to be controlled by State banks and other institutions rather than the national banking system—is that so? Has there not been a very great number of national banks withdrawn from the Federal reserve system by reason of the forming of coalitions or absorptions of other banks operating under State control?

Governor YOUNG. That is correct.

Mr. DUNBAR. How much do you believe that the Federal reserve system should be under the control of the Federal Government by reason of the affiliation with it of national banks rather than the affiliation with it of State banks?

Governor YOUNG. Can I point out, Mr. Congressman, that a Federal reserve bank, because of the nature of its directors, or the way its directors are appointed, theoretically takes the actual control away from the banking interests? The banks elect three directors that may be stockholders of banks. They elect three other directors that represent business, that are not officers or directors of banks, although they may be stockholders. The Federal Reserve Board appoints three directors, two of which represent commerce and industry and can not be directors, stockholders, or officers of any bank; so that, theoretically, the control of every Federal reserve bank is in the hands of business rather than the banking interests.

Now, in addition to that, the Federal Reserve Board is appointed from various districts of the United States. No two members, except the ex officio members, can come from the same district. They are appointed to represent the industry of the country and, as I stated the other day, the powers of the Federal Reserve Board, if they elect

to exercise them, are very far reaching, in so far as the operation and policies of the reserve banks are concerned; so that I think I am safe in saying that the possibility of State banks gaining control of the reserve banks is very, very remote.

Mr. DUNBAR. Even though most of our national banks would become State banks and withdraw from the national banking system?

Governor YOUNG. No; I can not go that far.

Mr. DUNBAR. Is not that the present tendency; is not the present tendency in that direction?

Governor YOUNG. It is.

Mr. DUNBAR. Is it not very much so?

Governor YOUNG. The national system has lost a great deal in the last two or three years.

Mr. DUNBAR. Does the Chase National Bank in New York remain in the Federal reserve system?

Governor YOUNG. I am informed they are going to continue under a national charter.

Mr. DUNBAR. Then, according to your judgment, am I right in presuming that if national banks would largely withdraw from the Federal Reserve System, that the Federal Reserve bank could operate and function with practically the same degree of efficiency and economic requirements?

Governor YOUNG. Under war conditions, I would say it would be very advantageous to have a large representation of the banking strength of the country in national banks.

Mr. DUNBAR. You spoke the other day about national banks withdrawing from the Federal Reserve System by virtue of State charters being more advantageous to them than operating under the national banking system, and the subject was also discussed as to what we can do to make national banks remain in the system. Nothing can be done, as I understand it, that will not be applicable to State banks.

Now, have you any plan or do you think any readjustment is possible where greater inducement can be offered to banks that remain in the Federal reserve system and of those which remain out of the system by reason of the present inducement, so we could draw a number back and probably cause the greater number of our national banks to remain in the system?

Governor YOUNG. I think that additional inducemement could be offered to member banks, but, obviously, in so far as the Federal reserve system is concerned, anything that would be done for a national bank it would be necessary to do the same thing for the State member banks. There is quite a feeling in the country at the moment that the members of the Federal reserve system are entitled to a larger return than the 6 per cent that they receive upon their stock investment in Federal reserve banks. I am inclined to agree with that view. Different proposals have been made.

I would not want to commit myself at the moment, but I lean very strongly toward increasing the dividends that are paid member banks.

One other suggestion has been made that would require a great deal of thought and further investigation, and there might be legal complications that would prevent it from being put into operation—but the suggestion has been made that it would be for the best in-

terests of the country if all banks in the United States were required to carry a portion of their reserve in the Federal reserve system, regardless of whether they are members or not.

Mr. DUNBAR. Is there any way possible by which the Federal Government could require that?

Governor YOUNG. That is a legal question, Mr. Congressman, that I am not prepared to say yes or no on at this moment.

Mr. DUNBAR. Each State exercises its sovereignty over the State banks, so that any Federal laws can not extent to them and that seems to be the weakness, in my opinion, of the present banking system of the Federal Government.

Governor YOUNG. Well, of course, the Federal Government abolished the wild cat currency that existed, by a tax. Whether that is applicable to checks or interstate transactions I am not prepared to say.

Mr. DUNBAR. You would not like to give us your views on that point? I think you entertained the thought that such a thing is impossible. Have you any other suggestion to make as to how the Federal reserve system could be made so attractive that State banks, as well as national banks, would become members of the Federal reserve system?

I think you believe that if all belonged to the Federal reserve system, much of our troubles and difficulties would disappear.

Governor YOUNG. No; I can not say that, Mr. Congressman. Membership in the Federal reserve system is not a guarantee of bank deposits.

Mr. DUNBAR. Is not a guarantee of banking deposits?

Governor YOUNG. Yes.

Mr. DUNBAR. What I mean is the system has the bulk of the deposits.

Governor YOUNG. I did not understand that, Mr. Congressman.

Mr. DUNBAR. You stated bank deposits were essential for the transaction of the banking business of all banks. We all recognize that. What is there in the Federal reserve system that would cause the depositors in those banks to get away from the Federal reserve banks?

Governor YOUNG. They can. A national bank can convert into a State bank and withdraw from membership. A member State bank can get out of the system on six months' notice.

Mr. DUNBAR. Pardon me, I suspect I misunderstood you. I thought you had reference to individual deposits in the banks which are members of the Federal reserve system?

Governor YOUNG. That is correct. We can not guarantee those deposits.

Mr. DUNBAR. No; you can not guaranty those deposits. They are the result of the natural volition of the people, and I do not see how the Federal reserve system can increase or decrease the deposits in any particular bank except in so far as people found it advantageous to do busines with that bank.

Governor YOUNG. That is correct.

Mr. DUNBAR. A great many banks believe the Federal reserve system should pay an interest on daily deposits, the same as other banks do. What is your opinion with respect to that?

Governor YOUNG. I would be opposed to that. If that policy were adopted, there would be great pressure upon the reserve banks and the Federal reserve system, to earn good returns for their members. The reserve system was not intended as a money-making system. The Federal reserve system simply took the reserves held by individual banks, and thus concentrated them in one general gold reserve, which was the basis of the note issue and credit extension for seasonal requirements and other emergencies.

If the reserve banks under certain conditions were required to earn a return that would enable them to pay any rate of interest on deposits, it would so upset the entire credit structure of the country that the effects would be felt in all parts of the country.

Mr. DUNBAR. What are the daily deposits of member banks in the Federal reserve system?

Governor YOUNG. Approximately $2,300,000,000. That varies from day to day and according to seasons approximately $100,000,000 variation.

Mr. DUNBAR. The returns to the Federal Government last year were around $3,000,000?

Governor YOUNG. A little higher than that, I think. You mean the franchise tax?

Mr. DUNBAR. Yes.

Governor YOUNG. $4,283,000.

Mr. DUNBAR. $4,283,000?

Governor YOUNG. Yes, sir.

Mr. DUNBAR. Did that approximately represent all the profits of the Federal reserve system?

Governor YOUNG. No, sir.

Mr. DUNBAR. What were the profits of the reserve system?

Governor YOUNG. Last year the dividends paid aggregated nine million five hundred and eighty-three thousand and odd dollars.

Mr. DUNBAR. That was 6 per cent?

Governor YOUNG. Yes, sir. Transferred to surplus, $22,535,000; franchise tax paid to the United States Government, four million two hundred and eighty-three thousand and odd dollars. That is a total net earning of $36,402,000?

Mr. DUNBAR. If all that were paid for interest on daily deposits of $2,300,000,000 in the Federal reserve system, it would amount to about 1⅓ per cent; so that if you paid all of it for interest to the depositors, it would not leave you any profit?

Governor YOUNG. It would not leave any profit, and 1929 was the highest year from the standpoint of earnings since 1921.

Mr. DUNBAR. That year you paid a Federal Reserve tax of $60,000,000?

Governor YOUNG. In 1920 we paid a franchise tax of $60,724,000.

Mr. DUNBAR. Would it not be very advisable, if some system could be conceived whereby interest on balances would be paid to the depositors of the Federal reserve system? I think it would make the system more popular than anything that could possibly be done, and if it could be made more popular you would have more money and you would retain your national banks as members of the system.

Now, you say the Federal reserve bank is not run for profits. That is true, but it is necessary that the profits be such that they

can maintain themselves and I believe they could maintain themselves by making the terms more attractive in order to retain the national banks and the State banks, and that this, to a considerable extent, would solve the problem of branch banking, group banking, and chain banking?

Governor YOUNG. I will agree with you, Mr. Congressman, except as to the procedure. I should regret very much to see legislation enacted that would compel the reserve banks to pay a fixed amount of interest on deposit accounts.

I would, however, be agreeable to any equitable plan that would permit more of the profits of the reserve system to be distributed to the member banks, if earned. But I would not put the obligation on the Federal reserve system of earning 1 per cent on deposit accounts, one-half of 1 per cent on deposit accounts, or any other amount.

Mr. BRAND. Will you yield to me for a question?

Mr. DUNBAR. Certainly.

Mr. BRAND. Referring to your answer, Governor, about the Federal reserve system, you say the Federal reserve system is not a money-making system. I want to call your attention to the fact that from 1914 to 1926 the gross earnings were $678,999.660. The total expenses in this time were $257,144,956. The net earnings for the 12 Federal reserve banks during that time, from 1914 to 1926, were $421,854,704. Do you not think that was a pretty good money-making institution?

Governor YOUNG. Very.

Mr. BRAND. With very good net earnings?

Governor YOUNG. Yes, sir.

Mr. BRAND. Therefore, would you not say it was a money-making institution?

Governor YOUNG. Yes, sir.

Mr. BRAND. You spent nearly 25 per cent of that $678,000,000 on expenses and yet you got nearly $422,000,000 net profits?

Governor YOUNG. Correct.

Mr. BRAND. Then, it is a money-making machine?

Governor YOUNG. Yes, sir; it has been making money.

Mr. DUNBAR. You do not expect the Federal reserve system in the future, as now operated, to make anything like that money?

Governor YOUNG. It might or might not, but I would regret very much if a policy were ever adopted by the Federal reserve system which would be based upon earnings and not with the view of accommodating commerce and industry as the law now requires it.

Mr. DUNBAR. I agree with you. I am not in favor of any legislation that would compel you to pay interest on deposits. But I wish you could voluntarily work out a plan to do this.

You may not believe it to be right, but I believe if the Federal Reserve Board could work out some plan whereby it would pay interest on daily deposits, it would be the most popular thing to do and would result in advantage in your operations.

Governor YOUNG. Mr. Congressman, would it accomplish the same results if it was paid in dividends on stock?

Mr. DUNBAR. I do not know.

Governor YOUNG. Or if the earnings were paid above a certain amount on the capital investment they had in the Federal Reserve banks and the reserves they carry in the banks?

Mr. DUNBAR. People like to receive a return for every specific act and although some other plan might be devised which, in the aggregate, would pay more money, yet their return on single investments seems to impress them more than the aggregate on the whole proposition, which would bring them more. Everywhere I go I find complaints because the Federal reserve system does not pay an interest on daily deposits.

Governor YOUNG. I can say, Mr. Congressman, that that question has been referred to the Federal advisory council; has been referred to a conference of the governors of the Federal reserve banks; has been referred to a conference of Federal reserve agents, and I think that they are practically unanimous—not quite unanimous—in believing that the time has arrived when the member banks are entitled to a larger return on their stock investment in the Federal reserve system.

Mr. DUNBAR. In your opinion that will make the system more popular and will materially assist you in retaining banks in the system which are now going out?

Governor YOUNG. I believe so.

Mr. DUNBAR. The Massachusetts decision, and I believe the decision of the Supreme Court of New York, interfered very largely with the successful operation of the McFadden Act, did it not?

Governor YOUNG. In reference to fiduciary powers?

Mr. DUNBAR. Yes.

Governor YOUNG. Yes, sir; that is correct.

Mr. DUNBAR. Is there any way the national bank act might be amended, so as to permit national banks to exercise those powers?

Governor YOUNG. I do not think so. But if I may have the privilege of asking our counsel if he has any suggestions along those lines, I should like to do so.

Mr. DUNBAR. That is satisfactory to me.

Mr. WYATT. I think the act could be amended so as to compel the States to treat national banks exactly as they treat State institutions in respect to that question. The case referred to did not deny the right of national banks to exercise fiduciary powers, but dealth simply with the question of whether a consolidated bank resulting from the consolidation of a national bank with a State trust company, succeeded automatically to the executorships and trusteeships under which the trust company was acting, under wills, prior to the consolidation, and the court held that where the State law did not permit such a succession, the McFadden Act should not be construed as requiring it.

In so holding, however, they called attention to the fact that the McFadden Act was very careful to say that these consolidations should not be in contravention of State or local law and the court did not pass upon the question of whether Congress could pass an act requiring that result in contravention of State law. That was left open.

I feel certain, however, that Congress could pass a law compelling State courts to treat national banks exactly as they treat State banks in reference to recognizing a consolidated institution as a successor to the constituent institutions; in other words, Congress could provide that if, under State law, a consolidated institution, resulting from the consolidation of two State constituent institutions is recog-

nized as the same person and may be permitted to continue to execute the trusts held by the constituent institutions, such States shall permit a consolidated institution consisting of a national bank and a State institution, to do the same thing. I think that would be sustained by the courts.

Mr. DUNBAR. Were these decisions by State courts?

Mr. WYATT. The decision was of the Supreme Court of Massachusetts, which was affirmed by the Supreme Court of the United States, but on different grounds.

Mr. DUNBAR. You believe it would be advisable to work out a plan whereby a national bank and a State bank consolidates, and the consolidation does not continue as a member of the Federal reserve system, by reason of these decisions—do you believe that some plan might be worked out whereby that consolidated institution would be permitted to exercise all the powers that the State banks exercised and still be retained as a member of the Federal reserve system?

Mr. WYATT. I did not quite catch the question. I thought you said, in the first place, where they did not stay in the system.

Mr. DUNBAR. I will restate the question. Here is bank No. 1 in Massachusetts, a national bank, and it consolidates with bank No. 2, which is not a national bank, but by reason of the exercise of executorships by bank No. 2 and other business in the nature of trusts, they are not permitted to remain a national bank. That was true; was it not?

Mr. WYATT. No, sir.

Mr. DUNBAR. Well, what is the truth?

Mr. WYATT. The situation is this, that a State trust company, which was acting as an executor under a will, was consolidated with a national bank under the charter of the national bank, so that the consolidated institution was a national bank and remained a member of the Federal reserve system, necessarily. This consolidated national bank then attempted to file with the court, a final accounting as trustee or executor—I forget which—in the case in which the State bank had been appointed, and the court held that they could not recognize that national bank as the executor because it was not the executor named in the will and appointed by the court, but that it was a different institution, a different corporation and a different person: so, they said, the court would have to appoint another trustee or another administrator.

Now, the practical effect is this; that where you have got a big trust company, operating under the State law, and a national bank, and the directors of the two institutions decide to consolidate, the question always comes up whether the consolidated institution shall be a national bank or a State bank and, on account of that decision, they very frequently think it is safer to consolidate under State charters so that there will be no question of their right to continue the trust business under the consolidated State institution. Frequently the State banks have more trust business than the national banks, because they have been exercising that function longer.

Mr. STEVENSON. Did not the court hold that the national bank could, by application to the local probate court or whatever court handles probate matters, be appointed in place of the other?

Mr. WYATT. They suggested that it could be appointed, but there was nothing to control the action of the probate court.

Mr. STEVENSON. But it was eligible to be appointed, if they applied?

Mr. WYATT. Yes, sir.

Mr. WINGO. The decision specifically said so.

Mr. WYATT. In a great many States they have considered it safe to go ahead and take the national charter because they know the probate courts will appoint the consolidated national bank or administrator, except in cases where there are wills which have been executed, but where the testator has not died, they are afraid in some States, that unless they can get a codicil or new will appointing the new institution, there may be some difficulty about having the new institution recognized under that will.

Mr. STEVENSON. If a man appointed a State institution executor and, before he died, that institution was consolidated and became a national institution, the question is whether the national institution can succeed to the right which was provided in that will?

Mr. WYATT. Yes, sir.

Mr. DUNBAR. What suggestion have you to offer in the way of Federal legislation that would make it easier for a bank, under those circumstances, to remain in the Federal reserve system?

Mr. WYATT. They can all remain in the Federal reserve system. They usually do, even where they take the State charter. A State bank can be a member of the Federal reserve system.

Mr. DUNBAR. This bank in Massachusetts did not remain in the system?

Mr. WYATT. Yes, sir; as a matter of fact, it remained a national bank. The effect of the decision was to discourage other national banks from taking out the national charter instead of State charters when they consolidate with State trust companies.

Mr. DUNBAR. Have you any suggestion to make in reference to legislation that might be recommended by the Committee on Banking and Currency that would make it more attractive for banks to remain as members of the Federal reserve system?

Mr. WYATT. I think clearly the suggestion Governor Young made would be very helpful, and there is another recommendation which the Federal Reserve Board has made which I think would be helpful in a way, and that is a recommendation that the board be permitted to waive the cost of examining State member banks. At the present time the law requires the expenses to be assessed against the State member banks and they also have to pay for the examinations made by the State authorities and that is not very attractive to them.

The Federal Reserve Board has recommended, in its last two annual reports, that it be permitted to waive those costs.

Mr. DUNBAR. That is more irritating than it is a question of great expense?

Mr. WYATT. Nevertheless, the banks take serious exception to it.

Mr. DUNBAR. I know they do. That is the reason I would favor doing not only that, but granting the reserve banks interest on their deposits even though it might be only 1 per cent. I believe if the Federal reserve system would work out such a plan, it would remove a very irritating condition of mind among the banks who are members.

We spoke the other day, Governor Young—and I will not take up very much more time—or some members of the committee did—

about your being able or it being advisable to restrict the interest on call loans on the New York Stock Exchange, which went as high as 24 or 25 per cent, and it was thought by my friend on my left that if they could be restricted to 8 per cent, it would result in the welfare of the country during hours of disturbance.

But now, would that have restricted or helped in any way to have prevented the panic which we had last October? If banks were required by the board that controls the Federal reserve rates, to loan money at 8 per cent, they absolutely would not have loaned it, would they? They would not have had it to loan at those figures?

For instance, money was sent in from the interior to New York. One of the banks in my part of the State sent in $100,000. They would not have sent it in at 8 per cent?

Governor YOUNG. What price did they send it in for?

Mr. DUNBAR. I do not know.

Governor YOUNG. Eight per cent is a very attractive rate.

Mr. DUNBAR. It is an attractive rate.

Governor YOUNG. And when you stop to consider that the banks throughout the United States maintain rates to business at 6 per cent and they have the option of placing their surplus funds in United States Government bonds, and bankers' acceptances at not to exceed 5½ per cent for the bankers' acceptances or commercial paper at 6 per cent or possible 6¼ per cent, there would have been a strong desire to go to the New York call market at 8 per cent.

Mr. DUNBAR. Do you believe that the fixing of the maximum rate at 8 per cent by the three members of the stock exchange that fix the rates for call loans, could be made effective?

Governor YOUNG. I think there has been a great deal of misunderstanding about the three members who fix the call rates. People seem to be under the impression they arbitrarily fix those rates.

Mr. DUNBAR. You explained the other day they do not.

Governor YOUNG. They can not do that. If they fix the rate at 10 o'clock in the morning and it is not right, they have to change it during the day. It depends upon the funds that come in and the amount of money that is short in the market.

Now, the highest call rates, properly should have a restraining influence on the borrower. In 1927, 1928, and 1929, they did not seem to have a restraining influence. There is no specific evidence of it. But ordinarily, that rate would have a very restraining influence. Under the conditions that exist to-day, I think a 6 or 7 per cent call rate would have a restraining influence and a very effective one.

Mr. DUNBAR. You then would be inclined to adopt Mr. Seiberling's opinion on that?

Governor YOUNG. Eight per cent?

Mr. DUNBAR. Yes.

Governor YOUNG. I would not. I think that call rate had better be open.

Mr. DUNBAR. You said you believed an 8 per cent call rate would have a very beneficial effect on business?

Governor YOUNG. Under certain conditions, but I do not think it would have had any effect in 1927, 1928, or 1929 the way the American public felt about buying stocks.

Mr. DUNBAR. You do not think it would be a practical thing in times of emergencies?

Governor YOUNG. That is correct.

Mr. DUNBAR. The people did have a speculative mania—there is no doubt about that—and I suppose nothing would stop them. The Federal reserve system did try to stop that speculative mania, did it not?

Governor YOUNG. It did.

Mr. DUNBAR. I remember some people back home criticising the Federal reserve system very severely because its policies interfered with some of their transactions.

Governor YOUNG. Yes.

Mr. DUNBAR. It did have a restraining effect, did it not?

Governor YOUNG. We think so, to some extent.

The CHAIRMAN. Mrs. Pratt.

Mrs. PRATT. Mr. Chairman, I am sorry I was not here on Friday. It may be that some of the questions I may ask are already in the record. If so, will you please advise me?

The CHAIRMAN. Very well, Mrs. Pratt.

Mrs. PRATT. During the course of the hearings, Governor Young, a great deal has been said about the decentralization of credit. It has been stated that part of the proposed legislation to permit branch banking would be for the purpose of decentralizing credit and creating, as I understood it, a greater number of large credit centers. Is that inconsistent with approval of such mergers as we have seen recently in New York?

Governor YOUNG. May I answer that in this way: Let us take the Federal reserve system, for example. It mobilizes credit, which permits it to decentralize credit; in other words, the mobilization of the credit at any one point permits you to put it into the districts where it is needed and draw it from the districts where it is not needed.

Now, it is hoped—and in my opinion, it would be a very short-sighted policy on the part of large groups, large chains, and even of branch banking, if it is permitted, if that decentralization after mobilization is not followed as a policy by these groups or chains.

Mrs. PRATT. Now, to go to the subject of your paper: How does the concentration of capital in banking compare with the concentration of capital in business and industry in general?

Mr. BUSBY. Mr. Chairman, we can not hear, and we should like to follow the examination.

Mrs. PRATT. The question was, How does concentration of capital in banking compare with concentration of capital in business and industry generally?

Governor YOUNG. I can not state accurately, but I would say that up to 10 years ago, it lagged. Since then, consolidations, mergers and developments of groups and chains have been quite rapid. What relation that bears to business, I can not say. Can you tell us, Doctor Goldenweiser?

Doctor GOLDENWEISER. I would say it has not gone as far in banking as in other business.

Mrs. PRATT. That is the information I have. In your opinion, does the concentration in large communities, of the banking credits,

make it more difficult for smaller communities having smaller businesses, to secure accommodations and loans?

Governor YOUNG. I have seen no evidence of that to date.

Mrs. PRATT. On page 29 of your statement, in the second paragraph, I was impressed with the number of agencies which have been created for the relief of the farmer. Do you think the fact that the farmers in Canada have lost nothing from their bank failures, as compared with the losses of their near neighbors in the States south of them, points to the possibility that the troubles in our agricultural communities can be better solved by permitting branch banking than by providing additional credit facilities, by paternalistic methods which impose heavy drains upon the Treasury? That is what happened when all these various agencies were instituted after the war.

Governor YOUNG. Well, that is a very strong argument, Mrs. Pratt, for the branch banking system, in so far as the depositors are concerned.

I make that statement with a great deal of reluctance. I am a country banker and was raised in a country bank. My association has been with them for a great many years. I realize the difficulties they have experienced. I am thoroughly familiar with their resourcefulness and sticktoitiveness, and my sympathies are with the small country banker. I have the greatest admiration for those who have been able to pull through this very unfortunate period that we have had in the agricultural sections of the United States. I have great admiration for even some of those who were unfortunate enough to be compelled to close their institutions. But, I think, we are faced with facts rather than sympathies in this present situation. There has been a tremendous development of the group and chain idea, which is branch banking in another form.

Mrs. PRATT. You do feel, perhaps, that in many instances, the losses that were sustained might be laid to duplication of facilities?

Governor YOUNG. I think so.

Mrs. PRATT. Now, on page 61—and I shall try to concentrate the questions so as to make them as brief as possible—it appears there that the fundamental cause of bank failures, apparently, was the lack of sufficient capital and the existence of more banks than could profitably exist in many communities, especially in the small communities. Following that summary, the statistics indicate that the largest proportion of failures occurred in communities of less than 1,000 population. From 1921 to 1927, 80 per cent of the banks failed in communities of less than 2,500, and, during the last 9 years, 91.6 per cent were located in communities of less than 10,000 population. I think that is correct, is it not?

Governor YOUNG. I think so.

Mrs. PRATT. Now, it was in those communities, particularly, that the competition of facilities provided by the farm-loan system and later the intermediate credit banks operated, which would seem to indicate that the efforts of the Federal Government to extend cheap credit has produced harm rather than assistance and, as I intimated before, these communities may have lost more from bank failures than they gained through interest rate reductions.

Governor YOUNG. I could not make that positive statement. I think it can be stated in this way that the inauguration of the Fed-

eral reserve system took away certain profits that the country bank had in the past in the way of collection charges that were made on checks. I think that the Federal land banks and joint-stock land banks, took away certain profits that the banker had previously to the enactment of those laws—profits which he received in handling farm mortgages—so that these two agencies did interfere with his profits. Does that answer your inquiry?

Mrs. PRATT. I think I shall find that it does when I read it over. I was not able to follow it very closely.

Now, referring to Professor Sprague's statements quoted by you, I think it was in the last part of this statement, page 67, first paragraph, that Professor Sprague seemed to indicate that bank examinations have sometimes, prior to actual suspension, indicated increasingly unsatisfactory conditions. It might be giving too much power to a single individual to permit the Comptroller of the Currency, or a corresponding official charged with the duty of making such an investigation, to insist on a clean-up of the conditions complained of by the examiner; therefore—and this is a more or less an academic question—would it be advisable to set up some kind of banking board that would consider such questions as would arise from impending insolvencies?

Governor YOUNG. I do not think it necessary to set up such a board.

Mrs. PRATT. Do you think it is a good idea when they foresee an insolvency is inevitable that the operation should be more rapidly brought about rather than wait for the actual failure to occur?

Governor YOUNG. I doubt it. I think the actions of the board would be the same as the actions of the Comptroller of the Currency. It is the ambition of everyone, the Comptroller of the Currency and any board, to give the bank the advantage of the doubt and do everything within their power to attempt to pull that bank through, either through assessments, voluntary or legal, or assistance from neighbors or consolidations or what not. The banking authorities, in 99 cases out of 100, do everything they can before they permit a bank to close. I think that any board that might be set up would do the same thing, not in the interests of the stockholders of that bank particularly, but in the interests of the depositors, in the interests of the community, and, if you will, in the interests of some good near-by banks. The closing of a bank has a far-reaching effect upon institutions that are good and solvent.

Mrs. PRATT. I was very much interested in the next paragraph of Professor Sprague's report. In reading it over the thought occurred to me that it apparently suggests the approval to all new charters be withheld awaiting what we call—with respect to public utilities—a certificate of public convenience and necessity and where competition is not held to achieve a public benefit; in other words, where it would be a mere duplication and would not be a benefit, it seems to suggest the possibility of banks, as is the case with public utilities, being required to present a certificate of public convenience and necessity. Do you think that would be a bad proposition?

Governor YOUNG. I think that is what is done in actual practice to-day. I think previously to 1920, charters were granted rather freely, both by the national department and also by the State departments. After 1920 it was much harder to get a national charter,

because the supervising authorities realized that there were too many banks; so that, to-day, while the Comptroller of the Currency is vested with the power of granting national charters, in the last five or six years, I do not know of a national charter that was granted in the United States that was disapproved by the Federal reserve bank of the district.

Now there may be one or two exceptions, but I do not think so. So the procedure followed by the Comptroller of the Currency, when an application for a charter is made, is to refer that to the Federal reserve bank in the district in which the bank desires to locate. It is also referred to the chief examiner of that district and they both made independent investigations and recommendations to the Comptroller of the Currency to grant the charter, deny the charter, or withhold the charter. That is what happens in actual practice.

You may have a Comptroller of the Currency that would disregard that procedure and arbitrarily grant charters where he wanted to.

There has been a suggestion at different times that the approval of the national charters might go a little bit beyond the Comptroller of the Currency and include the Federal Reserve Board.

Mrs. PRATT. You think, as a general principle, that the creation of competition is better than the strengthening of the existing system? Which has the better effect—competition or——

Governor YOUNG. I should like to answer that both would be beneficial, good competition and strengthening of the banking structure.

Mrs. PRATT. I have been away, Mr. Chairman, and I should like to ask more questions later.

The CHAIRMAN. Mr. Steagall.

Mr. STEAGALL. Governor Young, what is the total capital of the Federal reserve banks?

Governor YOUNG. $172,245,000.

Mr. STEAGALL. What is the present surplus of the 12 Federal reserve banks?

Governor YOUNG. $276,936,000.

Mr. STRONG. What is that surplus again?

Governor YOUNG. $276,936,000.

Mr. STRONG. And what is the capital?

Governor YOUNG. $172,000,000 paid in.

Mr. STEAGALL. Governor, you stated to Mr. Dunbar the amount that would be paid to the member banks if the present earnings of the system could be applied and distributed among the member banks on a basis of their balances. What per cent did you say that would have been last year?

Governor YOUNG. Mr. Dunbar figured it out.

Mr. DUNBAR. One and one-third per cent.

Mr. STEAGALL. Can you state what percentage it would be if distributed on the basis of stock held by the member banks?

Governor YOUNG. It would be almost 33⅓ per cent on the capital stock, I think. Let me examine the figures; $22,000,000 was transferred to the surplus account.

Mr. STEAGALL. I mean to include in that the amount paid to the Government?

Governor YOUNG. $26,000,000 that would be distributed on a capital of $172,000,000. That is about 15 per cent or 16 per cent.

Mr. STEAGALL. The Federal reserve banks have set aside a surplus, down to this time, amounting to almost twice their capital?

Governor YOUNG. Twice the paid-in capital. The subscribed capital is——

Mr. STEAGALL. You are going to continue to set aside 10 per cent each year?

Governor YOUNG. For those banks who have already accumulated a surplus of 100 per cent of their subscribed capital.

Mr. STEAGALL. That is what I mean. Well, they will do it anyhow, will they not?

Governor YOUNG. They will take more into the surplus account——

Mr. STEAGALL. At any rate, after setting aside the 100 per cent they will continue to set aside 10 per cent after the earnings are paid?

Governor YOUNG. After the 6 per cent dividends are paid. The dividends are paid first.

Mr. STEAGALL. Do you think it advisable and wise that this law operate perpetually under which the banks will continue to increase their surplus?

Governor YOUNG. I think when the surplus gets to 100 per cent it is plenty large enough.

Mr. STEAGALL. We are still, nevertheless, paying the 10 per cent?

Governor YOUNG. Correct.

Mr. STEAGALL. The member bank is arbitrarily held to 6 per cent return on the capital stock and nothing upon balances or deposits?

Governor YOUNG. Correct.

Mr. STEAGALL. Your Federal reserve banks have paid into the Treasury, since the inauguration of the system, approximately $150,000,000, have they not?

Governor YOUNG. $147,000,000.

Mr. STEAGALL. $147,000,000?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. And during that time they have set aside $170,000,000, did you say?

Governor YOUNG. $276,000,000.

Mr. STEAGALL. $276,000,000?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. Surplus?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. And this, of course, is exclusive of the varied and extensive expense accounts that they have encountered in the way of building——

Mr. STRONG. And salaries.

Mr. STEAGALL. And other things incident to the inauguration of the Federal reserve system?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. Which, of course, would not be expected to continue in the future?

Governor YOUNG. That is correct. I will correct that just a bit, Mr. Congressman. The probabilities are, as time goes on, it will be necessary to build more branch buildings.

Mr. STEAGALL. There will not be many more buildings, I take it?

Governor YOUNG. Not unless the branch system of the Federal reserve system is extended.

Mr. STEAGALL. Well, what would you suggest instead of a continued accumulation of unnecessary surplus out of the earnings of these banks?

Governor YOUNG. I would suggest these earnings over a certain amount be paid to the stockholding member banks.

Mr. STEAGALL. Governor Young, I have had some bills pending before this committee for probably 10 years undertaking to enable member banks to share in the earnings of the system. I first introduced a bill providing that there should be an administration upon the assets of the Federal reserve banks after setting aside their surplus, paying the 6 per cent earnings to their stockholders and all expenses—that there should be an administration by the Federal Reserve Board and the earnings returned to member banks upon a basis of their daily balances and in proportion as those earnings accrued by reason of the operations of the Federal reserve banks with their member banks.

Governor YOUNG. Not retroactive?

Mr. STEAGALL. Not retroactive.

Governor YOUNG. But from that point on?

Mr. STEAGALL. Yes. Later I introduced the bill in a different form, providing that the earnings distributed be paid up on the basis of the capital stock held by the member banks, and I believe you said that the latter, you think, would be preferable, if such a law were to be passed.

Governor YOUNG. If I did, I spoke a little too quickly. I think, and this is a rather impulsive thought, that returns should be paid to member banks not alone on their stockholdings in the Federal reserve system but also in proportion to the reserves they carry—the combination of the two.

Mr. STEAGALL. I appreciate very much, representing an agricultural section that is in considerable distress, not only as expressed in banking facilities, but in a general way—I appreciate what you say in reference to the country banks and small banks.

If these earnings should be distributed on the basis of stock held, the proportion of help would be more favorable to the country banks and smaller banks than would be the case if it were distributed on the basis of daily balances; would it not?

Governor YOUNG. A slight preference, because the country banks carry lower reserves in proportion to the banks of the larger cities.

Mr. STEAGALL. And the deposits run lower than is the case with the larger banks in the larger cities?

Governor YOUNG. The difference would be very slight, Mr. Congressman.

Mr. STEAGALL. I want to ask you what portion of the earnings of the Federal reserve banks result from the relations of the Federal reserve banks with their member banks; in other words, what portion of those profits come out of the member banks?

Governor YOUNG. I suspect, Mr. Congressman, that would be confined entirely to the amount we lend member banks in discounts. Is that the way you want it divided?

Mr. STEAGALL. I want you to put that in your own way, because you are better informed than I am and can tell me things about it that, perhaps, I do not know.

Governor YOUNG. Our profits come from three main sources. First, there are the discounts received from member banks on the paper that they rediscount with us; the second source of income is that received on Government bonds that we buy in the open market; and the third source are the discounts that we earn on bankers' bills that we buy in the open market. Dividing those, the profit we get from member banks comes from the amount of paper that they rediscount. Then there are the bills that we buy and the Government securities, and the income on those constitutes profit that we do not get from the member banks.

Over the last 10 years, I would say on an average, and I am going to ask Mr. Smead to correct me if I am wrong, it has been just about 50-50.

May I insert this table in the record?

The CHAIRMAN. Without objection the matter referred to will be inserted in the record.

Governor YOUNG. Two-thirds of the earnings come from the paper that is discounted with the member banks, approximately.

Mr. STEAGALL. As a matter of fact——

The CHAIRMAN. I am under the impression that this matter has already gone into the record. Am I correct in that?

Governor YOUNG. Not to my knowledge.

Mr. STEAGALL. I was not here during all of this examination, and I do not like to repeat, but this is information that I am anxious to get into the record.

Governor YOUNG. Can I give this information?

The CHAIRMAN. All right; if you will read it into the record.

Governor YOUNG. Total earnings in 1920, $181,000,000; earnings on discounted bills, $149,000,000; on purchased bills, $22,000,000; on United States Government securities, $7,000,000; and there was a small amount of earnings coming from penalties on deficiencies in reserve, only amounting to $1,500,000; miscellaneous other sources, $1,500,000.

That was the year in which the banks were very heavily in debt to the Federal reserve.

In 1921 total earnings, $122,000,000; earnings on discounted bills, $109,000,000; on purchased bills, $5,000,000; on United States Government securities, $6,000,000.

From 1922 on, the earnings, I would say, averaged about $43,000,000. The average return on bills discounted would amount to about $23,000,000; the average earned on purchased bills, about $8,000,000; the average on United States Government securities, about $9,000,000.

Mr. STEAGALL. Governor, the fact is, is it not, that the Federal reserve banks get their money out of their member banks, even their capital?

Governor YOUNG. That is correct.

Mr. STEAGALL. Your rediscounts, or discounts, whichever you call them, are mainly with the smaller banks and the banks that are more in need of sharing the earnings of the Federal reserve system?

Governor YOUNG. In number, Mr. Congressman, but not in volume.

Mr. STEAGALL. Not in volume?

Governor YOUNG. Oh, no.

Mr. STEAGALL. These investments that you make, other than loans to member banks, are made out of your reserves and balances that are obtained from the member banks?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. And all of the profits that you make out of these bills that you buy come out of the handling of the funds of the member banks maintained by the Federal reserve bank?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. Governor, is it a true picture of that situation to say that only two-thirds of the profits of the Federal reserve banks accrue by reason of the relations of the Federal reserve banks with their member banks?

Governor YOUNG. No; that is not a fair statement.

Mr. STEAGALL. They make more than that out of the member banks, do they not?

Governor YOUNG. You might just as well say that they make everything out of the member banks. I thought you were trying to divide it.

Mr. STEAGALL. I wanted the whole picture, and you have answered it fairly and have given the information I had in mind, and done it in a comprehensive way, I think.

Governor YOUNG. I want to correct that somewhat. The United States Government has given the Federal reserve system a very unusual franchise in its note-issue power. I think that there is no doubt that that is one of the very valuable assets of the Federal reserve system, and I think it would be fair to say, Mr. Congressman, that in view of the power given to the Federal reserve system which enables it to issue an elastic and well-secured currency each and every individual of the United States contributes to a certain extent to the possibilities of profit of the Federal reserve system.

Mr. STEAGALL. After all, the franchise granted the Federal reserve banks by the Federal Government was in contemplation of an enlargement of the service of the banks already in existence and already chartered?

Governor YOUNG. Yes, sir.

Mr. STEAGALL. And, incidentally, it was an additional franchise for their benefit?

Governor YOUNG. I would say, a very important franchise, for without it it would have been extremely difficult for the Federal Reserve system to operate.

Mr. STEAGALL. It would require the enactment of legislation to terminate the operation of the system under which the surplus is continually enlarged 10 per cent annually, would it not?

Governor YOUNG. Yes.

Mr. STEAGALL. In your judgment, if no other provision of law is made for the redistribution of these earnings, you think some legislation should be passed which would terminate the setting aside of unnecessary surplus?

Governor YOUNG. Yes, sir. The Federal Reserve Board is making a recommendation to the Congress of the United States in its annual report that a greater distribution of the earnings of the Federal reserve system be made to the member banks. As to the details, the board has not yet arrived at any conclusions, but it is satisfied that it can eventually work something out after all plans and proposals are considered.

Mr. STEAGALL. The bill that I first introduced provides that the Federal Reserve Board shall be directed to ascertain approximately the proportion of the earnings that are made out of their member banks, and to distribute to those banks that portion of those earnings and pay the balance into the Treasury as a franchise tax. Would that be practical?

Governor YOUNG. Do you mean by that——

Mr. STEAGALL. Here is what I mean, as suggested in your answer to Mr. Dunbar as to the wisdom of attempting to set up a definite percentage of return to the member banks: It readily occurs to anyone, of course, that a situation might exist where all banks would not earn a sufficient amount to meet that requirement, and then, of course, they would be driven to the practical necessity of undertaking to make sufficient earnings to take care of that demand, or, failing to do so, would be unable to pay——

Governor YOUNG. That would be poor policy.

Mr. STEAGALL. Yes; I agree with you, but under the bill that I have suggested at the end of each fiscal year the Federal Reserve Board would administer upon their earnings, and it would not matter whether they had made large or small earnings; they would proceed to cast up the account to ascertain what portion of those earnings accrued by reason of their relations with member banks, and then base the returns to the member banks upon that calculation. That would be practical, would it not?

Governor YOUNG. Do you mean by that, Mr. Congressman, that if you had two banks in the community, one that had not borrowed from the Federal reserve system and the other that had borrowed liberally for the entire year, that the profits would go back to the borrower and not to the lender?

Mr. STEAGALL. No, sir; I do not mean to carry it to that finality, but simply to base it either upon the stock held by member banks or upon the stock plus daily balances as suggested by you.

What I am asking you now is for the practical way of going about the plan that I have outlined, by which the board would undertake to determine the amount of earnings that had accrued by reason of operations with their member banks.

Governor YOUNG. I can not give you the details at the moment, but I am confident in my own mind that some equitable basis of distributing earnings can be worked out.

Mr. STEAGALL. Governor, do you think the small banks in the smaller communities should not be permitted to impose charges for the collection of checks?

Governor YOUNG. Well, Mr. Congressman, that has been a debatable question for a great number of years. The Congress of the United States, I think, has answered that question.

Mr. STEAGALL. And thereby hangs a tale, but I will not go into that situation.

Mr. STEVENSON. That is the ultimate wisdom, of course.

Governor YOUNG. I will answer it this way, that I think it is extremely unfortunate that a State bank under certain conditions is permitted to make those charges and the national bank is denied that right.

Mr. STEAGALL. That discrimination was brought about by those who were responsible for the law or for the practices of national banks, was it not? The system before it was disturbed gave the same privilege to the national banks as to the State banks?

Governor YOUNG. That is correct.

Mr. STEAGALL. So that if there has been brought upon the national banks a discrimination that is injurious, we have ourselves to blame and not the State banks; have we not?

Governor YOUNG. That is debatable, whether it is injurious to them or not.

Mr. STEAGALL. I am not saying it is; but if it is injurious, whoever is responsible for that situation is to blame, and not the State banks. If it is right for banks to charge for remitting checks from rural districts to wholesale houses, the State banks are not to blame for continuing to permit that to be done, are they?

Governor YOUNG. No; you can not blame them.

Mr. STEAGALL. And if it is a legitimate charge for the exercise of a legitimate function of a bank, it also follows that we should not have taken that right from the national banks; does it not?

Governor YOUNG. Well——

Mr. STEAGALL. Anyhow, we did that; we took that right away—somebody did; I did not. At any rate, they got it taken away.

Are you familiar with the history of that legislation in Congress?

Governor YOUNG. Not entirely.

Mr. STEAGALL. Well, that is beside the question. That is one instance in which the House of Representatives did something that they did not want to do. They instructed the conferees not to agree to the Senate amendment which took away that right, and they brought in a report which did take it away, and the House ratified the report; and that is how the national banks lost the right to collect for remitting checks. It was an error of the head and not of the heart. The House did not intend to do it.

(Thereupon, at 12 o'clock noon, the committee went into executive session.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, MARCH 26, 1930

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

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

The CHAIRMAN. The committee will come to order.

Mr. Steagall, you were questioning the governor when we adjourned yesterday.

STATEMENT OF GOVERNOR ROY A. YOUNG—Resumed

Mr. STEAGALL. Yesterday when we adjourned we were speaking of the discrimination against national banks in connection with making a charge for remitting from some rural district to, say, a wholesale house in a large center on checks drawn, and how that situation came about.

Mr. McFadden, you are a little more familiar with that history than I am. Will you state in your own language what took place in connection with that legislation, in my time? I can state it roughly, but probably you have the identical language in mind in which that amendment was expressed, and, if you have, inasmuch as we have already referred to it, I wish you would do so.

The CHAIRMAN. I do not recall now just the language of the amendment. It was known as the Hardwick amendment. It was inserted in the bill in the Senate and came over in a conference report to the House. It gave the banks the right to make a minimum charge of 10 cents, I believe, on the collection of checks, and I made the motion in the House to instruct the conferees to sustain the substance of the Senate amendment. After about 60 or 90 days' time, with great propaganda carried on throughout the country—the National Credit Men's Association and other affiliated organizations being interested in the collection of par checks—including the activities of the Federal Reserve Bank of New York, the Federal Reserve Board, and the administration generally, the matter finally came up for a vote; and, as I recall, my motion was defeated by 2 or 4 votes. That would have given the country banks the right to an exchange charge on the collection of checks.

Mr. STEAGALL. If you will pardon me, you have not expressed correctly what took place in a parliamentary sense with reference to your amendment. This is what occurred: You offered an amendment to instruct the conferees on the part of the House to agree to the substance of the Hardwick amendment—and I am going to ask the clerk to insert in the hearings right here the original Hardwick amendment.

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

Provided, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further*, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise.

Mr. STEAGALL. Continuing, this is what took place: You made a motion to instruct the conferees to agree to the substance of the Hardwick amendment. They reported the Hardwick amendment with a proviso which nullified in effect the purpose of that amendment. A point of order was made in the House against that amendment, for the reason that the conferees had disobeyed the instructions, and Mr. Clark ruled it in order, upon the statement from distinguished Members of the House and members of the conference committee that what the conference committee had done did not amount to a violation of the instructions of the Houe but that the changes incorporated in the Hardwick amendment by them were simply designed to secure its practical operation, and, in short, that they had obeyed the rules of the House, and upon that assurance Speaker Clark overruled the point of order and the House voted upon the report of the conferees and sustained it, although it turns out that that report was in violation of the specific instructions of the House.

Now, the resolution offered by you to instruct the conferees was adopted in the House——

The CHAIRMAN. You are quite correct in that.

Mr. STEAGALL. That is the history of that transaction.

The CHAIRMAN. And an interval between that time and when the matter was finally voted on of about 60 days elapsed, in which such propaganda was spread throughout the country as I have never seen before nor since, and it resulted, of course, in the defeat of the right of banks to make that collection charge.

Mr. STEAGALL. And, as a matter of fact, this was a fight between the large wholesale houses and the large banks in the larger cities, on the one hand, and the small country bank, on the other; in short, it was an effort to require the small banks to render for nothing the service of collecting those checks and remitting on them.

Mr. STEVENSON. And if you will allow me to "butt in" now, the very same gang is endeavoring to get us to pass the Strong bill here, to give them a preference, to make them preferred claimants whenever they send a check to a bank to be collected for them for nothing, and it fails before the remittance clears. That is just the next step.

Mr. STEAGALL. I realize as a practical proposition that that fight is lost, I suppose; but it is just as well to let that history go into the record, and I do it for this reason, that the taking away of the right to impose charges for the collection of checks is one of the things under which the small banks have suffered and which, in my opinion, has contributed to their difficulties. If I am not in error in my recollection, the proof before this committee showed, when we had that matter under consideration, that it was not an unusual thing for small country banks to be able to realize out of these charges for

collecting checks sufficient sums to meet the salary rolls of those banks.

Mr. STEVENSON. And they enforced it in a brutal way, too.

Mr. STEAGALL. And there were instances brought before this committee—I did not intend to refer to them, but I will—where the Federal reserve banks, in cases in which the small banks had refused to render this service for nothing and to remit these checks without charge, started out with a practice of accumulating a number of checks and even sending them across the country with men on cars armed with Winchesters and throwing an accumulation of those checks on the windows of small country banks to be paid in cash—and not pay, of course, such bank loans—have had to close their doors.

You need not shake your head, Governor; there was proof of that before this committee. I am not censoring the present Federal Reserve Board or the Federal Reserve Board at that time, because I do not think they had any part in it, but it shows that Mr. Stevenson is not unjustified in saying that they went about it in a brutal manner in some instances.

I do not say that that was a common practice at all, or that the Federal Reserve Board was responsible for it.

Mr. BRAND. You know that the Federal Reserve Board did take a part in it.

Mr. STEAGALL. Not in that; they took part in putting over the plan by which banks were denied the right to charge for remitting checks.

Mr. BRAND. They were opposed to the paying of a collection charge on these checks.

Mr. STEAGALL. There is no question about that; but I am talking about these instances when the Federal reserve banks, when the little banks would not remit these checks for mothing, would accumulate quite a number of them and send them across the county with guards armed with Winchesters, an act, of course, calculated to break such banks.

Mr. BRAND. But they were not in favor of having the banks make this charge.

Mr. STEAGALL. There is no question about that; that is another matter entirely.

Mr. BRAND. They probably would have succeeded in getting a little benefit if it had not been for the Federal Reserve Board's activity, and the propaganda against it.

Mr. STEAGALL. I think the Federal Reserve Board had a large share of the responsibility for taking away that privilege from the little banks, but not the present Federal Reserve Board.

Governor YOUNG. Is it not fair to say, Mr. Congressman, that the board was required to do that under the law?

Mr. STEAGALL. Oh—do you mean the law as it finally passed?

Governor YOUNG. Yes.

Mr. STEAGALL. They had no authority to do it under the original law. Of course, as the law finally passed, it was construed to give them that authority.

Governor YOUNG. Mr. Congressman, I would like to have Mr. Wyatt answer some of these questions. He is thoroughly familiar with that matter.

Mr. STEAGALL. I would be glad to have him do so, but my only purpose in referring to it was to keep the record straight.

Governor YOUNG. I do not know but what it would be a good thing to put into the record the history of the par collection of checks, and the Hardwick amendment in particular——

Mr. STEAGALL. I have already asked that that be inserted.

Governor YOUNG (interposing). As construed by the Federal Reserve Board in the Pascagoula case. which I think is a complete history of it.

Mr. WINGO. No record would be complete without a copy of the statement that was made in the House at the time you brought in the report, when the House was told that the banks would be permitted to make the specific charge provided by the Hardwick amendment and that it was not the intention of the Federal Reserve Board to prevent the charge.

Mr. STEAGALL. If we attempted to encumber this record with one side of the argument in that controversy, to make it complete we would have to go back and get the file on the other side.

Mr. BRAND. That is res adjudicata.

The CHAIRMAN. Governor, did you want Mr. Wyatt to make a statement?

Governor YOUNG. Yes; I would like to have him make a statement.

Mr. WYATT. I would like to clear up two or three points about that. In the first place, some reference was made to the propaganda that went on during the time the bill was in conference, and there was a lot of propaganda, but I would like to make it clear that the Federal Reserve Board did not engage in that propaganda. That was done by the National Credit Men's Association, which was the original proponent of par checks, and they fought that fight all the way through.

The CHAIRMAN. In view of that statement. I will say that I knew about some of the propaganda put forth, and I differ with you, particularly in regard to the Federal Reserve Bank of New York. They were very active in this matter, as were certain members of the Federal Reserve Board. The record is clear on that.

Mr. WINGO. The record of this committee shows that at least two members of the Federal Reserve Board were very active.

Mr. BRAND. Were you with the department at that time?

Mr. WYATT. Not at the time the Hardwick amendment was passed.

Mr. STEVENSON. Most of those fellows are gone. Let us draw the veil and try to forget the things that are past and look forward to doing something now. It does not seem to me that we are getting anywhere in rehashing all of this stuff. Paul was a wise man, and he said he believed in forgetting the things that are past.

The CHAIRMAN. I think that is a good suggestion; but if Mr. Wyatt wants to proceed, we will hear him.

Mr. WYATT. I do not want to take up the time of the committee. I think the suggestion made is a good one.

Mr. STEAGALL. Governor, this kind of a transaction took place in a small country State bank that is a member of the Federal reserve system in my district not long ago. The bank was closed. My information is that they owed only $48,000, and they had $50,000 capital and $50,000 surplus. They were in a farming community. I do not know the details or the merits of any controversy that they may have had as to whether they should be closed or not except in

a general way, when some transaction of this kind were called to my attention: There were depositors in that bank who gave checks on that bank in payment of obligations, and the payees deposited those checks in another bank in the same county, which other bank was a member of the Federal reserve system. That bank forwarded, through their regular connections, these checks for collection to the Federal reserve bank, and the Federal reserve bank sent them direct to the bank on which they were drawn for collection. In the meantime the bank on which they were drawn charged these checks to the makers and surrendered them with a statement of their accounts and remitted with its own check to the Federal reserve bank, and the bank on which the checks were drawn, closed. The Federal reserve bank held the notes of this bank, not then due, and they charged these checks back against the bank from whom they received them. They took the balances of the bank on which these checks were drawn and applied them to the payment of notes not due, charged the checks back against the banks that had sent them in, and the bank that originally cashed the checks went back on the payees and required them to refund the money. The payees of those checks did not have the money and did not have the checks. They paid the money back to the banks that had cashed the checks, and the man who had drawn the checks originally had them in his possession marked paid and surrendered by the bank on which they were drawn.

What suggestion would you make with reference to a transaction like that, or a situation where those transactions can occur?

Governor YOUNG. I think the law holds that the drawer of the check is out of the transaction; he has paid his bill as far as he is concerned. Whether the reserve bank is liable or not would depend on whether they were negligent in the presentation or collection. The responsibilities beyond that would depend upon the terms of their circular. Generally speaking, reserve banks handle those checks as agents.

Now, there has been a recent decision of the Supreme Court of the United States that has a bearing on this whole transaction, and I am not an attorney, Mr. Congressman. It is rather difficult for me to answer this. May I have Mr. Wyatt answer it?

Mr. STEAGALL. Yes; I would be glad to have him discuss that.

Mr. WYATT. I do not think the recent decision of the Supreme Court in the case of Thomas A. Hurley, receiver, against the Federal Reserve Bank of Richmond has any great bearing on the general question except the fact that it definitely establishes the proposition that the rights, responsibilities, and duties of a Federal reserve bank in collecting checks are governed by the terms of their check collection circulars, which really constitute a contract between the Federal reserve banks and the banks which send in the checks.

Mr. STEAGALL. In other words, the Federal reserve bank has contracted with its member banks along lines that relieves it of any responsibility in this transaction, although it sends it direct to the member bank for collection?

Mr. WYATT. Of any responsibility except for their actual negligence and their liability as a guarantor of prior indorsements. The reason for that, Mr. Congressman, is that the Federal reserve banks handle such an enormous volume of checks that they simply could

not undertake to guarantee or underwrite the safe collection of those checks. I think the amount of checks collected through the Federal reserve system in one year runs like $300,000,000,000.

Mr. STEAGALL. You do not mean that that is the amount of checks that went the rounds and ended like the ones I referred to?

Mr. WYATT. No; I am telling you the amount that they actually handle for collection. Under modern conditions it is physically impossible to present out-of-town checks across the counter and demand payment in cash as you are required to do under the old common-law rules. As I say, it is physically impossible; there really is not enough currency available to settle those checks every day, and it would be physically impossible to present them across the counter if you could get currency, and practically all the commercial banks that do not clear through the Federal reserve system have some such procedure as was in effect before the Federal reserve system was in operation.

Mr. STEVENSON. Under the decisions, if they mailed it direct to the drawee bank, and the remittance failed, they were held to have been negligent in selecting that method of collection.

Mr. WYATT. That was the old common-law rule, and it was so held in the case of Malloy against the Federal Reserve Bank of Richmond in the Supreme Court of the United States, and in that same case the Supreme Court said that these old common-law rules as to the duties of a collecting agent can be varied by contract, and they have been changed by contract. The Federal reserve banks have contracted for the right to present those checks through the mails and accept a remittance draft in payment instead of presenting them across the counter.

Mr. STEVENSON. In other words, they held that they could contract against negligence of a certain kind?

Mr. WYATT. No, sir; that they could contract as to the method by which they should collect the checks.

Mr. STEVENSON. The reason they could not collect that way and were held responsible was on the ground that it was negligence for them to make the drawee bank send for a remittance and then allow them by contract to excuse themselves for the negligence which had been held by all the courts, from the sending direct to the drawee bank for collection, but they held, further, that they could not contract against actual negligence if it was thought that the bank was in a shaky condition and they still sent it there, that they could be held.

Mr. WYATT. On this last point, you are right; the Federal reserve banks can not contract against liability for their negligence, and they have never attempted to do so. The board's regulations, and their circulars, say that they assume no liability except for their own negligence and for their own guaranty of prior indorsements.

This loss that Mr. Steagall mentioned is a very unfortunate thing, and I think it is unjust, but I do not think it results from the system of collection or the method adopted by the Federal reserve banks. I think the loss results from an unsound but, unfortunately, very well-established rule of law, and that is the rule to the effect that a check is deemed to have been good when it was charged to the depositor's account, even though the bank on which it is drawn never remits to anybody, and when that check is presented to the bank on

which it is drawn, the bank charges it to the drawer's account, cancels it and surrenders it, but never remits to anyone. Yet the courts hold that so far as the drawer is concerned, that check is paid and he is released, and I think that there is where the inequity comes in in the case of a failed bank; that results in the drawer of that check receiving his deposit in full to the amount of that check while the other depositors have to share the losses.

Mr. STEVENSON. That does not always follow that he gets it in full; it depends on the law in the State where it happens.

Mr. WYATT. Oh, yes.

Mr. STEVENSON. In a national bank he does not get it in full.

Mr. WYATT. I am talking about the man who drew the check; if that check is canceled and is charged to his account, his deposit is paid off to that amount and his account is reduced by that amount.

Mr. STEVENSON. The banks in this city do not all recognize that yet, because a year ago I sent a check to one of them for $1,000, and it went down to the bank on which I drew it and was charged to my account and remittance made, but the bank closed before it was cleared—and it took them an unconscionable time to clear it—and the Riggs Bank was holding me for the $1,000 just the same.

Mr. WYATT. Was that your check?

Mr. STEVENSON. Yes. I have been through that mill.

Mr. WINGO. You should have hired a lawyer. [Laughter.]

Mr. STEVENSON. I did.

Mr. WYATT. As to this method of collection——

Mr. STEVENSON. What I did was this: The State of South Carolina had passed a law that under those circumstances that was a preferred claim and should be paid before they began to pay general creditors, and I got it that way.

Mr. WYATT. You filed a claim against the receiver of your bank?

Mr. STEVENSON. Yes.

Mr. WYATT. And got your check paid in full. I might say that that rule has been adopted either by statute or by decision of the court in quite a number of the States in the last six or eight years, and——

Mr. STEVENSON. But the national banks do not always follow that rule.

Mr. WYATT. They can not, because the national bank act governs the receiver in the liquidation of the affairs of an insolvent national bank, and it says that the creditors shall be paid ratably and the matter is handled in the Federal courts. The receiver acts under the jurisdiction of a Federal court and those rules adopted by the States have no application to the liquidation of a national bank.

Mr. STEVENSON. I know it.

Mr. STEAGALL. Governor Young, what would you suggest should be done with reference to the practice in the system that makes this kind of a thing come about?

Governor YOUNG. Do you mean what the Federal reserve could do?

Mr. STEAGALL. What should be done by somebody?

Governor YOUNG. I do not know, Mr. Congressman, what could be done.

Mr. WYATT. May I answer that?

The American Bankers' Association has for the last two or three years been advocating a uniform State law giving the holder of a check that is canceled but for which no remittance is made a preferred claim against an insolvent bank on which that check is drawn, and such a statute has been passed in a number of States, and the American Bankers' Association is trying to get it enacted in all the States. If that is enacted in all the States, and, as I said a moment ago, that rule has been adopted by the courts as a common-law ruling in a number of States, that will very largely cure the situation in so far as State banks are concerned, but it will not cure the situation in so far as national banks are concerned, and I think it would place the national banks at a disadvantage because, assuming that this rule is adopted in all the States, it will mean that a person having a check in a State bank will get his check paid in full if it is charged off before the bank fails through having a preferred claim or he will get his check back uncanceled and duly protested.

The CHAIRMAN. Would that apply also to the collection of drafts?

Mr. WYATT. I think it will; yes, sir.

The CHAIRMAN. To any case covered by the Strong bill?

Mr. WYATT. Yes, sir; but if this State legislation goes through and no similar national legislation is passed, a person holding a check on a bank that fails after the check has been charged off would be in a much better position if that bank is a State bank than he would if it were a national bank, and people may get the impression that it is safer to write checks on State banks than national banks.

Mr. STEVENSON. Well, as I said a while ago, that saved me $1,000, or at least whatever per cent I would have lost on that if I had been one of the general creditors. At the same time, within my town, a lady deposited a check that represented her husband's life insurance, $3,000, all she had. It went into the bank and the bank collected it and then closed. In the first place, she has got to wait until $90,000 of preferred claims growing out of that statute are paid in full to the bankers and to all the other people, the big shippers and all that, that are protected by it, and then take her pro rata of what is left. There is a great deal of inequity in it, and I would not be surprised if they repealed the law in South Carolina.

Mr. WYATT. I think it is inequitable, and that is why I suggested that the fair remedy would be to have the law changed so that a check that is charged to the depositor's account but for which no remittance is made and for which nobody is ever paid will not be deemed to have been paid, and the drawer of that check will not be released, so that the holder of that check can go back against the drawer. I think that would be the fair thing, but I do not believe that Congress has any jurisdiction to correct that situation. It is a matter of contract in commercial law, and you would have to correct it by amendments to the State laws in all the different States.

Mr. WINGO. Some of us have difficulty enough paying our debts once, but according to your rule we would have to pay twice.

Mr. WYATT. Well, the man who is unfortunate enough to select such a bank——

Mr. WINGO. You are overlooking the fact that the man who takes the check has his remedy now. Do you want to make the drawer of the check guarantee proper handling of his check and protect the

man against his willingness to take a check, without failing to demand something better?

Mr. WYATT. Of course, when a man draws a check, he contracts that that check will be paid.

Mr. WINGO. But he does not guarantee the method of payment; he simply says that when the check is presented it will be charged to his account.

Mr. WYATT. And that the holder will be paid.

Mr. WINGO. If he had presented it in person across the counter, it would have been paid and the payee would have gone out before the bank failed.

Mr. WYATT. That is right.

Mr. WINGO. But, for the convenience of the gentleman paid, he turns it over to his agent, and he has a right to demand something beside that check in the first instance if he wants to.

Mr. WYATT. That is right.

Mr. WINGO. But for his convenience as much as for the convenience of the drawer, he takes the check.

Mr. WYATT. You have to recognize that, under modern conditions, these checks could not be collected in the manner in which they are now collected if you had to present them across the counter and demand cash. It would be so expensive and inconvenient that people would not take checks as freely.

Mr. WINGO. Your suggestion is almost unanswerable not only under modern conditions but also under the rules of law.

Mr. WYATT. May I make one further statement? And that is, that all of this trouble grows out of failed banks, and if you can stop bank failures you can stop this trouble.

Mr. STEVENSON. And, according to the statement of the comptroller, something like 7,000 banks failed in the last 9 years. You said something about a man being unfortunate in the selection of his bank, and, it seems to me, that at the rate we have gone it takes a man who is a good gambler to determine which bank is not going to fail.

Mr. WINGO. Your remedy, to stop the banks from failing, is like saying, you can enforce the eighteenth amendment by eliminating the appetite for liquor.

Mr. STEAGALL. We can all understand that transactions of this kind evoke complaints, criticism, and irritation that should be avoided.

Governor YOUNG. Mr. Congressman, the law is so complicated in various States that you can see there are difficulties with every suggestion that has been made.

Mr. STEAGALL. Yes.

Governor YOUNG. The United States Government enters into a contract with anyone from whom it receives checks that they can pass the check back to the drawer, and, if I remember correctly, several of the large concerns have done that. That is the only remedy that I know of.

Mr. STEAGALL. Well, we will pass on from that.

In discussing the matter of permitting member banks to share the earnings of Federal reserve banks, you said something about requiring a law forcing State banks to carry balances with the Federal reserve bank. Did I understand you right?

Governor YOUNG. I said that had been a suggestion.

Mr. STEAGALL. What did you have in mind in that reference?

Governor YOUNG. On the theory or on the belief that we all think that the Federal reserve system has been beneficial to the country and it is quite necessary that it continue. Obviously, under the present conditions the nonmember bank can get many of the benefits indirectly through its correspondent that the member bank can get directly from the Federal reserve bank. In other words, I think that you found in your investigation that the main reason why State banks did not join the Federal reserve system was because they lost the 2 or 2¼ per cent interest that they might be paid by a correspondent if they carried their reserve with the Federal reserve bank.

Mr. STEAGALL. I can not agree with you that that was the main reason, but that was one of the reasons.

Do you think that Congress would have any right to pass a law requiring a State bank to deposit and maintain deposits in a Federal reserve bank?

Governor YOUNG. I do not know.

Mr. WINGO. Did you say "right" or "power"?

Mr. STEAGALL. Power.

Mr. WINGO. There is quite a difference.

Mr. STEAGALL. I am not as good a lawyer as you are.

I meant to ask if Congress has such legislative power?

Governor YOUNG. I do not know, Mr. Congressman. That is something for the lawyers to determine.

Mr. STEAGALL. Governor Young, I am interested in all of these various suggestions with respect to legislation, banking rules, and everything else designed to protect bankers and banks in their transaction with one another, and I think it should be done as far as it can be wisely done by legislation, but this discussion leads up to another suggestion. I am wondering what your views are upon the question of the advisability of trying to protect depositors in banks that are members of the Federal reserve system. I speak of that as in my views of the matter we have no authority to touch the question through legislation further than the Federal reserve system or its member banks.

Governor YOUNG. Well, of course, Mr. Congressman, I have given very much thought to it.

Mr. STEAGALL. I would like to hear your views upon it.

Governor YOUNG. Better banking, of course, would be the quickest and best solution of it.

Mr. STEAGALL. No question about that. That is like Mr. Wingo's suggestion about the Volstead Act, that if we all quit drinking it would be possible to enforce the law.

Mr. WINGO. No; you said that, I did not. You know I do not drink. I said if you killed the appetite. I am one of those fortunate individuals that has no appetite for liquor.

Mr. BRAND. You are very fortunate.

Governor YOUNG. I have given consideration to the question of the guarantee of bank deposits, and followed it in the various States where it has been enacted, and it does not seem to be practical. I have given some consideration to the segregation of certain specific assets, against savings deposits, because that is really the depositor that we want to protect more than anyone else, and I think there is

some merit in that plan embraced in the laws of California, Michigan, and Maine.

Mr. STEAGALL. Do you think that the savings depositor has a fund that is entitled to more consideration than that of the ordinary citizen?

Governor YOUNG. From a legal standpoint, no; from a practical standpoint, sympathetic standpoint, I would say yes.

Mr. STEAGALL. The savings deposit is more in the nature of an investment, is it not? The savings depositor goes out for the purpose of making money, as an investor, and he puts his money where it will bring him something. He does not contribute to the activities of business, commerce, industry and agriculture, but he simply follows what he thinks is the safe method of placing his money, where he can get it back with interest. So I would not think that that fund should be treated with more consideration than the fund of a depositor who puts his money into banks that in turn put it into the channels of trade and commerce.

Governor YOUNG. The savings depositor is usually a time depositor, and I suspect that in every instance in the United States before he can draw his money in an emergency, when a bank is in difficulty, he is required to give 30, 60, or 90 days notice, and during the interim many of the good assets of the institution may be sold or disposed of to pay the demand depositors, the business men, and others. Under those conditions I think that the savings depositor is entitled to some consideration.

Mr. STEAGALL. What you mean is that the rules of banking should be different in the effort to safeguard deposits of that character from what they are as applied to ordinary demand deposits?

Governor YOUNG. I think so.

Mr. STEAGALL. But you are not speaking of any effort to guarantee either sort of deposits, are you?

Governor YOUNG. I am not.

Mr. STEAGALL. You are merely speaking of the methods of banking?

Governor YOUNG. That is correct.

Mr. STEAGALL. But, getting back to the question of guaranteeing deposits, I believe you said that you have studied this effort that has been made in different States?

Governor YOUNG. That is right.

Mr. STEAGALL. You do not understand that there is any essential similarity between the effort of the State of Nebraska, for instance, in imposing assessments against banks to take care of deposits and the guaranty of deposits by the Federal reserve system? You would not attempt to say that that would be a guide by which you could ascertain whether or not the Federal reserve system could guarantee its deposits, would you?

Governor YOUNG. I think so.

Mr. STEAGALL. What are the assets of the Federal reserve system?

Governor YOUNG. The member banks' reserve deposits are about $2,300,000,000; the capital is about $176,000,000; the undivided profits are $278,000,000, I think, and there is a small surplus beyond that—I have forgotten what it is—and there are some Government deposits and some very small foreign deposits.

Mr. STEAGALL. The Federal reserve system embraces how many national banks and member banks?

Governor YOUNG. About 9,000—that is about right, is it not, Mr. Smead?

Mr. SMEAD. About 8,500.

Mr. STEAGALL. Would you say that the Federal reserve system, with all its resources and these 9,000 banks, should treat the experiments in Nebraska as a final determination of the question of what the Federal reserve system could do toward protecting deposits or guaranteeing deposits in member banks?

Governor YOUNG. I think so, in proportion. You have to take things in proportion. Let us take the Reserve Bank of Minneapolis——

Mr. STEAGALL. The Federal reserve banks embrace the whole United States, do they not?

Governor YOUNG. Yes.

Mr. STEAGALL. The United States is a unit. Do you not think that that makes a great deal of difference, as between that and a small State—not to call it backward, as some one has done—with a handful of small State banks?

Governor YOUNG. We have to take it in proportion, Mr. Congressman, and——

Mr. STEAGALL. Is not this true also, Governor Young, that the State banks are permitted to loan on real estate? Is not the trouble with them in a great many instances that their loans rest upon real estate and they can not realize them?

Governor YOUNG. National banks are permitted to loan money on real estate.

Mr. STEAGALL. But not like State banks, are they?

Governor YOUNG. Not to the degree that State banks are.

Mr. STEAGALL. And we came along and liberalized the law, and did it at the instance of men who were supposed to know all about banking, to permit national banks to increase their loans on real estate, and we made a mistake when we did it and added to their difficulties and helped to bring on some of these failures which all of us regret.

Governor YOUNG. I think the difficulty with the small banks did not come so much with loans on real estate as with loans that were made where they had to take equities in real estate.

Mr. STEAGALL. That is all very true, but you will find, I am sure—and you are better informed than I am—that a great many of these small national banks are banks that were members of the Federal reserve system and found that a great part of their difficulty was due to the fact that they got their loans tied up in real estate, out of which they could not realize. Every time we read of one of these banks failing we read headlines in the paper "bank freezes," and in a large number of instances you will find that one reason for it is that they have a good portion of their loans tied up in real estate.

Governor YOUNG. Mr. Congressman, I am afraid you are under a misapprehension. Under the old national bank act you were permitted to take a real-estate mortgage, a first mortgage, second mortgage, or third mortgage, or anything you could get, for a debt previously contracted, and I think if you would look into the difficulties of the banks of the United States you would find that the reason

they closed was not because of an original loan on farm land, but it was because of taking an equity in the farm land.

Mr. STEAGALL. I do not doubt that some of it is that way.

Governor YOUNG. I was going to say that 90 per cent of it is that way.

Mr. STEAGALL. Anyhow, passing on from that——

Governor YOUNG. May I ask Mr. Awalt if that is an accurate statement?

Mr. AWALT. I do not know about the percentage, but that is true as to a great majority.

Governor YOUNG. Something that could have been done——

Mr. STEAGALL. I propose to defer to Mr. Awalt and not to attempt to pass judgment on that, but, at any rate, of course these State banks are up against that difficulty to a much larger extent than the national banks—that is, having their loans resting upon real estate which is not liquid, and that being the case, that, of course, would create——

Mr. BRAND. He has not answered that.

Mr. STEAGALL. I think that is a matter of common knowledge.

Governor YOUNG. I think it is the equity in real estate rather than the direct——

Mr. STEAGALL. You did not catch my question. I say that this is true, that the State banks have had greater difficulty in connection with loans on real estate because of the lack of the limitations as to loans on real estate that apply to national banks.

Governor YOUNG. The limits are more liberal.

Mr. STEAGALL. And, of course, in the case of State banks a larger percentage of their difficulties is traceable to real-estate loans than is the case with national banks.

Governor YOUNG. I do not know as much about the State member banks as I do about the national banks.

Mr. STEAGALL. Let me ask you this: What have been the total losses to depositors in national banks, and when I say national banks I include all banks down to this time which are members of the Federal reserve system. Do you know what the total losses of depositors have been since the establishment of the national bank system?

Governor YOUNG. I think that is covered in the comptroller's statement before this committee, and I——

Mr. STEAGALL. I will say this to you—and I will be glad to have you correct the figures if I am in error—that my information is that down to 1925 depositors in national banks had sustained losses totaling approximately $45,000,000, and, while we have not the exact figures for the past five years, the comptroller's report and testimony show that insolvent banks have realized 79 per cent. Certainly $1,000,000 a year, or very little more than that, would have taken care of the losses to depositors in national banks from the beginning of the national bank system down to now, would it not?

Governor YOUNG. I do not doubt that you are quoting accurate figures, but I am trying to think of the ninth Federal reserve district alone. I am quite sure that the losses to depositors are beyond that.

Mr. STEAGALL. That might be true.

Mr. FORT. I think they were put into the record in Mr. Pole's testimony.

Mr. STEAGALL. I think the comptroller's figures show that the maximum of losses to depositors from the foundation of the national banking system to 1930 was around $80,000,000, which would be a little over $1,000,000 a year, and I will say to the gentleman that those are the figures, for I happen to be familiar with them, and that is what the comptroller showed. That being true, the plain fact is that the Federal reserve system, not counting its surplus, which you think has now reached a larger sum than wisdom requires, and notwithstanding the absorption of the initial expense of incorporating the Federal reserve system and the building program carried out by the Federal reserve system, has paid into the Treasury $150,000,000, a little under that, so that the franchise tax paid by the Federal reserve system into the Treasury amounts to substantially twice the sum that would be required to take care of or to guarantee all the losses to depositors in the national banks since the foundation of the system.

Governor YOUNG. Mr. Congressman, can we go a little further with those figures, and assume——

Mr. STEAGALL. That would be the fact, would it not?

Governor YOUNG. No; I am going to go a little bit further than that.

Mr. STEAGALL. All right. Answer it in your own way, of course.

Governor YOUNG. This figure of $80,000,000 total losses to national banks covers a great number of years. What the actual losses were, of course, is much beyond that. Many of those losses were covered by voluntary assessments, and——

Mr. STEAGALL. A voluntary assessment would not be a loss against a depositor.

Governor YOUNG. Yes; but, Mr. Congressman, the point I am bringing out is this, that if you had a guaranty of bank deposits by the Federal reserve system, you would not be struggling with $80,000,000; you would be struggling with an amount much in excess of that, because if the stockholders of a bank which got in bad condition knew that that institution was going to be taken care of by the Federal reserve system they would pay their 100 per cent legal assessment and that is all they would pay. As it is now, they pay 100, 200, 400, and even 500 per cent in certain cases. So these figures of the Comptroller of the Currency do not tell the entire loss.

Mr. STEAGALL. I beg your pardon; I do not think you should say that. I am talking about losses to depositors.

Governor YOUNG. You can see very readily that the amount that the Federal reserve system would be required to guaranty would be far in excess of this $80,000,000.

Mr. STEAGALL. Well, I am only offering you the figures to show what the actual losses have been down to this time. You do not apprehend that conditions are going to get worse with respect to the solvency of the banks that are members of the Federal reserve system, do you?

Governor YOUNG. With the guaranty of deposits by the Federal reserve system every bank in the United States obviously would attempt to join the Federal reserve system.

Mr. STEAGALL. They would not have a right to join of their own will. The Federal Reserve Board would, of course, pass on the wisdom of taking them into membership.

Governor YOUNG. It would. But I think it is fair, Mr. Congressman, that you take the entire loss of all the banks in the United States into consideration with a guaranty such as you have in mind.

Mr. STEAGALL. You do not proceed upon the idea that the Federal Reserve Board would admit to membership all the State banks in the United States, including those who are not in condition to make them fit for membership in the Federal reserve system?

Governor YOUNG. All right; let us go back to 1917, when the appearance of all banks in the United States was good, even in the agricultural section. Those banks under this guaranty obviously would come to the Federal reserve system, and from what I know of the conditions out there at that time the probabilities are that we would have accepted a great majority of those banks for membership in the Federal reserve system. Then came your great agricultural crash throughout the United States. The losses would have been just the same to the depositors from 1919 on clear through to 1925 and right up to the moment, and I think that when you advocate any guaranty of bank deposits you have to take all those figures into consideration as to what you may have to pay, and that is why I say that you can take the State of Nebraska and the State of South Dakota to determine whether the guaranty of bank deposits is a good thing or not.

Mr. STEAGALL. What I have in mind is this: I appreciate the force of your suggestions and, of course, there will be some difficulties there, but I can not for a moment anticipate that conditions in the banking world are going to continue as they are or that they will fail to improve or that the Federal reserve banks would admit to membership State banks upon terms that would constitute a partial attitude on the part of the Federal Reserve Board toward State banks. My impression has been up to now that the Federal Reserve Board was inclined—and I will not say unfairly—to act more favorably with national banks, which was a natural thing, and I am not finding fault with them about it, but they have certainly been on their guard with respect to the admission of State banks into the Federal reserve system. I have known of such instances where I think they were right about it, where they exercised exceeding care, and I should think they would continue to do that.

Governor YOUNG. Of course, we do do that, Mr. Congressman, but the Federal reserve banks and examiners, and the Federal Reserve Board, are not infallible, as was conclusively shown by the fact that we did admit many State member banks that subsequently had to fail.

Mr. STEAGALL. You have had much more trouble with them than with the others, in proportion?

Governor YOUNG. With the State member banks?

Mr. STEAGALL. The Federal reserve system has not had any more trouble with the State member banks than with the others, has it?

Governor YOUNG. No.

Mr. STEAGALL. So that if they should exercise the same care in the future that they have in the past, there is nothing to fear in that connection, is there?

Governor YOUNG. For membership, no.

Mr. STEAGALL. I mean in the developments after they are admitted to membership. You have had just as fortunate results; in other

words, your member banks and State banks have succeeded as well as the national banks in the Federal reserve system?

Governor YOUNG. Generally speaking, yes.

Mr. STEGALL. That being true, then, of course, you would exercise the same wisdom in the future as in the past, so that you would not encumber your Federal reserve system with all of the weak State banks throughout the country?

Governor YOUNG. Well, I am just trying to think, Mr. Congressman, what the Federal Reserve Bank of Minneapolis would have done in 1917, if 3,000 member banks came to us for membership, because of this guarantee of bank deposits——

Mr. STEGALL. I agree they would come. It puts work on the Federal Reserve Board, I am sure.

Governor YOUNG. I dare say 2,500 would have been admitted from what we knew about those banks at that time or thought we knew.

Mr. STEGALL. Governor Young, is not this a fair statement: The law contemplates and, in practical operation, the Federal Reserve Board deals just as intelligently with State banks as with National banks in the system?

Governor YOUNG. That is true.

Mr. STEGALL. And that would continue to be true?

Governor YOUNG. Always.

Mr. STEAGALL. Governor Young, I was glad to have your statement that you thought it would be wise to distribute some of the earnings of the Federal reserve banks to member banks instead of paying it into the Treasury as franchise taxes. I appreciate your views in that respect. It has occurred to me that the Federal Reserve Board could be empowered by Congress to set aside a part of the earnings of the Federal reserve system to build up a fund to be placed in the hands of the Comptroller of the Currency to be used by him in undertaking to work out the difficulties encountered in administering upon insolvent banks and to use in the purchase of assets where necessary and for the purpose of carrying a bank along for a time as seasonal conditions made it desirable to do so; to liquidate it in an orderly way and to conserve its resources and assets and within conservative and safe calculations to build up a fund and have it in the hands and under the control of the Comptroller of the Currency with which he would reimburse depositors in national banks who incurred losses; not that the Federal reserve system would attempt to say, "We are going to take over the whole banking business of the United States and guarantee all depositors," but that the Federal Reserve Board should take these earnings and begin to set aside this fund and establish rules by which this fund should be devoted to the absorption of these losses and the reestablishment of banks and assist the comptroller in the orderly liquidation of banks that have to be closed, and if the fund or earnings in the future, as in the past, prove themselves more than adequate to take care of these deposits, let that be done, and, if not, let the comptroller be empowered to use it in so far as it could be done, to take care of the conditions growing out of the distress and failures that may be expected.

That certainly would be a very different thing from any guaranty system that has been undertaken by a State, as a rule?

Governor YOUNG. Does not that come pretty close to the Nebraska plan?

Mr. STEAGALL. No.

Governor YOUNG. The Nebraska law, when they found a bank tottering the commissioner took it over and assessed the other banks.

Mr. STEAGALL. I would not favor that plan. I am not talking about that. I should think that would be unsafe. I do not think the Federal reserve system would be justified in attempting to levy any charges on any bank or assess any bank or have them assess themselves.

I am only making my inquiry in reference to what may be done out of the earnings of the Federal reserve banks which you say come out of their member banks and, of course, the assets of the member bank rest largely upon depositors and the only thought I have is that a part of those earnings should be put into a fund which would help in such situations and, if sufficient to do it, would take care of the depositors. If not, the comptroller would use it as intelligently as possible and make it go as far as possible.

The record shows down to this hour they have made enough to take care of the losses of all depositors.

Governor YOUNG. I am convinced in the ninth Federal reserve district from the year 1920 clear through to 1927 we could have given the capital, surplus, and all earnings of the Federal Reserve Bank of Minneapolis for that very purpose and probably a good portion of the reserves of the member banks.

Mr. STEAGALL. I am not talking about any particular district. What I have in mind is the disposition of the earnings of the whole system that are now going into the Treasury; this $150,000,000 that went into the Treasury came out of the small banks that are struggling and failing and would have paid the depositors of those banks for 150 years from the passage of the national banking act based on the developments down to this time. That is the thing I have in mind. It is the matter of the distribution of those earnings; not for the Federal reserve banks to undertake to do a certain thing, anticipating ability they may not have when the time comes, but simply disposing of their earnings which they now pay into the Treasury.

Governor YOUNG. The difficulty with the whole program, Mr. Congressman, is this: In Nebraska, if the fund had been large enough, this would have carried through and would have been a success, but the assessments got to a point where the good banks knew they were carrying the poor banks, and the assessments which were being levied against the good banks went beyond their ability to pay.

Mr. STEAGALL. I agree with you that——

Governor YOUNG. That is entirely possible with any plan which is set up and, on top of that, your member banks now are asking for more earnings and, in my opinion, justly so.

Mr. STEAGALL. Well, that is what I am talking about; that we devote a part of the earnings to the depositors instead of distributing them to the stockholders.

Governor YOUNG. If you state to member banks, "We will give you the earnings, but we will hold on to them and put them into a pot to take care of your depositors," that would not please the member banks.

Mr. STEAGALL. You mean the depositors?

Governor YOUNG. The good member banks who feel that they do not need this protection of the deposits.

Mr. STEAGALL. I think we ought to look forward to the time when the depositors of the Federal national banks can look at their deposit slips as good to the last dollar, and when we pay out this money that comes into the Treasury from these banks, I think we should let some go to the protection of the depositors. I beg the chairman's pardon for taking so much time.

Governor YOUNG. I think the large part of the earnings Mr. Congressman, come out of the large banks of the United States. They are the heavier borrowers.

Mr. STEAGALL. I appreciate that fact, but the large banks are interested in the little banks and the little banks in the large banks and the big towns are interested in the little towns, or ought to be, and vise versa. We are all one people. I would like to see it succeed, and it is not succeeding now.

The CHAIRMAN. Will you yield to Judge Brand at this point?

Mr. STEAGALL. Certainly.

Mr. BRAND. Mr. Chairman, I want to submit a request and then I will yield to Mr. Stevenson who must leave to-morrow.

Governor Young, if it would not be too much inconvenience, I should like you to put into the record the gross earnings, the expenses, and the net earnings of all of the 12 reserve banks in the United States from 1912 down to and including the year 1929, showing the gross earnings of each bank, the expenses of each bank, and the net earnings of each bank during that period, which is for 15 years.

Governor YOUNG. You mean since 1914?

Mr. BRAND. Yes. I want the gross earnings for all, because that will show when we get it for each one. Can you do that?

Governor YOUNG. I have a report right here which has been prepared, Mr. Congressman, which shows the earnings and expenses of each reserve bank, gross, net, dividends paid, transferred to surplus, franchise tax paid the United States Government, for all of the 12 banks and for each individual bank.

Mr. BRAND. You have the expenses there, too?

Governor YOUNG. The expenses would be the difference between the gross and the net.

Mr. BRAND. Of course. But for convenience though——

Governor YOUNG. I can have Mr. Smead add those figures. It is nothing but a case of subtraction.

Mr. BRAND. For instance, the gross earnings of the Federal reserve bank at Atlanta is shown here as $31,712,460; the total expenses of the Federal reserve bank at Atlanta are $12,526,915, and the net earnings of the Atlanta bank are $19,185,545, from the years 1914 to 1926. I would like to have a list showing that for each of the banks.

Governor YOUNG. It is all right here. This is to the close of business at the end of 1929.

The CHAIRMAN. Are you ready now, Mr. Stevenson?

Mr. STEVENSON. Yes, sir.

The CHAIRMAN. Without objection, these matters Governor Young submits will be inserted in the record at this point.

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

EARNINGS AND EXPENSES OF EACH RESERVE BANK

No. 79.—Gross and Net Earnings of Each Federal Reserve Bank, and Disposition Made of Net Earnings, 1914–1929

Federal reserve bank	Earnings		Disposition of net earnings			
	Gross	Net	Dividends paid	Transferred to surplus [1]	Franchise tax paid to U. S. Government [1]	Profit (+) or loss (−) carried forward
All Federal reserve banks:						
1914–15	$2,173,252	−$141,459	$217,463			−$358,922
1916	5,217,998	2,750,998	1,742,774			+1,008,224
1917	16,128,339	9,579,607	6,801,726	$1,134,234	$1,134,234	+509,413
1918	67,584,417	52,716,310	5,540,684	48,334,341		−1,158,715
1919	102,380,583	78,367,504	5,011,832	70,651,778	2,703,894	
1920	181,296,711	149,294,774	5,654,018	82,916,014	60,724,742	
1921	122,865,866	82,087,225	6,119,673	15,993,086	59,974,466	
1922	50,498,699	16,497,736	6,307,035	−659,904	10,850,605	
1923	50,708,566	12,711,286	6,552,717	2,545,513	3,613,056	
1924	38,340,449	3,718,180	6,682,496	−3,077,962	113,646	
1925	41,800,706	9,449,066	6,915,958	2,473,808	59,300	
1926	47,599,595	16,611,745	7,329,169	8,464,426	818,150	
1927	43,024,484	13,048,249	7,754,539	5,044,119	249,591	
1928	64,052,860	32,122,021	8,458,463	21,078,899	2,584,659	
1929	70,955,496	36,402,741	9,583,913	22,535,597	4,283,231	
Total	904,628,021	515,215,983	90,672,460	277,433,949	147,109,574	
Boston:						
1914–15	125,459	−34,603				−34,603
1916	490,888	295,935	249,735			+46,200
1917	1,285,884	740,359	601,756	75,100	75,100	−11,597
1918	4,475,195	3,305,180	384,180	2,921,000		
1919	7,497,583	5,777,381	414,447	5,362,934		
1920	12,273,253	10,272,564	447,266	7,351,799	2,473,499	
1921	6,968,662	4,281,353	473,109	772,324	3,035,920	
1922	3,541,313	1,097,402	481,951	−170,782	786,233	
1923	3,506,683	1,252,135	480,267	77,187	694,681	
1924	2,559,016	470,422	477,798	−7,376		
1925	3,288,546	1,140,581	502,648	637,933		
1926	3,319,077	1,156,873	525,023	585,888	45,962	
1927	2,975,357	837,612	550,446	287,166		
1928	4,465,342	2,316,522	590,830	1,725,692		
1929	5,160,831	2,766,134	634,112	2,132,022		
Total	61,933,089	35,675,850	6,813,568	21,750,887	7,111,395	
New York:						
1914–15	345,035	−123,887				−123,887
1916	971,026	414,064	127,113			+286,951
1917	4,929,214	3,078,481	1,942,819	649,363	649,363	−163,064
1918	25,314,736	21,662,917	1,195,026	20,467,891		
1919	35,332,412	27,959,619	1,291,047	23,964,678	2,703,894	
1920	60,525,321	53,128,130	1,477,096	12,332,523	39,318,511	
1921	34,710,274	26,093,832	1,608,721	3,782,671	20,702,440	
1922	11,349,279	3,721,593	1,652,138	−1,397,603	3,467,058	
1923	11,413,183	3,043,679	1,749,239	129,444	1,164,996	
1924	8,569,350	616,852	1,796,530	−1,179,678		
1925	10,217,174	3,103,298	1,888,196	1,215,102		
1926	10,600,968	3,749,748	2,100,191	1,649,557		
1927	10,647,759	3,720,601	2,327,355	1,393,246		
1928	18,483,042	11,018,433	2,743,725	8,274,708		
1929	19,314,279	12,263,224	3,544,314	8,718,910		
Total	262,723,052	173,450,584	25,443,510	80,000,812	68,006,262	
Philadelphia:						
1914–15	113,972	−31,517				−31,517
1916	448,180	249,941	128,458			+121,483
1917	1,095,540	753,875	623,603			+130,272
1918	4,357,740	2,972,089	583,983	2,608,344		−220,238
1919	8,609,880	6,659,169	462,380	6,196,789		
1920	11,848,551	9,065,116	496,679	8,204,775	363,662	
1921	8,008,095	5,339,454	517,663	935,239	3,886,552	
1922	4,251,950	2,236,876	541,552	803,594	891,730	
1923	4,592,771	2,177,837	582,292	1,178,588	416,957	
1924	2,915,846	747,092	615,135	131,957		
1925	3,135,550	1,078,120	673,212	404,908		
1926	3,626,648	1,533,733	730,598	803,135		
1927	3,363,626	1,176,469	781,540	394,929		
1928	5,394,546	3,282,641	843,755	2,438,886		
1929	6,076,048	3,801,988	938,312	2,863,676		
Total	67,838,943	41,042,883	8,519,162	26,964,820	5,558,901	

[1] Amounts shown as transferred to surplus account for 1922 are net, i. e., after the deduction of amounts charged to surplus account on Dec. 31, 1922, and paid to the United States Government as franchise tax. For prior years as follows: For 1920—New York, $270,389; for 1921—Boston, $247,350; New York, $1,334,160; Philadelphia, $36,366; Richmond, $20,459; Atlanta, $213,629; Chicago, $710,190; Minneapolis, $52,423; Kansas City, $208,170; San Francisco, $306,926; total, $3,129,673.

No. 79.—Gross and Net Earnings of Each Federal Reserve Bank, and Disposition Made of Net Earnings, 1914–1929—Continued

Federal reserve bank	Earnings		Disposition of net earnings			
	Gross	Net	Dividends paid	Transferred to surplus [1]	Franchise tax paid to U. S. Government [1]	Profit (+) or loss (−) carried forward
Cleveland:						
1914–15	$113,815	−$55,774				−$55,774
1916	452,129	293,808	$143,237			+150,571
1917	1,367,216	753,682	716,168			+37,514
1918	5,226,864	4,135,796	716,107	$3,552,000		−132,311
1919	7,800,829	6,093,785	556,785	5,537,000		
1920	14,458,619	11,820,031	604,194	11,215,837		
1921	9,390,863	6,284,383	660,228	2,329,442	$3,294,713	
1922	4,994,282	2,268,688	692,436	861,264	714,988	
1923	4,655,090	921,221	725,626	195,595		
1924	3,770,689	−473,153	756,152	−1,229,305		
1925	4,013,456	1,210,576	778,811	431,765		
1926	4,517,884	1,660,762	808,505	852,257		
1927	4,197,836	1,108,190	832,583	275,607		
1928	6,250,553	3,180,715	856,843	2,323,872		
1929	6,986,580	3,705,442	910,007	2,795,435		
Total	78,196,705	42,908,152	9,757,682	29,140,769	4,009,701	
Richmond:						
1914–15	319,580	174,955	151,940			+23,015
1916	334,102	186,571	197,922			−11,351
1917	821,195	462,224	240,944	116,472	116,472	−11,664
1918	2,979,048	2,312,030	232,432	2,079,598		
1919	4,775,324	3,877,266	252,872	3,624,394		
1920	6,902,643	5,238,506	293,052	4,740,869	204,585	
1921	6,729,679	4,393,627	322,203	693,792	3,377,632	
1922	2,832,944	867,448	333,321	32,954	501,173	
1923	2,878,896	1,092,843	342,295	384,404	366,144	
1924	2,210,240	379,791	351,251	28,540		
1925	2,182,460	576,110	358,162	217,948		
1926	2,429,017	727,645	363,957	279,216	84,472	
1927	2,086,303	497,711	372,230	125,481		
1928	2,857,648	1,118,960	370,683	74,828	673,449	
1929	3,299,609	1,342,225	368,601	97,362	876,262	
Total	43,638,688	23,247,912	4,551,865	12,495,858	6,200,189	
Atlanta:						
1914–15	236,460	82,532				+82,532
1916	279,520	129,307	201,719			−72,412
1917	589,789	288,083	218,203	40,000	40,000	−10,120
1918	2,293,058	1,652,473	182,473	1,470,000		
1919	4,416,001	3,382,397	197,397	3,185,000		
1920	7,476,431	6,010,324	225,571	3,648,465	2,136,288	
1921	7,406,652	5,496,219	245,862	770,106	4,480,251	
1922	2,352,736	672,730	256,618	−172,018	588,130	
1923	2,682,314	352,179	264,622	8,756	78,801	
1924	1,907,121	272,656	272,656			
1925	2,072,378	26,191	276,488	−250,297		
1926	3,045,867	1,228,327	296,573	931,754		
1927	2,067,839	669,904	305,817	364,087		
1928	3,578,156	1,603,985	312,259	558,425	823,301	
1929	4,116,049	1,428,518	321,696	303,032	803,790	
Total	44,520,371	23,385,825	3,577,954	10,857,310	8,950,561	
Chicago:						
1914–15	268,885	20,091				+20,091
1916	665,937	403,206	361,319			+41,887
1917	2,083,164	1,231,879	862,259	215,799	215,799	−61,978
1918	8,481,747	6,805,081	604,635	6,200,446		
1919	12,012,078	8,576,204	700,807	7,875,397		
1920	30,303,218	25,875,749	792,769	14,688,500	10,394,480	
1921	20,382,170	14,505,117	853,785	2,075,323	11,576,009	
1922	6,748,863	1,405,215	876,203	−657,289	1,186,301	
1923	6,511,359	1,178,355	904,371	27,398	246,586	
1924	5,202,169	909,123	909,123			
1925	5,424,663	1,121,273	934,016	187,257		
1926	6,567,043	2,253,923	985,959	1,267,964		
1927	6,167,352	1,927,645	1,029,990	897,655		
1928	8,936,418	4,763,429	1,099,761	3,663,668		
1929	9,889,451	5,424,665	1,170,363	3,651,464	602,838	
Total	129,644,517	76,400,955	12,085,360	40,093,582	24,222,013	

[1] See note on p. 573.

No. 79.—Gross and Net Earnings of Each Federal Reserve Bank, and Disposition Made of Net Earnings, 1914–1929—Continued

Federal reserve bank	Earnings		Disposition of net earnings			
	Gross	Net	Dividends paid	Transferred to surplus [1]	Franchise tax paid to U. S. Government [1]	Profit (+) or loss (−) carried forward
St. Louis:						
1914–15	$86,833	−$97,169				−$97,169
1916	297,948	141,017	$31,100			+109,917
1917	773,106	502,156	284,566			+217,590
1918	2,676,828	1,777,810	404,838	$1,603,310		−230,338
1919	3,884,478	2,355,154	234,660	2,120,494		
1920	7,180,117	4,875,566	253,711	4,621,855		
1921	5,166,315	2,951,926	270,253	1,042,564	$1,639,109	
1922	2,456,447	647,572	283,166	276,450	87,956	
1923	2,753,435	1,182,163	296,810	407,070	478,283	
1924	1,688,143	203,937	304,976	−101,039		
1925	2,055,637	−93,540	306,753	−400,293		
1926	2,511,509	685,022	314,420	368,602		
1927	2,228,079	775,681	317,727	457,954		
1928	2,901,925	785,159	321,855	423,011	40,293	
1929	3,247,936	885,884	319,231	56,665	509,988	
Total	39,908,736	17,576,338	3,944,066	10,876,643	2,755,629	
Minneapolis:						
1914–15	100,112	−32,341				−32,341
1916	255,177	134,603	57,720			+76,883
1917	672,799	394,353	363,895	37,500	37,500	−44,542
1918	2,049,954	1,545,847	168,103	1,377,744		
1919	3,007,041	2,333,943	180,186	2,153,757		
1920	5,307,381	4,131,053	195,871	3,410,948	524,234	
1921	4,966,311	3,151,154	211,657	488,530	2,450,967	
1922	1,969,248	782,695	213,774	4,469	564,452	
1923	1,749,253	325,455	212,733	11,272	101,450	
1924	1,609,070	329,102	202,828	12,628	113,646	
1925	1,438,341	234,954	193,560	4,139	37,255	
1926	1,622,333	448,033	187,609	26,043	234,381	
1927	1,390,031	296,077	180,726	11,535	103,816	
1928	1,710,304	614,704	181,203	43,350	390,151	
1929	1,926,031	794,762	184,030	61,073	549,659	
Total	29,773,386	15,484,394	2,733,895	7,642,988	5,107,511	
Kansas City:						
1914–15	102,474	−66,776				−66,776
1916	380,208	224,989	66,707			+158,282
1917	1,002,660	566,404	364,503			+201,901
1918	3,451,936	2,437,748	309,729	2,421,426		−293,407
1919	4,961,482	3,923,362	228,755	3,694,607		
1920	7,409,987	5,540,681	257,672	3,042,781	2,240,228	
1921	5,712,858	3,056,096	268,620	486,918	2,300,558	
1922	3,094,660	783,036	275,655	−157,432	664,813	
1923	2,993,919	347,711	275,313	7,240	65,158	
1924	2,262,910	−253,182	265,697	−518,879		
1925	2,309,985	282,921	258,426	2,450	22,045	
1926	2,677,340	756,469	252,764	50,370	453,335	
1927	2,304,938	414,726	252,753	16,198	145,775	
1928	2,597,968	659,760	253,254	40,651	365,855	
1929	2,976,576	1,013,585	256,549	75,703	681,333	
Total	44,239,901	19,687,530	3,586,397	9,162,033	6,939,100	

[1] See note on p. 573

No. 79.—GROSS AND NET EARNINGS OF EACH FEDERAL RESERVE BANK, AND DISPOSITION MADE OF NET EARNINGS, 1914–1929—Continued

Federal reserve bank	Earnings		Disposition of net earnings			
	Gross	Net	Dividends paid	Transferred to surplus [1]	Franchise tax paid to U. S. Government [1]	Profit (+) or loss (−) carried forward
Dallas:						
1914-15	$244,666	$75,388	$65,523			+$9,865
1916	326,372	166,046	134,008			+32,038
1917	621,970	352,067	188,234			+163,833
1918	2,089,526	1,240,175	261,503	$1,184,408		−205,736
1919	3,062,251	2,041,864	196,335	1,845,529		
1920	4,904,522	3,228,231	225,424	3,002,807		
1921	4,239,574	1,613,564	252,211	1,361,353		
1922	2,085,775	354,125	251,915	102,210		
1923	2,356,436	332,282	251,429	80,853		
1924	2,157,964	265,024	249,789	15,235		
1925	1,813,626	278,135	255,239	22,896		
1926	2,127,049	857,211	257,502	599,709		
1927	1,741,922	568,209	256,310	311,899		
1928	2,119,666	713,455	258,544	163,301	$291,610	
1929	2,496,030	770,391	266,613	244,417	259,361	
Total	32,387,349	12,856,167	3,370,579	8,934,617	550,971	
San Francisco:						
1914-15	115,961	−52,358				−52,358
1916	316,511	111,511	43,736			+67,775
1917	885,802	456,044	394,776			+61,268
1918	4,187,785	2,869,164	497,675	2,448,174		−76,685
1919	7,021,224	5,387,360	296,161	5,091,199		
1920	12,706,668	10,108,823	384,713	6,654,855	3,069,255	
1921	9,184,413	4,920,500	435,361	1,254,824	3,230,315	
1922	4,821,202	1,660,356	448,306	−185,721	1,397,771	
1923	4,615,227	505,426	467,720	37,706		
1924	3,487,931	250,516	480,561	−230,045		
1925	3,848,890	490,447	490,447			
1926	4,554,860	1,555,999	506,068	1,049,931		
1927	3,853,442	1,055,424	547,062	508,362		
1928	4,757,292	1,974,258	625,751	1,348,507		
1929	5,466,076	2,205,922	670,085	1,535,837		
Total	69,823,284	33,499,392	6,288,422	19,513,629	7,697,341	

[1] See note on p. 573

Mr. STEVENSON. Governor Young, you were a practical banker before you came on the board, were you not?

Governor YOUNG. Yes, sir.

Mr. STEVENSON. What banks were you connected with?

Governor YOUNG. I started with the First National Bank at Marquette, Mich.; later with the Marquette National Bank of Marquette, Mich.; later with the First National Bank of Lake Linden, Mich.; later with the Citizens National Bank of Houghton, Mich.

Mr. STEVENSON. In all those relations you had more or less dealings with what are known as country banks, did you not?

Governor YOUNG. They were country banks.

Mr. STEVENSON. You learned something of their practical difficulties?

Governor YOUNG. Many of them.

Mr. STEVENSON. What was the capital stock of the bank you were with when you were appointed to the board?

Governor YOUNG. $100,000. Pardon me, Mr. Congressman. You asked when I was appointed to the board?

Mr. STEVENSON. Yes.

Governor YOUNG. For 10 years I was governor of the Federal reserve bank at Minneapolis.

Mr. STEVENSON. When you became governor of the Federal Reserve bank at Minneapolis, you came from a country bank?

Governor YOUNG. Yes; a $100,000 bank.

Mr. STEVENSON. Governor, reference has been made to the difficulties in the last 10 years of the banks and the failures. As a matter of fact, from your observation, has not a great deal of that come from the shrinkage in the values of the assets of the customers of the banks, which has come about—I am not charging it was anybody's fault—but has not a great deal of the difficulty resulted from the shrinkage in value of real estate and other assets of the people who dealt with the banks?

Governor YOUNG. It was a very contributing factor.

Mr. STEVENSON. For instance, in my country, agricultural products were high; agricultural lands were high, and the man who owned 200 acres of land was considered a perfectly good risk for a sizable loan anywhere from two to ten thousand dollars. When the deflation, or whatever it might be termed, of 1920 came about, the banks were full of paper of that kind. Men who were perfectly good, as their assets stood prior to the beginning of the decline—this is my observation down there and I take it was so where you were—the decline in the price of agricultural products (cotton with us and various other things with you) rendered that fellow unable to pay his debt, and the bank began to renew his paper.

By the next year they began to call for security and wanted a mortgage on the land. That is the way a great deal of the mortgages got into the banks with us. Is not that true in your section?

Governor YOUNG. Yes, sir; that is true with us, and usually they were second mortgages.

Mr. STEVENSON. He would come up and say, "I can not pay this, but I have land worth $10,000. I can borrow $5,000 from the Federal land bank and pay that to you and give you a second mortgage for the balance." That is about the history of things with us. They did that and he farmed another year and they did that again. The value of the land shrinks and he begins to fall down in his installments with the joint-stock land bank that he is dealing with and in about a year they begin to foreclose and sell him out. The margin the commercial bank has is wiped out. That is what happened with us. Is that what happened in the Northwest?

Governor YOUNG. That is an accurate description of what happened in the Northwest.

Mr. STEVENSON. Then he is out, barefooted and coat gone, and no way to farm; and there are thousands of those fellows who were that way, and it was the result of the collapse in agricultural values that got so much frozen assets in the banks. They continued to carry them. They could not do anything else. He, the farmer, did not have the money. The land was mortgaged, so it could not be given as further security.

Now, has there not been a great deal of this not due to any inefficiency in the system, in managing banks, but due to the conditions that arose without anybody being able to forecast it, that has torn down the country bank in this country?

Governor YOUNG. It was a very contributing factor, Mr. Congressman, if not the main factor, but on the other hand, in those same communities where banks did go down others stood up.

Mr. STEVENSON. Yes.

Governor YOUNG. Apparently they used more discretion in lending their money, so that management must also be a factor in the circumstances.

Mr. STEVENSON. The judgment of management, of course, is the final factor and that is so in all banking institutions.

Now, suppose we had had what we call a decentralized branch banking system spread all over that country and dealing with the same people, having the same character of security, and that had occurred. Would there not have been great danger of a decentralized branch banking system getting into the same fix?

Governor YOUNG. It would be possible, but not as probable, in my opinion. We can look across the border, and, if I am informed correctly, the Canadian banks had losses in that same territory, but the depositors did not lose. Now, the probabilities are that the Canadian bank did not lend as indiscriminately as the American unit bankers did. That may have been for the good of the territory, as I believe perhaps it was, so that when losses did develop with the man who had to go through a drought of 3, 4, or 5 years in succession, his losses were smaller and he was in better position to stand them than the small-unit banker.

Mr. STEVENSON. The advantage of a system of that kind, spread over a large area, would be, according to my observation, that the losses are somewhat local, sometimes.

Governor YOUNG. Frequently.

Mr. STEVENSON. And if you have them spread over a territory that has very diversified industries, the losses of one industry would be tided over by the success and prosperity of another. That is the situation that I think would probably arise in the Federal reserve district.

Governor YOUNG. I think, Mr. Congressman, that there is one thing I should mention before this committee. I have read very carefully all these reasons for bank failures. I think one of the things in the Northwest that caused as much trouble as anything, was a lack of confidence in the local bank which resulted in tremendous loss in deposits, thereby crippling their earning power and simultaneously putting them into a position where they could not take hold of a situation and work a man out, as you know many of these agricultural problems have had to be worked out with the aid of the bankers.

Those banks that did retain the confidence of the public, and had money to lend, accomplished more than those that lost deposits rapidly.

Mr. STEVENSON. They naturally held the best class of business and best class of deposits, and the fellow who was wobbling was obliged to take what the stronger banks left. That is about the size of it with us, and, of course, they ultimately went down.

Now, I was going to speak of the fourth Federal reserve district. I was not in Congress in those days when that matter was settled, but there was a member of the commission in South Carolina that appeared before the board before that district was established, and

our position was that we wanted to be in this district because of the diversification. If we were put in the Atlanta district, we were afraid that Georgia and Alabama would borrow all the money. But in this district we had wheat, coal, a diversity of livestock, and a great manufacturing industry in North and South Carolina, and then agriculture, and our belief was that when manufacturing and coal and all that kind of thing were not borrowing, we would be, and, in the fall of the year, when we had our cotton money then would be the time they would need to borrow. That has worked out very well. We got into the district after a fight, and I imagine that a district-wide branch banking system would get more benefits of that same thing; in other words, if they had losses in South Carolina or slow paper in South Carolina, they would have paper that was moving in Virginia, and West Virginia, and Maryland.

Would not that be an advantage of the proposed district-wide branch banking system?

Governor YOUNG. In my opinion, it would be.

Mr. STEVENSON. It would tend to stabilize it. But there is this—and we are depending upon that in South Carolina—there are three or four banks that have mighty near all the business in the State from the branches of subordinates that has taken place and they are exercising now a great deal more discretion about the loans they are making. We are having a terrific holler from the general public that they are choking business in the small towns. They have only one bank in a small town and the folks there can not borrow. The truth of the business is, probably, they have not the right kind of security. But that builds up sentiment, where they holler "monopoly." They are beginning to do that now.

If there was money enough to establish independent unit banks, they would be established, but everybody has been burned up on bank stock and they are trying to give some of it away now. That psychological condition is going to arrive when you establish a system of that kind. You will have all kinds of complaints about monopoly.

What is the answer to that? You have to deal with these matters as human questions. We have campaigns on now against chain stores and against everything that is not centralized in the home community.

Governor YOUNG. There are still unit banks in your territory.

Mr. STEVENSON. Yes, but mighty few of them.

Governor YOUNG. Of course the unit bank has the opportunity to diversify if it so elects. It can diversify through commercial paper, through bonds, through United States Government's and many investments that are not dependent upon their own territory.

Mr. STEVENSON. Then there is another great criticism which is being made and being directed at the very moment that is on now, and that is the deposits are collected and gathered and sent to New York and put on call. They say that is absolutely safe, and they are sure to get their money as they want it and get it at their profit as they go along, and the cry is being raised already that that means all money, instead of going to the development of local communities, is being taken into New York and loaned on call.

Is there any way to prevent that?

Governor YOUNG. I should think that those statements are overstatements, as I have looked into them, Mr. Congressman. I have stated many times before the committee that I thought it would be a very short-sighted policy for any group or chain or branch banking system to neglect industry in its own territory. I do not believe that they will do it and expect to continue in business in that territory.

Mr. Smead, it seems to me I checked up, at one time, on the State of South Carolina as to the amount of brokers' loans that the banks reported.

Mr. STEVENSON. That is national banks or member banks?

Mr. SMEAD. Member banks; yes.

Governor YOUNG. And it aggregated $1,600,000. I do not know what the total deposits of the State of South Carolina amount to.

Mr. STEVENSON. I do not remember either.

Governor YOUNG. It is at least fifty times that amount.

Mr. STEVENSON. At least that. I think, to be frank with you, that some of the difficulty banks get into on that matter is due to the officers of the banks getting into the market themselves. We had a catastrophe down there with one of the best banks in town, in my district. Less than three months ago, at Gaffney, the president of the bank got killed accidentally—supposed to be, but no question it was suicide—and it turned out he was $130,000 short, and I think that pretty well ran back to the collapse in October on the stock market.

That was not a bank lending its money on call, but the president, an official of that bank, and a very efficient one, having gotten short and using the bank's money. Of course that is the personal element that has to be dealt with there. No system can overcome that.

Governor YOUNG. Was that covered by bond?

Mr. STEVENSON. Oh, a $25,000 bond. It was the First National Bank, at Gaffney, and closed an affiliated bank with it. It was a terrible catastrophe in one of the best banking towns in my district, just a few miles out of Charlotte.

There was a discussion as to the Federal reserve system, and I wanted to ask your opinion here on the question of whether the Federal reserve system would continue if the national banks continued to go out of existence. You would not have very much to stand on when they got out, would you?

Governor YOUNG. If they all went out; no.

Mr. STEVENSON. And there has been quite a movement to go out?

Governor YOUNG. Well, while those national banks have given up their national charters, Mr. Congressman, they still find it advantageous to retain membership in the Federal reserve system.

Mr. STEVENSON. But after having given up the charter in such a way, they could not, under the law, be in the system. Take the national bank at Rock Hill, S. C., and the Columbia National Bank, two of the best banks in the State, the other day consolidated, making 2 branches 80 miles apart. They are not eligible under the McFadden Act to be members of the system.

Governor YOUNG. We are losing some members in that territory now.

Mr. STEVENSON. They could not be in the system. I have had an idea that we might get rid of that trouble and all of this quarrel

about whether the member banks were getting what they were entitled to, by the Government simply putting up the capital, which is only $107,000,000 for the Federal reserve bank. The surplus belongs to the Government under the law. That could be done, and would make them entirely independent of any banks—make them a Government institution and let them serve all the banks that are worthy of service. Have you ever thought of that way to solve that question?

Governor YOUNG. I have not.

Mr. STEVENSON. It strikes me it is time for us to begin to consider that. It is property that all belongs to the Government—everything over and above the capital stock belongs to the Government. The capital of $107,000,000 is all the banks have, except their equity in the surplus, and on that equity they can not get over 6 per cent under the present law. They would not be averse, if they were paid their money back, to letting the Government man run the whole business. I am personally in favor of some plan like that. Then you would not be subject to the varying whims of the banking world as to whether they will be in or out.

Governor YOUNG. I do not just understand your proposal. Will you go into that in a little detail?

Mr. STEVENSON. My proposal is to do exactly what you are doing with all banks you are prepared to accept as depositories and carriers of their reserves, but do not require them to put up any of the capital. Then, State and national banks both, when they were accepted as members of the institution would have the right to use the facilities of the Federal reserve bank and carry their reserves there, but they would not be required to furnish the capital with which to do the business. The Government naturally would select, then, the directors, instead of the banks selecting them, as they select part of them now.

That is not now before this committee, but it is an idea I have considered a great deal. I do not know when it will work out.

Now, you discussed the other day the election of directors. You said there were so many selected by the banks—class A directors, I believe. All directors are selected by the banks, but three are bankers and three not—all except those selected by the board.

Governor YOUNG. There are nine directors, of which six are selected by the banks.

Mr. STEVENSON. Yes.

Governor YOUNG. And three appointed by the board.

Mr. STEVENSON. Of those six selected by the banks, three are not bankers; they represent industry and agriculture. Is not that true?

Governor YOUNG. That is correct.

Mr. STEVENSON. So that the majority of the whole business is selected by the banks. The banks are in two classes, however, I believe—class A directors are elected by one set of banks and class B by the others.

Governor YOUNG. I will correct that just a little bit. Banks are in three groups in the district, according to the size of the banks.

Mr. STEVENSON. Yes.

Governor YOUNG. And each group elects a class A and a class B director, so that the little bank has the opportunity of electing one class B director just as much as the other group has.

Mr. STEVENSON. The banks all have a voice in the selection of six directors, but they must select three who are not bankers?

Governor YOUNG. That represent industry.

Mr. STEVENSON. That represent industry?

Governor YOUNG. Yes, sir.

Mr. STEVEVNSON. Now there was a discussion here during the examination that has been going on about the amount of dividends that has been paid. As I understood you, it was time when they might pay the member banks a little more dividends on the capital they have in?

Governor YOUNG. If earned.

Mr. STEVENSON. If earned?

Governor YOUNG. Yes, sir.

Mr. STEVENSON. That, of course, should always be optional with the Federal reserve bank or the Federal Reserve Board, because you would always want to keep a check on it, so as not to deplete too much your surplus?

Governor YOUNG. I would rather see it specified under the law "if earned."

Mr. STEVENSON. If earned; yes.

Governor YOUNG. And not left to the discretion of anybody or any board.

Mr. STEVENSON. Would you put a maximum limit on it?

Governor YOUNG. I would like to have more time to work out the details. We are making a recommendation to Congress that the member banks participate to a large extent in the earnings. The details we have not been able to work out yet.

Mr. STEVENSON. You spoke yesterday, I believe it was, of the intermediate credit banks and land banks taking away a great deal of the custom of member banks. As a matter of fact, they relieved the member banks of a great many customers who were pretty slow, did they not? Did they not rather help than hurt?

Governor YOUNG. What I had in mind, Mr. Congressman, was the earnings of small country banks.

You know in the old days the country banker handled farm mortgages for an insurance company or other investors, for which he got a commission. When the land bank came in he could not get that commission. That practically drove him out of the farm-mortgage business, which was a source of his profit.

Obviously, the land bank did take over many of those loans and relieved him after 1921, I think it was. You will recall that the tax clause of the land-bank bonds was not adjudicated until 1921, so the land banks were not in the field in 1919 and 1920, when they really should have been in the field.

Mr. STEVENSON. They were also excluded from the field because the Treasury Department was selling an enormous number of United States bonds and did not want the competition of the land-bank bonds. As a matter of fact, we appropriated $200,000,000 to buy the first $200,000,000 of land-bank bonds, according to my recollection, to keep them from interfering with the sale of Liberty bonds.

But those land-bank developments really, in the end, have been rather a source of weakness to the country banks, for the reason that they got the first mortgage always and, in the decrease in the

value of land which I referred to a little while ago, they got the land. They have a great deal of it now, by the way. But the commercial banker, when his customer got on the rocks, lost. He did not get anything out of that security, because the land banks got the whole security. That has been the result in the country districts.

Governor YOUNG. The country banker usually ended up with a $2,500 note of a farmer who owned 160 acres of land with an $8,000 mortgage ahead of the banker, and the only method he had of protecting the $2,500 was to take up the first mortgage, but in many cases it was not advisable to do that.

Mr. STEVENSON. In the instance I mentioned of 7,500 acres of farm land, that is what occurred as the result of that process.

You spoke also of the intermediate credit bank. I want to call your attention to one difficulty about that institution which has not made it a help. The rate of discount was limited to 7 per cent. The intermediate credit bank would not handle any paper upon which more than 7 per cent had been charged.

In the cotton country 8 and 9 per cent and, in some States, I think 10 per cent is lawful as the contract rate. There is a bank in my town, for instance, that has got some farm customers who have raised $25,000 worth of cotton. They want to get advances or get the advantage of the intermediate credit bank. They can not go to their bank and give it their paper and let it take it to the intermediate credit bank and rediscount it, because the bank can not afford to break its discount rate. If it breaks the 8 per cent rate for Jones, it has to break it for Smith. As the result, there is none of that paper handled through the banks and the customers get the money otherwise.

The result was disastrous, because it went through agricultural corporations, and the agricultural corporation required them to take 10 per cent of their stock in that corporation and charged them 7 per cent, and in the fall of the year they would make losses enough to lose the whole capital stock, and the man's money cost 17 per cent, and yet he was deprived of dealing through his own bank.

If the intermediate credit banks allowed the banks to handle that paper in the usual way and take it to the intermediate credit bank and rediscount it, whether 7 per cent or 8 per cent, the usual course would have been followed and the fellow would have paid 8 per cent. As it was, he paid 17 per cent and there have been worlds of losses. There has been a great scandal over it. In one instance they mortgaged a crop 3 miles down the road near Beaufort. When they identified the land it was on a highway. I believe it is now United States 29.

The intermediate credit bank, with that weakness, has not been of much help. I imagine the Federal Reserve Board would not oppose our amending that law so as to permit them to charge not over the local rate of the State in which it is located.

Governor YOUNG. There are difficulties in both ways, Mr. Congressman. It might end up in a rate of 6 per cent in Virginia and 10 per cent in South Dakota.

Mr. STEVENSON. If they were permitted to discount paper on which not over the contract rate in the State where it was located was charged, that would relieve that situation, so whenever the man was

located, he would simply pay the contract rate and could handle it through his usual local bank. That has destroyed the efficiency of the intermediate credit bank in our section.

Just one other question: I notice the comptroller recommends a decentralized district-wide branch banking system. Can you give me your idea of what that woult be? The term "decentralized" is attractive, but what does it mean? I can not follow the comptroller in his reasoning on that, as to what would be decentralized, as contrasted to a centralized bank. For instance, you have the bank in Richmond given authority to place branches all over its Federal reserve district, and you call it a decentralized bank. It is not pretty considerably centralized if it has tenacles all over the district?

Governor YOUNG. It would mobilize the credit.

Mr. STEVENSON. I appreciate that.

Governor YOUNG. And as you mobilized the credit, as you do in the Federal reserve system, the decentralization comes afterwards, or you put that credit where it is needed. I think that is what the comptroller had in mind.

Mr. STEVENSON. His view is that such regulations should be applied as not to centralize the loans; in other words, to require them to make a fair distribution of their loaning capacity.

Governor YOUNG. It is to be hoped they would do that.

Mr. STEVENSON. I do not know just how you could do that, because the people who would handle a bank with a widespread business like that would have to be given the very widest discretion, would they not? If you would have it judiciously managed, you can not interfere too much with the details.

Governor YOUNG. No; I do not think you could regulate that.

Mr. STEVENSON. The cry of centralization would naturally arise from the communities that did not get as much money as they thought they should have.

Governor YOUNG. I did not know the Comptroller of the Currency had specified any area.

Mr. STEVENSON. I understood him here to say that he thought it should be limited to the area of the Federal reserve district.

Governor YOUNG. I thought it was the trade area.

Mr. STEVENSON. I got that from reading his report. I did not hear him on three days.

Governor YOUNG. I think his recommendation was trade area.

Mr. STEVENSON. But he has that provision, that it should not go beyond the Federal reserve district in which the parent bank is located.

Mr. WINGO. I am not sure about this, but I think the comptroller did, in his report, say the Federal reserve district. But I got the impression, since then, he has come to the conclusion that it was not necessary to confine it to the Federal reserve district, but to the trade area. That is the impression that was left with me.

The CHAIRMAN. He did not define what was a trade area. As I recall, he said Congress could define that. I understand the governor's expression on that was a little different. He wanted an elastic area. Is that correct, Governor?

Governor YOUNG. That is correct.

Mr. STEVENSON. The comptroller's report very distinctly intimates the idea of areas not going beyond the limits of the Federal reserve

district. Now, I did not hear his statement here on that particular question. I have not had the opportunity of being here all the time. Those are going to be very intensely practical questions when we come to write a bill, if we write one.

Governor YOUNG. Very.

The CHAIRMAN. I think the comptroller did specify Federal reserve districts, but in any particular trade areas where the Federal reserve districts or State lines interfered, the trade area lines should control rather than the Federal reserve district or State lines.

Mr. WINGO. In other words, in the last analysis, the trade area should be the controlling factor. For illustration, in my State, I think I asked the comptroller about this. My recollection is that my home town is in the Kansas City district. Little Rock is in the St. Louis district. I think we discussed it and I got the impression from him that the trade area lines should be the controlling factor, but they should stay within the Federal reserve district as far as possible. The trade area district should be the dominant factor in determining where the branches should be established.

Mr. STEVENSON. The governor will see that is a very hard thing to determine.

The CHAIRMAN. Will you yield to me?

Mr. STEVENSON. Yes.

The CHAIRMAN. It is my recollection, back in 1912 and 1913 when the Federal reserve act was passed, that the argument was made then that the organization of the Federal reserve system would tend to do the very things it is now proposed to do with the establishment of branch banks in trade areas.

As you said a moment ago, the money would flow through the Federal reserve system into those sections where it was needed. Has the Federal reserve system failed in that respect in serving the country through its system of banks?

Governor YOUNG. I would not say so, Mr. Chairman. What I said the other day was that it was not 100 per cent efficient. I do not believe it will ever be 100 per cent.

The CHAIRMAN. Is the Federal reserve system a branch banking system?

Governor YOUNG. I would rather classify it as a group system.

Mr. WINGO. It might be well for you gentlemen to read the debates on why we established the Federal reserve system the way we did instead of having a private branch bank system.

Mr. STEVENSON. What I want to get is a practical definition of trade area. We know what a Federal reserve district is. That is fairly well defined. If Congress is going to define a trade area, they will have to recast its legislation every few years, because business will develop and, for instance, oil will be discovered around Little Rock, and we will have a big trade area where there is just a bullfrog pond now, probably, and all that kind of thing. There is not very much chart or compass to that designation of a trade area. That is what I wanted to get at.

Governor YOUNG. In reply to an inquiry from the chairman the other day I said that that should be discretionary with the proper officers as to what the trade area is, because it does change.

Mr. STEVENSON. Just as the board had wide discretion in defining and limiting the Federal reserve districts.

Governor YOUNG. Branch districts?

Mr. STEVENSON. Yes. The Federal reserve districts were fixed by the board and not by statute.

Mr. WINGO. By a special committee.

Governor YOUNG. We could change the territory in a district now by giving it to another district. But I do not think we could change the number of reserve banks.

Mr. STEVENSON. The number of reserve banks was fixed, but the committee—Mr. McAdoo, Mr. Williams, and Mr. Houston—they delimited the districts and some have been changed since. I believe it is within the power of the board to do that.

Governor YOUNG. Yes, sir; that is within the power of the board.

Mr. STEVENSON. What would you suggest, if this plan was adopted, of having branch banks confined to trade areas? What board would you suggest should have authority to determine what would be the trade area in which to put branches? Would the Federal Reserve Board be given that power or would you establish a new board? Just what is your suggestion about that?

If we are going to write a law, we want to get the combined wisdom of the bankers in this country on how to apportion this thing.

Governor YOUNG. Granting charters is now under the Comptroller of the Currency.

Mr. STEVENSON. Yes.

Governor YOUNG. It seems to me if this trade area is to be determined, it should be left to him.

Mr. STEVENSON. In other words, when the bank desires to establish branches it should make a showing before the comptroller as to where they are to be put, and they could not do it without his approval; in other words, he establishes the trade area in which that particular bank would have a right to operate with branches?

Governor YOUNG. That is my idea.

The CHAIRMAN. Will you yield?

Mr. STEVENSON. Yes.

The CHAIRMAN. Would that be exclusive of the Federal reserve banks?

Governor YOUNG. It is now; yes.

The CHAIRMAN. You think the comptroller should have the sole power without consulting with the Federal reserve bank in that district?

Governor YOUNG. He has that in the granting of charters now.

The CHAIRMAN. But there is a consultation, is there not, with the Federal reserve agent?

Governor YOUNG. In actual practice it is referred to the Federal reserve banks. It could, of course, be extended to the Reserve Board and the Comptroller of the Currency.

Mr. STEVENSON. You have many member banks, and you would have many more very large State-chartered institutions, over which the comptroller would have no authority at all, who would probably desire to be members of the Federal reserve system and desire to have branches which would be in contravention of the McFadden Act as it now stands.

The comptroller could not determine where those member banks or those banks that desire to be member banks, who are under State charters could put branches.

Governor YOUNG. No.

Mr. STEVENSON. You would have to have some machinery to take care of that.

Governor YOUNG. Yes. I am doing a great deal of thinking while I am talking, and it would probably be better, under those circumstances, under the Reserve Board.

Mr. STEVENSON. Suppose some of these days we do write a law on this matter: Regardless of the insurance of deposits, and other things, the thing we need is information on where should we best lodge the power, if we are going to give authority to do these things, to work out the details. That is a very important subject that needs to be elucidated, in my mind.

Governor YOUNG. I realize that, Mr. Congressman. In my initial statement before the committee, I stated that the board was not prepared at the moment to make a recommendation; that they were making a further study of this whole question, and that is why I am unable to answer many of your questions as to details. I hope that the work we are doing and the work this committee is doing, will permit something to be worked out.

The CHAIRMAN. May I call your attention to the fact, Mr. Stevenson, that this Congress can not pass any legislation regulating where State banks shall have branches, except as they become members of the Federal reserve system.

Mr. STEVENSON. We have legislation that State banks that put branches elsewhere than where they are or elsewhere than within the city where it exists, can not become members of the Federal reserve system.

The CHAIRMAN. That is right.

Mr. STEVENSON. Of course, we will carry forward some legislation on that subject, and many of those things—for instance, the one I referred to a while ago; these two national banks in my State that consolidated under a State charter under the terms of the McFadden Act, are excluded from membership in the Federal reserve system. Many of them would like to come in, and we should have some authority to define within what area it should be allowed to operate branches and under what conditions they should be allowed to come in.

Of course, we could determine under the statute under what conditions they could come in. We could modify the statute.

That is all I wanted to add. I wanted to get the combined wisdom of your board before I helped write a bill, if we ever do.

Governor YOUNG. We will try to do that.

Mr. STEVENSON. The practical thing in my mind is, first to what extent—within what areas can banks who are members of the Federal reserve system have branches, and what authority shall determine what their areas shall be? Those are two fundamental things that have to be dealt with.

That is all I wanted to ask, Mr. Chairman.

The CHAIRMAN. Mr. Bland has left.

Mr. GOLDSBOROUGH. Governor Young, I think you said the other day that you thought the limits of these trade areas should be flexible. Is that your present view?

Governor YOUNG. That is my present view. I will put it this way, Mr. Congressman, that the establishment of branches could not be defined by law within certain territories, but should be left

to the discretion of somebody—the Federal Reserve Board, if you will.

In other words, they would have the right to permit branches to be established.

Mr. GOLDSBOROUGH. Do you believe that the body which has the discretion, such as the Federal Reserve Board, or the Comptroller of the Currency, would be any more able to control the boundaries of these trade areas than the Comptroller of the Currency is now able to control, as a practical proposition, mergers of enormous banking institutions?

Governor YOUNG. If Congress will give us that power; yes.

Mr. GOLDSBOROUGH. Congress, of course, gives the Comptroller of the Currency authority to permit or refuse authority to consolidate. A few days ago, the Comptroller of the Currency gave authority to the Chase National Bank, the Equitable Trust Co., and a smaller bank to consolidate into an institution with resources of nearly $3,000,000,000.

Do you believe, as a practical proposition, he could have avoided granting that permission if he had felt himself it was an unwise thing to do?

Governor YOUNG. I am hesitating to try to think of what they could do.

Mr. GOLDSBOROUGH. What is that?

Governor YOUNG. I am trying to work out what they could do if he refused them.

Mr. GOLDSBOROUGH. You do not catch the force of what I had in mind. I mean, would not the pressure, political and otherwise, on a Comptroller of the Currency, in a case of this kind, be so great that he would practically be forced to grant it?

Governor YOUNG. No; I do not think so. The practical side of it——

Mr. GOLDSBOROUGH. I was not asking about the practical side. I understand that. You can answer that way, if you wish.

Governor YOUNG. In that case, Mr. Congressman, they could have consolidated under a State charter and, under those conditions, the comptroller would have had nothing to do with it.

Mr. GOLDSBOROUGH. Of course; now, this term "decentralization." I find—decentralized trade areas—is being used a great deal. I am getting letters about it and bankers and individuals are talking to me about it. I find it is a very attractive word.

But, is it any more valid than any other advertising slogan? For instance, you see advertised the "Sunkist" orange, and I buy an orange that is advertised as a Sunkist orange even if there is another orange right beside it that looks just exactly like it, because the slogan is extremely attractive.

Again, one man in Congress may call his element the progressive element and another element standpatters, whereas his opponets call themselves conservatives and his group radicals; in other words, does this word "decentralized," used in connection with this inqury, mean anything at all except an endeavor to make a monopoly attractive? Is not that all there is in it?

Governor YOUNG. Well, that is not my expression, Mr. Congressman.

Mr. GOLDSBOROUGH. I did not intimate it was. But it was the comptroller's expression. According to his own statement, he is more responsible than anyone else for this agitation.

Governor YOUNG. Well, if it describes it accurately——

Mr. GOLDSBOROUGH. Well, does it describe a monopoly accurately to say it is decentralized?

Governor YOUNG. I think what he has in mind is decentralization from the very large centers within the United States—New York and Chicago—where they have not gone into branch banking or group banking.

Mr. GOLDSBOROUGH. If these areas are made flexible in size, will they not inevitably grow larger?

Governor YOUNG. In my opinion, yes.

Mr. GOLDSBOROUGH. Which tends to the very centralization which this proposed legislation is to do away with. Is not that true?

Governor YOUNG. That is true.

Mr. GOLDSBOROUGH. Then, what is the use of starting here and saying we are trying to fix trade areas which will decentralize monopoly, when the inevitable drift, after we do it, is to go back to the same condition we are trying to get away from?

Governor YOUNG. In those circumstances, I would suggest placing a limitation on it.

Mr. GOLDSBOROUGH. Is not this whole thing, as a matter of fact, simply an attempt to make universal branch banking—unlimited branch banking—attraction, by starting it in a particular way?

Governor YOUNG. I think that is what will eventually develop, but I do not think this country is ready for that at the moment.

Mr. STEVENSON. Mr. Goldsborough, there is one question I forgot to ask. Will you yield to me now?

Mr. GOLDSBOROUGH. Yes.

Mr. STEVENSON. Suppose it is a State member bank. Of course, its charter would not extend beyond the limits of the State. Therefore, this trade area limitation would not authorize a State member bank to put a branch in another State. There would have to be some State action there, would there not?

Take, for instance, New York and New Jersey. That is a good instance of it right there. A State bank in New York, chartered by the State of New York, would not have the right, without the consent of the State of New Jersey, to run a branch in the State of New Jersey?

Mr. WINGO. I think you are in error, there.

Mr. GOLDSBOROUGH. I have but six minutes left, Mr. Stevenson.

Mr. STEVENSON. I simply wanted to ask that question, but I do not want to enter into a discussion about it.

Mr. GOLDSBOROUGH. Governor Young, what I have in mind is, that it seems to me in approaching this subject, we ought to do it with our eyes open—and for the present I am not arguing against branch banking, but am suggesting that Comptroller Pole's proposal raises clearly the issue as between monopolistic banking and unit banking. If it does, let us discuss it from that standpoint.

Mr. Pole has testified he does not think there should be universal branch banking. He is advocating what he calls trade areas. That is another attractive term. A trade area, within which everybody can do business most conveniently, to a person who is not thinking

about it, sounds attractive, but it does not mean anything, especially when you say the size of the area shall be discretionary with some body.

Governor YOUNG. He did not say that. I said that.

Mr. GOLDSBOROUGH. I know, but it is all in the course of the discussion. I did not say that he said that.

Now, Governor Young, Prof. John Dewey, who is certainly the greatest modern philosopher and one of the most careful men I know, in an article entitled "Individualism, Old and New," in the New Republic, of January 27, makes this statement:

> It was stated in a recent convention of bankers that 80 per cent of the capitalization of all banks in the country is now in the hands of 12 financial concerns. It is evident that actual control of the other 20 per cent, except for neglibible institutions having only local importance, automatically ensues.

What do you think about the validity of that statement?

Governor YOUNG. I think the statement I left with the committee the other day will show just the contrary. If I remember your statement correctly, 12 financial——

Mr. GOLDSBOROUGH. Twelve financial concerns; yes.

Governor YOUNG. Own 80 per cent of the banking capital of the United States.

Mr. GOLDSBOROUGH. Yes; that is the statement.

Governor YOUNG. The figures we have prepared do not show any such conclusions.

Mr. GOLDSBOROUGH. I will approach it from another point of view, because the question of monopoly is the one I have in mind. I think you said, in your testimony, Governor, that the capital stock of the banks of the country, roughly speaking, amounted to about $5,000,000,000?

Governor YOUNG. I guessed at that. I have not checked that figure.

Mr. GOLDSBOROUGH. I remember you did not claim the statement to be accurate.

Governor YOUNG. Mr. Smead says probably around $4,000,000,000. I just took it roughly, one-tenth of the total banking resources.

Mr. GOLDSBOROUGH. Now, the total capital of the banks of Greater New York, alone, is $1,155,062,000, according to the figures furnished to be my Mr. Smead, which would mean, of course, that more than one-fourth of the total banking capital of the country is centered in Greater New York alone.

The CHAIRMAN. It is now 1 o'clock.

Governor YOUNG. Mr. Congressman, can I just get the statement again? Your statement was that the capital of the banks in the city of Greater New York was $1,155,062,000?

Mr. GOLDSBOROUGH. Yes.

Governor YOUNG. I have not that figure here, but that is approximately correct.

Mr. GOLDSBOROUGH. I will proceed a little further along that line when we meet on Friday.

The CHAIRMAN. The committee will stand adjourned until Friday at 10.30 o'clock.

(Whereupon, at 1 o'clock p. m. the committee adjourned to meet at 10.30 o'clock a. m. on Friday, March 28, 1930.)

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Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

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

APRIL 1, 2, AND 4, 1930

VOLUME 1

Part 6

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1930

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, APRIL 1, 1930

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

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

The CHAIRMAN. The committee will come to order.

STATEMENT OF GOV. ROY A. YOUNG—Resumed

The CHAIRMAN. Mr. Goldsborough, when we closed last week, you were asking questions of Governor Young. Do you wish to continue now?

Mr. GOLDSBOROUGH. If it is agreeable.

The CHAIRMAN. Before you begin, however—Governor Young, you have some papers you would like to submit for the record in response to some previous requests for information?

Governor YOUNG. Yes; if I may, Mr. Chairman.

The CHAIRMAN. Suppose you submit them now.

Governor YOUNG. I should like to read this statement into the record, because it contains some figures on which we were in doubt at the last meeting. It covers losses in failed national banks.

Congressman Steagall made the statement at the hearing last Wednesday that the total loss to depositors in national banks since the enactment of the national bank act in 1863 amounted to only about $80,000,000. The Comptroller of the Currency published a statement in his annual report to Congress for the year ending October 31, 1929, which is incorporated on page 75 of his testimony, and which shows that 815 receiverships paid 70.19 per cent of proven claims; and that, if offsets, loans paid, and other disbursements were included, the total disbursements to creditors would show an average of 79.13 per cent of proven claims. Possibly Congressman Steagall has based his estimate on this percentage of the proven claims.

I have obtained from the Comptroller of the Currency certain information which I wish to insert in the record showing the losses on the basis of actual deposits of failed banks. In this connection I wish to make clear the distinction between the total amount of deposits in failed national banks and the amount of proven claims against failed national banks. There are numerous depositors who do not prove their claims against insolvent banks; and what would otherwise be their share of the dividends paid go to the benefit of those who do prove their claims. For this reason, the total amount of losses must be increased by the difference between the total amount of deposits and the total amount of proven claims. Even this is not absolutely accurate; because the figures given by the

comptroller's office include in the amount of proven claims those proven by secured depositors; whereas, the figures given for total deposits do not include the amount of secured deposits.

The total deposits of the 815 failed national banks fully liquidated to October 31, 1929, were $312,358,671; whereas the total proven claims amounted only to $275,449,496. Total dividends paid to creditors, including secured creditors, were $193,279,863. Thus the total loss to unsecured creditors of these closed trusts on the basis of dividends paid amounted to $119,078,808.

In addition to the above, there are 448 insolvent national banks in process of liquidation, and the following figures are given with respect to those:

Total deposits of 448 active receiverships	$229,088,269
Estimated total dividends to creditors of 448 active receiverships	141,736,812
Estimated loss to creditors of 448 active receiverships	87,351,457

Add the estimated losses of depositors and other creditors of national banks now in process of liquidation ($87,351,457) to losses of depositors and other creditors of national banks completely liquidated ($119,078,808) and you have total actual and estimated losses to creditors of national banks, amounting to $206,430,265.

While it is true that, for the banks in liquidation, the figures are estimates; it is safe to assume that the liquidations will not exceed the average for past years. Conditions have been much worse since 1920 than during the prior periods of liquidation, and it would seem reasonable to expect that the average of dividends would be less. Therefore, I believe that the figures for losses given are rather conservative.

If the Federal Government should undertake to set up a depositors guaranty system, applicable to all national banks or to all member banks of the Federal reserve system, it would be so attractive to depositors that every bank in the United States would be compelled either to join that system or to go out of business, with the result that whatever system is devised would be compelled to guarantee all deposits in the United States, or approximately $58,000,000,000 of deposits. It must also be understood that, in view of the enormous growth in the total deposits of all banks, the annual losses would be much greater than is indicated by the total losses from 1863 to date. This is indicated by the fact that total bank deposits in 1890 amounted to less than $5,000,000,000, whereas to-day the figure has grown to $58,000,000,000.

Supplementing the figures as placed in the record on April 1, 1930, with reference to the total amounts of estimated losses to depositors of failed national banks since 1863, I have had compiled estimated figures for total losses to State banks from 1864 to December 31, 1929.

While there are no accurate figures available for losses in State banks, State superintendents up until 1896 reported to the Comptroller of the Currency total liabilities of failed State banks and total dividends paid. On these figures from 1864 to 1896, inclusive, the total liabilities of 1,234 failed State banks were $220,629,988.27, and the total dividends paid during the same period were $100,088,726.09, showing a loss of $120,541,261.32 or 54.64 per cent loss. No figures are given for dividends paid since 1896 but the total liabilities

of failed State banks from 1897 to December 31, 1929, were $2,130,613,648.27. Using the same percentage of loss for the years 1897 to December 31, 1929, as used for the first 33 years, the total loss from 1897 to 1929 would be $1,164,167,297.41. Adding to this the loss for the first 33 years, $120,541,261.32, the total loss for the 66-year period would be $1,284,708,558.73.

The other day I said I would get a pamphlet that was issued by the New York Stock Exchange in reference to call money. I have secured that and would like to put that in the record at this point, if I may.

The CHAIRMAN. By whom was that prepared?

Governor YOUNG. I think that is prepared by the committee on publicity of the New York Stock Exchange. I referred to it the other day and said there was such a pamphlet.

I was also requested to get a digest of State laws relating to the purchase of corporate stocks by banks and trust companies. I have a preliminary draft of that and I should like to put that in the record at this point.

The CHAIRMAN. Those statements will be received and incorporated in the record at this point.

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

[Reprinted by permission from the New York Times December 23, 1928]

CALL MONEY RATE IS PUZZLE TO MANY

Violent fluctuations recently in the rates of interest charged for funds employed in the stock market have focused attention upon the call money market, particularly as to the method by which the renewal rate is fixed on the New York Stock Exchange. The widespread interest in the subject has been reflected in an increasing number of inquiries received by the exchange from various parts of the country.

That a somewhat general misconception exists concerning the renewal rate is indicated by the questions that are asked at the stock exchange and in brokerage offices. Under normal conditions, when there is no credit stringency, the whole subject of call loans, which are the life blood of the stock market receives only passing attention from the average trader who looks upon these loans as merely a part of the mechanics of his operations.

For some months, however, the call money market has been a factor of paramount interest to investors and speculators for the reason that the rates of interest have undergone drastic and frequent readjustment, thus exerting a powerful influence upon the trend of prices on the stock exchange. Often the variations between the renewal rate and the rates established later in the day were so wide as to puzzle the new crop of traders in Wall Street.

RENEWAL RATE

The renewal rate, it was pointed out at the stock exchange last week, represents what, in the opinion of a committee of experts, is a fair charge for the renewal of call loans. Borrowers and lenders are not obliged to accept it. If a lender feels that the suggested rate is too low, he is privileged to refuse to renew loans at that figure, and if a borrower considers the rate too high he is at liberty to pay off his loan and arrange a new loan in the call money market.

Wall Street gets its first official information as to the position of the call money market when, at 10.40 o'clock every morning, the renewal rate is announced on the stock ticker. This rate is fixed by the executive committee of the stock clearing corporation, a subsidiary of the stock exchange. The committee is made up of Samuel F. Streit, president of the clearing corporation; E. H. H. Simmons, president of the stock exchange; Robert R. Atterbury, Robert Gibson, and William A. Greer. It arrives at its decision after examining all available data bearing on the supply of funds and the possible borrowing requirements. Fre-

quently, before announcing the rate, the committee consults bankers, officials of other lending institutions and large borrowers.

OPINION OF EXPERTS

"The renewal rate as posted on the floor of the exchange each morning," a spokesman for the institution explained, "is merely the opinion of experts, the demonstrated fairness of which over a period of years has won the confidence of lending bankers and borrowing brokers.

"The present practice of suggesting a renewal rate resulted from the experience of the informal money committee instituted with the full understanding of the Treasury Department during the Government war financing. It was found that the wide and unsettling fluctuations of call-money rates and the confusion and friction which characterized the pre-war call-money market under the old haphazard practice could be avoided by a rate suggested by experts in possession of all pertinent data. So about five and a half years ago, there was formed this committee of experienced men to have before them daily complete information with respect to the supply of loanable funds and the demand therefor, and all other relevant data, and to announce at exactly 10.40 on every full business day their opinion of a fair rate for the renewal of call loans.

"All lending banks in the financial district arrange with one or more stock exchange member firms to handle their call loans on the floor of the exchange. The procedure is for the bank to telephone to the office of the stock exchange member instructions to lend a sum of money at the current or at a specific rate. These instructions are relayed in turn to the money desk on the floor of the exchange, where they are duly recorded. In like manner, the borrowing broker files at the money desk a memorandum stating how much money he requires. Thus lender and borrower meet in their turn and both are promptly notified of the identity of the other party to the transaction by the money clerk of the exchange.

SUBSEQUENT FLUCTUATION

"After the renewal rate has been posted, the rate for new loans may fluctuate with the constantly changing conditions of supply and demand.

"It might be timely to consider the reason for the call-money rate fluctuating more widely than any other money rate in the world, inasmuch as a general misapprehension of this phenomenon has provoked a great deal of criticism.

"Eccentricity seems to be inherent in the interest rate for call loans because it is the resultant of two forces of supply and demand, unrelated in this unique instance. Every contract made on the exchange is completed and the securities are delivered and paid for on the full business day next following. It is thus seen that a day of heavy liquidation on the part of customers of New York Stock Exchange firms will cause a material shrinkage in credit requirements, necessitating the paying off of loans and the recovery of securities to be delivered against the previous day's sales. On the demand side, therefore, we see the possibility of material overnight changes due to either a heavy liquidation of speculatively held securities or a sudden wave of speculative enthusiasm.

DEMAND AND SUPPLY

"Thus on the demand side of the transaction we have the brokers' credit requirements changing from day to day with the constantly shifting speculative position of their customers. The day loan, therefore, is admirably suited to their need of daily adjustment.

"On the other hand the supply of call money is regulated solely by the reserve position of the banks throughout the country and their natural desire to make full use of their lending power right up to the limit set by their reserve requirements and bear no relation to stock market needs. This unresponsiveness of credit supply to demand is peculiar to brokers' loans and is largely due to their exclusion from the Federal reserve rediscount privileges."

President Simmons of the stock exchange in his last annual report drew attention to the "accuracy with which the renewal rates are regularly made," pointing out that in 1927 the "annual average rate on renewed call loans was 4.076 per cent, while the annual average rate on new call loans was 4.084 per cent, thus," he added, "renewal rates were, over the year, within 0.008 of 1 per cent of new loan rates."

DIGEST OF STATE LAWS RELATING TO THE PURCHASE OF CORPORATE STOCKS BY BANKS AND TRUST COMPANIES

(Preliminary draft, subject to verification)

There is given below a preliminary draft of a digest of the State laws relating to the power of banks and trust companies to invest in or purchase stocks in other corporations, including stocks in other banks or trust companies. This digest, which shows the status of State legislation dealing with the purchase of corporate stocks by banks and trust companies as of March 1, 1930, was prepared in its present form in the office of the counsel to the Federal Reserve Board and will be submitted to the counsel to the various Federal reserve banks, who are especially familiar with the laws of the States in their respective Federal reserve districts, for a final check as to its accuracy. When the Federal reserve bank counsel have completed their check of the digest, revised copies thereof will be furnished to the Committee on Banking and Currency of the House of Representatives.

The digest does not cover permission granted to banks and trust companies to invest in or purchase stocks in municipal or other public corporations. Federal reserve banks, joint-stock land banks, corporations engaged principally in foreign banking operations, safe-deposit companies, or similar institutions affiliated in some respects with the business of banking.

Summary of Legislation in Various States

States having legislation permitting purchase of corporate stocks

By both banks and trust companies:
- Arizona.
- Connecticut. Amount of purchase limited.
- Delaware. Amount of purchase limited.
- Louisiana.
- New Jersey.
- Pennsylvania. Apparent conflict in laws of this State, as other provisions prohibit banks from purchasing stocks.
- Tennessee.
- Texas. Amount of purchase of bank stock limited.
- Utah.

Total, 9.

By banks only:
- Alabama. Bank stock only may be purchased and amount limited.
- California. Stock of only one trust company may be purchased and amount limited.
- Florida. Apparent conflict in laws. Savings banks only may purchase stocks; but other provisions also prohibit them from doing so.
- Massachusetts. Savings banks only may purchase stocks in certain trust companies and national banks within certain limitations.
- New Hampshire. Savings banks only and savings departments of banks may invest in stocks of banks, trust companies, and certain other corporations, subject to certain limitations.
- North Carolina. Purchase restricted to "central reserve bank" and corporation owning land or building used by bank.
- Ohio. Savings banks only may purchase stock of certain companies, but not bank or trust company stock.
- Rhode Island. Probably authorized by implication to purchase stocks; but savings banks and banks receiving savings deposits specifically authorized to purchase bank, trust company, and steam-railroad stocks.
- South Carolina.
- Vermont. Amount of purchase limited.
- Virginia.
- West Virginia. May "invest" in bank stocks.

Total, 12.

By trust companies only:
- Arkansas.
- Colorado.
- Florida. Apparent conflict in laws. Other provisions prohibit purchase of stocks.
- Georgia.

By trust companies only—Continued.
Kansas. Amount of purchase limited.
Maryland.
Massachusetts. Amount of purchase limited.
Missouri. Amount of purchase limited.
Montana.
Nebraska.
New Hampshire. Amount of purchase limited.
New York. Amount of purchase limited.
Ohio. All stocks except bank stocks may be purchased.
Oklahoma. All stocks except bank and trust company stocks may be purchased.
Rhode Island. Probably authorized by implication to purchase stocks; but savings deposits of trust companies specifically permitted to be invested in bank and trust company and steam-railroad stocks.
West Virginia. May purchase limited amount in "business corporations" and may purchase bank stocks for "investment."
Total, 16.

STATES HAVING LEGISLATION PROHIBITING PURCHASE OF CORPORATE STOCKS

By both banks and trust companies:
Florida. Apparent conflict in laws of this State, as other provisions authorize savings banks and trust companies to purchase corporate stocks.
Mississippi. Prohibition is against purchase of bank stocks.
Oregon.
Ohio. A savings bank, however, can purchase stock in certain "companies," and a trust company in any corporation; but neither can purchase bank or trust company stock.
South Dakota.
Washington.
Total, 6.
By banks proper:
Colorado.
Georgia.
Idaho. Prohibition is against purchase of bank stock.
Kansas.
Montana.
Nebraska.
Nevada.
North Dakota.
Oklahoma.
Pennsylvania. Apparent conflict in laws of this State, as other provisions authorize "corporations organized for profit" to purchase stocks.
Wisconsin. No provisions prohibiting banks proper; but mutual savings banks expressly prohibited from investing in corporate stocks.
Wyoming.
Total, 12.
By trust companies:
There do not appear to be any States having legislation prohibiting trust companies alone from purchasing corporate stocks.

STATES HAVING NO SPECIFIC LEGISLATION ON SUBJECT

Covering both banks and trust companies:
Illinois.
Indiana.
Iowa.
Kentucky.
Maine. However, purchase of corporate stocks probably authorized by implication.
Michigan.
Minnesota.
New Mexico.
Wisconsin. No provisions covering banks proper; but mutual savings banks expressly prohibited from investing in corporate stocks.
Total, 9.

Covering only banks proper:
Arkansas.
Maryland.
Massachusetts. No provisions covering banks proper; but savings banks and trust companies may purchase stocks.
Missouri.
New Hampshire. No provisions covering banks proper; but savings banks and savings departments of banks and trust companies may invest in stocks of banks, trust companies, and certain other corporations, subject to certain limitations.
New York.
Rhode Island. No provisions covering banks proper; but probably can purchase stocks by implication; however, savings banks and savings departments of banks and trust companies may purchase bank, trust company, and steam railroad stocks.
Total, 7.

Covering only trust companies:
Alabama.
California.
Idaho.
Nevada.
North Carolina.
North Dakota.
South Carolina.
Vermont.
Virginia.
Wyoming.
Total, 10.

ALABAMA

Purchase of bank stock permitted if not in excess of 25 per cent of purchasing bank's capital and 10 per cent of other bank's capital.—"* * * No bank shall subscribe for or own exceeding 10 per cent of the capital stock of any other bank, or invest or have invested an amount exceeding in the aggregate 25 per cent of its own paid-in capital stock in the capital stock of any other bank or banks. Any bank acquiring capital stock in any other bank in the usual course of business in payment of an indebtedness owing to it, must sell such portion of said stock as is in excess of the amount which it is permitted to hold and own as herein provided within one year from the time the same is acquired. Any bank failing to sell any such excess stock within the time herein directed, shall forfeit to the State an amount equal to the face value of such excess stock held by it, which sum the superintendent shall sue to recover in the name of the State in any court having jurisdiction, and the amount recovered shall be paid into the State treasury." (Civil Code of Alabama, sec. 6355; Combined Banking Laws of Alabama, 1928, sec. 6355, p. 25.)

ARIZONA

Purchase of bank or trust company stocks permitted.—"No bank, loan, or trust company or association, organized under the laws of the State of Arizona, may purchase, own, hold, and sell or otherwise dispose of any of the shares of the capital stock of any other bank, loan, or trust company or association or other corporation; unless, such purchase shall be authorized by the executive committee or approved by the board of directors; and in case the purchase is of stock in any other banking corporation the approval of said purchase must also be had from the superintendent of banks." (Laws of 1922, ch. 31, sec. 20, p. 130; Banking Laws, 1922, sec. 20, p. 17.)

Savings banks are prohibited "to invest or loan any of its capital, or any of the money of its depositors in the shares, stocks, or bonds of any mine or mining company or oil company." (Laws of 1922, ch. 31, sec. 26 (8), p. 134; Banking Laws, 1922, sec. 26 (8), p. 20.)

ARKANSAS

Banks—no specific statutory provisions.—There are no statutes in this State specifically authorizing banks to purchase the kinds of corporate stocks covered by this digest. However, "no bank shall employ its moneys, directly or indirectly, in trade or commerce by buying and selling goods, chattels, wares, and merchandise, nor be the purchaser or holder of its own capital stock, unless such security

or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within 12 months of its purchase, be sold or disposed of at private sale; after the expiration of said 12 months any such stock shall not be considered as part of the assets of any bank: *Provided*, That it may hold and sell all kinds of property that may come into its possession as collateral security for loans or any ordinary collection or debts, in the manner provided by law. *Provided further*, That any goods or chattels coming into its possession as aforesaid shall be disposed of as soon as possible, and after twelve months from the date of acquirement shall cease to be reckoned as a part of its assets." (C. & M. Dig., sec. 695; Banking Laws, 1929, sec. 26, p. 18.)

Trust companies—Purchase of stocks permitted.—Trust companies are authorized "to buy and sell all kinds of * * * stocks, and other investment securities." (Act of April 13, 1903, sec. 2, p. 228, as amended by acts of 1923, act 627, sec. 10; Banking Laws, 1929, sec. 135 (9), p. 102.)

CALIFORNIA

Banks—general power to purchase corporate stocks denied.—"No bank shall, except as otherwise provided in this act, purchase or invest its capital or surplus or money of its depositors, or any part of either, in the capital stock of any corporation unless the purchase or acquisition of such capital stock shall be necessary to prevent loss to the bank on an obligation owned or on a debt previously contracted in good faith. Any capital stock so purchased or acquired shall be sold by such bank within six months thereafter if it can be sold for the amount of the claim of such bank against it; and all capital stock thus purchased or acquired must be sold for the best price obtainable by said bank within three years after such purchase or acquisition unless the superintendent of banks shall extend the time of its sale for a period not to exceed two years." (General Laws, 1923, Act No. 652; bank act, 1929, sec. 37, p. 36.)

Exception—Stock in one trust company.—"Any bank, with the previous written consent of the superintendent of banks, may purchase or otherwise acquire and hold the whole or any part of the capital stock of not more than one trust company organized and existing under the laws of this State, and doing business in the same county in which the principal place of business of such bank is located: *Provided, however*, That not more than an amount equal to 25 per cent of the capital and surplus of any such bank may be at any one time invested in the capital stock of such trust company or such other corporation." (General Laws, 1923, Act No. 652; bank act, 1929, sec. 37, p. 36.)

COLORADO

Banks may not purchase corporate stocks.—"No bank shall purchase its own stock, nor the stock of any other corporation, except such as it may necessarily acquire in the protection or satisfaction of previously existing loans made in good faith. Any stock so acquired shall be sold by the bank within three years, and sooner if it can be done without impairing the bank's investment in the same." (Compiled Laws of Colorado, 1921, sec. 2683; Banking Laws, 1928, sec. 33 p. 19).

Trust companies authorized to buy and sell stocks.—"All trust companies incorporated under the provisions of this act are duly authorized:

* * * * * * *

"Seventh. To purchase, invest in and sell stocks * * *." (Compiled Laws of Colorado, 1921, sec. 2765; Banking Laws, 1928, sec. 128, p. 66.)

CONNECTICUT

Purchase of corporate stocks permitted up to certain amount.—Banks and trust companies "* * * may purchase and hold corporate securities of any description, provided the total amount at the purchase price invested in corporate stocks shall at no time exceed 25 per cent of its combined capital, surplus, and undivided profits, and provided its investment in the stock of any one corporation shall not exceed 10 per cent of the stock of that corporation or exceed 10 per cent of the percentage prescribed herein, whichever may be the greater. * * *" (General Statutes of Connecticut, sec. 3955, as amended by Laws of 1927, ch. 251; Banking Laws, 1929, sec. 3955, p. 9.)

Savings banks and banks and trust companies maintaining savings departments may make limited investments of their savings deposits in the stocks of

certain banks located in the State of Connecticut and certain cities in other States. (General Statutes of Connecticut, sec. 3928, and sec. 3972 (27) as amended by Laws of 1929, ch. 279; Banking Laws, 1929, sec. 3928, p. 20; and sec. 3972 (27), p. 52.)

DELAWARE

Banks and trust companies may purchase stock.—"No bank or trust company shall invest more than 25 per cent of its total capital, surplus, and undivided profits in the stock, bonds, or other obligations of any one corporation or political entity or political division except bonds or other obligations of the United States, of the State of Delaware, or of any county, city, town, or school district in this State." (Act of March 31, 1921, sec. 13; Banking Laws, 1929, p. 26.)

FLORIDA

Banks and trust companies may not purchase stock.—"That it shall be unlawful for any bank or trust company organized under the laws of this State and doing business in this State, to directly or indirectly invest any of the funds of said bank or trust company in stock of any incorporated company in this State or elsewhere * * *." (Compiled General Laws of Florida, 1930 Supplement, sec. 6084.)

Savings banks may purchase bank stock.—"The capital and deposits and the income derived therefrom shall be invested only as follows:

* * * * * * *

"4. In the stock of any bank incorporated under the authority of the State, or the stock of any banking association incorporated under the authority of the United States * * *." (Compiled General Laws of Florida, 1927, sec. 6120; Banking Laws, 1926, p. 30.)

Trust companies may purchase stocks.—"Every trust company organized under and in pursuance of this article shall have power:

* * * * * * *

"(10) To purchase, invest in, and sell stocks * * *." (Compiled General Laws of Florida, 1930 Supplement, sec. 6126 (10).

NOTE.—It will be observed that apparently there is a conflict in the laws of this State with reference to the power of trust companies to purchase stocks. An explanation of this apparent conflict has been requested of the counsel to the Federal Reserve Bank of Atlanta, in whose district the State of Florida is situated.

GEORGIA

Banks may not purchase stock.—"No bank shall subscribe for, purchase, or hold stock in any other bank * * * nor in any other corporation unless the same shall have been transferred to it in satisfaction of a debt previously contracted, or shall have been purchased at a sale under a power contained in a note or other instrument by which it was pledged to the bank or under a judgment or decree in its favor, and all such stock shall be disposed of by the bank within six months, unless the superintendent of banks shall extend the time for good cause shown. * * *" (Georgia Code, 1930 Supplement, sec. 2366 (169).)

Trust companies may purchase stock.—"Dealing in stocks and bonds: Trust companies, operating as investment bankers, and maintaining departments for the purchase and sale of securities, may purchase for resale whole issues or parts of issues of stocks, bonds and debentures of industrial, railroad and public service corporations and other investment securities, and may resell and deal in the same, under such regulations as may be prescribed by the superintendent of banks." (Trust company act of 1927, sec. 5A.)

IDAHO

Purchase of bank stock prohibited.—"No bank shall * * * purchase any shares of * * * any other bank wherever organized, or situated * * * unless such * * * purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased * * * shall within six months from the date of acquirement be sold or disposed of at public or private sale; after the expiration of six months any such stock shall not be considered as a part of the assets of such bank." (Laws of 1925, ch. 133, p. 204; Bank Code, 1925, sec. 29, p. 18.)

ILLINOIS

No statutory provisions.—The statutes of Illinois contain no provisions authorizing or prohibiting banks or trust companies to purchase corporate stocks.

INDIANA

No statutory provisions.—The laws of Indiana contain no provisions authorizing or prohibiting banks or trust companies to purchase corporate stocks.

IOWA

No statutory provisions.—There do not appear to be statutory provisions in this State authorizing banks and trust companies generally to purchase corporate stocks. Banks and trust companies, however, are empowered "to purchase, invest in, and sell promissory notes, bills of exchange, bonds, mortgages, and other securities." (Iowa Code, 1927, sec. 9284 (5); Banking Laws, 1929, sec. 9284 (5), p. 47.)

KANSAS

Banks may not purchase corporate stocks.—"No bank shall employ its moneys, directly or indirectly, in trade or commerce, by buying and selling goods, chattels, wares and merchandise, and shall not invest any of its funds in the stock of any other bank or corporation * * *." (Session Laws of Kansas, 1927, p. 126; Banking Laws, 1929, sec. 11, p. 6.)

Trust companies authorized to purchase stock.—"The purposes for which trust companies may be formed are:

* * * * * * *

"Eighth, * * * to buy and sell all kinds of Government, State, county, municipal, and corporation bonds, and all kinds of negotiable and nonnegotiable paper, securities, and stocks: *Provided*, That the total investment of any such trust company in bank stock shall at no time exceed one-fourth its paid-up capital stock: * * * *Provided*, That the total investment in bank stock held by any trust company in excess of one-fourth of its capital shall be disposed of within two years from the passage of this act." (Laws of Kansas, 1901, ch. 407, as amended; Banking Laws, 1929, sec. 2, pp. 38 and 39.)

KENTUCKY

No statutory provisions.—The laws of Kentucky contain no specific provisions with reference to the purchase of corporate stocks by banks or trust companies. With reference to banks, the law does provide that no bank shall employ its moneys, directly or indirectly, in any enterprise or business except as authorized by law. (Carroll's Kentucky Statutes, 1930, secs. 579 and 582; Banking Laws, 1926, secs. 579 and 582.)

Trust companies are not authorized expressly to purchase corporate stocks, but the law does provide that "the capital stock of a trust company, and the funds in its possession, not held in a fiduciary capacity, may be invested in such manner as the directors deem prudent and safe; * * *." (Carroll's Kentucky Statutes, 1930, secs. 606 and 614; Banking Laws, 1926, secs. 606 and 614.)

LOUISIANA

Purchase of any corporate stocks permitted.—Any corporation "conducting a savings, safe deposit, and trust banking business in any of its branches" is empowered "to receive, hold, purchase, acquire, and convey, by and under their corporate name, such property, real and personal, including bonds, stocks, and securities of the United States, or of any of the United States, or of any corporation, board, or body, public or private thereof, as may be necessary, proper, or convenient to the objects of the association, and to exercise in relation thereto, all the direct and incidental rights of ownership." (Laws of 1902, Act. No. 45, sec. 1 (2), p. 59; Banking Laws, 1928, sec. 1 (2), p. 26.)

The act approved July 18, 1928 (Act No. 221, Session Laws of 1928), which has to do with the manner of arriving at the value of shares of stock of banking institutions for taxation purposes, recognizes that banking institutions have the power to purchase stocks in other corporations. In dealing with the various deductions that a banking institution may make, this act provides that "the capital stock and obligations of any corporations, all the capital stock of

which * * * is owned by said bank, banking company, firm, association, or corporation" may be deducted.

MAINE

No express authorization but apparently purchase permitted by implication.—The laws of Maine do not contain any provisions expressly authorizing banking institutions to purchase corporate stocks, but the following provision appears to give them such power by implication: "to hold and enjoy all such estate, real, personal, and mixed, as may be obtained by the investment of its capitsl stock or any other moneys and funds that may come into its possession in the course of its business and dealings, and the same sell, grant, and dispose of: * * *." (Public Laws 1923, ch. 144, sec. 61: Banking Laws, 1927, sec. 61, p. 41.)

MARYLAND

Purchase of corporate stocks permitted to trust companies.—Trust companies are given the power "to exercise, by its directors, duly authorized officers, or agents, all such powers as shall be usual in carrying on the business of banking. * * * by purchasing, investing in, and selling stocks, * * * and other securities * * *." (Bagby's Code, article 11, sec. 46; Banking Laws, 1927, sec. 46 (9), p. 23.)

MASSACHUSETTS

Purchase of corporate stocks by trust companies permitted.—A trust company may "* * * invest its moneys or credits, whether capital or general deposits, in the stocks, bonds, or other evidences of indebtedness of corporations or of associations or trusts, * * *." (General Laws, ch. 172, sec. 33; Trust Company Pamphlet Laws, sec. 33, p. 21.)

Limitation upon purchase of stock in other trust companies.—"No trust company shall hold more than 10 per cent of the capital stock of any other trust company." (General Laws, ch. 172, sec. 43; Trust Company Pamphlet Laws, sec. 43, p. 23.)

Savings banks may purchase bank stocks.—Savings banks may invest their deposits and income derived therefrom—

"In the stock of a trust company incorporated under the laws of and doing business within this Commonwealth, or in the stock of a national banking association located in the New England States and incorporated under the authority of the United States, which has paid dividends of not less than 4 per cent therein in cash in each of the five years next preceding the date of such investment and the amount of whose surplus is at least equal to 50 per cent of its capital; but a savings bank shall not hold, both by way of investment and as security for loans, more than 25 per cent of the stock of any one such company or association, nor shall it hold by way of investment stock of such companies and associations having an aggregate initial cost in excess of 15 per cent of the deposits of such savings bank, or stock of any one such company of association having an initial cost in excess of 1 per cent of the deposits aforesaid." (General Laws, ch. 168, sec. 54, (7th), as amended by acts of 1929, ch. 315, sec. 1; Savings Bank Pamphlet Laws, sec. 54 (7th), p. 39.)

MICHIGAN

No statutory provisions.—The statutes of Michigan contain no provisions authorizing or prohibiting banks or trust companies to purchase the capital stock of other corporations.

MINNESOTA

No statutory provisions.—The laws of Minnesota contain no provisions authorizing or prohibiting banks or trust companies to purchase corporate stocks.

MISSISSIPPI

Purchase of bank stock prohibited.—"No part of the stock of any bank * * * shall be owned by any bank under the provisions of this act. Any such stock owned by any bank at the time this act takes effect shall be disposed of within 12 months after such time. In cases where such stock is taken as collateral and the purchase thereof shall be necessary to prevent loss upon a debt previously contracted in good faith, then in such cases such stock shall be sold by the bank within 12 months from the time that it was required. A violation of this section by any bank or banks under the provisions of this act shall be constituted a breach of law and subject any such bank or banks to liquidation and forfeit

of their respective charters." (Laws of Mississippi, 1922, ch. 172, sec. 49; Brown's 1925 Mississippi and Federal Statutes Pertaining to Banks and Banking p. 71.)

The term "bank" as used in the laws of Mississippi includes trust companies and savings banks. (Laws of Mississippi 1914, ch. 124, sec. 66; Brown's 1925 Mississippi and Federal Statutes Pertaining to Banks and Banking, p. 72.)

MISSOURI

Purchase by trust companies of corporate stock limited.—A trust company "shall not invest or keep invested in the stock of any private corporation an amount in excess of 15 per cent of the capital and surplus fund of such trust company; nor shall it purchase or continue to hold stock of another bank or trust company if by such purchase or continued investment the total stock of such other bank or trust company owned and held by it as collateral will exceed 15 per cent of the stock of such other bank or trust company: *Provided, however*, That this limitation shall not apply * * * to the ownership by such trust company or its stockholders of a part or all of the capital stock of one bank organized under the laws of the United States or of this State." (Revised Statutes of Missouri, 1919, sec. 11807, as amended by Laws of 1927, p. 241.)

There are no statutory provisions in this State governing the purchase of corporate stocks by banks; and the Missouri courts have held that in the absence of express authority, one bank can not purchase the shares of stock of another bank.

MONTANA

Banks prohibited from purchasing stock.—"No commercial or savings bank shall purchase or invest its capital or surplus, or money of its depositors, or any part of either, in the capital stock of any corporation, unless the purchase or acquisition of such capital stock shall be necessary to prevent loss to the bank on a debt previously contracted in good faith. Any capital stock so purchased or acquired shall be sold by such bank within six months thereafter, it it can be sold for the amount of the claim of such bank against it; and all capital stock thus purchased or acquired must be sold for the best price obtainable by said bank within one year after such purchase or acquisition. Every person or corporation violating any provision of this section shall forfeit to the State twice the nominal amount of such stock." (Laws of Montana, 1927, ch. 89, sec. 39; Banking Laws, 1927, sec. 39, p. 32.)

Trust companies authorized to purchase stock.—The laws of Montana authorize the organization of trust companies which may invest in corporate stocks and other securities and also provides as follows: "The board of directors of any such corporation [trust company] is authorized to invest the capital and assets of said corporation * * * in * * * stocks and bonds of corporations * * *." (Laws of Montana, 1927, ch. 89, sec. 4 (c) (8) and sec. 26; Banking Laws, 1927, sec. 4 (c) (8) and sec. 26.)

Investment companies may purchase stocks.—The laws of Montana authorize the formation of investment companies with the power to receive deposits. These companies are authorized to buy and sell stocks as well as other securities. (Laws of Montana, 1927, ch. 89, sec. 4 (d); Banking Laws, 1927, sec. 4 (d).

NEBRASKA

Banks—Purchase of corporate stocks prohibited.—"No corporation transacting a banking business shall * * * be the purchaser or holder of * * * the shares of any corporation, unless such * * * purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and such stock so purchased or acquired shall, within six months from the time of its purchase be sold or disposed of at public or private sale; or in default thereof, a receiver may be appointed to close up the business of the bank: *Provided*, In no case shall the amount of stock so held exceed 10 per cent of the paid-up capital of such bank." (Comp. Stat. of Nebraska, 1922, sec. 8006; Banking Laws, 1929, sec. 8006, p. 12.)

Trust companies—Purchase of corporate stocks permitted.—Trust companies have the power "to buy, hold and own and sell * * * stocks, * * * and other investment securities." (Comp. Stat. of Nebraska, 1922, sec. 8008, as amended by Laws of 1927, act approved April 20, 1927.)

NEVADA

Purchase of corporate stocks prohibited.—"No bank shall employ its moneys, directly or indirectly, in trade or commerce by buying or selling goods, chattel wares, or merchandise, and shall not invest any of its funds in the stock of any bank or trust company or corporation, * * *." (Revised Laws of 1912, sec. 13, p. 195, as amended, Laws of 1915, p. 32; Banking Laws, 1927, sec. 13, p. 7.)

NEW HAMPSHIRE

Purchase of corporate stocks permitted.—Trust companies are authorized and empowered "to negotiate, purchase, and sell stocks, bonds, and other evidences of debt; to do a general banking business; and to conduct a savings department." (Public Laws, ch. 265, sec. 31; Banking Laws, 1929, sec. 31, p. 41.)

Limitation upon such purchase.—"The total liabilities of a person, firm or corporation, including in the liabilities of a firm the liabilities of its several members, for money borrowed of the commercial department of a trust company or other corporation of a similar character, whether organized under the provisions of this chapter or otherwise, shall at no time exceed 10 per cent of its capital stock actually paid in and surplus, nor shall such corporation purchase or hold, by way of investment, the stocks and bonds of any corporation to an amount in excess of said 10 per cent." (Public Laws, ch. 265, sec. 37; Banking Laws, 1929, sec. 37, p. 42.)

Savings banks and savings departments of banks and trust companies.—Subject to certain limitations, savings banks and savings departments of banking and trust companies may invest in the capital stock of banks, trust companies and certain other corporations. However, such investments are limited, in the case of any one corporation, to 5 per cent of the deposits of the purchasing savings banks or savings departments of banking and trust companies. (Public Laws, ch. 260, sec. 16, ch. 262, secs. 1, 7, 8, 9, 12, 13, 14, 15; Banking Laws, 1929, sec. 16, p. 7; secs. 1, 7, 8, 9, 12, 13, 14, 15, and pp. 20, 23–29.)

NEW JERSEY

Banks and trust companies authorized to purchase corporate stocks.—Banks "in addition to the power and authority now conferred upon them, shall be authorized to purchase, invest in and sell stocks of corporations." (Laws of 1927, ch. 12; Banking Laws, 1928, sec. 10, p. 54.)

Trust companies are authorized "to purchase, invest in and sell stocks * * * and other securities; * * *." (Laws of 1899, ch. 174, sec. 6 (10); Banking Laws, 1928, sec. 6 (10), p. 66.)

NEW MEXICO

No statutory provisions.—There do not appear to be any provisions in the laws of New Mexico expressly permitting or prohibiting banks and trust companies to purchase corporate stocks. Trust companies, however, are authorized "* * * to purchase, invest in, and sell all kinds of * * * investment securities." (Laws of 1915, ch. 67, sec. 60 (7); Bank Code, 1929, sec. 60 (7), p. 22); and with reference to banks, the laws of New Mexico provide that "* * * no bank shall at any time have invested more than 30 per cent of its unimpaired capital and surplus in the notes, bonds or other securities of any person, firm or corporation * * *." (Laws of 1929, ch. 131, sec. 9; Bank Code, 1929, sec. 36, p. 15.)

NEW YORK

Trust companies permitted to purchase stocks.—"* * * every trust company shall, subject to the restrictions and limitations contained" the laws, have the power "to purchase, invest in, and sell stocks * * * and other securities; * * *." (Banking Law, sec. 185 (9)).

Limitation upon purchase of corporate stocks.—A trust company "shall not invest or keep invested in the stock of any private corporation an amount in excess of 10 per cent of the capital and surplus of such trust company; nor shall it purchase or continue to hold stock of another moneyed corporation if by such purchase or continued investment the total stock of such other moneyed corporation owned and held by it as collateral will exceed 10 per cent of the stock of such other moneyed corporation, provided, however, that this limitation shall not apply to

the ownership of, and such trust company may to the extent of 10 per cent of its capital and surplus purchase, acquire, hold and own, and exercise in respect thereof all the rights, powers, and privileges applicable to the ownership of, * * * all or any part of the capital stock of an investment company * * *." (Banking Law, sec. 190.)

Banks—No statutory provisions, but purchase generally of corporate stocks held prohibited.—There are no provisions in the laws of New York expressly permitting or prohibiting the purchase of the kinds of corporate stocks contemplated by this digest. The only provisions affecting banks are those authorizing the purchase of Federal reserve bank stock and stock in safe-deposit and investment companies. (Banking Law, sec. 106.)

The banking department of the State of New York holds that banks have no authority to buy stocks other than those classes above referred to, and the courts in this State have rendered decisions to the effect that banks can not purchase stocks of other corporations for the purpose of selling at a profit, can not become stockholders in a railroad corporation, and can not purchase State stocks to sell at a profit.

NORTH CAROLINA

Banking institutions may purchase corporate stocks and certain bank stocks.—"No bank shall make any investment in the capital stock of any other State or national bank: *Provided*, That nothing herein shall be construed to prevent the subscribing to or purchasing of the capital stock of * * * central reserve banks, having a capital stock of more than $1,000,000, by banks doing business under this act, upon such terms as may be agreed upon. To constitute a central reserve bank as contemplated by this act at least 50 per cent of the capital stock of such bank shall be owned by other banks." (Ann. Code of North Carolina, 1927, sec. 220 (c); Banking Laws, 1927, sec. 220 (c), p. 20.)

Limitations upon purchase of stock.—"The investment of any bank in the capital stock of such central reserve bank * * *, shall at no time exceed 10 per cent of the paid-in capital and permanent surplus of the bank making same. No bank shall invest more than 50 per cent of its permanent surplus in the stocks of other corporations, firms, partnerships, or companies, unless such stock is purchased to protect the bank from loss. Any stocks owned or hereafter acquired in excess of the limitations herein imposed shall be disposed of at public or private sale within six months after the date of acquiring the same, and if not so disposed of they shall be charged to profit and loss account, and no longer carried on the books as an asset. The limit of time in which such stocks shall be disposed of or charged off the books of the bank may be extended by the corporation commission, if in its judgment it is for the best interest of the bank that such extension be granted." (Ann. Code of North Carolina, 1927, sec. 220 (c); Banking Laws, 1927, sec. 220 (c) p. 20.)

Corporation commission may suspend limitations on amount may purchase.—"The board of directors of any bank may, by resolution duly passed at a meeting of the board, request the corporation commission to temporarily suspend the limitation on loans and investments as same may apply to any particular loan or investment, which said bank desires to make in excess of the provisions of sections 220 (b), 220 (c) * * * of this act. Upon receipt of a duly certified copy of such resolution, the corporation commission may, in its discretion, suspend the limitation on loans and investments in so far as it would apply to the loan or investment which such bank desires to make." (Ann. Code of North Carolina, 1927, sec. 220 (c); Banking Laws, 1927, sec. 220 (c), p. 21.)

Purchase of stock of corporation owning land or building used by bank.—A bank may invest "50 per cent of its unimpaired capital and permanent surplus in the stock or bonds of a corporation owning the land, building, or buildings occupied by such bank as its banking home" and a bank may not be compelled "to surrender or dispose of any investment in the stocks or bonds of a corporation owning the lands or building occupied by such bank as its banking home, if such stocks or bonds were lawfully acquired prior to the ratification of this act: *Provided further, however*, That the corporation commission may, in its discretion, authorize banks located in cities having a population of more than 5,000 according to the latest United States census to invest an amount greater than 50 per cent of its unimpaired capital and permanent surplus in the stocks or bonds of a corporation owning the land, building, or buildings occupied by such bank as its banking home." (Ann. Code of North Carolina, 1927, sec. 229 (b); Banking Laws, 1927, sec. 220 (b), p. 20.)

NORTH DAKOTA

Purchase of corporate stocks by banks prohibited.—"No bank shall * * * employ or invest any of its assets or funds in the stock of any corporation, bank, partnership, firm, or association, nor shall it invest any of its assets in speculative margins of stocks, bonds, * * *." (Supplement to 1913 Comp. Laws of North Dakota, sec. 5187; Banking Laws, 1929, p. 25.)

OHIO

Banks (other than savings banks) not permitted to purchase corporate stocks of kinds covered by this digest.—Banks, other than savings banks, are authorized to make certain investments of their capital, surplus, undivided profits and deposits in certain securities, stocks and bonds, but apparently they are not authorized to make investments in the kinds of corporate stocks contemplated by this digest. (Throckmorton's Code of 1929, secs. 710–111, 710–111a, 710–121; Banking Laws, 1928, secs. 710–111, 710–111a, 710–121.)

Savings banks—Purchase of bank stocks forbidden, but "stocks of companies" may be purchased.—A savings bank is empowered to invest its funds in "stocks of companies, upon which or the constituent companies comprising the same, dividends have been earned and paid for five consecutive years next prior to the investment and stocks of companies taken on a refinancing plan involving an original investment, which was legal at the time it was made; provided, every such investment shall be authorized by an affirmative vote of a majority of the board of directors of such savings bank" but "no purchase or investment shall be in the stock of any other corporation organized or doing business under the provisions of this act or of the national banking act of the United States." (Act approved April 18, 1929, Laws of 1929, sec. 710–140 (b).)

Trust companies—Purchase of bank stocks prohibited, but other corporate stocks may be purchased.—"A trust company may invest in * * * stocks and bonds of corporation when authorized by the affirmative vote of the board of directors, or of the executive committee of such trust company," but the prohibition against savings banks purchasing bank stocks is also imposed upon trust companies. (Throckmorton's Code of 1929, sec. 710–166; Banking Laws, 1928, sec. 710–166, p. 64.)

OKLAHOMA

Banks—Purchase of any kind of corporate stock prohibited.—A bank "shall not invest any of its funds in the stock of any other bank or corporation * * *." (Oklahoma Comp. Stat., 1921, sec. 4123; Banking Laws, 1926, sec. 11, p. 15.) The constitution of Oklahoma also provides that "No trust company, or bank or banking company shall own, hold, or control in any manner whatever, the stock of any other trust company or bank or banking company, except such stock as may be pledged in good faith to secure bona fide indebtedness, acquired upon foreclosure, execution sale, or otherwise for the satisfaction of debt; and such stock shall be disposed of in the time and manner hereinbefore provided" (within 12 months from the date of acquisition). (Constitution of Oklahoma, art. 9, sec. 41.)

Trust companies—May purchase any kind of stock, except in a bank or in another trust company.—Trust companies are given the power "to buy and sell * * * all kinds of * * * stocks and other investment securities." (Oklahoma Comp. Stat. 1921, sec. 4194 (9); Banking Laws, 1926, sec. 119 (9), p. 64.)

In view of the above provision of the Oklahoma constitution prohibiting a trust company to "hold or control in any manner whatever, the stock of any other trust company or bank or banking company," it would seem that the power given to trust companies to" buy and sell * * * all kinds of * * * stocks, and other investment securities, is restricted in so far as the provisions of the Oklahoma Constitution are applicable.

OREGON

Purchase of corporate stocks prohibited.—Except for the authority to purchase Federal reserve bank stock, stock in safe deposit companies, agricultural and livestock finance companies, and in the case of a trust company, stock in a subsidiary investment company, the laws of Oregon provide that "Hereafter no bank or trust company shall invest any of its assets in the capital stock of any other corporation." In case stock is purchased or acquired to save loss on a preexisting debt, such stock must be sold "within 12 months of the date acquired or pur-

chased or within such further time as may be granted by the superintendent of banks". (Laws of 1925, ch. 207, sec. 81, p. 336; Banking Laws, 1925, sec. 81, p. 28.)

PENNSYLVANIA

Banks not authorized to purchase corporate stocks.—"* * * it shall not be lawful for such corporations (banks), directly, or through the agency of any person or persons whomsoever, either in trust or confidence, to deal or trade with any profits, stocks, moneys or effects, in buying or selling any goods, wares, merchandise, whatsoever; * * * such corporations shall not be at liberty to purchase any stock whatsoever to a greater amount than one-third of the capital stock actually paid in; and that in the stocks or loans of this State and of the United States, except their own bank stock and such stocks as shall be taken in satisfaction of debts previously contracted, such corporations shall not deal or trade in anything but bills of exchange, promissory notes, gold and silver, and bullion, or in the sale of goods truly pledged for money lent and not redeemed in due time, or in goods which may be the produce of lands." (Act of 1850, Public Laws, p. 477; West's Penna. Statutes, 1920, sec. 1358.)

With regard to the purchase of corporate stocks by banks, the Pennsylvania laws also provide "The several banks of this Commonwealth are hereby authorized to negotiate loans to, or to purchase the stock of, this Commonwealth from the officers or agents appointed under the authority of the State to effect such loans, or to sell such stock; but nothing in this act or any other law shall be construed to authorize any of said banks to make such purchases of any individual or corporation, except such as shall be taken in satisfaction of debts previously contracted in the course of its dealings: *Provided*, That the amount of such loans made, or stock so held, shall not exceed one-third of the actual capital stock of such bank or corporation: *And provided also*, That the said banks may sell out such stocks at any time their interest may require." (Act of April 23, 1829, Public Laws, p. 360; West's Penna. Statutes, 1920, sec. 1363.)

Corporations permitted to purchase corporate stocks.—"That hereafter any corporation organized for profit, created by general or special laws, may purchase, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of, the shares of the capital stock * * * of any other corporation or corporations, public or private, of this or any other State * * * and while the owner of said stock may exercise all the rights, powers, and privileges of ownership, including the right to vote thereon." (Act of July 2, 1901, Public Laws, p. 603 (West's Penna. Statutes, 1920, sec. 5785), as amended by acts of March 27, 1929, Public Laws, p. 74, and April 18, 1929, Public Laws, p. 544.)

NOTE.—It will be observed that apparently there is a conflict in the laws of this State with refernece to the right of banks to purchase corporate stocks. An explanation of this apparent conflict has been requested of the counsel to the Federal Reserve Bank of Philadelphia.

RHODE ISLAND

Purchase by trust companies permitted by implication.—The laws of Rhode Island do not contain any express authority for trust companies to purchase corporate stocks, but it would seem that this power is given to such companies by implication. A trust company is authorized "* * * to invest its capital stock and moneys in its hands in such bonds, obligations, or property, real, personal, or mixed, as it may deem prudent, * * *." (General Laws, 1923, ch. 271, sec. 4; Banking Laws, 1929, sec. 4, p. 16.)

Savings banks and banks and trust companies receiving savings deposits—Purchase of steam railroad and bank stocks permitted.—Deposits in savings banks and in the savings departments of banks and trust companies, and in the case of savings banks, the income derived from investments held, may be invested subject to detailed limitations in the capital stock of banks and trust companies and certain steam railroad companies. (General Laws. 1923, sec. 1, Clause IV, Clause VII, as amended by laws of 1927, ch. 1034, Clause XIV, Clause XV, as amended by the laws of 1925, ch. 653; Banking Laws, sec. 1, p. 22, Clause IV, p. 30, Clause VII, p. 37, Clause XIV, p. 43, Clause XV, pp. 44–45.)

SOUTH CAROLINA

Banking corporations may deal in corporate stocks.—"Every banking corporation may * * * deal in * * * public and other securities, and stocks of other corporations; * * * may purchase and hold such * * * personal property as may be conveyed to it to secure debts to the corporation, or may be sold under execution to satisfy debts due in whole or in part to the corporation, and as may be deemed necessary or convenient for the transaction of its business, and may sell and dispose of the same at pleasure; * * *." (Code of 1922, sec. 3992; Banking Laws, 1928, sec. 62, p. 29.)

SOUTH DAKOTA

Banks prohibited from purchasing corporate stocks.—"No bank shall employ its money, directly or indirectly, in trade or commerce by buying or selling goods, chattels, wares, and merchandise, nor shall it invest any of its funds in the stock of any other bank or corporation, nor make loans or discounts on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; stocks so purchased or acquired shall, within six months of the time of its purchase, be sold or disposed of at public or private sale; and after the expiration of six months any such stock shall not be considered as part of the assets of such bank." (Session Laws of South Dakota, 1919, ch. 125; Banking Laws, 1927, sec. 8983, p. 27.)

Trust companies prohibited from purchasing corporate stocks.—"No trust company shall employ its money, directly or indirectly, in trade or commerce, by buying or selling goods, chattels, wares, and merchandise, nor shall it invest any of its funds in the stock of any other trust company or corporation, nor make any loans or discounts on the security of the shares of its own capital stock, nor be the purchaser or holder of any shares unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months of the time of its purchase, be sold or disposed of at public or private sale; and after the expiration of six months any such stock shall not be considered as a part of the assets of any trust company." (South Dakota Code, 1919, sec. 9050; Banking Laws, 1927, sec. 9050, p. 68.)

TENNESSEE

All corporations authorized to deal in stocks.—"That all private corporations now existing or organized by virtue of the laws of Tennessee, and all private corporations hereafter to be organized and created according to law, for the transaction of any lawful business, or to promote or conduct any legitimate object or purpose, shall have the right, power, privilege, and immunity to purchase, hold, own, sell, transfer, assign, vote, mortgage, pledge, and otherwise deal in stock, bonds, or evidence of indebtedness of other corporations in the same manner and with all the rights, power, privileges, and immunities of individual owners, except that this act shall in no way be construed to give corporations power to create unlawful monopolies, trusts, or combinations in restraint of trade." (Act approved March 31, 1923.)

TEXAS

Purchase of corporate stocks permitted.—Banks and trust companies may purchase, invest in, and sell stocks and other securities. (Rev. Stat. 1925, arts. 396 (9) and 1513; Banking Laws, 1929, art. 396 (9), p. 18, and art. 1513, p. 76.)

Limitation upon purchase of bank stocks.—"It shall be unlawful for any State bank or bank and trust company to own more than 10 per cent of the capital stock of any other banking corporation, or to make a loan secured by the stock of any other banking corporation, if by the making of such loan the total stock of such other banking corporation held by it as collateral will exceed, in the aggregate, 10 per cent of the capital stock of such other banking corporation, unless the ownership or the taking of a greater percentage of such capital stock as collateral shall be necessary to prevent loss upon a debt previously contracted in good faith; and any such excess so taken as collateral or owned by such bank shall not be held as collateral nor owned by it for a longer period than six months." (Rev. Stat. 1925, art. 513; Banking Laws, 1925, art. 513, p. 44.)

UTAH

Purchase of corporate stocks permitted.—"Any bank or loan, trust, and guaranty company or association, organized under the laws of the State of Utah, may purchase, own, hold, and sell or otherwise dispose of any of the shares of the capital stock of any other bank, loan, trust, and guaranty association or other corporation: *Provided*, Such purchase shall be authorized by the executive committee and approved by the board of directors; and in case the purchase is of stock in any other banking corporation the approval of said purchase must also be had from the State bank commissioner: *And provided, further*, That nothing in this section shall be so construed as to permit the establishment, maintenance, or control of any branch bank or loan, trust, or guaranty company in the State. All acts or parts of acts in conflict with this section are hereby repealed to the extent of such conflict." (Compiled Laws of 1917, sec. 986, p. 299; Banking Laws, 1927, sec. 986, p. 8.)

VERMONT

Purchase of bank or trust company stocks permitted.—Banking institutions are empowered to invest their assets "in the stock of any national bank in the New England States or the State of New York, or in the stock of any banking association or trust company incorporated under the authority of and located in such States, or in the stock of any bank incorporated under the authority of and located in the Dominion of Canada; but a bank shall not hold bank stock both by the way of investment and as security for loans in excess of 10 per cent of its assets, nor, in any one bank, more than 5 per cent of its assets, or more than $200,000, or more than 10 per cent of the capital stock of any one bank." (General Laws, sec. 5363, par. (a), Subdivision VI, as amended by acts of 1929, Act No. 90, sec. 5.)

VIRGINIA

Purchase of corporate stocks permitted.—All banking institutions are empowered to purchase and sell "all stocks and bonds." (Acts of 1928, ch. 507, sec. 12; Banking Laws, 1929, sec. 4149 (13), p. 30.)

WASHINGTON

Purchase of corporate stocks prohibited.—"* * * Nor shall any such corporation (bank or trust company) subscribe for or purchase the stock of any other banking house or trust company, or of any domestic or foreign corporation of any character, * * * : *Provided*, That such bank and/or trust company may purchase, acquire and hold shares of stock in any other corporation which shares have been previously pledged as security to any loan or discount made in good faith and such purchase shall be necessary to prevent loss upon a debt previously contracted in good faith and stock so purchased or acquired shall be sold at public or private sale or otherwise disposed of within two years from the time of its purchase or acquisition. (Laws 1929, sec. 5, p. 100; Banking Laws, 1929, sec. 46, p. 26.)

It is also provided that corporations doing a trust business may not invest trust funds in corporate stocks. (Laws of 1929, ch. 206; Banking Laws, 1929, sec. 77, p. 37.)

WEST VIRGINIA

Purchase of stocks of business corporations permitted but limited to 20 per cent of purchasing bank's capital and surplus.—Banking institutions authorized to transact a trust business are empowered "to buy, hold, sell and deal in * * * the stocks or bonds of any business corporation." (Acts of 1929, ch. 23, sec. 4.)

Banking institutions shall not invest "in the stock of any corporation" an amount exceeding "20 per cent of the capital stock and surplus fund of any banking institution * * *. The corporation mentioned in this section shall not be construed to mean municipal corporations, districts or counties, or corporations owning the building in which the banking institution is located." (Acts of 1929, ch. 23, sec. 21.)

Purchase of bank stocks.—"It shall be unlawful for any firm, association or corporation to purchase and hold stock in any banking institution organized or

authorized to transact business hereunder for the purpose of selling, negotiating or trading participation in the ownership thereof either for the purpose of perfecting control of one or more such banking institutions or for the purpose of inducing other persons, firms or corporations or the general public to become participating owners therein. Nothing herein shall prevent the ownership of stock in any such banking institution by any corporation for investment purposes." (Acts of 1929, ch. 23, sec. 9.)

WISCONSIN

No statutory provisions.—The statutes of Wisconsin contain no provisions with reference to the purchase of corporate stock by banks and trust companies except mutual savings banks. The provision with reference to mutual savings banks provides that "* * * no mutual savings bank shall invest any part of its deposits in the stock of any corporation * * *." (Wisconsin Stat. 1929, sec. 222.13; Banking Laws, 1925, sec. 222.13, p. 52.)

WYOMING

Purchase of corporate stocks by banks prohibited.—"Hereafter no State bank shall invest any of its assets in the capital stock of any other corporation * * *, and except such as it may acquire or purchase to save a loss on a preexisting debt, and stock so acquired or purchased shall be sold within 12 months from the date acquired or purchased: *Provided*, That a further time may be granted by the State examiner." (Comp. Stat of Wyoming, 1920, sec 5138 Banking Laws, 1927, sec. 32. p. 18.)

Governor YOUNG. We were asked for four other things. I have prepared that information in a letter to you, Mr. Chairman.

During the course of the hearings on branch, chain, and group banking held before your committee on March 19, requests were made for the following data which are submitted herewith.

1. A list of the principal bank chains and groups in States which permit State-wide branch banking, and in States which permit restricted branch banking.

2. The capital, surplus, and total resources of banks in States which permit State-wide branch banking, in States which permit restricted branch banking, and in States in which branch banking is prohibited.

3. Available information on trust assets of national banks is shown on the inclosed pages (16–21) of the 1929 Annual Report of the Comptroller of the Currency.

4. Available data relating to the ratio of net earnings of banks, classified according to size, to capital funds, i. e., capital and surplus and undivided profits. A number of the Federal reserve banks have from time to time made studies of the earnings and expenses of member banks in their respective districts and have included in these studies certain ratios, among which are the ratios of net earnings and of net profits to capital funds. In cooperation with the State banking departments, the Federal Reserve Bank of Chicago has made similar studies covering all banks in the States of Iowa, Illinois, Indiana, and Wisconsin. These ratios of earnings to capital funds, in so far as available by size of bank, have been tabulated in the inclosed statement. As a sample of the studies made by certain of the Federal reserve banks, I am inclosing herewith a copy of the study made by the Federal Reserve Bank of Chicago for 1928.

I should like to insert that in the record. That was called for.

The CHAIRMAN. That will be inserted at this point.

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

Principal bank chains and groups on December 31, 1929, in States which permit state-wide or restricted branch banking

Name and address of management or controlling interest	Banks in chain or group	Loans and investments	Branches of banks in chain or group
STATE-WIDE BRANCH BANKING PERMITTED			
California:[1]	*Number*		*Number*
Trans-American Corporation,[2] New York	17	$1,139,879,000	448
Goldman Sachs Trading Corporation,[2] New York	1	225,072,000	94
Anglo-National Corporation,[2] San Francisco	16	145,066,000	1
BRANCHES PERMITTED BUT RESTRICTED AS TO LOCATION			
Georgia, First National Bank, Atlanta	7	104,954,000	10
Kentucky,[3] First National Corporation, Louisville	9	43,823,000	6
Louisiana, Calcasieu National Bank, Lake Charles	6	14,644,000	8
Maine, Financial Institutions (Inc.), Augusta	9	59,576,000	17
Massachusetts, First National Old Colony Corporation, Boston	20	568,312,000	31
Michigan:[4]			
Guardian Detroit-Union Group (Inc.), Detroit	35	403,996,000	74
First National-Peoples Wayne Group, Detroit	21	705,032,000	213
Mississippi, S. J. High & Associates, Tupelo	10	4,547,000	2
New Jersey, Peoples Trust & Guaranty Co., Hackensack	9	25,427,000	
New York:			
Marine Midland Corporation, Buffalo	19	425,436,000	46
First Securities Corporation, Syracuse	14	115,559,000	13
Ohio, Banc Ohio Corporation, Columbus	4	61,302,000	13
Pennsylvania:			
Peoples-Pittsburgh Trust Co., Pittsburgh	7	167,180,000	1
Union Trust Co., Pittsburgh	6	458,901,000	
Tennessee:			
Rogers Caldwell,[3] Nashville	11	97,028,000	20
American National Bank, Nashville	15	35,470,000	5

[1] The other States which permit state-wide branch banking are Arizona, Delaware, Maryland, North Carolina, Rhode Island, South Carolina, Vermont, and Virginia, but no chains or groups whatever were reported in 3 of these States and only small chains or groups in the 5 other States.
[2] Exclusive of banks located in other States that belong to this chain or group.
[3] No provision in State law, but branches or additional offices are operated under court decisions.
[4] No provision in State law, but State banking department has made no objection to establishment of local branches.

Capital and surplus and total resources of all banks in each State at the end of June, 1929, grouped according to provisions of State laws on branch banking

[Figures taken from 1929 Annual Report of the Comptroller of the Currency]

State	Capital	Surplus	Capital and surplus combined	Total resources
United States	$3,764,087,000	$4,597,478,000	$8,361,565,000	$71,805,802,000
STATE-WIDE BRANCH BANKING PERMITTED				
Total	$454,557,000	$397,972,000	$852,529,000	$8,051,250,000
Arizona	6,026,000	3,784,000	9,810,000	107,315,000
California	234,134,000	159,363,000	393,497,000	4,169,954,000
Delaware	10,800,000	14,730,000	25,530,000	189,755,000
District of Columbia	24,880,000	20,173,000	45,053,000	331,797,000
Maryland	40,663,000	73,911,000	114,574,000	993,191,000
North Carolina	37,335,000	26,654,000	63,989,000	495,243,000
Rhode Island	14,390,000	34,847,000	49,237,000	584,406,000
South Carolina	18,927,000	10,180,000	29,107,000	225,578,000
Vermont	8,086,000	15,263,000	23,349,000	286,399,000
Virginia	59,316,000	39,067,000	98,383,000	667,612,000

Capital and surplus and total resources of all banks in each State at the end of June, 1929, grouped according to provisions of State laws on branch banking

BRANCHES PERMITTED BUT RESTRICTED AS TO LOCATION

State	Capital	Surplus	Capital and surplus combined	Total resources
Total	$2,053,186,000	$3,410,381,000	$5,463,567,000	$44,212,976,000
Georgia	40,479,000	26,279,000	66,758,000	454,386,000
Kentucky [1]	49,775,000	35,451,000	85,226,000	685,024,000
Louisiana	34,218,000	21,330,000	55,548,000	558,655,000
Maine	13,876,000	20,286,000	34,162,000	473,228,000
Massachusetts	143,678,000	222,709,000	366,387,000	4,791,518,000
Michigan [2]	129,774,000	116,240,000	246,014,000	2,505,015,000
Mississippi	16,473,000	10,505,000	26,978,000	277,294,000
New Jersey	141,374,000	174,042,000	315,416,000	2,865,032,000
New York	870,020,000	1,875,506,000	2,745,526,000	20,804,553,000
Ohio	191,153,000	151,399,000	342,552,000	3,314,080,000
Pennsylvania	378,267,000	723,625,000	1,101,892,000	6,905,979,000
Tennessee	44,099,000	33,009,000	77,108,000	577,612,000

BRANCH BANKING PROHIBITED BY LAW [3]

Total	$1,189,233,000	$744,745,000	$1,933,978,000	$18,254,754,000
Alabama	30,131,000	21,176,000	51,307,000	377,962,000
Arkansas	21,719,000	9,522,000	31,241,000	269,338,000
Florida	31,132,000	18,766,000	49,898,000	418,127,000
Indiana	78,417,000	44,744,000	123,161,000	1,234,844,000
Minnesota	61,488,000	34,549,000	96,037,000	1,127,571,000
Nebraska	32,316,000	13,101,000	45,417,000	510,585,000
Oregon	21,061,000	9,650,000	30,711,000	327,948,000
Washington	36,532,000	15,509,000	52,041,000	570,442,000
Wisconsin	69,676,000	37,315,000	106,991,000	1,147,485,000
Colorado	18,123,000	11,897,000	30,020,000	346,309,000
Connecticut	48,033,000	94,877,000	142,910,000	1,495,478,000
Idaho	5,912,000	2,259,000	8,171,000	100,421,000
Illinois	333,507,000	223,286,000	556,793,000	4,922,404,000
Iowa	67,258,000	30,096,000	97,354,000	1,014,508,000
Kansas	40,950,000	20,489,000	61,439,000	538,683,000
Missouri	108,247,000	61,782,000	170,029,000	1,487,106,000
Montana	11,365,000	5,201,000	16,566,000	190,486,000
Nevada	3,437,000	1,166,000	4,603,000	53,730,000
New Mexico	3,240,000	1,453,000	4,693,000	51,257,000
Texas	121,216,000	55,654,000	176,870,000	1,445,406,000
Utah	11,921,000	6,254,000	18,175,000	194,441,000
West Virginia	33,552,000	25,999,000	59,551,000	440,223,000

NO PROVISION IN STATE LAW REGARDING BRANCH BANKING (NO BRANCHES IN OPERATION)

Total	$67,111,000	$44,380,000	$111,491,000	$1,276,822,000
New Hampshire	6,630,000	21,469,000	28,099,000	334,643,000
North Dakota	11,137,000	4,693,000	15,830,000	147,251,000
Oklahoma	33,412,000	10,657,000	44,069,000	543,021,000
South Dakota	11,647,000	4,626,000	16,273,000	177,214,000
Wyoming	4,285,000	2,935,000	7,220,000	74,693,000

[1] No provision in State law, but branches or additional offices are operated under court decisions.
[2] No provision in State law, but State banking department has made no objection to establishment of local branches.
[3] A number of branches are in operation, which were established prior to prohibitory legislation.

National Banks in the Trust Field

The development of trust operations by national banks was evidenced by continued and substantial progress throughout the Nation during the past year. The statistics for this function compiled as of June 29, 1929, revealed that 2,442 national banks had received authority to exercise trust powers, with a combined capital of $1,218,049,515, representing 32.4 per cent of the number and 74.8 per cent of the capital of all banks in the national banking system.

Trust departments had been established by 1,734 of these banks and 75,988 trusts were being administered with individual trust assets aggregating $4,237,648,663. Seven hundred and thirty-six of these banks were also acting as trustees for bond and note issues aggregating $7,370,154,456.

Compared with October 3, 1928, these figures represent a net increase in the number of national banks authorized to administer trusts under section 11 (k) of the Federal reserve act of 69, or 2.91 per cent; an increase in the number operating trust departments of 149, or 9.40 per cent; an increase in the number of trusts being administered of 12,212, or 19.15 per cent, and an increase in individual trust assets of $940,338,544, or 28.52 per cent.

The growth in the fiduciary activities of the banks in the national banking system and the increasing popularity with the public of this important department of national bank operations are even more impressive when comparisons are made with the activities of national banks in this field just three years ago. In June, 1926, national banks numbering 2,026 had authority to exercise trust powers, with 1,104 actively engaged in administering trusts. These banks were then acting in a fiduciary capacity for 26,053 trusts, with individual trust assets of $922,328,677, and were acting as trustees for bond and note issues aggregating $2,463,553,316. The figures compiled as of June 29, 1929, represent for the 3-year period an increase in the number of national banks authorized to administer trusts of 416, or 20.53 per cent; an increase in the number of banks operating trust departments of 630, or 57.07 per cent; an increase in the number of trusts being administered of 49,936, or 191.67 per cent; an increase in individual trust assets of $3,315,319,986, or 359.45 per cent; and an increase in the volume of bond and note issues outstanding for which these banks were acting as trustees of $4,906,601,140, or 199.17 per cent.

As the activities of national banks have grown, so have the earnings that these banks have reported from this source. For the fiscal year ended June 30, 1929, trust department gross earnings aggregating $20,583,000 were reported, as compared with $16,165,000 in 1928, $10,811,000 in 1927, and $8,255,000 in 1926.

Another phase of fiduciary activity which is gaining in popularity is the creation of insurance trusts. While the administration of this type of trust is a comparatively recent development in national bank trust departments, yet on June 29, 1929, 118 national banks were administering 271 insurance trusts representing the proceeds of insurance policies aggregating $11,384,632. Some indication of the place this type of trust will make for itself in the future operations of national banks is evidenced by the fact that 558 trust departments now hold 9,505 trust agreements which name those banks trustees in the future of the proceeds of insurance policies with a present face value of $375,524,409, an amount aggregating more than one-third of the total individual trust assets under administration in 1926 by the 1,104 national bank trust departments then in operation.

National banks with authority to exercise trust powers have shown continued interests in the privilege afforded them to include the words "trust company" in their titles. While only 101 were operating with trust in their names in 1927, the number has increased to 302 since that time, and this method of informing the public of their authority to engage in trust functions is becoming general in many sections of the Nation.

A recent analysis developed that of the 7,536 national banks in operation, 2,442, or 32.4 per cent, had authority to exercise trust powers; 2,839, or 37.7 per cent, had capital sufficient to entitle them to apply for permission to exercise trust powers under section 11 (k) of the Federal reserve act, and 2,255, or 29.9 per cent, were ineligible to receive permission to engage in trust operations because their capital was less than that required by the laws of the States in which they were located for competing State institutions to receive like powers.

The accompanying recapitulation segregates national banks into six classes according to capital and gives detailed information relating to their fiduciary activities, following which is a table showing consolidated figures by Federal reserve districts.

Fiduciary activities of national banks in 1929 segregated according to capital

	Total	Banks with capital of $25,000	Per cent	Banks with capital over $25,000 to $50,000	Per cent	Banks with capital over $50,000 to $100,000	Per cent	Banks with capital over $100,000 to $200,000	Per cent	Banks with capital over $200,000 to $500,000	Per cent	Banks with capital over $500,000	Per cent
Number of national banks administering trusts	1,734	25	0.0144	109	0.0628	418	0.2410	529	0.3050	405	0.2335	248	0.1433
Combined capital of national banks administering trusts	$1,028,678,615	$625,000	.0006	$5,315,000	.0051	$40,690,000	.0395	$88,446,830	.0859	$144,480,485	.1404	$749,130,300	.7285
ASSETS													
Investments	3,506,744,230	212,286	.0006	5,208,528	.0014	31,548,125	.0089	104,652,034	.0298	337,957,017	.0963	3,027,166,240	.8630
Deposits in savings banks	8,522,124	30,162	.0035	28,025	.0032	829,629	.0973	1,171,870	.1373	1,676,837	.1967	4,785,601	.5620
Deposits in other banks	18,035,531	3,922	.0002	270,148	.0149	103,480	.0057	1,008,506	.0559	2,329,888	.1291	14,319,587	.7942
Deposits in own banks	210,541,642	97,685	.0004	3,544,339	.0168	4,452,272	.0211	7,650,167	.0363	13,917,527	.0661	180,879,652	.8593
Other assets	493,805,136	34,604	.00007	280,212,421	.5674	3,206,948	.0064	8,561,910	.0175	30,214,652	.0611	171,484,601	.34753
Total	4,237,648,663	378,659	.00008	289,263,461	.0682	40,140,454	.0094	123,134,487	.0290	386,095,921	.0911	3,398,635,861	.80222
LIABILITIES													
Private trust accounts	2,404,561,306	15,314	.000006	233,945,662	.0972	14,507,963	.0060	51,769,882	.0115	191,635,752	.0796	1,912,686,733	.80569
Private trust accounts, income	18,947,833	630	.00003	744,673	.0039	167,018	.0008	1,014,189	.0535	3,357,530	.1771	13,663,793	.76467
Court trusts (executor, etc.)	856,009,162	313,493	.0003	53,006,413	.0619	20,890,297	.0244	57,532,397	.0672	135,694,275	.1585	588,572,287	.6877
Court trusts (executor, etc.), income	16,246,143	21,724	.0001	449,228	.0027	453,676	.0027	1,574,821	.0969	3,057,850	.1882	10,688,844	.7094
Other liabilities	941,884,219	27,498	.00002	1,117,485	.0011	4,121,500	.0043	11,243,198	.0119	52,350,514	.0555	873,024,024	.92718
Total	4,237,648,663	378,659	.00008	289,263,461	.0682	40,140,454	.0094	123,134,487	.0290	386,095,921	.0911	3,398,635,681	.80222
Trustees for bond issues	7,370,154,456	69,003	.000009	474,028,008	.0643	33,195,895	.0045	57,561,743	.0078	219,093,176	.0297	6,586,206,631	.893691
Individual trusts being administered	66,776	68	.0010	1,337	.0200	3,983	.0596	10,967	.1642	14,756	.2209	35,665	.5343
Corporate trusts being administered	9,212	2	.0002	361	.0391	383	.0415	866	.0940	1,479	.1605	6,121	.6647
Number of national banks administering insurance trusts	118			1	.0084	7	.0593	23	.1949	32	.2711	55	.4663
Number of insurance trusts being administered (included in private trust totals)	271			5	.0176	10	.0369	50	.1845	75	.2767	131	.4843
Volume of assets represented by insurance trusts being administered (included in private trust totals)	$11,384,632			$1,110,874	.0975	$194,599	.0017	$939,349	.0825	$2,095,917	.1841	$7,043,893	.6342
Number of banks holding insurance trust agreements not yet operative	558			7	.0012	47	.0842	121	.2168	192	.3440	191	.3538
Number of insurance trusts for which banks have been named trustees but which have not yet become operative (not included in private trust totals)	9,505			108	.0113	512	.0538	861	.0905	1,778	.1870	6,246	.6574

Fiduciary activities of national banks in 1929 segregated according to capital—Continued

	Total	Banks with capital of $25,000	Per cent	Banks with capital over $25,000 to $50,000	Per cent	Banks with capital over $50,000 to $100,000	Per cent	Banks with capital over $100,000 to $200,000	Per cent	Banks with capital over $200,000 to $500,000	Per cent	Banks with capital over $500,000	Per cent
LIABILITIES—continued													
Face value of insurance policies held under above agreements (not included in private trust totals)	$375,524,409			$7,410,699	0.0197	$3,023,270	0.0080	$19,324,484	0.0514	$66,765,693	0.1777	$279,000,263	0.7432
Number of national banks authorized to exercise fiduciary powers but not administering trusts	708	47	0.0663	152	.2146	253	.3573	141	.1991	70	.0988	45	.0639
Combined capital of national banks authorized to exercise fiduciary powers but not administering trusts	$189,361,900	$1,175,000	.0062	$7,325,000	.0386	$24,152,000	.1275	$24,465,400	.1291	$25,542,500	.1348	$106,702,000	.5638
Total number of national banks authorized to exercise fiduciary powers	2,442	72	.0294	261	.1068	671	.2747	670	.2743	475	.1945	293	.1203
Combined capital of national banks authorized to exercise fiduciary powers	$1,218,049,515	$1,800,000	.0014	$12,640,000	.0184	$64,842,000	.0532	$112,912,230	.0926	$170,022,985	.1395	$855,832,300	.6949
Number of national banks having sufficient capital to apply for permission to exercise fiduciary powers at beginning of 1929	2,839	586	.2064	972	.3423	778	.2740	320	.1127	128	.0450	55	.0196
National banks having authority to exercise fiduciary powers which have amended their titles to include the words "trust company" Oct. 15, 1929	302	2	.0066	5	.0165	58	.1920	97	.3211	83	.2748	57	.1890

Fiduciary activities of national banks by Federal reserve districts as of June 29, 1929

Federal reserve districts	Number authorized to exercise fiduciary powers	Number exercising fiduciary powers	Number of individual trusts being administered	Assets of individual trusts	Number of corporate trusts being administered	Bond issues outstanding where bank acts as trustee	Number of banks administering insurance trusts	Number of insurance trusts being administered	Volume of assets of insurance trusts under administration	Number of banks holding insurance trust agreements not yet operative	Number of insurance trust agreements not yet operative	Face value of insurance policies held under trust agreements not yet operative	Trust department gross earnings for fiscal year ending June 30, 1929
Boston	231	166	4,584	$287,364,324	456	$440,646,059	10	32	$2,625,909	52	825	$43,532,087	$1,877,000
New York	362	274	8,780	1,226,979,151	2,227	4,737,986,867	18	31	1,032,344	86	1,269	80,175,742	8,417,000
Philadelphia	290	244	10,178	176,954,884	379	102,847,115	16	59	2,509,970	70	678	34,685,792	846,000
Cleveland	159	130	6,754	234,267,293	814	156,461,300	13	41	737,710	57	1,125	52,051,262	1,074,000
Richmond	193	146	3,597	198,306,728	278	94,355,216	14	14	311,746	49	430	18,142,990	611,000
Atlanta	146	96	3,039	134,388,716	547	143,845,760	9	13	778,496	31	636	23,556,159	581,000
Chicago	386	270	9,219	646,270,959	1,540	800,122,060	10	19	1,820,143	80	1,277	37,401,686	2,211,000
St. Louis	151	99	2,115	51,741,796	325	49,382,799	1	1	30,051	16	335	13,415,795	327,000
Minneapolis	109	48	978	36,678,949	194	17,068,971	2	2	41,261	11	82	3,169,225	115,000
Kansas City	196	107	3,838	254,479,123	535	80,943,398	9	24	562,378	35	1,020	14,594,239	753,000
Dallas	101	60	818	95,225,575	249	67,219,333	3	3	19,108	26	219	7,485,379	348,000
San Francisco	118	94	12,876	895,091,165	1,668	679,275,578	13	32	915,516	45	1,609	47,314,053	3,423,000
Total	2,442	1,734	66,776	4,237,648,663	9,212	7,370,154,456	118	271	11,384,632	558	9,505	375,524,409	20,583,000

Ratio to capital funds of earnings of member banks distributed according to size of bank

BOSTON DISTRICT

Loans and investments	Net earnings (before losses) 1925	Net profits (after losses) 1925	1926	1927
	Per cent	*Per cent*	*Per cent*	*Per cent*
Under $500,000	8.2	6.7	6.7	6.0
$500,000 to $1,000,000	9.4	7.7	7.3	7.6
$1,000,000 to $2,000,000	10.7	8.6	9.9	8.5
$2,000,000 to $5,000,000	10.7	8.5	8.7	9.2
$5,000,000 to $10,000,000	10.3	8.1	8.1	8.4
Over $10,000,000	11.2	6.8	7.2	7.3
Total	9.9	7.9	8.2	8.1

NEW YORK DISTRICT (ABOUT 40 SELECTED MEMBER BANKS IN EACH GROUP)

Loans and investments	Net earnings (before losses) 1923	1924	1925	1926	1927
	Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*
Under $500,000	10.5	10.3	11.6	11.2	11.2
$500,000 to $1,000,000	12.2	11.9	11.2	13.6	13.9
$1,000,000 to $2,000,000	14.7	13.7	14.7	14.8	14.5
$2,000,000 to $5,000,000	15.7	13.8	15.6	14.3	13.5
$5,000,000 to $10,000,000	15.2	16.0	15.0	14.2	14.1
Over $10,000,000:					
Outside New York City	13.4	14.4	14.4	14.4	13.2
In New York City	13.3	13.5	13.4	13.8	12.5
Total	13.6	13.4	13.7	13.8	13.3

PHILADELPHIA DISTRICT

Loans and investments	Net profits (after losses)—national banks only, 1927	Loans and investments	Net profits (after losses)—national banks only, 1927
	Per cent		*Per cent*
Under $250,000	5.5	$1,500,000 to $2,000,000	8.9
$250,000 to $500,000	9.0	$2,000,000 to $3,000,000	9.7
$500,000 to $750,000	9.3	$3,000,000 to $5,000,000	8.5
$750,000 to $1,000,000	8.4	$5,000,000 to $10,000,000	9.3
$1,000,000 to $1,250,000	9.8	$10,000,000 and over	8.6
$1,250,000 to $1,500,000	9.4		

RICHMOND DISTRICT

Loans and investments	Net profits (after losses), 1926	Loans and investments	Net profits (after losses), 1926
	Per cent		*Per cent*
Under $250,000	3.0	$2,000,000 to $5,000,000	5.8
$250,000 to $500,000	4.3	$5,000,000 to $10,000,000	7.6
$500,000 to $1,000,000	5.8	$10,000,000 and over	9.6
$1,000,000 to $2,000,000	7.3		

Ratio to capital funds of earnings of member banks distributed according to size of bank—Continued

CHICAGO DISTRICT (EXCLUDING BANKS IN CHICAGO)

Loans and investments	Net earnings (before losses)		Net profits (after losses)	
	1926	1928	1926	1928
	Per cent	*Per cnte*	*Per cent*	*Per cent*
Less than $250,000	5.9	6.4	0.7	0.3
$250,000 to $500,000	8.1	9.1	1.9	2.4
$500,000 to $750,000	9.6	10.0	3.9	4.8
$750,000 to $1,000,000	9.9	10.3	5.4	5.5
$1,000,000 to $1,500,000	10.2	10.4	6.8	5.1
$1,500,000 to $2,000,000	11.4	12.2	7.8	6.8
$2,000,000 to $3,000,000	13.0	12.6	8.1	8.9
$3,000,000 to $4,000,000	11.9	12.1	8.2	8.1
$4,000,000 to $5,000,000	11.8	12.7	9.1	9.7
$5,000,000 to $6,000,000	13.6	11.1	8.7	6.7
$6,000,000 to $10,000,000	12.4	12.5	9.7	8.2
$10,000,000 to $15,000,000	13.2	12.0	10.1	8.2
Over $15,000,000	12.1	10.0	9.8	7.7
Total	11.6	10.9	8.2	7.2

ALL BANKS IN STATE OF ILLINOIS (EXCEPT COOK COUNTY)—1928

Loans and investments	Net profits (after losses)	Loans and investments	Net profits (after losses)
Under $250,000	3.3	$1,250,000 to $2,000,000	5.5
$250,000 to $500,000	4.3	$2,000,000 to $5,000,000	7.4
$500,000 to $750,000	5.1	$5,000,000 to $10,000,000	6.3
$750,000 to $1,250,000	6.9	Over $10,000,000	11.1

ALL BANKS IN STATE OF IOWA

Loans and investments	Net earnings				Net profits (after losses)			
	1924	1925	1926	1927	1924	1925	1926	1927
	Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
Under $75,000	0.9	0.3	0.2	0.9	−6.6	−9.6	−7.6	−9.5
$75,000 to $100,000	3.0	2.5	3.4	4.8	−5.6	−8.8	−.1	−5.2
$100,000 to $150,000	2.5	3.4	4.0	4.5	−7.3	−6.3	−5.4	−5.9
$150,000 to $250,000	5.0	4.5	6.0	6.0	−2.2	−4.7	−2.2	−4.1
$250,000 to $500,000	6.8	6.8	7.7	7.4	−.9	−1.0	−.9	−1.6
$500,000 to $750,000	7.2	7.8	8.7	9.6	−1.2	−.4	−2.3	1.6
$750,000 to $1,000,000	7.6	8.5	10.1	10.4	−1.5	.8	2.7	1.0
$1,000,000 to $1,750,000	8.9	8.6	9.1	9.1	4.1	.5	4.3	1.4
Over $1,750,000	9.2	10.7	10.9	9.7	3.3	6.3	6.2	4.4
Total	7.5	8.0	8.7	8.5	.5	1.0	1.6	.8

ALL BANKS IN STATE OF INDIANA, 1927

Loans and investments	Net earnings	Net profits (after losses)
	Per cent	*Per cent*
Under $75,000	4.2	2.8
$75,000 to $100,000	4.8	−1.9
$100,000 to $150,000	6.6	3.4
$150,000 to $250,000	7.9	5.0
$250,000 to $500,000	9.0	6.0
$500,000 to $750,000	9.2	5.5
$750,000 to $1,000,000	9.3	6.1
$1,000,000 to $2,000,000	10.6	7.4
$2,000,000 to $5,000,000	11.0	8.3
Over $5,000,000	10.1	7.7
Total	9.8	6.9

ALL BANKS IN STATE OF WISCONSIN, 1927

Under $150,000	5.9	1.8
$150,000 to $250,000	9.5	4.3
$250,000 to $350,000	11.5	8.6
$350,000 to $500,000	11.8	7.9
$500,000 to $750,000	13.1	8.5
$750,000 to $1,000,000	12.1	7.3
$1,000,000 to $1,500,000	14.2	10.8
$1,500,000 to $2,000,000	15.5	11.5
$2,000,000 to $5,000,000	14.0	10.1
Over $5,000,000	12.0	9.9
Total	12.7	9.4

ANALYSIS OF MEMBER BANK EARNINGS AND EXPENSES, CHICAGO FEDERAL RESERVE DISTRICT, DECEMBER 31, 1927, TO DECEMBER 31, 1928, INCLUSIVE, BY MEANS OF RATIOS OF AGGREGATES

The third special compilation of statistics on earnings and expenses of member banks in the Chicago, Federal reserve district—covering the calendar year 1928—has been completed and the results thereof are presented in this pamphlet to member banks and others interested, to provide the banks with data in a form readily usable by them as a basis for comparing their own operations with those of other banks, and in cases where they are desirous of so doing, to aid them in discovering wherein a higher degree of efficiency might be attained.

The first of these special compilations of earnings and expenses, in so far as the seventh Federal reserve district is concerned, was based upon reports of operations for the year 1924. It was followed by a second study, covering 1926, the latter distributed in printed form in the spring of 1928. The current study follows closely the lines laid down in the 1926 compilation, and includes, as did that for 1926, data for banks classified according to the size of centers in which they are located and further classified within such groups according to the size of the banks as measured by the volume of their principal earning assets, i. e., total loans and investments. The 1928 compilation includes two tables not presented in the previous studies, namely, one showing ratios of selected earnings and expense items to related bases for all member banks in the district, and a similar tabulation excluding the city of Chicago. It is believed these additional data supplement the other material in an interesting and helpful way. They will be found on page 11, together with a brief analysis of them.

METHOD OF COMPUTATION

A few points regarding the method used in computing the accompanying tables, and suggestions regarding the method which might be used in computing ratios for an individual bank comparable with the data shown herein, may prove helpful in interpreting them, and add to their usefulness in gaging the position of any particular bank.

The original information underlying the statistics was in all cases derived from the regular reports of condition and of earnings and expenses which member banks are required to submit periodically to the Federal Reserve Board and to the Comptroller of the Currency, and it may be remarked that the amount of detail provided by these reports determines the scope of the statistics which may be compiled from them. Although the reports are not so complete as might be desired in respect to such matters as income and expense directly related to the banks' premises, statistics summarizing the earnings and expenses of member banks as reported are of considerable value. At least a part of this value will be realized if the accompanying comparative tables and charts based on these statistics but emphasize the importance to banks of adequate records and analyses of their operations.

In compiling the ratios for groups of banks as presented in the accompanying ables, the first step was to classify the banks into groups, first according to the size of the centers in which they were located, and then according to the size of the banks. Following this, figures from the condition and the earnings and dividend reports of the individual banks were combined to obtain aggregate figures for each of the groups. These aggregates were then employed in calculating various group ratios. Ratios, or percentages, are used because groups of banks having earnings and expenses of widely different magnitudes are more easily compared by means of percentages than on the basis of the actual dollar amounts.

Four bases have been used in calculating the ratios (see Table I). They are (1) earning assets (gross loans and investments); (2) capital funds (capital, surplus, and undivided profits exclusive of reserves for taxes, interest, etc., accrued); (3) gross earnings; and (4) gross deposits. The ratios were obtained by dividing the aggregate figures for the various items of earnings and expenses (or such other items as were to be expressed in the form of ratios), of a given group by the base figure for the same group, and expressing the result as a percentage; for example, the ratio of interest and discount received to average earning assets for banks in a given group was obtained by dividing the aggregate amount of interest and discount received by banks in that group by the aggregate amount of the banks' earning assets. The figure for earning assets, capital funds, and gross deposits which were used as bases on which to calculate ratios are averages of amounts

reported on the five condition reports submitted during the year, including the reports for December 31, 1927, and December 31, 1928.[1]

This was done because changes which occur in these items during the year render it desirable to ascertain approximately the average volume outstanding during the year before relating earnings and expense data to them by means of ratios. An individual bank may make rough comparisons of its earnings and expenses with those of groups of banks by means of ratios calculated on the basis of earning assets (and other items from its condition report) for a single date. It would be better, however, for the bank to follow as closely as possible the procedure by which the accompanying ratios were obtained, using averages of the amounts of its earning assets, capital funds, and deposits as reported for the five call dates during the year.[2]

In compiling these statistics member banks were classified into groups according to their size and location in order to obtain a certain amount of uniformity among the banks within the various groups. An important statistical result of this procedure was to eliminate to a considerable extent the disproportionate influence of large banks upon the ratios for the earning asset groups. A more important result was to make possible comparisons between groups of banks which were, in each case, subject to similar conditions of operations in respect to the volume of their transactions and the size of the centers which they served. The size of banks and of the centers in which they are located are not the only, or always the most important, criteria of the conditions under which they operate. For this reason, in comparing itself with other banks, any given institution should take into account differences in the character of its operations as compared with those of the other banks. These differences are, in part, indicated by dissimilarities in the proportion of time deposits which a bank holds and in the proportion of its investments to its total earning assets and to some extent, by the relative importance of earnings which it derives in forms other than interest and dividends on loans and investments. It is also important to bear in mind the effect on earnings and expenses of variations in practice as regards cost and income directly related to bank premises.

For your convenience in determining what figures to use in computing these ratios, we list below the numbers on the national and State banks' condition reports and on the reports of earnings, expenses, and dividends for all the items used in the study. Items taken from condition statements, Form 2130, No. 319 for National banks, and Federal Reserve Board Form 105 (revised November 1928), for State member banks:

	National banks	State banks
I. Earning assets	Items 1, 2, 3, 4	Items 1, 2, 3, 4.
II. Capital, surplus, and undivided profits	Items 15, 16, 17, 18	Items 14, 15, 16, 17.
III. Gross deposits	Items 21, 22, 23, 24	Items 19, 20, 21, 22.
IV. Time deposits	Item 23	Item 21.

Items taken from reports of earnings and dividends, comptroller's Form 2129 for national banks, and Federal Reserve Board Form 107 for State banks (revised November, 1928):

	National banks	State banks
1. Interest and discount received	1 (a, b, and c)	1 (a, b, and c).
2. All other earnings	1 (d, e, f, g, h, and i)	1 (d, e, f, g, h, and i).
3. Total gross earnings	1 (a–i inclusive)	1 (a–i, inclusive).
4. Salaries and wages	2 a	2 a.
5. Interest and discount paid on borrowed money.	2 b	2 b.
6. Interest paid on deposits	2 (c, d, and e)	2 (c, d, and e).
7. Taxes	2 f	2 f.
8. All other expenses	2 g	2 g.
9. Total expenses	2 (a–g, inclusive)	2 (a–g, inclusive).
10. Net earnings	3	3.
11. Net losses	[5 (a, b, c, d, and e) minus 4 (a, b, and c)	5 (a, b, c, and d) minus 4 (a, b, and c).
12. Net additions to profits [a]	6	6.
13. Dividends	13	13.

[a] Change to deficit if minus item.

[1] In view of questions which have arisen in the past concerning the meaning of "average" as here used, it may be said that figures for the five dates were merely added together and then divided by five.

[2] In utilizing group ratios which are presented in the following tables, it should be borne in mind that they are ratios of aggregate amounts, and that consequently the influence which the figures of the larger banks of a given group exert on the group ratio is somewhat disproportionate to the number of such banks. This is not a consideration of great important for most of the groups, since the range of size within any one group is relatively narrow.

With these figures at hand, all that is necessary in order to determine the percentage ratio is to divide each item for which a ratio is desired by the base figure. Given below are the various items for which ratios are shown in the accompanying tables, indicating the operation involved in their computation:

Interest and discount received divided by average earning assets.
All other earnings divided by average earning assets.
Total gross earnings divided by average earning assets.
Interest paid on deposits divided by average earning assets.
Interest and discount paid on borrowed money divided by average earning assets.
Salaries and wages divided by average earning assets.
Taxes divided by average earning assets.
All other expenses divided by average earning assets.
Total expenses divided by average earning assets.
Net earnings divided by average earning assets.
Net losses divided by average earning assets.
Net additions to profits divided by average earning assets.
Stocks and bonds divided by average earning assets.
Average earning assets divided by average capital, surplus, and undivided profits.
Net earnings divided by average capital, surplus, and undivided profits.
Net additions to profits divided by average capital, surplus, and undivided profits.
Interest paid on deposits divided by gross earnings.
Interest and discount on borrowed money divided by gross earnings.
Salaries and wages divided by gross earnings.
All other expenses divided by gross earnings.
Total expenses divided by gross earnings.
Net losses divided by gross earnings.
Net additions to profits divided by gross earnings.
Dividends divided by gross earnings.
Interest paid on deposits divided by average gross deposits.
Average time deposits divided by average gross deposits.
Average capital, surplus, and undivided profits divided by average gross deposits.

By computing these per cent relationships between the various items, an individual bank may compare itself with the group of banks to which it belongs. It will reveal any ratios which are much out of line with the group averages for other institutions of its size. Many variations from group averages may be shown due to peculiarities in the bank's particular situation or to the type of business handled, as already noted. Other differences might bring to light conditions which officials would wish to correct.

We should welcome any questions which may arise, either with respect to working out these ratios or in regard to results obtained.

TABLE I.—*Earnings and expenses of member banks in the Chicago Federal reserve district, banks grouped according to size, December 31, 1927, to December 31, 1928*

Description of ratios	Member banks outside the city of Chicago with earning assets of—												Total	All member banks in district (including Chicago)
	Less than $250,000	$250,000 to $500,000	$500,000 to $750,000	$750,000 to $1,000,000	$1,000,000 to $1,500,000	$1,500,000 to $2,000,000	$2,000,000 to $3,000,000	$3,000,000 to $4,000,000	$4,000,000 to $5,000,000	$5,000,000 to $6,000,000	$6,000,000 to $10,000,000	$10,000,000 to $15,000,000	Over $15,000,000		
Group No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Percentage of the following to average earning assets: [1]															
Interest and discount received [2]	6.53	6.32	6.14	5.96	5.86	5.84	5.83	5.70	5.79	5.47	5.68	5.48	5.47	5.67	5.39
All other earnings	.61	.53	.49	.51	.50	.70	.81	.83	.87	.77	.76	1.08	.56	.67	1.16
Gross earnings	7.15	6.85	6.62	6.47	6.36	6.55	6.64	6.53	6.66	6.24	6.44	6.56	6.03	6.34	6.55
Interest paid on deposits	1.89	2.26	2.35	2.42	2.33	2.25	2.20	2.11	2.24	2.07	2.23	2.20	2.16	2.20	2.13
Interest and discount on borrowed money	.19	.11	.08	.07	.08	.06	.07	.07	.10	.11	.09	.10	.20	.13	.13
Salaries and wages	2.06	1.68	1.48	1.39	1.38	1.38	1.40	1.47	1.36	1.38	1.28	1.29	1.15	1.29	1.29
Taxes	.49	.38	.39	.35	.36	.37	.41	.35	.38	.37	.36	.38	.40	.39	.38
All other expenses	1.02	.84	.72	.72	.70	.73	.79	.86	.79	.76	.77	.84	.77	.78	.85
Total expenses	5.65	5.26	5.02	4.94	4.85	4.79	4.86	4.86	4.87	4.69	4.73	4.80	4.68	4.79	4.79
Net earnings	1.50	1.58	1.60	1.53	1.51	1.76	1.77	1.67	1.78	1.55	1.70	1.76	1.36	1.55	1.76
Net losses	1.42	1.16	.83	.70	.78	.78	.53	.55	.41	.61	.58	.56	.31	.52	.41
Net additions to profits	.08	.42	.78	.82	.73	.98	1.25	1.12	1.37	.94	1.13	1.20	1.05	1.03	1.35
Average investments (bonds and stocks)	21.02	27.33	31.70	36.26	36.83	37.46	34.55	34.59	33.23	37.30	30.79	33.91	23.78	29.71	27.22
Percentage of the following to average capital funds: [3]															
Average earning assets	430.05	571.48	621.64	671.79	691.66	694.59	711.90	723.14	709.31	714.65	730.60	683.40	736.24	704.11	693.14
Net earnings	6.43	9.05	9.96	10.28	10.44	12.23	12.62	12.07	12.65	11.07	12.46	12.02	9.98	10.89	12.21
Net additions to profits [4]	.32	2.42	4.82	5.54	5.07	6.81	8.87	8.09	9.71	6.74	8.24	8.19	7.70	7.22	9.39

[1] Includes total loans, and total bonds and stocks.
[2] Includes interest and dividends on bonds and stocks.
[3] Includes capital, surplus and undivided profits (exclusive of reserves for taxes, interest, etc., accrued).
[4] Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earnings assets to capital funds.

TABLE I.—*Earnings and expenses of member banks in the Chicago Federal reserve district, banks grouped according to size, December 31, 1927, to December 31, 1928*—Continued

Description of ratios	Member banks outside the city of Chicago with earning assets of—													Total	All member banks in district (including Chicago)
	Less than $250,000	$250,000 to $500,000	$500,000 to $750,000	$750,000 to $1,000,000	$1,000,000 to $1,500,000	$1,500,000 to $2,000,000	$2,000,000 to $3,000,000	$3,000,000 to $4,000,000	$4,000,000 to $5,000,000	$5,000,000 to $6,000,000	$6,000,000 to $10,000,000	$10,000,000 to $15,000,000	Over $15,000,000		
Group No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Percentage of the following to gross earnings:															
Interest paid on deposits	26.39	32.96	35.48	37.36	36.66	34.30	33.09	32.30	33.67	33.15	34.66	33.48	35.71	34.74	32.66
Interest and discount on borrowed money	2.71	1.67	1.16	1.04	1.26	.88	1.09	1.05	1.50	1.70	1.35	1.49	3.35	2.07	2.00
Salaries and wages	28.87	24.52	22.34	21.46	21.66	21.11	21.06	22.53	20.49	22.16	19.93	19.60	19.00	20.42	19.73
All other expenses	21.11	17.72	16.82	16.50	16.68	16.83	18.05	18.56	17.55	18.17	17.58	18.62	19.47	18.36	18.81
Total expenses	79.08	76.87	75.80	76.36	76.26	73.12	73.29	74.44	73.21	75.18	73.52	73.19	77.53	75.59	73.10
Net losses	19.87	16.94	12.50	10.89	12.20	11.91	7.95	8.43	6.23	9.71	8.95	8.55	5.15	8.24	6.23
Net additions to profits	1.05	6.19	11.70	12.75	11.54	14.97	18.76	17.13	20.56	15.11	17.53	18.26	17.32	16.17	20.67
Dividends declared	8.36	9.73	11.16	10.05	11.26	11.53	10.89	11.13	12.63	11.73	15.00	12.62	11.51	11.82	12.70
Percentage of the following to average gross deposits: [1]															
Interest paid on deposits	1.92	2.27	2.34	2.40	2.30	2.20	2.14	2.03	2.07	2.00	2.15	2.01	2.06	2.12	2.03
Average time deposits	36.85	51.09	53.23	57.57	56.85	57.48	54.04	52.18	46.11	48.24	51.51	37.53	48.84	49.87	41.82
Average capital funds	23.64	17.59	16.05	14.79	14.28	14.11	13.67	13.28	13.28	13.52	13.22	13.40	12.99	13.67	13.75
Number of banks	134	271	176	124	145	80	69	44	31	15	43	19	25	1,176	1,239

[1] Includes demand, time, and Government deposits plus amounts due to banks.

This table includes 1,176 member banks (1,239 for the entire district, including Chicago), which have been classified into 13 groups with 27 ratios computed for each group, 13 on average earning assets as a base; 3 on average capital, surplus, and undivided profits; 8 on total gross earnings; and the remaining 3 on average gross deposits.

The trends shown in 1928 are similar to those in the corresponding tabulation for 1926, especially those ratios based upon gross earnings, which represent a percentage distribution of the banks' earnings as between amounts absorbed by expenses, losses, and amounts remaining as profits, and which are therefore perhaps the most easily understood and generally speaking provide the most ready means of making useful comparisons between groups of banks and between individual banks and groups. For instance, the portion of Table I, which deals with banks outside the city of Chicago, gives evidence, as was the case in 1926, of a tendency toward proportionately smaller expenditures for salaries and wages by larger banks as compared with those of smaller size, a trend also evident in the tabulation presenting the data for banks classified according to size of center in which located. For the group composed of the smallest banks (earning assets less than $250,000), the percentage of gross earnings paid out for salaries and wages in 1928 was 28.87, as against 28.45 per cent in 1926, while the percentages for the group comprising the largest institutions were 19 and 19.26 respectively.

Interest on deposits in 1928 absorbed 34.74 per cent of gross earnings, a small reduction from 1926, when 35.06 per cent of gross earnings constituted the cost of deposits. The foregoing item, combined with interest on borrowed money—funds borrowed from other banks—represents the direct cost of the funds which a bank employs; as in 1926, interest on borrowed money in 1928 tended to be proportionately larger in the case of the smaller banks; this trend, however, is less clear than in 1926, the group of 25 banks with earning assets of over $15,000,000 in 1928 expending 3.35 per cent of their total gross earnings for interest and discount on borrowed money, as against only 2 per cent in 1926. The group comprising the smallest banks, on the other hand, in 1928 employed a somewhat smaller percentage of their gross earnings for interest and discount on borrowed money, 2.71 per cent in 1928 as against 3.26 per cent in 1926.

The proportion of gross earnings of member banks absorbed by total expenses was slightly greater in 1928 than in 1926, the percentage last year being 75.59 compared with 74.94 in 1926. Net losses were greater, most of the groups showing a heavier volume than in 1926, and for all member banks outside the city of Chicago, the aggregate was 8.24 per cent of gross earnings whereas in 1926 the ratio was 7.43. As was the case in the preceding study, the 1928 compilation shows that the groups comprising the smaller banks, in general wrote off heavier losses than the larger institutions. As a result of the greater proportion of gross earnings absorbed by expenses, coupled with heavier losses as between the two years, net additions to profits showed a material reduction, totaling 16.17 per cent in 1928 and 17.64 per cent in 1926.

Attention is again drawn to the ratios in the accompanying tables which express earnings and expenses in terms of average earning assets, i. e., in terms of the volume of business handled by the banks as indicated approximately by the volume of their loans and investments. Both earnings and expenses in relation to earning assets show a fairly uniform downward trend for the smaller groups, while in the so-called intermediate groups (earning assets $1,500,000 and more), they show no particular trend; for the group of banks with earning assets over $15,000,000, however, a drop in both earnings and expense items is evident as compared with preceding groups. Salaries and wages show a progressive decline for banks up to the million-dollar earning asset group, and remain practically on the same level until reaching banks of the $6,000,000 size, after which another drop is noticeable, especially for the group with earning assets of over $15,000,000. Interest on deposits in 1928, for all member banks outside Chicago, was 2.20 per cent of average earning assets, the ratio being materially lower than in 1926 in the group of smallest banks. Losses as expressed in relation to average earning assets show a uniform downward trend with the increase in size of bank, and additions to profits moved upward in 1928, although after the group of banks of $3,000,000 size is reached, both of these trends are irregular. A steady gain in the ratio of earning assets to invested capital can be noted in the groups of larger banks.

Differences between banks in respect to earnings and expenses are a reflection of differences in organization, efficiency, and character of business handled. These basic differences are evidenced to some extent, though not wholly, by

differences in the size of the banks and in the size of the centers which they serve. The ratios which are discussed above take no account of differences in the size of the centers in which the banks operate, or of other differences in their operating situation, and this fact accounts, to a considerable extent, for the irregularity of movement in some of the ratios. A tabulation of banks grouped according to the population of centers in which they are located is presented in Table III.

TABLE II.—*Distribution of gross earnings of member banks in the Chicago Federal reserve district, banks grouped according to size, December 31, 1927, to December 31, 1928*

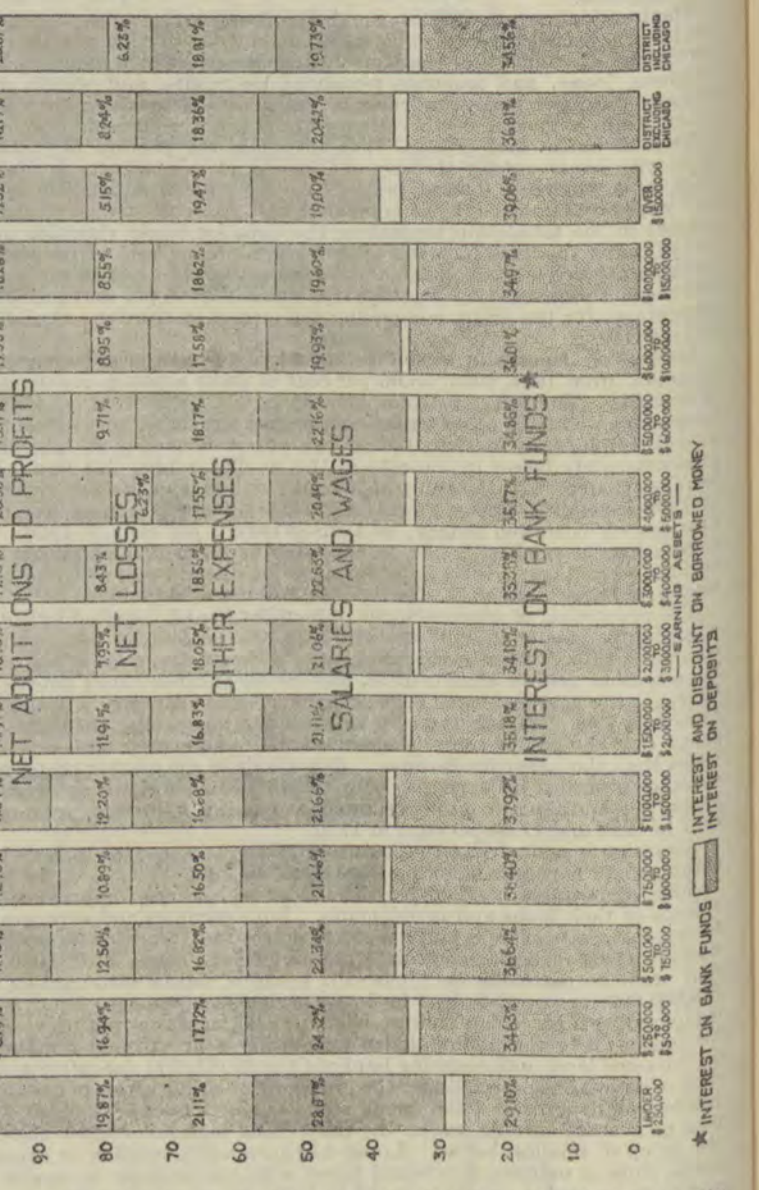


TABLE III.—*Earnings and expenses of member banks in the Chicago Federal reserve district, banks grouped according to size of centers, December 31, 1927 to December 31, 1928*

Description of ratios	Member banks in centers with a population of—					All member banks in the district
	Less than 1,000	1,000 to 5,000	5,000 to 15,000	15,000 to 100,000	100 000 and over	
Percentage of the following to average earning assets:[1]						
Interest and discount received [2]	6.37	6.02	5.90	5.63	5.18	5.39
All other earnings	.46	.50	.60	.92	1.37	1.16
Gross earnings	6.83	6.52	6.50	6.55	6.55	6.55
Interest paid on deposits	2.49	2.43	2.33	2.20	2.05	2.13
Interest and discount on borrowed money	.12	.06	.08	.08	.16	.13
Salaries and wages	1.57	1.40	1.38	1.37	1.24	1.29
Taxes	.35	.35	.36	.38	.39	.38
All other expenses	.74	.68	.71	.82	.89	.85
Total expenses	5.26	4.93	4.86	4.86	4.73	4.79
Net earnings	1.57	1.59	1.64	1.69	1.82	1.76
Net losses	.98	.77	.72	.57	.28	.41
Net additions to profits	.60	.82	.92	1.12	1.54	1.35
Average investments (bonds and stocks)	25.77	35.14	36.85	32.71	24.03	27.22
Percentage of the following to average capital fund:[3]						
Average earning assets	599.88	675.84	710.75	702.29	694.15	693.14
Net earnings	9.43	10.75	11.67	11.89	12.60	12.21
Net additions to profit [4]	3.58	5.55	6.53	7.88	10.67	9.39
Percentage of the following to gross earnings:						
Interest paid on deposits	36.38	37.32	35.81	33.63	31.35	32.56
Interest and discount on borrowed money	1.72	.98	1.22	1.25	2.39	2.00
Salaries and wages	22.93	21.41	21.20	20.96	18.98	19.73
All other expenses	15.96	15.92	16.50	18.33	19.55	18.81
Total expenses	76.99	75.62	74.73	74.17	72.27	73.10
Net losses	14.28	11.78	11.13	8.72	4.26	6.23
Net additions to profits	8.73	12.59	14.14	17.11	23.47	20.67
Dividends declared	9.71	10.55	11.12	13.21	13.02	12.70
Percentage of the following to average gross deposits:[5]						
Interest paid on deposits	2.51	2.41	2.29	2.09	1.94	2.03
Average time deposits	56.82	56.88	57.60	49.13	36.48	41.83
Average capital funds	16.86	14.64	13.84	13.53	13.62	13.75
Number of banks	295	453	196	190	105	1,239

[1] Includes total loans, and total bonds and stocks.
[2] Includes interest and dividends on bonds and stocks.
[3] Includes capital, surplus, and undivided profits (exclusive of reserves for taxes, interest, etc., accrued.)
[4] Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.
[5] Includes demand, time, and Government deposits plus amounts due to banks.

In this table are given data similar to those carried in Table I, with banks classified according to the population of cities in which located, five population groups being used as was done in the 1926 study, namely, (1) Banks in cities of less than 1,000 population, (2) 1,000 to 5,000, (3) 5,000 to 15,000, (4) 15,000 to 100,000, and (5) 100,000 and over. In subsequent tables, banks in each of the population groups listed above are further classified according to volume of average earning assets and ratios computed. A few noteworthy facts brought out by these compilations are cited:

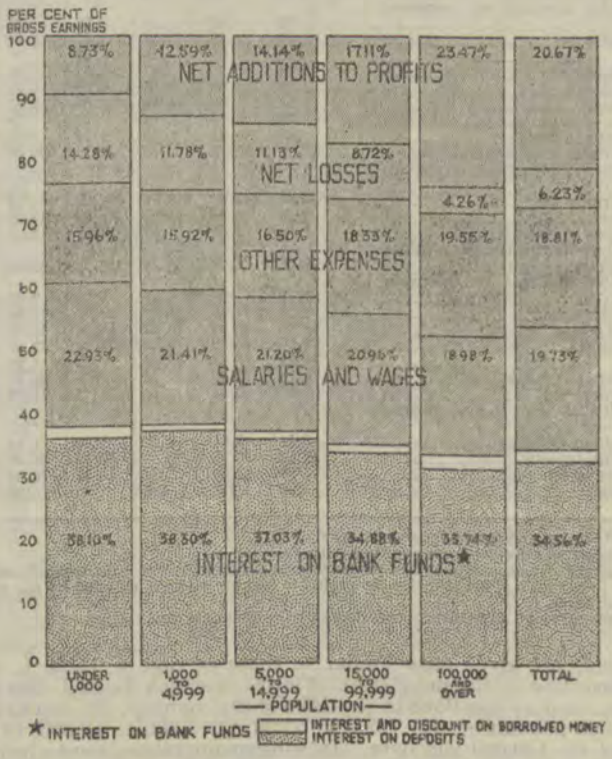
An increase in the size of city is accompanied by a decline in the ratio of interest and discount received to earning assets; on the other hand there is also evident an increase in the ratio of "other" earnings, so that as a result of the contrary trend of these items, total earnings showed irregular fluctuations and no definite trend. An increase in the size of the bank, or in its earning assets, however, was accompanied by a downward movement in both interest and discount received and "other" earnings, for groups of banks with less than $1,500,000 earning assets, total earnings reflecting this trend definitely whether arranged with reference to size of city or not. Total expenses move fairly uniformly downward with an increase in either size of city or of bank. Net earnings, determined as they are by variations in gross earnings and total expenses, showed a fairly uniform upward trend accompanying increases in size of banks and of cities, net losses showing a

reverse of this movement, thereby further emphasizing the upward trend for additions to profits. As there is a distinctly upward tendency in the ratio of earning assets to invested capital with an increase in size of bank, and as this trend is apparent irrespective of whether banks are arranged according to their own size or that of city in which located provided the population does not exceed 15,000, the ratio of additions to profits on the basis of invested capital shows an even stronger upward trend than when on the basis of earning assets.

TABLES IV A TO E, INCLUSIVE

These tabulations are designed to supplement Tables III and III–A, and form the basis of some of the discussion in the foregoing paragraphs. It will be noted

TABLE III–A.—*Distribution of gross earnings of member banks in the Chicago Federal reserve district, banks grouped according to size of centers, December 31, 1927, to December 31, 1928*



(Table III) that time deposits show a rising tendency for cities with less than 15,000 population, and a downward trend for cities in the larger population groups. For banks with earning assets of less than $1,000,000, the trend is upward and for the larger earning asset groups ($10,000,000 and over) there is a definite downward movement, these trends typifying situations wherein both factors, i. e., size of bank and size of city, are operative. Where the size of city as a factor is eliminated by following the trend as shown by the earning asset groups within a group of cities of uniform size, the tendency is upward for size of bank until reaching the $2,000,000 earning asset volume, and irregular thereafter. Where the factor of bank size is eliminated by grouping banks of uniform volume of earning assets according to cities in which located, the trend is generally downward throughout all the groups.

TABLE IV–B.—*Earnings and expenses of member banks in the Chicago Federal reserve district, banks in centers of 1,000 to 5,000 population, December 31, 1927, to December 31, 1928*

Description of ratios	Member banks with earning assets of—							Total
	Less than $250,000	$250,000 to $500,000	$500,000 to $750,000	$750,000 to $1,000,000	$1,000,000 to $1,500,000	$1,500,000 to $2,000,000	Over $2,000,000	
Percentage of the following to average earning assets:[1]								
Interest and discount received[2]	6.45	6.27	6.16	5.91	5.83	6.11	5.96	6.02
All other earnings	.74	.55	.50	.48	.44	.48	.72	.50
Gross earnings	7.20	6.82	6.66	6.40	6.27	6.58	6.68	6.52
Interest paid on deposits	2.07	2.05	2.37	2.52	2.50	2.57	2.70	2.43
Interest and discount on borrowed money	.10	.11	.07	.06	.03	.05	.05	.06
Salaries and wages	2.12	1.78	1.48	1.30	1.30	1.20	1.20	1.40
Taxes	.59	.40	.39	.32	.34	.33	.29	.35
All other expenses	1.02	.93	.72	.68	.57	.59	.62	.68
Total expenses	5.91	5.27	5.03	4.89	4.77	4.74	4.87	4.93
Net earnings	1.29	1.55	1.63	1.51	1.50	1.84	1.82	1.59
Net losses	1.18	1.29	.92	.71	.66	.49	.25	.77
Net additions to profits	.11	.25	.72	.80	.84	1.35	1.56	.82
Average investments (bonds and stocks)	23.85	28.74	32.01	37.31	38.59	38.91	34.77	35.14
Percentage of the following to average capital funds:[3]								
Average earning assets	420.64	554.04	614.74	702.95	742.24	775.39	836.10	675.84
Net earnings	5.43	8.57	10.05	10.61	11.13	14.28	15.18	10.75
Net additions to profits[4]	.44	1.39	4.42	5.63	6.21	10.49	13.06	5.55
Percentage of the following to gross earnings:								
Interest paid on deposits	28.79	30.06	35.62	39.45	39.93	39.09	40.47	37.32
Interest and discount on borrowed money	1.41	1.57	1.06	.96	.77	.74	.70	.98
Salaries and wages	29.44	26.15	22.18	20.36	20.73	18.20	17.99	21.41
All other expenses	22.44	19.55	16.59	15.63	14.65	14.00	13.67	15.92
Total expenses	82.08	77.33	75.45	76.40	76.08	72.03	72.83	75.62
Net losses	16.46	18.98	13.76	11.08	10.56	7.42	3.79	11.78
Net additions to profits	1.46	3.69	10.79	12.52	13.36	20.55	23.38	12.59
Dividends declared	7.61	9.83	11.10	10.53	10.79	11.64	8.74	10.55
Percentage of the following to average gross deposits:[5]								
Interest paid on deposits	1.98	2.05	2.35	2.52	2.47	2.51	2.67	2.41
Average time deposits	40.59	45.50	52.98	60.84	57.95	68.47	62.79	56.88
Average capital funds	22.71	18.02	16.10	14.23	13.29	12.57	11.81	14.64
Number of banks	25	120	124	75	81	18	10	453

[1] Includes total loans and total bonds and stocks.
[2] Includes interest and dividends on bonds and stocks.
[3] Includes capital, surplus, and undivided profits (exclusive of reserves for taxes, interest, etc., accrued.)
[4] Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.
[5] Includes demand, time, and Government deposits plus amounts due to banks.

TABLE IV–C.—*Earnings and expenses of member banks in the Chicago Federal reserve district, banks in centers of 5,000 to 15,000 population, December 31, 1927 to December 31, 1928*

Description of ratios	Member banks with earnings asset of—							Total
	Less than $500,000	$500,000 to $750,000	$750,000 to $1,000,000	$1,000,000 to $1,500,000	$1,500,000 to $2,000,000	$2,000,000 to $3,000,000	Over $3,000,000	
Percentage of the following to average earning assets:[1]								
Interest and discount received [2]	7.15	5.87	6.01	5.95	5.79	5.77	5.99	5.90
All other earnings	1.05	.51	.52	.54	.60	.69	.61	.60
Gross earnings	8.20	6.38	6.53	6.49	6.39	6.47	6.60	6.50
Interest paid on deposits	2.61	1.67	2.17	2.18	2.23	2.42	2.65	2.33
Interest and discount on borrowed money	.10	.17	.09	.11	.05	.09	.05	.08
Salaries and wages	1.95	1.69	1.56	1.44	1.35	1.26	1.29	1.38
Taxes	.43	.54	.41	.42	.36	.33	.29	.36
All other expenses	1.20	.88	.79	.80	.69	.63	.65	.71
Total expenses	6.29	4.96	5.03	4.95	4.68	4.73	4.94	4.86
Net earnings	1.91	1.42	1.50	1.54	1.71	1.74	1.66	1.64
Net losses	.60	.56	.71	1.12	1.02	.49	.32	.72
Net additions to profits	1.31	.87	.80	.42	.69	1.26	1.34	.92
Average investments (bonds and stocks)	33.26	31.91	34.11	34.27	36.78	40.25	38.27	36.85
Percentage of the following to average capital funds:[3]								
Average earning assets	507.40	560.73	616.45	652.92	690.55	783.81	843.22	710.75
Net earnings	9.68	7.98	9.27	10.04	11.80	13.66	13.98	11.67
Net additions to profits [4]	6.66	4.86	4.92	2.74	4.73	9.84	11.31	6.53
Percentage of the following to gross earnings:								
Interest paid on deposits	31.89	26.25	33.23	33.52	34.93	37.41	40.21	35.81
Interest and discount on borrowed money	1.19	2.73	1.40	1.76	.76	1.38	0.81	1.22
Salaries and wages	23.73	26.46	23.97	22.23	21.19	19.44	19.61	21.20
All other expenses	19.90	22.25	18.36	18.80	16.38	14.82	14.23	16.50
Total expenses	76.71	77.69	76.96	76.31	73.27	73.05	74.86	74.73
Net losses	7.28	8.73	10.82	17.23	16.01	7.53	4.80	11.13
Net additions to profits	16.01	13.58	12.22	6.46	10.73	19.42	20.34	14.14
Dividends declared	13.89	11.52	9.78	12.62	11.87	11.18	9.55	11.12
Percentage of the following to average gross deposits:[5]								
Interest paid on deposits	2.67	1.72	2.15	2.16	2.19	2.36	2.58	2.29
Average time deposits	44.20	37.91	50.37	55.98	56.45	62.16	63.19	57.60
Average capital funds	20.11	18.27	16.09	15.23	14.22	12.44	11.52	13.84
Number of banks	5	18	39	45	45	26	18	196

[1] Includes total loans, and total bonds and stocks.
[2] Includes interest and dividends on bonds and stocks.
[3] Includes capital, surplus and undivided profits (exclusive of reserves for taxes, interest, etc., accrued).
[4] Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.
[5] Includes demand, time, and Government deposits plus amounts due to banks.

TABLE IV–D.—Earnings and expenses of member banks in the Chicago Federal reserve district, banks in centers of 15,000 to 100,000 population, December 31, 1927, to December 31, 1928

Description of ratios	Member banks with earning assets of—										Total
	Less than $1,000,000	$1,000,000 to $1,500,000	$1,500,000 to $2,000,000	$2,000,000 to $3,000,000	$3,000,000 to $4,000,000	$4,000,000 to $5,000,000	$5,000,000 to $6,000,000	$6,000,000 to $10,000,000	$10,000,000 to $15,000,000	Over $15,000,000	
Percentage of the following to average earning assets: [1]											
Interest and discount received [2]	5.87	5.56	5.65	5.87	5.51	5.80	5.60	5.65	5.45	5.56	5.63
All other earnings	.96	.79	1.30	.92	.95	.90	.87	.81	1.28	.75	.92
Gross earnings	6.84	6.35	6.95	6.79	6.46	6.70	6.47	6.46	6.73	6.30	6.55
Interest paid on deposits	1.60	1.69	1.81	1.91	1.85	2.20	2.11	2.21	2.35	2.91	2.20
Interest and discount on borrowed money	.03	.17	.10	.07	.07	.11	.11	.06	.05	.14	.08
Salaries and wages	1.79	1.66	1.71	1.54	1.55	1.36	1.42	1.31	1.26	1.17	1.37
Taxes	.54	.35	.46	.51	.37	.41	.41	.35	.35	.37	.38
All other expenses	1.12	.96	1.04	.90	.94	.80	.83	.76	.86	.62	.82
Total expenses	5.07	4.82	5.12	4.92	4.78	4.88	4.87	4.70	4.88	5.22	4.86
Net earnings	1.77	1.52	1.83	1.87	1.68	1.81	1.60	1.76	1.86	1.09	1.69
Net losses	.91	.50	.49	.64	.63	.47	.59	.68	.35	.51	.57
Net additions to profits	.85	1.02	1.33	1.23	1.05	1.35	1.01	1.08	1.51	.57	1.12
Average investments (bonds and stocks)	42.00	34.56	38.78	30.47	32.89	33.47	35.12	31.94	38.24	25.23	32.71
Percentage of the following to average capital funds: [3]											
Average earning assets	463.18	571.57	615.44	638.51	680.53	684.67	741.46	708.72	705.59	859.23	702.29
Net earnings	8.18	8.71	11.26	11.94	11.41	12.41	11.86	12.50	13.10	9.33	11.89
Net additions to profits [4]	3.96	5.84	8.21	7.84	7.15	9.21	7.47	7.66	10.65	4.93	7.88
Percentage of the following to gross earnings:											
Interest paid on deposits	26.36	25.56	26.00	28.14	28.71	32.80	32.65	34.22	34.86	46.21	33.63
Interest and discount on borrowed money	.39	2.74	1.38	.99	1.08	1.63	1.62	.96	.76	2.20	1.25
Salaries and wages	26.13	26.15	24.68	22.60	24.02	20.39	21.94	20.33	18.74	18.56	20.96
All other expenses	24.30	20.55	21.60	20.74	20.22	18.12	19.08	17.18	18.06	15.81	18.33
Total expenses	74.18	76.00	73.66	72.47	74.03	72.94	75.29	72.69	72.42	82.78	74.17
Net losses	13.33	7.90	7.13	9.45	9.71	6.97	9.13	10.58	5.17	8.13	8.72
Net additions to profits	12.49	16.10	19.21	18.08	16.26	20.09	15.58	17.73	22.41	9.09	17.11
Dividends declared	6.77	11.77	10.67	11.55	12.13	13.19	12.34	14.08	16.20	11.71	13.21
Percentage of the following to average gross deposits: [5]											
Interest paid on deposits	1.52	1.59	1.78	1.86	1.77	2.07	2.03	2.13	2.13	2.72	2.09
Average time deposits	40.57	38.00	45.74	45.05	47.98	45.69	50.91	50.78	41.86	63.26	49.13
Average capital funds	20.49	16.55	16.02	15.22	14.03	13.79	12.94	13.62	12.85	10.85	13.53
Number of banks	9	12	16	33	31	25	12	37	10	5	190

[1] Includes total loans, and total bonds and stocks.
[2] Includes interest and dividends on bonds and stocks.
[3] Includes capital, surplus, and undivided profits (exclusive of reserves for taxes, interest, etc., accrued).
[4] Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.
[5] Includes demand, time, and Government deposits plus amounts due to banks.

TABLE IV–E.—*Earnings and expenses of member banks in the Chicago Federal reserve district, banks in centers of 100,000 population and over, December 31, 1927 to December 31, 1928*

Description of ratios	Member banks with earning assets of—									Total
	Less than $1,000,000	$1,000,000 to $2,000,000	$2,000,000 to $3,000,000	$3,000,000 to $4,000,000	$4,000,000 to $5,000,000	$5,000,000 to $6,000,000	$6,000,000 to $10,000,000	$10,000,000 to $15,000,000	Over $15,000,000	
Percentage of the following to average earning assets: [1]										
Interest and discount received [2]	5.09	5.51	5.52	5.69	5.32	5.13	5.58	5.51	5.14	5.18
All other earnings	1.88	.91	1.44	1.21	.84	1.20	1.32	1.22	1.39	1.37
Gross earnings	6.97	6.42	6.96	6.90	6.16	6.33	6.90	6.74	6.53	6.55
Interest paid on deposits	1.52	1.54	1.73	1.77	1.72	1.88	2.07	1.96	2.07	2.05
Interest and discount on borrowed money	.07	.02	.08	.04	.13	.10	.19	.17	.16	.16
Salaries and wages	2.36	1.93	1.99	1.99	1.54	1.62	1.60	1.36	1.20	1.24
Taxes	.20	.15	.25	.26	.26	.27	.39	.40	.39	.39
All other expenses	1.85	1.67	1.44	.120	1.17	.98	1.01	1.04	.87	.89
Total expenses	6.00	5.32	5.50	5.25	4.82	4.85	5.25	4.94	4.69	4.73
Net earnings	.98	1.10	1.47	1.66	1.35	1.47	1.65	1.80	1.84	1.82
Net losses	.28	.26	.35	.37	.49	.47	.09	.80	.25	.28
Net additions to profits	.70	.84	1.11	1.29	.86	1.00	1.56	1.00	1.59	1.54
Average investments (bonds and stocks)	68.02	42.02	43.34	36.43	39.07	38.59	25.14	26.86	23.04	24.03
Percentage of the following to average capital funds: [3]										
Average earning assets	307.65	534.75	794.18	608.25	720.09	717.70	768.73	676.57	692.91	694.15
Net earnings	3.01	5.88	11.64	10.07	9.69	10.60	12.67	12.19	12.77	12.60
Net additions to profits [4]	2.16	4.49	8.83	7.82	6.16	7.20	11.99	6.80	11.03	10.67
Percenrage of the following to gross earnings:										
Interest paid on deposits	21.82	23.97	24.83	25.59	27.96	29.75	29.96	29.11	31.72	31.35
Interest and discount on borrowed money	1.05	.37	1.21	.59	2.13	1.61	2.76	2.54	2.40	2.39
Salaries and wages	33.78	30.08	28.65	28.77	24.97	25.54	23.11	20.25	18.36	18.98
All other expenses	29.33	28.43	24.27	21.05	23.11	19.77	20.30	21.36	19.30	19.55
Total expenses	85.98	82.85	78.96	76.00	78.17	76.66	76.13	73.27	71.77	72.27
Net losses	3.97	4.08	5.08	5.37	7.94	7.50	1.28	11.83	3.86	4.26
Net additions to profits	10.05	13.07	15.96	18.63	13.89	15.85	22.59	14.91	24.36	23.47
Dividends declared	7.24	3.88	9.19	7.63	8.36	9.08	16.21	10.25	13.27	13.02
Percentage of the following to average gross deposits: [5]										
Interest paid on deposits	1.68	1.56	1.58	1.71	1.64	1.81	1.99	1.79	1.96	1.94
Average time deposits	46.75	54.24	57.72	44.96	48.35	53.72	52.21	33.50	35.28	36.48
Average capital funds	35.88	18.94	11.49	15.95	13.19	13.37	12.54	13.48	13.65	13.62
Number of banks	3	8	9	4	11	9	14	12	35	105

[1] Includes total loans, and total bonds and stocks.
[2] Includes interest and dividends on bonds and stocks.
[3] Includes capital, surplus, and undivided profits (exclusive of reserves for taxes, interest, etc., accrued).
[4] Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.
[5] Includes demand, time, and Government deposits plus amounts due to banks

* Includes demand, time, and Government deposits plus amounts due to banks

TABLE V.—Earnings and expenses of member banks in the Chicago Federal reserve district, selected ratios for banks grouped by size of center and by size of bank, December 31, 1927, to December 31, 1928

Size groups, banks with earning assets of—	Number of banks in each group						Percentage of total gross earnings to average earning assets						Percentage of total expenses to average earning assets						Percentage of net earnings to average earning assets					
	A	B	C	D	E	Total	A	B	C	D	E	Total	A	B	C	D	E	Total	A	B	C	D	E	Total
Less than $250,000	109	25				134	7.13	7.20				7.15	5.59	5.91				5.65	1.54	1.29				1.50
$250,000 to $500,000	144	120	5	2		271	6.79	6.82	8.20			6.85	5.21	5.27	6.29			5.26	1.69	1.55	1.91			1.58
$500,000 to $750,000	31	124	18	3	1	177	6.60	6.66	6.38			6.63	4.99	5.03	4.96			5.03	1.62	1.63	1.42			1.60
$750,000 to $1,000,000	6	75	39	4	2	126	6.86	6.40	6.53	6.84	6.97	6.47	5.39	4.89	5.03	5.07	6.00	4.95	1.48	1.51	1.50	1.77	0.98	1.52
$1,000,000 to $1,500,000	4	81	45	12	7	149		6.27	6.49	6.35	6.42	6.37		4.77	4.95	4.82	5.32	4.88		1.50	1.54	1.52	1.10	1.49
$1,500,000 to $2,000,000	1	18	45	16	1	81		6.58	6.39	6.95		6.54		4.74	4.68	5.12		4.79		1.84	1.71	1.83		1.75
$2,000,000 to $3,000,000		9	26	33	9	77		6.68	6.47	6.79	6.96	6.71		4.87	4.73	4.92	5.50	4.93		1.82	1.74	1.87	1.47	1.78
$3,000,000 to $4,000,000		0	13	31	4	48			6.60	6.46	6.90	6.56			4.94	4.78	5.25	4.89			1.66	1.68	1.66	1.67
$4,000,000 to $5,000,000		1	4	25	11	41				6.70	6.16	6.53				4.88	4.82	4.86				1.81	1.35	1.67
$5,000,000 to $6,000,000			1	12	9	22				6.47	6.33	6.37				4.87	4.85	4.82				1.60	1.47	1.56
$6,000,000 to $10,000,000				37	14	51				6.46	6.99	6.59				4.70	5.25	4.86				1.76	1.65	1.73
$10,000,000 to $15,000,000				10	12	22				6.73	6.74	6.74				4.88	4.94	4.91				1.86	1.80	1.83
Over $15,000,000				5	35	40				6.30	6.53	6.52				5.22	4.69	4.71				1.09	1.84	1.82
Total	295	453	196	190	105	1,239	6.83	6.52	6.50	6.55	6.55	6.55	5.26	4.93	4.86	4.86	4.73	4.79	1.57	1.59	1.64	1.69	1.82	1.76

Size groups, banks with earning assets of—	Percentage of net losses to average earning assets						Percentage of net additions to profits to average earning assets						Percentage of average earning assets to average capital funds					
	A	B	C	D	E	Total	A	B	C	D	E	Total	A	B	C	D	E	Total
Less than $250,000	1.48	1.18				1.42	0.07	0.11				0.08	432.38	420.64				430.05
$250,000 to $500,000	1.07	1.29	0.60			1.16	.52	.25	1.31			.42	595.95	554.04	507.40			571.48
$500,000 to $750,000	.64	.92	.56			.82	.97	.72	.87			.78	755.72	614.74	560.73			616.86
$750,000 to $1,000,000	.25	.71	.71	0.91	0.28	.70	1.23	.80	.80	0.85	0.70	.82	928.95	702.95	616.45	463.18	307.65	660.60
$1,000,000 to $1,500,000		.66	1.12	.50	.26	.76		.84	.42	1.02	.84	.74		742.24	652.92	571.57	534.75	684.61
$1,500,000 to $2,000,000		.49	1.02	.49		.77		1.35	.69	1.33		.97		775.39	690.55	615.44		695.59
$2,000,000 to $3,000,000		.25	.49	.64	.35	.52		1.56	1.26	1.23	1.11	1.26		836.10	783.81	638.51	794.18	715.85
$3,000,000 to $4,000,000			.32	.63	.37	.54			1.34	1.05	1.29	1.13			843.22	680.53	608.25	712.25
$4,000,000 to $5,000,000				.47	.49	.44				1.35	.86	1.24				684.67	720.09	711.39
$5,000,000 to $6,000,000				.59	.47	.53				1.01	1.00	1.03				741.46	717.70	734.92
$6,000,000 to $10,000,000				.68	.09	.51				1.08	1.56	1.22				708.72	768.73	725.17
$10,000,000 to $15,000,000				.35	.80	.60				1.51	1.00	1.23				705.59	676.57	688.97
Over $15,000,000				.51	.25	.26				.57	1.59	1.56				859.23	692.91	697.43
Total	.98	.77	.72	.57	.28	.41	.60	.82	.92	1.12	1.54	1.35	599.88	675.84	710.75	702.29	694.15	693.14

TABLE V.—*Earnings and expenses of member banks in the Chicago Federal reserve district, selected ratios for banks grouped by size of center and by size of bank, December 31, 1927, to December 31, 1928*—Continued

Size groups, banks with earning assets of—	Percentage of net additions to profits to average capital funds						Percentage of interest paid on deposits to average gross deposits						Percentage of average time deposits to average gross deposits					
	A	B	C	D	E	Total	A	B	C	D	E	Total	A	B	C	D	E	Total
Less than $250,000	0.29	0.44				0.32	1.90	1.98				1.92	35.87	40.59				36.85
$250,000 to $500,000	3.08	1.39	6.66			2.42	2.48	2.05	2.67			2.27	57.16	45.50	44.20			51.09
$500,000 to $750,000	7.36	4.42	4.86			4.78	2.82	2.35	1.72			2.34	65.96	52.98	37.91			53.20
$750,000 to $1,000,000	11.38	5.63	4.92	3.96	2.16	5.43	3.15	2.52	2.15	1.52	1.68	2.39	74.59	60.84	50.37	40.57	46.75	57.41
$1,000,000 to $1,500,000		6.21	2.74	5.84	4.49	5.02		2.47	2.16	1.59	1.56	2.28		57.95	55.98	38.00	54.24	56.78
$1,500,000 to $2,000,000		10.49	4.73	8.21		6.77		2.51	2.19	1.78		2.19		68.47	56.45	45.74		57.69
$2,000,000 to $3,000,000		13.06	9.84	7.84	8.83	9.03		2.67	2.36	1.86	1.58	2.11		62.79	62.16	45.05	57.72	55.02
$3,000,000 to $4,000,000			11.31	7.15	7.82	8.00			2.58	1.77	1.71	2.00			63.19	47.98	44.96	51.60
$4,000,000 to $5,000,000				9.21	6.16	8.79				2.07	1.64	1.97				45.69	48.35	47.50
$5,000,000 to $6,000,000				7.47	7.20	7.54				2.03	1.81	1.94				50.91	53.72	52.35
$6,000,000 to $10,000,000				7.66	11.99	8.85				2.13	1.99	2.09				50.78	52.21	51.20
$10,000,000 to $15,000,000				10.65	6.80	8.44				2.13	1.79	1.94				41.86	33.50	37.17
Over $15,000,000				4.93	11.03	10.86				2.72	1.96	1.99				63.26	35.28	36.23
Total	3.58	5.55	6.53	7.88	10.67	9.39	2.51	2.41	2.29	2.09	1.94	2.03	56.82	56.88	57.60	49.13	36.48	41.83

NOTE.—Size of city denoted as follows: A, under 1,000; B, 1,000 to 5,000; C, 5,000 to 15,000; D, 15,000 to 100,000; E, 100,000 and over.

This tabulation presents more compactly a portion of the data given in Tables IV–A to IV–E, inclusive. Here will be found nine leading ratios, from those given in the tabulations mentioned, and also a recapitulation of the number of banks in each population group classified according to the volume of earning assets.

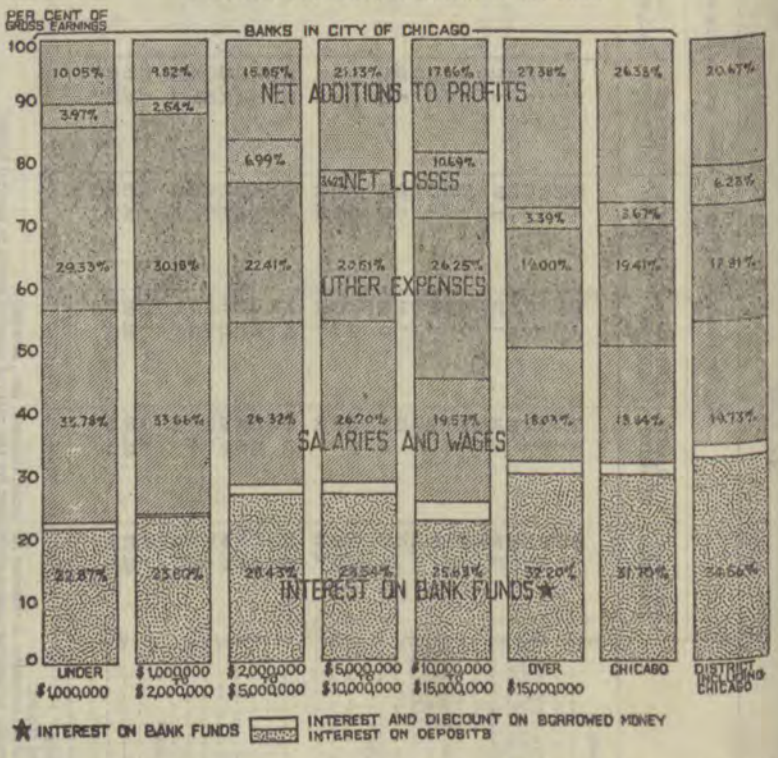
TABLE VI.—*Earnings and expenses of member banks in the city of Chicago, banks grouped according to size, December 31, 1927, to December 31, 1928*

Description of ratios	Member banks in the city of Chicago with earning assets of—							All member banks in the district
	Less than $1,000,000	$1,000,000 to $2,000,000	$2,000,000 to $5,000,000	$5,000,000 to $10,000,000	$10,000,000 to $15,000,000	Over $15,000,000	Total	
Percentage of the following to average earning assets: [1]								
Interest and discount received [2]	5.09	5.53	5.46	5.32	5.56	4.96	5.01	5.39
All other earnings	1.88	1.12	1.09	1.75	2.19	1.86	1.83	1.16
Gross earnings	6.97	6.65	6.56	7.07	7.75	6.82	6.84	6.55
Interest paid on deposits	1.52	1.57	1.76	1.89	1.75	2.07	2.04	2.13
Interest and discount on borrowed money	.07	.01	.10	.13	.24	.13	.13	.13
Salaries and wages	2.36	2.24	1.73	1.85	1.52	1.23	1.29	1.29
Taxes	.20	.15	.25	.33	.37	.39	.38	.38
All other expenses	1.85	1.86	1.22	1.12	1.66	.91	.95	.85
Total expenses	6.00	5.83	5.06	5.32	5.54	4.72	4.79	4.79
Net earnings	.98	.82	1.50	1.75	2.21	2.10	2.06	1.76
Net losses	.28	.17	.46	.26	.83	.23	.25	.41
Net additions to profits	.70	.65	1.04	1.39	1.39	1.87	1.80	1.35
Average investments (bonds and stocks)	68.02	40.93	41.01	30.09	19.80	22.71	23.81	27.22
Percentage of the following to average capital funds: [3]								
Average earning assets	307.65	563.16	703.89	727.61	723.22	675.81	678.67	693.14
Net earnings	3.01	4.63	10.54	12.73	16.01	14.18	13.95	12.21
Net additions to profits [4]	2.16	3.68	7.31	10.87	10.01	12.62	12.25	9.39
Percentage of the following to gross earnings:								
Interest paid on deposits	21.82	23.62	26.84	26.69	22.54	30.30	29.80	32.56
Interest and discount on borrowed money	1.05	.18	1.59	1.85	3.09	1.90	1.90	2.00
Salaries and wages	33.78	33.66	26.32	26.20	19.57	18.03	18.84	19.73
All other expenses	29.33	30.18	22.41	20.51	26.25	19.00	19.41	18.81
Total expenses	85.98	87.63	77.16	75.25	71.45	69.23	69.95	73.10
Net losses	3.97	2.54	6.99	3.62	10.69	3.39	3.67	6.23
Net additions to profits	10.05	9.82	15.85	21.13	17.86	27.38	26.38	20.67
Dividends declared	7.24	5.68	8.67	12.21	14.01	14.13	13.80	12.70
Percentage of the following to average gross deposits: [5]								
Interest paid on deposits	1.68	1.55	1.68	1.81	1.53	1.94	1.91	2.03
Average time deposits	46.75	55.50	52.92	53.78	35.18	28.71	31.05	41.82
Average capital funds	35.89	17.48	13.60	13.16	12.13	13.89	13.84	13.75
Number of banks	3	5	22	15	3	15	63	1,239

[1] Includes total loans and total bonds and stocks.
[2] Includes interest and dividends on bonds and stocks.
[3] Includes capital, surplus, and undivided profits (exclusive of reserves for taxes, interest, etc., accrued).
[4] Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.
[5] Includes demand, time, and Government deposits plus amounts due to banks.

Data similar to that given in Table I are presented in Table VI and accompanying graph, Table VII. It will be noted that for the Chicago banks, the ratio of gross earnings to earning assets was higher than for the rest of the district, totaling 6.84 per cent as the result of heavier "other" earnings, inasmuch as interest and discount received averaged lower. Expenses on the basis of earning assets averaged the same as for banks outside the city of Chicago, 4.79 per cent, declines in interest on deposits and tax payments offsetting larger "other" expenses. Net losses were considerably smaller and net additions to profits larger than for the rest of the district. In the distribution of gross earnings, expenses absorbed a lesser percentage as did losses, with resultant heavier addi-

TABLE VII.—*Distribution of gross earnings of member banks in the city of Chicago, December 31, 1927, to December 31, 1928*



tions to profits. Earning assets showed a lower ratio to invested capital and the latter was larger in comparison with gross deposits. Time deposits constituted 31.05 per cent of gross deposits, whereas in the rest of the district they comprised 49.87 per cent, while interest paid on deposits was 1.91 per cent against 2.12 per cent.

In comparison with the 1926 study, the ratio of earnings to earning assets of the Chicago banks was heavier in 1928, as were total expenses and losses, and also additions to profits. With respect to the distribution of gross earnings, expenses in 1928 were lower, largely offset, however, by greater losses, so that net additions to profits were smaller. The ratio of earning assets to invested capital declined, while that of invested capital to gross deposits increased. The ratio of time to gross deposits rose from 26.87 in 1926 to 31.05 in 1928, and the interest paid thereon from 1.80 to 1.91 per cent.

TABLE VIII.—*Ratios of selected earnings and expense items to related bases, member banks in the Chicago Federal Reserve District, including the city of Chicago, December 31, 1927 to December 31, 1928*

Size groups, banks with earning assets of—	Number of banks in each group	Total gross earnings				Interest and discount received		Interest on time deposits—average time deposits
		Interest and discount received			All other earnings	On loans	On investments	
		On loans	On investments	On bank balances		Loans and discounts [1]	Stocks and bonds [1]	
Less than $250,000	134	81.39	7.35	2.67	8.60	7.36	2.50	4.43
$250,000 to $500,000	271	76.57	13.37	2.35	7.71	7.21	3.35	3.92
$500,000 to $750,000	177	72.66	17.50	2.38	7.46	7.08	3.63	3.88
$750,000 to $1,000,000	126	66.14	23.44	2.26	8.16	6.77	4.13	3.67
$1,000,000 to $1,500,000	149	68.17	21.77	1.92	8.14	6.88	3.76	3.40
$1,500,000 to $2,000,000	81	64.34	23.12	1.73	10.81	6.74	4.02	3.38
$2,000,000 to $3,000,000	77	62.70	22.35	1.75	13.20	6.54	4.21	3.27
$3,000,000 to $4,000,000	48	63.84	21.18	1.86	13.13	6.42	4.00	3.09
$4,000,000 to $5,000,000	41	62.28	22.45	1.95	13.32	6.25	4.19	3.10
$5,000,000 to $6,000,000	22	55.84	27.09	1.69	15.38	5.67	4.63	2.86
$6,000,000 to $10,000,000	51	61.72	22.11	1.64	14.53	5.81	4.86	3.15
$10,000,000 to $15,000,000	22	57.36	22.33	1.78	18.52	5.67	4.72	3.07
Over $15,000,000	40	60.55	17.32	1.10	21.03	5.14	4.89	2.48
Total	1,239	61.82	19.04	1.41	17.74	5.56	4.58	2.86

[1] These percentages represent only rough approximations of average rates of return, since they are based upon average amounts of loans and of investments for only five dates during the year.

TABLE IX.—*Ratios of selected earnings and expense items to related bases, member banks in the Chicago Federal reserve district, excluding the city of Chicago, December 31, 1927, to December 31, 1928*

Size groups, banks with earning assets of—	Number of banks in each group	Total gross earnings				Interest and discount received		Interest on time deposits—average time deposits
		Interest and discount received			All other earnings	On loans	On investments	
		On loans	On investments	On bank balances		Loans and discounts [1]	Stocks and bonds [1]	
Less than $250,000	134	81.39	7.35	2.67	8.60	7.36	2.50	4.43
$250,000 to $500,000	271	76.57	13.37	2.35	7.71	7.21	3.35	3.92
$500,000 to $750,000	176	72.98	17.28	2.39	7.35	7.08	3.61	3.89
$750,000 to $1,000,000	124	66.81	23.09	2.28	7.82	6.78	4.12	3.68
$1,000,000 to $1,500,000	145	68.86	21.37	1.94	7.83	6.93	3.69	3.44
$1,500,000 to $2,000,000	80	64.62	22.88	1.74	10.76	6.77	4.00	3.39
$2,000,000 to $3,000,000	69	65.17	20.77	1.83	12.23	6.61	3.99	3.39
$3,000,000 to $4,000,000	44	65.45	19.91	1.93	12.72	6.54	3.76	3.15
$4,000,000 to $5,000,000	31	64.13	20.60	2.18	13.10	6.39	4.13	3.36
$5,000,000 to $6,000,000	15	56.13	29.68	1.90	12.29	5.59	4.97	3.14
$6,000,000 to $10,000,000	43	63.78	22.66	1.82	11.75	5.93	4.74	3.29
$10,000,000 to $15,000,000	19	58.40	23.16	1.90	16.54	5.80	4.48	3.20
Over $15,000,000	25	64.37	25.09	1.18	9.36	5.10	6.37	2.88
Total	1,176	65.01	22.69	1.68	10.61	5.86	4.84	3.20

[1] These percentages represent only rough approximations of average rates of return, since they are based upon average amounts of loans and of investments for only five dates during the year.

In the above tables are presented a number of additional ratios not included in the 1926 study, computed for certain selected earnings and expense items on their related bases. Interest and discount received, for example, was subdivided according to source, i. e., from loans, investments, or bank balances, and ratios were computed on the basis of the first two of these sources, as well as on gross earnings. The interest paid on time deposits was computed on the volume of such deposits.

Of the gross earnings of 1,176 member banks in the district without Chicago (Table IX), 65.01 per cent represented the interest and discount received on loans, 22.69 per cent the income from investments, 1.68 per cent the income from bank balances, and 10.61 per cent earnings from "other" or miscellaneous sources, such as exchange and collection charges, profits on investments, trust department, and other services. Interest and discount received on loans amounted to 5.86 per cent of the volume of loans, and income on investments was 4.84 per cent of the volume of investments.*

For the entire district (1,239 banks), including the city of Chicago—the interest and discount received on loans and investments constitutes a smaller proportion of gross earnings, due to the fact that "other" earnings are in greater proportion, 17.74 per cent against 10.61 as shown in Table IX. On the basis of the related earning assets, the Chicago banks tended to decrease also the ratios of the classified earnings items, the interest received on loans totaling 5.56 per cent, and that on investments 4.58 per cent.* The interest paid on time deposits by all member banks of the district embraced in the study, averaged 2.86 per cent of the volume of these deposits, while for banks outside Chicago this ratio was 3.20 per cent.

Governor YOUNG. I think that covers everything except the earnings and expenses of each Federal reserve bank, which I had the other day except for one column and that has been prepared. I shall put that in the record.

The CHAIRMAN. That will be inserted at this point.

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

EARNINGS AND EXPENSES OF EACH RESERVE BANK

Gross and net earnings of each Federal reserve bank, and disposition made of net earnings, 1914–1929

Federal reserve bank	Gross earnings	Expenses, depreciation, allowances, etc.	Net earnings	Disposition of net earnings			
				Dividends paid	Transferred to surplus [a]	Franchise tax paid to U. S. Government [a]	Profit (+) or loss (−) carried forward
All Federal reserve banks:							
1914–15	$2,173,252	$2,314,711	−$141,459	$217,463			−$358,922
1916	5,217,998	2,467,000	2,750,998	1,742,774			+1,008,224
1917	16,128,339	6,548,732	9,579,607	6,801,726	$1,134,234	$1,134,234	+509,413
1918	67,584,417	14,868,107	52,716,310	5,540,684	48,334,341		−1,158,715
1919	102,380,583	24,013,079	78,367,504	5,011,832	70,651,778	2,703,894	
1920	181,296,711	32,001,937	149,294,774	5,654,018	82,916,014	60,724,742	
1921	122,865,866	40,778,641	82,087,225	6,119,673	15,993,086	59,974,466	
1922	50,498,699	34,000,963	16,497,736	6,307,035	−659,904	10,850,605	
1923	50,708,566	37,997,280	12,711,286	6,552,717	2,545,513	3,613,056	
1924	38,340,449	34,622,269	3,718,180	6,682,496	−3,077,962	113,646	
1925	41,800,706	32,351,640	9,449,066	6,915,958	2,473,808	59,300	
1926	47,599,595	30,987,850	16,611,745	7,329,169	8,464,426	818,150	
1927	43,024,484	29,976,235	13,048,249	7,754,539	5,044,119	249,591	
1928	64,052,860	31,930,839	32,122,021	8,458,463	21,078,899	2,584,659	
1929	70,955,496	34,552,755	36,402,741	9,583,913	22,535,597	4,283,231	
Total	904,628,021	389,412,038	515,215,983	90,672,460	277,433,949	147,109,574	

[a] Amounts shown as transferred to surplus account for 1922 are net, i. e., after the deduction of amounts charged to surplus account on Dec. 31, 1922, and paid to the United States Government as franchise tax. For prior years as follows: For 1920—New York, $270,389; for 1921—Boston, $247,350; New York, $1,334,160; Philadelphia, $36,366; Richmond, $20,459; Atlanta, $213,629; Chicago, $710,190; Minneapolis, $52,423; Kansas City, $208,170; San Francisco, $306,926; total, $3,129,673.

*See footnote to Tables VIII and IX.

Gross and net earnings of each Federal reserve bank, and disposition made of net earnings, 1914–1929—Continued

Federal reserve bank	Gross earnings	Expenses, depreciation, allowances, etc.	Net earnings	Disposition of net earnings			
				Dividends paid	Transferred to surplus	Franchise tax paid to U. S. Government	Profit (+) or loss (−) carried forward
Boston:							
1914–15	$125,459	$160,062	−$34,603				−$34,603
1916	490,888	194,953	295,935	$249,735			+46,200
1917	1,285,884	545,525	740,359	601,756	$75,100	$75,100	−11,597
1918	4,475,195	1,170,015	3,305,180	384,180	2,921,000		
1919	7,497,583	1,720,202	5,777,381	414,447	5,362,934		
1920	12,273,253	2,000,689	10,272,564	447,266	7,351,799	2,473,499	
1921	6,968,662	2,687,309	4,281,353	473,109	772,324	3,035,920	
1922	3,541,313	2,443,911	1,097,402	481,951	−170,782	786,233	
1923	3,506,683	2,254,548	1,252,135	480,267	77,187	694,681	
1924	2,559,016	2,088,594	470,422	477,798	−7,376		
1925	3,288,546	2,147,965	1,140,581	502,648	637,933		
1926	3,319,077	2,162,204	1,156,873	525,023	585,888	45,962	
1927	2,975,357	2,137,745	837,612	550,446	287,166		
1928	4,465,342	2,148,820	2,316,522	590,830	1,725,692		
1929	5,160,831	2,394,697	2,766,134	634,112	2,132,022		
Total	61,933,089	26,257,239	35,675,850	6,813,568	21,750,887	7,111,395	
New York:							
1914–15	345,035	468,922	−123,887				−123,887
1916	971,026	556,962	414,064	127,113			+286,951
1917	4,929,214	1,850,733	3,078,481	1,942,819	649,363	649,363	−163,064
1918	25,314,736	3,651,819	21,662,917	1,195,026	20,467,891		
1919	35,332,412	7,372,793	27,959,619	1,291,047	23,964,678	2,703,894	
1920	60,525,321	7,397,191	53,128,130	1,477,096	12,332,523	39,318,511	
1921	34,710,274	8,616,442	26,093,832	1,608,721	3,782,671	20,702,440	
1922	11,349,279	7,627,686	3,721,593	1,652,138	−1,397,603	3,467,058	
1923	11,413,183	8,369,504	3,043,679	1,749,239	129,444	1,164,996	
1924	8,569,350	7,952,498	616,852	1,796,530	−1,179,678		
1925	10,217,174	7,113,876	3,103,298	1,888,196	1,215,102		
1926	10,600,968	6,851,220	3,749,748	2,100,191	1,649,557		
1927	10,647,759	6,927,158	3,720,601	2,327,355	1,393,246		
1928	18,483,042	7,464,609	11,018,433	2,743,725	8,274,708		
1929	19,314,279	7,051,055	12,263,224	3,544,314	8,718,910		
Total	262,723,052	89,272,468	173,450,584	25,443,510	80,000,812	68,006,262	
Philadelphia:							
1914–15	113,972	145,489	−31,517				−31,517
1916	448,180	198,239	249,941	128,458			+121,483
1917	1,095,540	341,665	753,875	623,603			+130,272
1918	4,357,740	1,385,651	2,972,089	583,983	2,608,344		−220,238
1919	8,609,880	1,950,711	6,659,169	462,380	6,196,789		
1920	11,848,551	2,783,435	9,065,116	496,679	8,204,775	363,662	
1921	8,008,095	2,668,641	5,339,454	517,663	935,239	3,886,552	
1922	4,251,950	2,015,074	2,236,876	541,552	803,594	891,730	
1923	4,592,771	2,414,934	2,177,837	582,292	1,178,588	416,957	
1924	2,915,846	2,168,754	747,092	615,135	131,957		
1925	3,135,550	2,057,430	1,078,120	673,212	404,908		
1926	3,626,648	2,092,915	1,533,733	730,598	803,135		
1927	3,363,626	2,187,157	1,176,469	781,540	394,929		
1928	5,394,546	2,111,905	3,282,641	843,755	2,438,886		
1929	6,076,048	2,274,060	3,801,988	938,312	2,863,676		
Total	67,838,943	26,796,060	41,042,883	8,519,162	26,964,820	5,558,901	
Cleveland:							
1914–15	113,815	169,589	−55,774				−55,774
1916	452,129	158,321	293,808	143,237			+150,571
1917	1,367,216	613,534	753,682	716,168			+37,514
1918	5,226,864	1,091,068	4,135,796	716,107	3,552,000		−132,311
1919	7,800,829	1,707,044	6,093,785	556,785	5,537,000		
1920	14,458,619	2,638,588	11,820,031	604,194	11,215,837		
1921	9,390,863	3,106,480	6,284,383	660,228	2,329,442	3,294,713	
1922	4,994,282	2,725,594	2,268,688	692,436	861,264	714,988	
1923	4,655,090	3,733,869	921,221	725,626	195,595		
1924	3,770,689	4,243,842	−473,153	756,152	−1,229,305		
1925	4,013,456	2,802,880	1,210,576	778,811	431,765		
1926	4,517,884	2,457,122	1,060,762	808,505	852,257		
1927	4,197,836	3,089,646	1,108,190	832,583	275,607		
1928	6,250,553	3,069,838	3,180,715	856,843	2,323,872		
1929	6,986,580	3,281,138	3,705,442	910,007	2,795,435		
Total	78,196,705	35,288,553	42,908,152	9,757,682	29,140,769	4,009,701	

Gross and net earnings of each Federal reserve bank, and disposition made of net earnings, 1914–1929—Continued

Federal reserve bank	Gross earnings	Expenses, depreciation, allowances, etc.	Net earnings	Disposition of net earnings			
				Dividends paid	Transferred to surplus	Franchise tax paid to U. S. Government	Profit (+) or loss (−) carried forward
Richmond:							
1914–15	$319,580	$144,625	$174,955	$151,940			+$23,015
1916	334,102	147,531	186,571	197,922			−11,351
1917	821,195	358,971	462,224	240,944	$116,472	$116,472	−11,664
1918	2,979,048	667,018	2,312,030	232,432	2,079,598		
1919	4,775,324	898,058	3,877,266	252,872	3,624,394		
1920	6,902,643	1,664,137	5,238,506	293,052	4,740,869	204,585	
1921	6,729,679	2,336,052	4,393,627	322,203	693,792	3,377,632	
1922	2,832,944	1,965,496	867,448	333,321	32,954	501,173	
1923	2,878,896	1,786,053	1,092,843	342,295	384,404	366,144	
1924	2,210,240	1,830,449	379,791	351,251	28,540		
1925	2,182,460	1,606,350	576,110	358,162	217,948		
1926	2,429,017	1,701,372	727,645	363,957	279,216	84,472	
1927	2,086,303	1,588,592	497,711	372,230	125,481		
1928	2,857,648	1,738,688	1,118,960	370,683	74,828	673,449	
1929	3,299,609	1,957,384	1,342,225	368,601	97,362	876,262	
Total	43,638,688	20,390,776	23,247,912	4,551,865	12,495,858	6,200,189	
Atlanta:							
1914–15	236,460	153,928	82,532				+82,532
1916	279,520	150,213	129,307	201,719			−72,412
1917	589,789	301,706	288,083	218,203	40,000	40,000	−10,120
1918	2,293,058	640,585	1,652,473	182,473	1,470,000		
1919	4,416,001	1,033,604	3,382,397	197,397	3,185,000		
1920	7,476,431	1,466,107	6,010,324	225,571	3,648,465	2,136,288	
1921	7,406,652	1,910,433	5,496,219	245,862	770,106	4,480,251	
1922	2,352,736	1,680,006	672,730	256,618	−172,018	588,130	
1923	2,682,314	2,330,135	352,179	264,622	8,756	78,801	
1924	1,907,121	1,634,465	272,655	272,656			
1925	2,072,378	2,046,187	26,191	276,488	−250,297		
1926	3,045,867	1,817,540	1,228,327	296,573	931,754		
1927	2,067,839	1,397,935	669,904	305,817	364,087		
1928	3,578,156	1,884,171	1,693,985	312,259	558,425	823,301	
1929	4,116,049	2,687,531	1,428,518	21,696	303,032	803,790	
Total	44,520,371	21,134,546	23,385,825	3,577,954	10,857,310	8,950,561	
Chicago:							
1914–15	268,885	248,794	20,091				+20,091
1916	665,937	262,731	403,206	361,319			+41,887
1917	2,083,164	851,285	1,231,879	862,259	215,799	215,799	−61,978
1918	8,481,747	1,676,666	6,805,081	604,635	6,200,446		
1919	12,012,078	3,435,874	8,576,204	700,807	7,875,397		
1920	30,303,218	4,427,469	25,875,749	792,769	14,688,500	10,394,480	
1921	20,382,170	5,877,053	14,505,117	853,785	2,075,323	11,576,009	
1922	6,748,863	5,343,648	1,405,215	876,203	−657,289	1,186,301	
1923	6,511,359	5,333,004	1,178,355	904,371	27,398	246,586	
1924	5,202,169	4,293,046	909,123	909,123			
1925	5,424,663	4,303,390	1,121,273	934,016	187,257		
1926	6,567,043	4,313,120	2,253,923	985,959	1,267,964		
1927	6,167,352	4,239,707	1,927,645	1,029,990	897,655		
1928	8,936,418	4,172,989	4,763,429	1,099,761	3,663,668		
1929	9,889,451	4,464,786	5,424,665	1,170,363	3,651,464	602,838	
Total	129,644,717	53,243,562	76,400,955	12,085,360	40,093,582	24,222,013	
St. Louis:							
1914–15	86,833	184,002	−97,169				−97,169
1916	297,948	156,931	141,017	31,100			+109,917
1917	773,106	170,950	502,156	284,566			+217,590
1918	2,676,828	899,018	1,777,810	404,838	1,603,310		−230,338
1919	3,884,478	1,529,324	2,355,154	234,660	2,120,494		
1920	7,180,117	2,304,551	4,875,566	253,711	4,621,855		
1921	5,166,315	2,214,389	2,951,926	270,253	1,042,564	1,639,109	
1922	2,456,447	1,808,875	647,572	283,166	276,450	87,956	
1923	2,753,435	1,571,272	1,182,163	296,810	407,070	478,283	
1924	1,688,143	1,484,206	203,937	304,976	−101,039		
1925	2,055,637	2,149,177	−93,540	306,753	−400,293		
1926	2,511,509	1,828,487	683,022	314,420	368,602		
1927	2,228,079	1,452,398	775,681	317,727	457,954		
1928	2,901,925	2,116,766	785,159	321,855	423,011	40,293	
1929	3,247,936	2,362,052	885,884	319,231	56,665	509,988	
Total	39,908,736	22,332,398	17,576,338	3,944,066	10,876,643	2,755,629	

Gross and net earnings of each Federal reserve bank, and disposition made of net earnings, 1914–1929—Continued

Federal reserve bank	Gross earnings	Expenses, depreciation, allowances, etc.	Net earnings	Disposition of net earnings			
				Dividends paid	Transferred to surplus	Franchise tax paid to U. S. Government	Profit (+) or loss (−) carried forward
Minneapolis:							
1914–15	$100,112	$132,453	−$32,341				−$32,341
1916	255,177	120,574	134,603	$57,720			+76,883
1917	672,799	278,446	394,353	363,895	$37,500	$37,500	−44,542
1918	2,049,954	504,107	1,545,847	168,103	1,377,744		
1919	3,007,041	673,098	2,333,943	180,186	2,153,757		
1920	5,307,381	1,176,328	4,131,053	195,871	3,410,948	524,234	
1921	4,966,311	1,815,157	3,151,154	211,657	488,530	2,450,967	
1922	1,969,248	1,186,553	782,695	213,774	4,469	564,452	
1923	1,749,253	1,423,798	325,455	212,733	11,272	101,450	
1924	1,609,070	1,279,968	329,102	202,828	12,628	113,646	
1925	1,438,341	1,203,387	234,954	193,560	4,139	37,255	
1926	1,622,333	1,174,300	448,033	187,609	26,043	234,381	
1927	1,390,031	1,093,954	296,077	180,726	11,535	103,816	
1928	1,710,304	1,095,600	614,704	181,203	43,350	390,151	
1929	1,926,031	1,131,269	794,762	184,030	61,073	549,659	
Total	29,773,386	14,288,992	15,484,394	2,733,895	7,642,988	5,107,511	
Kansas City:							
1914–15	102,474	169,250	−66,776				−66,776
1916	380,208	155,219	224,989	66,707			+158,282
1917	1,002,660	436,256	566,404	364,503			+201,901
1918	3,451,936	1,014,188	2,437,748	309,729	2,421,426		−293,407
1919	4,961,482	1,038,120	3,923,362	228,755	3,694,607		
1920	7,409,987	1,869,306	5,540,681	257,672	3,042,781	2,240,228	
1921	5,712,858	2,656,762	3,056,096	268,620	486,918	2,300,558	
1922	3,094,660	2,311,624	783,036	275,655	−157,432	664,813	
1923	2,993,919	2,646,208	347,711	275,313	7,240	65,158	
1924	2,262,910	2,516,092	−253,182	265,697	−518,879		
1925	2,309,985	2,027,064	282,921	258,426	2,450	22,045	
1926	2,677,340	1,920,871	756,469	252,764	50,370	453,335	
1927	2,304,938	1,890,212	414,726	252,753	16,198	145,775	
1928	2,597,968	1,938,208	659,760	253,254	40,651	365,855	
1929	2,976,576	1,962,990	1,013,586	256,549	75,704	681,333	
Total	44,239,901	24,552,370	19,687,531	3,586,397	9,162,034	6,939,100	
Dallas:							
1914–15	244,666	169,278	75,388	65,523			+9,865
1916	326,372	160,326	166,046	134,008			+32,038
1917	621,970	269,903	352,067	188,234			+163,832
1918	2,089,526	849,351	1,240,175	261,503	1,184,408		−205,736
1919	3,062,251	1,020,387	2,041,864	196,535	1,845,329		
1920	4,904,522	1,676,291	3,228,231	225,424	3,002,807		
1921	4,239,574	2,626,010	1,613,564	252,211	1,361,353		
1922	2,085,775	1,731,650	354,125	251,915	102,210		
1923	2,356,436	2,024,154	332,282	251,429	80,853		
1924	2,157,964	1,892,940	265,024	249,789	15,235		
1925	1,813,626	1,535,491	278,135	255,239	22,896		
1926	2,127,049	1,269,838	857,211	257,502	599,709		
1927	1,741,922	1,173,713	568,209	256,310	311,899		
1928	2,119,666	1,406,211	713,455	258,544	163,301	291,610	
1929	2,496,030	1,725,639	770,391	266,613	244,417	259,361	
Total	32,387,349	19,531,182	12,856,167	3,370,579	8,934,617	550,971	
San Francisco:							
1914–15	115,961	168,319	−52,358				−52,358
1916	316,511	205,000	111,511	43,736			+67,775
1917	885,802	429,758	456,044	394,776			+61,268
1918	4,187,785	1,318,621	2,869,164	497,675	2,448,174		−76,685
1919	7,021,224	1,633,864	5,387,360	296,161	5,091,199		
1920	12,706,668	2,597,845	10,108,823	384,713	6,654,855	3,069,255	
1921	9,184,413	4,263,913	4,920,500	435,361	1,254,824	3,230,315	
1922	4,821,202	3,160,846	1,660,356	448,306	−185,721	1,397,771	
1923	4,615,227	4,109,801	505,426	467,720	37,706		
1924	3,487,931	3,237,415	250,516	480,561	−230,045		
1925	3,848,890	3,358,443	490,447	490,447			
1926	4,554,860	2,998,861	1,555,999	506,068	1,049,931		
1927	3,853,442	2,798,018	1,055,424	547,062	508,362		
1928	4,757,292	2,783,034	1,974,258	625,751	1,348,507		
1929	5,466,076	3,260,154	2,205,922	670,085	1,535,837		
Total	69,823,284	36,323,892	33,499,392	6,288,422	19,513,629	7,697,341	

Mr. GOLDSBOROUGH. Governor Young, a letter was referred to the other day presented by Congressman Box, of Texas, written by George M. Craig, president of the Merchants National Bank, which is dated March 5. Mr. Craig says that he spends his vacations in Canada and is on rather intimate terms with the bankers up there.

> They are frank to tell me they can do nothing without first consulting the parent bank which is usually located in Montreal. When money and credit are plentiful the local farmers, merchants, and the industries can get loans at the local bank without approval of the parent bank, and when conditions are the reverse, it is the larger merchants and industries in the larger centers that get the accommodations.
>
> I also found that smaller accounts than $300 were not wanted and acceptable in the small banks on account of not being profitable.

What, if anything, do you know about the conditions in Canada as reflected by this statement?

Governor YOUNG. I have an entirely different idea of the Canadian banking system, Mr. Congressman. My information, of course, comes entirely from talking with Canadian bankers. I am told that their branch managers are permitted to loan up to a certain amount. Others that have been with them a longer while are allowed a larger amount, and some of their branch managers have no limit as to the amount they can lend; $2,500, I am informed, is the minimum limit that they have ever placed on a manager. Anything up to $2,500 they can lend, as they see fit, without consulting either the division office or the head office. That is what they tell me and it seems to me that would be the logical way to operate it.

I do not think that every little small loan should be referred to the head office any more than the loans that the Federal reserve banks make to member banks should be referred to the Reserve Board. They never are.

Mr. GOLDSBOROUGH. What class of banks, if you do not object to saying, have you discussed the matter with? Have you discussed it with the officials of the parent banks or of the small unit and branch banks?

Governor YOUNG. My talks were with Mr. Rowley of the Canadian Bank of Commerce and, if I remember correctly, I also discussed it with Mr. McEackran. At that time he was the division superintendent of one of the Canadian banks.

Mr. GOLDSBOROUGH. Now, the first gentleman you spoke of—what was his position?

Governor YOUNG. I think at that time he was division superintendent. I think that was the title, and I think he was located at Winnipeg. Since then he has been made, I believe, general manager of the Canadian Bank of Commerce.

Mr. GOLDSBOROUGH. You never had any opportunity to investigate or make an investigation coming from the rural banks?

Governor YOUNG. I never have.

Mr. GOLDSBOROUGH. The suggestion is also made in this letter, as follows:

> Another danger is that the powerful chain-store groups might dominate to an extent the heads of chain banks and cause the local banks to refuse credit to local merchants.

That same observation, of course, if it is valid, could be made as to branch banks. What, if any information, or opinion could you express on that observation?

Governor YOUNG. I have never thought of it, Mr. Congressman. As an impulsive reply, I would say it is a possibility, but that it is highly improbable.

Mr. GOLDSBOROUGH. Governor Young, can you tell me or give me any idea as to what percentage of the total banking resources of the country, State and National, are in cities and towns and villages of 25,000 population and under?

Governor YOUNG. I do not think that I could give you that accurately. I think that 698 reporting member banks would be fairly close to it. Did you say 25,000 or less?

Mr. GOLDSBOROUGH. Yes.

Governor YOUNG. I misunderstood the question. We can get that information for you, Mr. Congressman.

Mr. GOLDSBOROUGH. It would be interesting to me and probably to the committee, bearing on this question of the extension of branch banking into the rural districts.

Governor YOUNG. That information can be prepared.

Mr. GOLDSBOROUGH. It will be convenient for you to do that?

Governor YOUNG. Yes; and we shall be glad to do it.

Mr. GOLDSBOROUGH. Governor, it would be very interesting to this committee and to the House and to the country to know where the pressure is actually coming from for an extension of branch banking into the rural districts, and, having that in mind, I should like to ask you if you can name any community which now has unit banking or any bank, in any such community, which is asking for an extension of branch banking involving that community?

Governor YOUNG. Well, I would have to answer, Mr. Congressman, that I can not recall anyone at the moment. I assume that those banks in the smaller communities that have voluntarily joined up with these groups would prefer branch banking, but I can not make that as a positive statement.

Mr. GOLDSBOROUGH. Have any banks joined up with these groups or chains or branches except those of two classes; one class, in which the unit bank has been driven to effect a consolidation because of what would be termed unfair competition, that is, competition of a kind, the direct purpose of which would be to drive out competition (that would be one class), and another class, those banks who have been offered a very abnormal price for their stock and have sold out, therefore, simply as a purely commercial proposition?

Governor YOUNG. Well, I would prefer, Mr. Congressman, to have those people who have been engaged in the formation of these groups answer those questions. I have not talked with them about those points that you bring up. I would say that every bank in the Northwest that has joined a group has done it voluntarily. I speak about the Northwest because that is the territory with which I am more familiar.

I think some of the banks in those groups that were in difficulties, that their directors did not care to carry on any further, paid a voluntary assessment, cleaned the institution out, and were glad to turn it over to a group.

Now I am informed by both the Northwestern groups that they have not taken any banks except those that were agreeable to the proposal that they had to make to them and I am further informed that there have been many applications received by both of those

groups that they have not, as yet, taken into the groups. That comes about because the applications come very rapidly and they are conservative men and do not care to expand too rapidly until they know where they are going.

Mr. GOLDSBOROUGH. Do you believe that these groups or chains or branch banks would be the ones who would be most apt to give us the information that would accurately portray the situation?

Governor YOUNG. Yes, and I think it would be advisable for the committee to invite in some of the remaining independent bankers and learn what their experience has been.

Mr. GOLDSBOROUGH. Now, as I understand you, you know of no community which now has the independent banking system—no rural community—that is a community affected by the trade area system advocated by yourself and Mr. Pole, which is asking for an extension of branch banking into that community?

Governor YOUNG. I do not know of any, but I believe that there are some.

Mr. GOLDSBOROUGH. Your attention has not been called to any?

Governor YOUNG. Not to any specific instance.

Mr. GOLDSBOROUGH. And no appeal has been made to you or, as far as you know, to the board from such a community to facilitate the passage of this legislation?

Governor YOUNG. No, sir.

Mr. GOLDSBOROUGH. Governor Young, the McFadden bill, which extended branch banking in metropolitan centers, first came up for consideration, I think, in 1925 and then again in 1927, when it was passed. I was not here in 1927, but I remember very distinctly that those who opposed the McFadden bill in 1925, definitely argued and consistently argued that if the extension was granted, it would inevitably lead to a demand for further extension into the rural districts. What I mean is that this very condition which apparently exists now, was prophesied with absolute accuracy when that bill was up for consideration and I remember distinctly the advocates of that measure declared that if that measure were passed, it would put the national banks on a parity with State banks, practically speaking and, as a matter of fact, instead of being a branch banking bill, it was an anti-branch banking bill, and it was on that basis that the bill was passed. It was that assurance gotten into the minds of a sufficient number of Members of Congress, in the House and Senate, that caused that bill to pass.

Is it not a fact that the pressure for this legislation is coming from the larger institutions who want to absorb these various territories and not from the territories themselves?

Governor YOUNG. I could not say that, Mr. Congressman.

Mr. GOLDSBOROUGH. Well, it is coming from somewhere, evidently, because you never have legislation up for consideration unless some one wants it. Legislation is never considered for philanthropic purposes. That, I mean, is simply out of the question. There is somebody who is advocating this—some economic group advocating this legislation, evidently.

Governor YOUNG. I think, Mr. Congressman, it probably originated with the Comptroller of the Currency.

Mr. GOLDSBOROUGH. That was his view?

Governor YOUNG. Branch banking? Yes.

Mr. GOLDSBOROUGH. You do not think that the larger banks, which have branches in the cities, are behind this legislation?

Governor YOUNG. I think they are, exclusive of New York and Chicago and possibly some other large centers.

Mr. GOLDSBOROUGH. You think they are?

Governor YOUNG. No; I think New York and Chicago——

Mr. GOLDSBOROUGH. You think New York and Chicago are not, as I understand you.

Governor YOUNG. I do not think they are back of branch banking.

Mr. GOLDSBOROUGH. But the other centers, as far as you know, are back of branch banking?

Governor YOUNG. I would have to exclude certain centers.

Mr. GOLDSBOROUGH. They are in favor of this particular sort of extension into the rural centers, outside of the metropolitan centers?

Governor YOUNG. It is pretty hard for me to answer for another man.

Mr. GOLDSBOROUGH. I do not want you to answer if you do not know. I thought you had some information about it.

Governor YOUNG. What I have observed of the development of the group banking systems throughout the various sections of the United States and from the information that has been furnished to the committee as to the volume that it has reached, it is reasonable to assume they approve of what they are doing.

The CHAIRMAN. Governor Young spoke of the fact that New York and Chicago are not in favor of this plan of extension of branch banking. I suppose you refer to the plan suggested by the Comptroller, Mr. Pole?

Governor YOUNG. Yes; and I do not know that I should answer that way, Mr. Congressman. This is just casual talk.

The CHAIRMAN. Will you explain what Chicago and New York are opposed to?

Governor YOUNG. I have talked with some New York bankers and I have read some articles by other New York bankers, and I would gather from those talks and from those articles, that they are opposed to the extension of branch banking.

Mr. GOLDSBOROUGH. Do you object to giving your views of their reasons for objecting to the extension of branch baking?

Governor YOUNG. I would like to get the articles and quote them accurately.

Mr. GOLDSBOROUGH. If you have an opinion as to why they are opposed to branch banking—and I do not know whether you have an opinion or not—but if you do, you prefer not to give it? I might say I think it is very important for us to know why they are opposed to branch banking.

Governor YOUNG. I was thinking of one particular bank. They believe in the unit bank and the correspondent system of banking in the United States so strongly that one of their officers has appeared in public in opposition to the extension of branch banking.

The CHAIRMAN. You mean Mr. Davidson of the Central Hanover, I presume?

Governor YOUNG. That is the gentleman I had in mind. It has been some time since I read his article, however.

The CHAIRMAN. I should like to ask, in view of the statement you have made, whether or not one or more of the banks in New York and Chicago have lodged with the board their views on this particular question?

Governor YOUNG. No bank has lodged its views.

The CHAIRMAN. They have not given an expression of their views to the board?

Governor YOUNG. No.

The CHAIRMAN. I should like to ask another question. Have you any idea of the kind of banking that they want to do? I have gained the impression from your answers that they would prefer a continuance of the unit banking throughout the country, with contacts through correspondents.

Governor YOUNG. In so far as that one particular bank is concerned; yes.

The CHAIRMAN. That does not apply to the banks generally in those cities?

Governor YOUNG. Well, I have talked with two other bankers that I remember and they seemed to have the feeling that we were not ready for branch banking in this country at the present time and, for that reason, I gathered that they were opposed to an extension of branch banking.

The CHAIRMAN. The reason I asked those questions was due to the fact that a vice president of one of the large banks in New York, doing branch banking, said to me a year ago last October, in discussing the possible extension of branch banking through national legislation, that if they did not get legislation, it was coming anyway; that it was necessary to run pipe lines around this country and head them into New York and if we did not authorize it by national legislation, they would proceed under State authority or chain ownership; that it was bound to come. Now, Mr. Goldsborough.

Mr. STRONG. May I have a moment there?

Mr. GOLDSBOROUGH. Yes.

Mr. STRONG. It was stated this country was not ready for branch banking. What did you think he meant by that?

Governor YOUNG. Well, the technical set-up of a nation-wide branch banking system, with all the mechanics that are involved and the development of people to operate the various divisions, takes time. It took 50 or 100 years in England.

Mr. STRONG. That would indicate they desired it but they were not ready for it?

Governor YOUNG. No; I rather got the impression from them, Mr. Congressman—from those two men—that they would prefer not to have it, but, as the chairman has said, they felt it was inevitable and it was coming.

It is very hard for me to express another man's views. I did not go into it in any detail at the time. I am simply trying to give the committee the impression I got.

Mr. STRONG. I think the record should show that when we were considering the McFadden bill, New York bankers came down here and insisted on clauses that would give them the right to have branches in New York.

Governor YOUNG. Well, they have them in New York.

Mr. STRONG. Now they want them in New York and also in the rest of the country.

Governor YOUNG. I think, generally speaking, New York has refrained from going outside of the city.

Mr. STRONG. Of course they are prohibited from doing that under the McFadden bill, if they are national banks.

Governor YOUNG. I mean even by groups or chains.

Mr. GOLDSBOROUGH. Last Wednesday I think I stated, according to figures given to me by Mr. Smead, the banks in Greater New York City, State and National, had a total capital of $1,155,063,000 and, in answer to a question by me, you stated the total deposits of all banks in the United States, State and National, amounted to about $4,000,000,000.

Governor YOUNG. That was capital.

Mr. GOLDSBOROUGH. I mean capital; yes.

Governor YOUNG. That is just capital. The New York figures were also just capital.

Mr. GOLDSBOROUGH. That means, of course, that Greater New York alone—that is, the city—has more than one-fourth of the total capital of all the banks in the United States. Now, does not that indicate a strong trend toward monopoly, in your mind?

Governor YOUNG. To answer that, Mr. Congressman, I should like to refer to the figures that the Comptroller of the Currency, I believe, has introduced in the record, showing the total deposits of banks in various cities in the United States in 1914 and again in 1929, and showing the percentage of increase in various large cities throughout the United States.

The increase in deposits in the United States from July, 1914, to July, 1929, was 180 per cent.

Without New York City, it is slightly below the average—172 per cent.

In New York City the increase is 217 per cent. Of the 16 cities listed, the highest increase of any place in the United States, during that period, is Detroit, where it is 466 per cent and, in making that statement, I am not including San Francisco, because in San Francisco there has been a very large increase because of the branch banking system in California all of the deposits of which are now listed under San Francisco; whereas in 1914, they were not.

Dallas, during that period, has increased 437 per cent. Atlanta has increased——

Mr. GOLDSBOROUGH. That is State and National banks?

Governor YOUNG. All banks; yes. Atlanta has increased 234 per cent.

So, the increase throughout the United States, Mr. Congressman, has averaged 180 per cent, of which the increase in New York is 217 per cent, and the highest, excluding San Francisco, is Detroit, 466 per cent.

So that increase has been general throughout the United States.

Mr. GOLDSBOROUGH. As I understand you, outside of the branch banking systems in California, the only increases higher than the New York banks have been in Detroit and Atlanta—is that correct?

Governor YOUNG. No; there has been a higher increase in Cleveland.

Mr. GOLDSBOROUGH. How much was that?

Governor YOUNG. Two hundred and twenty-five per cent for Cleveland. I will name all of them. Chicago, practically the same—210 per cent; Cleveland, 225 per cent; Atlanta, 234 per cent.

Mr. GOLDSBOROUGH. Atlanta, Ga.?

Governor YOUNG. Yes.

Mr. GOLDSBOROUGH. I thought you said that was four hundred and something?

Governor YOUNG. No; 234 per cent.

Minneapolis, 184 per cent; Dallas, 437 per cent; San Francisco, I am not giving because of the branch situation out there; Detroit, 466 per cent.

The lowest increase was 97 per cent and, because of adverse publicity, I will not name the city.

Mr. GOLDSBOROUGH. What was Baltimore? Have you that there?

Governor YOUNG. One hundred and forty-four per cent.

Mr. GOLDSBOROUGH. Now, do you not think, in view of the average of 180 per cent, with New York 217 per cent, that shows a trend toward New York, even though these isolated instances, which you mentioned, do exist?

Governor YOUNG. I would say it is very slight.

Mr. GOLDSBOROUGH. Governor, I have here a clipping from the Baltimore Evening Sun of March 24, an article dated New York, March 24, written by Preston R. Krecker. In speaking of a statement by Mr. McGarragh, former chairman of the Federal Reserve Bank of New York, in his annual report of 1929, this article states:

> In that document, Mr. McGarragh, who has since resigned to become the president of the Bank for International Settlements in Basle, Switzerland, states that for a number of weeks, from February to May for last year, the New York bank's directors repeatedly voted an increase in the bank's discount rate only to be overruled each time by the Washington body. It will be recalled that the rate was eventually raised, but not until the following August, months after the bank's directors first thought credit conditions called for an increase.

Is that an approximately correct statement of what occurred in 1929?

Governor YOUNG. A very accurate statement.

Mr. GOLDSBOROUGH. Now, will you state the board's reasons for not granting that permission to the New York Federal Reserve Bank and, in connection with that question, I think I should say that I personally felt away back early in 1928 that if the discount rates were not raised we would have a collapse in this country.

Governor YOUNG. I shall be very glad to speak for the Board. In January, 1929, after the seasonal requirements were out of the way, there was a return flow of currency, reducing the amount of member banks' indebtedness, as it does every year. Speculation was proceeding at a very rapid rate. Speculative credit was expanding to such an extent that the board felt that some direct action—moral suasion or whatever you want to call it—was an advisable thing for the system to do at that time.

Mr. GOLDSBOROUGH. That was in 1928?

Governor YOUNG. That was 1929.

Mr. GOLDSBOROUGH. 1929?

Governor YOUNG. 1929; yes.

With that thought in mind, the board dispatched a communication to each of the reserve banks in reference to speculative credits, while

banks were simultaneously borrowing from the Federal reserve banks. The reaction to that letter was very good from practically every reserve bank.

On February 14 or 15—I can not recall the date now—the Federal Advisory Council was here in Washington and approved the action of the board. Previously to that, the Federal Reserve Board had issued a public statement appealing not only to the borrowers but to the lenders, with reference to this vast increase in the use of speculative credits.

The advisory council approved of the action of the Federal Reserve Board. The New York directors felt that that should be supplemented by an increase in the rate. The board felt that the results could be accomplished without the increase in the rate and I think I state accurately that between February and May, in so far as member banks were concerned, there was a reduction in security loans. There was, however, an increase in loans coming from nonbanking sources and I will have to refer to Doctor Goldenweiser, but I think in May, brokers' loans were just about what they were in February. So, during that period, the board felt that its program of direct action was accomplishing results and it was not necessary to raise the rate, feeling if they did raise the rate, a great deal of the increase would be passed on to business.

In the latter part of May, up until August, there was a large increase of brokers' loans and other security loans, in member banks. Most of the increase came about, I believe, because of the great amount of stock rights that were issued at that time. In addition to that, the exchange of old currency for new currency required more Federal Reserve credit. The result of all this was that, in August, the rate request of 6 per cent was approved. It was initiated by the Federal Reserve Bank in New York and approved by the Federal Reserve Board.

From August until the latter part of September——

Mr. GOLDSBOROUGH. May I interrupt there? By August, had not the situation gotten entirely out of hand? Could any raise of the rediscount rate at that time, in view of the mental attitude of a great part of the public, be of any practical service?

Governor YOUNG. Well, there are many people within the system now that say that the 6 per cent rate in August did eventually, in October, have some effect on speculation. I think it had some effect, but a very slight effect. I think that the situation broke in October because the American public was ready to change its mind.

Mr. GOLDSBOROUGH. Your opinion is, as I understand it, that the board's action in not permitting a raise in rate in August was sound policy?

Governor YOUNG. I am speaking, Mr. Congressman, for the board.

Mr. GOLDSBOROUGH. You still think so?

Governor YOUNG. The board still thinks so.

The CHAIRMAN. Will you yield, Mr. Goldsborough?

Mr. GOLDSBOROUGH. Yes; but I want to go along further along that line, Mr. Chairman. However, go ahead.

The CHAIRMAN. You mentioned a result to be accomplished in February, due to the change of your policy. What results were you referring to?

Governor YOUNG. Starting with August each year there is a seasonal requirement which, over a period of five years, has been shown to be in the neighborhood of $300,000,000 additional Federal reserve credit that is needed between August and December, 1931. That is represented largely by currency requirements—additional currency that is used at that season of the year.

You will recall at that time the discount rate in New York was raised and the bill rate was lowered. It was believed that, if additional credit was to be put into the market, it would be better to have it go in through bills. It was believed that that would not increase the volume of the discounts and would not put any additional pressure on the member banks, which might tempt them again to raise rates to business throughout the country.

The CHAIRMAN. On the theory that it would be less apt to go into brokers' loans, that release of credit?

Governor YOUNG. Yes. Of course, it is extremely hard to earmark credit. Generally speaking, it is less easy for credit to seep into the speculative field through bills than——

The CHAIRMAN. This change in the policy by raising the discount rate to 6 per cent was with the view of taking care of that $300,000,000 demand that occurred between August and December?

Governor YOUNG. Yes, sir; and in addition to that——

The CHAIRMAN. It was not aimed further to tighten and restrict money that was going into brokers' loans and into the stock market?

Governor YOUNG. Well, could I explain that in my own way, Mr. Chairman? I think by doing that I will perhaps answer your question.

The CHAIRMAN. Yes.

Governor YOUNG. In August the Federal reserve system found itself in this position, that it had a bill rate much higher than the discount rate—I think the minimum bill rate at that time was 5⅜ per cent and the discount rate was 5 per cent. That was rather inconsistent, having a bill rate, which is your prime paper, higher than the discount rate. So, partly to correct that situation and partly to say to the banks that were borrowing from the Federal reserve and simultaneously loaning for speculative purposes, "Go easy" and by reducing the bill rate to commerce and industry and saying to them, "Come on." That briefly was the policy as nearly as I can recall. I want to recall, also, that the discount rate was only raised in New York. It was not raised elsewhere.

The CHAIRMAN. You were classifying credit, then, were you not?

Governor YOUNG. Attempting to, by moral suasion or whatever you want to call it.

The CHAIRMAN. You referred to the period of raising rates in August. Did the international exchange situation come into consideration in connection with that change in rate?

Governor YOUNG. I am just trying to think of that particular time, Mr. Chairman, if you will give me a minute or two.

I will answer it this way: If my memory serves me correctly, I do not believe the international exchange was taken into consideration at that time.

The CHAIRMAN. What happened to the Bank of England rate at or about that period? Was it raised or lowered?

Governor YOUNG. The Bank of England raised its rate on February 7, 1929, from 4½ to 5½ per cent and nothing was done with their rate until September 26, when the rate was put up to 6½ per cent. That was about 40 days after the New York raise.

Mr. GOLDSBOROUGH. May I proceed?

The CHAIRMAN. Just one other question, if you will pardon me.

My question also embodied the period of February when the board sent out its notice, on February 6, as I recall it, admonishing the banks to observe a little more closely the requirements of borrowers.

That notice was aimed at what, Governor?

Governor YOUNG. That notice was aimed to attempt to restrain the tremendous expansion of speculative credit.

The CHAIRMAN. With particular reference to the increasing amount of brokers' loans?

Governor YOUNG. If I can read this statement, then I can state it accurately, Mr. Congressman.

The CHAIRMAN. That is the statement that was issued at that time?

Governor YOUNG. Yes.

The CHAIRMAN. Suppose we put that into the record. I am familiar with it. That will be done unless some member of the committee wants it read.

Mr. STRONG. I would like to hear it read.

The CHAIRMAN. All right; proceed with it.

Governor YOUNG. That statement was as follows:

The United States has during the last six years experienced a most remarkable run of economic activity and productivity. The production, distribution, and consumption of goods have been in unprecedented volume. The economic system of the country has functioned efficiently and smoothly. Among the factors which have contributed to this result, an important place must be assigned to the operation of our credit system and notably to the steadying influence and moderating policies of the Federal reserve system.

During the last year or more, however, the functioning of the Federal reserve system has encountered interference by reason of the excessive amount of the country's creidt absorbed in speculative security loans. The credit situation since the opening of the new year indicates that some of the factors which occasioned untoward developments during the year 1928 are still at work. The volume of speculative credit is still growing.

Coming at a time when the country has lost some $500,000,000 of gold, the effect of the great and growing volume of speculative credit has already produced some strain, which has reflected itself in advances of from 1 to 1½ per cent in the cost of credit for commercial uses. The matter is one that concerns every section of the country and every business interest, as an aggravation of these conditions may be expected to have detrimental effects on business and may impair its future.

The Federal Reserve Board neither assumes the right nor has it any disposition to set itself up as an arbiter of security speculation or values. It is, however, its business to see to it that the Federal reserve banks function as effectively as conditions will permit. When it finds that conditions are arising which obstruct Federal reserve banks in the effective discharge of their function of so managing the credit facilities of the Federal reserve system as to accommodate commerce and business, it is its duty to inquire into them and to take such measures as may be deemed suitable and effective in the circumstances to correct them, which in the immediate situation means to restrain the use, either directly or indirectly, of Federal reserve credit facilities in aid of the growth of speculative credit. In this connection the Federal Reserve Board, under date of February 2, addressed a letter to the Federal reserve banks, which contains a fuller statement of its position:

"The firming tendencies of the money market which have been in evidence since the beginning of the year—contrary to the usual trend at this season—make it incumbent upon the Federal reserve banks to give constant and close

attention to the situation in order that no influence adverse to the trade and industry of the country shall be exercised by the trend of money conditions, beyond what may develop as inevitable.

"The extraordinary absorption of funds in speculative security loans which has characterized the credit movement during the past year or more, in the judgment of the Federal Reserve Board, deserves particular attention lest it become a decisive factor working toward a still further firming of money rates to the prejudice of the country's commercial interests.

"The resources of the Federal reserve system are ample for meeting the growth of the country's commercial needs for credit, provided they are competently administered and protected against seepage into uses not contemplated by the Federal reserve act.

"The Federal reserve act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

"The board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal reserve act nor is it conducive to the wholesome operation of the banking and credit system of the country."

Mr. STRONG. What date was that?

Governor YOUNG. February 5, 1929.

The CHAIRMAN. That letter was sent to the different Federal reserve banks, was it not?

Governor YOUNG. Yes, sir.

The CHAIRMAN. And the effect of that letter on the Federal reserve banks was, of course, to examine more closely rediscounts that were offered from member banks. Did it have this effect, that it was a notice to member banks to discriminate on loans, and did the Federal reserve banks so direct member banks?

Governor YOUNG. From what I know of the operation of the Federal reserve banks, and having operated one for 10 years, I believe that that is the procedure that has been followed by the Federal reserve banks ever since they have been organized. I think the letter of the board was a remainder of what should be done. I think the subsequent statement of the Federal Advisory Council went beyond the Federal Reserve Board, and went right directly to the member banks.

The CHAIRMAN. Without objection, a copy of that communication from the Federal Advisory Council will be placed in the record at this point.

(There was no objection, and the communication referred to is as follows:)

The Federal Advisory Council at a preliminary meeting yesterday made the following minute, which was delivered to the Federal Reserve Board at the regular quarterly meeting of the council and the board this morning:

"The Federal Advisory Council approves the action of the Federal Reserve Board in instructing the Federal reserve banks to prevent, as far as possible, the diversion of Federal reserve funds for the purpose of carrying loans based on securities. The Federal Advisory Council suggests that all the member banks in each district be asked directly by the Federal reserve bank of the district to cooperate in order to attain the end desired. The council believes beneficial results can be attained in this manner."

Mr. BRAND. What was the date of that?

Governor YOUNG. Of the communication of the advisory council?

Mr. BRAND. Yes, sir.

Governor YOUNG. February 15, I think.

The CHAIRMAN. The point that I was making in that connection was that it seems to me from memory that that is the first time since the Federal reserve system was organized that by an official edict of the board and the advisory council the use to which proceeds of loans granted by member banks was attempted to be directed.

Was there ever another period when such was the case?

Governor YOUNG. I think that was mentioned in 1923 in our annual report.

Doctor GOLDENWEISER. 1923, and, in more detail, in 1926.

Governor YOUNG. What action individual reserve banks have taken publicly I do not know.

The CHAIRMAN. I recall that when Governor Strong of the Federal reserve bank appeared before this committee, he stated that the Federal reserve management had no jurisdiction over what use was to be put to the proceeds of loans granted by member banks.

Do you agree with Governor Strong's statement in that respect?

Governor YOUNG. From a practical and legal standpoint, yes; but I am quite sure that Governor Strong in his way practiced direct action in the New York district just as much as I did in the Minneapolis district.

Do not misunderstand me; I had the very highest regard for Governor Strong, and I do not think he intended to make any misstatement, but to a degree the Federal Reserve Bank of New York exercised direct action; there is not any question about that.

The CHAIRMAN. They did that last October, did they not?

Governor YOUNG. In specific cases.

The CHAIRMAN. Now, Mr. Goldsborough, I do not want to break in any further on your examination.

Mr. GOLDSBOROUGH. Governor, referring again to this article of Mr. Krecker's, the statement is made:

> The point is that, in the opinion of many bankers, the devastating break in the stock market last autumn might have been averted had the central banks put the screws on the money market early in the year, as the New York bank's directors sought to do. As it was, the orgy of speculation on the stock exchange was continued for several months longer, while the bubble of inflation was blown bigger, with the result that when the boom did collapse the destruction was far-reaching.

As I understand it, speaking for the board, that is not your view?

Governor YOUNG. That is not the board's view, or was not the board's view, and they still retain the same view.

Mr. GOLDSBOROUGH. Another statement made in this article is as follows:

> The suggestion is that when the directors of a regional reserve bank decide definitely on a change in the bank rate they make public their decision irrespective of whether Washington vetoes that decision or not. By so doing they would lift the veil of mystery which breeds uncertainty. The public would be advised at least of how the bank's directors feel about the credit situation and could be guided accordingly.
>
> Under existing practice a very few become exclusively possessed of information of immense and general importance to all bankers and business men everywhere, while the latter are kept in the dark and grope along trying to find out where they stand. If, moreover, publicity should be given to a reserve bank's decision

the moment they are made the full responsibility for failure to make the desired change could then be placed squarely where it belonged.

What do you think particularly of his statement that information is gained by a limited number of individuals and groups that is not available to the entire business public?

Governor YOUNG. I do not think so. In the 12 years that I have been associated with the Federal reserve system, I have yet to hear of any officer or director——

Mr. GOLDSBOROUGH. I did not suggest that; I did not mean that. I did not mean to intimate, and I want this put in the record, that any officer or director of the Federal reserve system or of the Federal reserve bank used the information he acquired; I meant bankers and business men who were not officials of the Federal Reserve Board or the Federal reserve bank.

Governor YOUNG. Well, what others, Mr. Congressman, would have it?

Mr. GOLDSBOROUGH. That is just what I am trying to find out.

Governor YOUNG. No others would have it. I think I can illustrate that by stating what happened on February 15 when the New York board requested that the rate be raised to 6 per cent. You will recall that that was an all-day telephone session between the New York bank and the Federal Reserve Board, in which there were nine directors of the reserve bank in New York, eight members of the Federal Reserve Board, two secretaries of the Federal Reserve Board, and possibly four or five officers of the New York bank that had that information. You will recall that on the start the newspapers arrived at erroneous information. They thought that the board was trying to put a 6 per cent rate in in the New York bank, instead of what actually happened. In the course of 30 days, I would say that that information was known by at least 150 people within the Federal reserve system, directors or officers or secretaries or others. If I remember correctly it was almost two months after February 15 before the public arrived at the real story.

So that I think I can say with safety that no one had any information that they could use to advantage.

Mr. GOLDSBOROUGH. I see. That is a very fine statement to be able to make, and as far as I am concerned, I believe every word of it. But what I was trying to find out was whether there was anybody outside of the system who could get the information or who did get the information, as this article seemed to imply.

Governor YOUNG. I doubt it. Suppose that they had the information that the New York directors wanted to raise it to 6 per cent and the board would not grant the raise; they would be just where they were before. There was no real information until the Federal Reserve Board approved the rate.

Mr. GOLDSBOROUGH. I do not know about that. I think if an individual knew the New York bank wanted to raise the rate to 6 per cent, and the board would not grant them the permission, he would be in a vastly better position than one who did not know about it at all, because that first individual would at least know the drift of the mind of the bank and the mind of the board, which would be of great value.

Governor YOUNG. Well, the directors of a reserve bank would have every right in the world to issue that kind of statement if they so elected, and the board could not possibly object to it.

Mr. GOLDSBOROUGH. They would have the right to do it?

Governor YOUNG. Obviously so. You can not deny men the right to free speech. Whether it would be advisable to issue such a statement is a debatable question.

Mr. FORT. May I ask one question right there, Mr. Goldsborough?

Mr. GOLDSBOROUGH. Yes, sir.

Mr. FORT. A year or two ago, Governor Young, there was public information as to a dispute between the Chicago board and the Federal Reserve Board, which was thoroughly understood by all the public. There were statements issued on that, were there not, about the raising of the rediscount rate?

Governor YOUNG. That was before I came on the board. I do not think the board issued any statement.

Mr. FORT. The board did not, but the Chicago board did, did it not?

Governor YOUNG. I think individual members of the Chicago board did. I do not think the——

Mr. FORT. I mean, the information was made public at the time that the controversy was on between the Chicago board and the Federal Reserve Board.

Governor YOUNG. Correct.

Mr. WINGO. Is it not true that in February, 1929, there were some individual members of the Federal reserve bank board in New York who were quoted as to their opinion about the situation and the advisability of action one way or the other?

Governor YOUNG. Not in February. I think one member did express himself in May.

Is that correct, Doctor Goldenweiser?

Doctor GOLDENWEISER. That is right; not at the time.

Mr. WINGO. What I had in mind was that they were directly quoted——

Governor YOUNG. In March one of the banks advocated within its monthly bulletin——

Mr. WINGO. What I had in mind was not only in the current number of a bulletin that came out, or a statement that came from some bank—and I get so many of them that I do not recall—but some writer, while he did not quote any specific name—just as in the case of the quotations that used to come from the White House—stated that:

> It is known or said upon good authority that the directors of the Federal Reserve Bank of New York think that stringent action should be taken.

I was struck at the time because I had the impression that the general public had, just the reverse of what the situation was.

Governor YOUNG. Was not that 60 days later?

The CHAIRMAN. Will the gentleman yield?

Mr. GOLDSBOROUGH. I think I ought to be allowed to finish my cross-examination.

Mr. WINGO. I beg the gentleman's pardon.

The CHAIRMAN. If you will permit me one question further; apropos of what has just been said, the controversy arose through the disclosure by a director of the Federal Reserve Bank of New York that he was in favor of raising the discount rate.

Governor YOUNG. I do not know that.

The CHAIRMAN. The press indicated that Mr. Charles E. Mitchell, president and chairman of the board of the National City Bank, was that member of the Federal Reserve Board, of New York.

In view of what has happened here in the last few minutes, I want to ask if there is not grave danger, when action like that is known to a director of the Federal reserve bank—particularly when that director is the head of an institution which is affiliated with institutions that are interested in stock market operations—of disclosing information that may be used for speculative purposes?

Governor YOUNG. I do not think so, and I would regret to think that any director or any officer of any Federal reserve bank would use information of that kind to his advantage.

The CHAIRMAN. I was not suggesting that, but the crux of the situation is that here is a man, a director of the Federal reserve bank with that knowledge, who happens also to be the managing head of a national bank and the head also of affiliated institutions engaged in stock market operations. From the very make-up of the situation, it would seem to me that any man in that favored position is bound to use that information, whether he does so willfully or not. The fact that he possesses that information will bring about decisions which will necessarily affect the transactions in the market.

Governor YOUNG. Mr. Congressman, he does not get it any quicker than the public gets it. What happens is that the New York directors meet about 2 or 2.30, and they usually take care of the routine business first. The rate discussion is then brought up during the meeting, and some one makes the motion to establish a higher rate, or to fix a higher rate. There is discussion and maybe there is a unanimous vote and maybe a divided vote, and it carries or it does not. The Federal Reserve Board holds itself in readiness at all times either to approve or disapprove rates. That information is phoned to the Federal Reserve Board and followed up by a wire, and the board meets immediately and discusses the situation and approves it or disapproves it by a uananimous vote or a majority vote. That action perhaps is taken not before 2.30, and it is released simultaneously by the Federal Reserve Bank of New York and the Federal Reserve Board at 3 o'clock. Those directors stay in conference until after that is released and the public has that information just as quickly as that director has as far as any use could be made of the information.

The CHAIRMAN. This particular occasion was a matter of controversy between the Federal Reserve Bank of New York and the Federal Reserve Board, was it not?

Governor YOUNG. That is correct.

The CHAIRMAN. Mr. Goldsborough, I do not wish to take any more of your time.

Mr. GOLDSBOROUGH. I have a question or two.

Mr. Young, on last Wednesday I directed several inquiries to your view as to whether when banking groups become sufficiently powerful they do not become measurably the Government itself—in other words, whether the officials representing the Government are able to act independently of the pressure which either directly or indirectly comes to them from these powerful groups.

I am going to illustrate what I have in mind by a situation which is now developing along another line. The Standard Oil Co. of New York and the Vacuum Oil Co. are in process of effecting a merger.

The directors of each company have approved it, but it has not yet been submitted to the stockholders of the two companies. Those two companies were constituent members of the Standard Oil Co. of New Jersey, which was dissolved in 1909 by a decree by the Supreme Court of the United States holding the groups a combination in restraint of trade.

As I said before, these companies desire to merge, and the Department of Justice has filed a bill in equity to restrain the stockholders of the constituent companies from voting the merger. In other words, a bill in equity has been filed by the Government to prevent the violation of a penal statute.

Now, any lawyer will tell you that can not be done, and the general understanding among lawyers who have the situation in mind is this, that these two companies, when they file their answers to this bill in equity, will not plead to the jurisdiction; in other words, that particular question will not be raised and they will be able to get a declaratory decree of the court before anything is actually consummated. Stated in another way, it appears to be an amicable suit. It is obvious that the ordinary individual or the ordinary business could not make any such arrangement as that with the Department of Justice—and I am not criticising the Department of Justice; I am only saying that when aggregations of individuals or of capital become strong enough, inevitably to a greater or less extent they control those who should control them.

Now, then, here we have a situation where almost all of the banking resources of this country are now centered in the metropolitan areas. If these metropolitan banks extend their influence out into the rural districts, they will control the economic situation, which in turn, will control the social situation and the political situation, and in turn will create a condition where the cities will control the policy of the Government. In the cities, of course—for we are a new country—they have an unassimilated population to a large extent, and politics are not handled and decisions as to governmental matters are not made as they are in the country I think it has been said that the so-called graft conditions which exist in American cities do not exist anywhere else in the civilized world, and it is attributed to the control, the easy control by politicians, of this vast horde of unassimilated foreign population.

Now, do you not think that one of the things we ought very carefully to consider before we assist in the extension of branch banking into the rural districts is the question whether or not American life ought to be turned over to the great centers of population?

Governor YOUNG. If there is such a possibility, I think you ought to consider it very carefully.

Mr. GOLDSBOROUGH. That is all.

Governor YOUNG. Mr. Chairman, Congressman Goldsborough made an inquiry of me earlier, as to whether I knew any place where unit banking existed where there was a demand for branch banking or group banking. At the moment I could not recall or did not remember. I now recall that one of my friends in the Far West that went into one of the group set-ups in the Northwest wrote me, after he had taken the action, and asked me if he did not act wisely. So I assume that he arrived at his own conclusion voluntarily.

That is the only case that I recall at the moment.

Mr. FORT. May I interject one question in regard to a matter, Governor Young, that you were discussing some time ago under the questioning of Mr. Goldsborough and Mr. Wingo. I did not want to interrupt Mr. Goldsborough at the time. It relates to the matter of the value to an institution with which a Federal reserve bank director might be connected of the knowledge of the action taken by the Federal reserve bank, and you said you felt, and I agree with you, that no officer or director would utilize that deliberately for the advantage of his own institution; but is it not a fact that so long as the contemplated action of the bank is not known—in other words, so long as the public has no knowledge of whether or not the bank is considering officially a change in the discount rate—the knowledge of that status would be of very great value and inevitably used, as Mr. McFadden has said, in making decisions by any director of that Federal reserve bank who also was the director of a bank which was dealing in stocks, either for its own account or for the account of an affiliate?

Governor YOUNG. Let us take the outstanding case, from February 15 or 14, whichever it was, clear through until May or June. If that director during that period had attempted to take advantage of the contemplated raise in the rate, he would have been out of luck for three months at least, because of the position that the board took.

Mr. FORT. But the general public did not even know in any definite way that the board was even considering the change in the rate, did it? It has only guesswork to go by.

Governor YOUNG. Nothing but guesswork.

Mr. FORT. The question I am coming to—and I have not any preconceived idea on it—is whether or not the public is entitled to the information generally at the conclusion of a board meeting as to whether the discount rate is even up for discussion.

Governor YOUNG. Possibly.

Mr. FORT. And as to the size of the vote by which the discussion is resolved.

Governor YOUNG. Well, I have a feeling myself—a personal feeling—that the less those things are discussed in the newspapers, the better, but I may be wrong. If the directors of the New York bank care to make a public statement as to what they have done, I could not object to that, but during the year 1929, and I will ask Doctor Goldenweiser and Mr. Smead or Mr. Wyatt to correct me if I am wrong, the board had 49 requests for increases in rates, 24 of which were approved and 25 disapproved. I think those figures are accurate; if they are not I will correct them.

Now, that means that you would be in the newspapers practically all the time, and with additional controversy all the time.

Mr. FORT. Of course, stock markets thrive on uncertainty and not on certainty. That I realize is true.

Governor YOUNG. Maybe the uncertainty between February and May had an effect on the market.

Mr. FORT. I am not sure it did not, but my thought in this connection—and the matter I am trying to direct your thought to—is along the line that I questioned you when I had you under examination, namely, whether it is proper for the officer of an institution which itself deals in stocks to be also a director of the Federal reserve bank

that fixes the rediscount rate which we all know vitally affects the stock market.

Governor YOUNG. I will have to answer that, Mr. Congressman, by saying that in my entire association with the Federal reserve system I have never seen a director take advantage of that, or never had any intimation he did in any way, shape, or manner. That would mean that you would have to get directors that were divorced from the stock market entirely, to follow your thought out.

Mr. FORT. Not necessarily. The distinction is this, that if either for the account of the bank or for a security affiliate the dominating officer of the bank is accustomed to dealing in securities for its account in large volume——

Mr. WINGO. Pardon me, but you used the word "bank." Do you mean the Federal reserve bank or a member bank?

Mr. FORT. Member bank.

Mr. WINGO. You mean to say, then, that the director of the member bank is also a director of the Federal reserve bank?

Mr. FORT. He might very well be.

Mr. WINGO. I just wanted to follow you.

Mr. FORT (continuing). Dealing largely in securities for the account of his own institution, it seems to me, without any dishonor or discredit, that he would be gravely deficient in the performance of his duties as an officer of his own institution if he did not have his judgment controlled as to the bank's further operations by his knowledge of the judgment of his Federal reserve bank codirectors as to a forthcoming increase or decrease in the rediscount rate.

Governor YOUNG. Let us follow that right along in actual practice. I have described the customary method of fixing and approving the discount rate. Obviously no director can take advantage of that situation.

Mr. FORT. Absolutely; I agree with you.

Governor YOUNG. So we will eliminate that. Then we come to a controversy such as existed between the board and the New York bank from February until May. That director had that information every day; he had it every week, but he could not use it; it was of no benefit to him at all until it had the approval of the Federal Reserve Board.

Is not that reasonable conclusion to arrive at?

Mr. FORT. It might be that he could not use it, Governor Young, with the same value that he could use knowledge of a definite happening, but, knowing the condition that existed, that his bank was keeping up the pressure on the Federal Reserve Board to produce action in accordance with its views, he certainly had a balance of knowledge that the rest of the country did not have—he knew that there was at least more likelihood of an increase than a decrease.

Governor YOUNG. But he did not get it.

Mr. FORT. Not immediately; he got it eventually.

Governor YOUNG. I will go a little further with that. I think it was in May that they ceased making the recommendation to the Federal Reserve Board for an increase in rate, and the discount rate raise in August really originated with a conference of governors that was held in Washington, so I do not see, Mr. Congressman, how they could use that information to advantage. There might be a possibility

of using the information that they could get in reference to open-market operations, but I do not think so.

Mr. FORT. How about the reverse of the situation, where the Federal Reserve Board desired the local Federal reserve bank to raise the rate, so that he was sure of its approval?

Governor YOUNG. Well, the only time that the Federal Reserve Board initiated a rate, it did not happen that way.

Mr. FORT. But the member of the Federal reserve bank or board of the district, having that knowledge and knowing the attitude of his own board, would have a distinct advantage over the rest of us, would he not, which he might or might not use?

Governor YOUNG. I do not think so.

Mr. WINGO. Your theory is that he would necessarily use it in casting his vote as a member of the directorate of his own bank, that it consciously would affect him?

Mr. FORT. Well, I think that in the larger banks, where they have the power, they do not wait for directors' meetings to buy stocks.

Governor YOUNG. Let us follow that along. Let us assume that the Federal Reserve Board should arrive at a conclusion that there should be a rate raise in some bank——

Mr. FORT. Or a reduction.

Governor YOUNG. Or a reduction, one or the other. Well, the law gives the board the power to fix the rate for the Federal reserve bank, and that has only been done in one instance. The procedure that would be followed would probably be this, that the board, viewing the entire credit structure of the United States, would believe that it was advisable that there should be a rate raise or a rate reduction. They would pass that information on to the officers of the reserve bank, not to the directors, because we are not in close contact with them. At a meeting of the directors at 2 o'clock they would be acquainted with the views of the board, and the directors might agree and they might disagree. If they disagreed, they would not initiate the rate. If they did agree, they would initiate the rate, and it would be immediately approved by the board and a director would be in the same position as if the bank initiated the rate itself and the board approved it.

Mr. FORT. Except that they might agree to initiate it a week later or two weeks later.

Governor YOUNG. That might be possible; they might say it is too early.

The CHAIRMAN. In connection with the change of rate that you spoke of a few moments ago, what would be the process in a change in rate supported, for example, by the bank in Philadelphia? Do you consult with the other banks, the other 11 banks?

Governor YOUNG. No.

The CHAIRMAN. They are not consulted?

Governor YOUNG. No.

The CHAIRMAN. They are not made cognizant of any change in the rate of the Philadelphia bank until after that has been decided upon?

Governor YOUNG. Under some conditions they would be and under others they would not.

The CHAIRMAN. Under what conditions are the directors and officers of all of the 12 banks notified or consulted before a change in rate is made effective?

Governor YOUNG. Under no conditions, but this has happened: Obviously a rate raise in one district which would be above the rate in other districts, has an effect upon the entire United States, and I mean by that that if New York were on a 5 per cent rate and elected to raise it to 6 per cent, obviously the board in approving or disapproving would take into consideration the effect, immediate or eventual, that that might have on the other districts of the United States in determining whether we would approve or disapprove of the rate. Now, it would be possible under those circumstances that I, as the head of the board, might consult with the officers at Cleveland or with the officers at Chicago, Philadelphia, or elsewhere, to find out what, in their opinion, the effect of that rate would have in their district and whether there was strong opposition to it or whether they had no feeling about it at all. That would not, however, go to the directors of these other banks, because they only meet every two weeks or every 30 days, and the board has to act quickly.

The CHAIRMAN. Of course, this problem is a very sensitive one, and I would like to state for the record that in my questions a few moments ago wherein I mentioned Mr. Mitchell of the National City Bank of New York in connection with the rate change and the possible benefit he might derive from his associations, I was not accusing Mr. Mitchell of having used that information in any manner; I was merely using that to illustrate the possibilities, or the sensitiveness connected with that kind of a situation.

Mr. FORT. I have the same feeling about all of it; I think the Federal reserve system has been run with a very high sense of honor.

The CHAIRMAN. It seems to me that there is a grave possibility of information pertaining to possible changes in the policy of the Federal reserve getting out to those who are closely associated with officers and directors of the Federal reserve banks. As an illustration of what I mean, take, for instance, a class C director of a Federal reserve bank who attends a directors' meeting where a matter of change of policy is up for consideration. He has a business associate who knows from his partner's action one being a director of the Federal reserve bank and the other the operating head of the business, practically what action took place in that meeting without the director telling him, if it happens to be a class of business that is affected by a change in rate or a change of policy. It seems to me that it is such a sensitive thing that in many instances information like that is bound to get out.

By way of illustration, I want to cite an incident that occurred on the 1st of last October. I was in New York, on lower Broadway, when I met an officer or director of one of the Federal reserve banks, who shook hands with me, and I said, "What are you doing in New York?"

He said, "I am just going over to my brokers to sell everything I have got."

He passed on, and I went my way. My natural thought was, What is going to happen? What is this all about? Here is an officer of the Federal reserve bank——

Governor YOUNG. An officer?

The CHAIRMAN. He was a director of the bank, and I thought that he must have advance information on some movement. I have thought of that many times since.

Governor YOUNG. Well, let us follow that a little further——

The CHAIRMAN. I bring that up just to get your reaction on it, whether or not there is a possibility of anything like that happening.

Governor YOUNG. I will be glad to give it to you. In August we took action in reference to the discount rate and the bill rate, which was known to the public as quickly as it was known to any director or officer of any reserve bank—or, inside of five minutes.

The CHAIRMAN. Does the public get the effect of that action as quickly as a man immediately engaged in the activities of the system?

Governor YOUNG. It has the same information.

The CHAIRMAN. But the capacity there to analyze it and note its effect is not as keen as with the one who is very close to the Federal reserve operations.

Governor YOUNG. In September we proceeded to buy bills; that was public information. In October we were asked for authority to buy Government bonds, if necessary, to relieve the situation. Now, that was the information that that man had, which was an easing policy so far as the credit situation was concerned; so that in October he did not have any information that the public did not have, and he must have been prompted to sell securities for some reason other than Federal reserve policy or Federal reserve action.

Mr. DUNBAR. I would like to ask the chairman and Mr. Fort a question.

You have spoken about the possibility of contemplated action being disseminated to the public and thereby creating a speculative market. It is pretty hard to keep it a secret; you can not do it; people contemplate and have in their minds certain procedure and, somehow or other, the newspaper men get their information mostly out of the air, but they know what is going to occur before the participants themselves come to a conclusion.

What have you to suggest that would prevent this impression going forth which has influenced speculation and disturbed the business conditions of the country which you in your questions to Governor Young have somewhat deplored?

Mr. FORT. Are you asking me?

Mr. DUNBAR. Both of you.

Mr. FORT. I have no commitments in my mind other than the feeling, which I think I have disclosed, that the whole practice of the purchase and sale of stocks by banks for their own account or affiliates is bad banking and ought to be stopped.

Mr. DUNBAR. How would you stop it?

Mr. FORT. By forbidding banks to indulge in the purchase or sale of stocks.

Mr. DUNBAR. That is right.

Mr. FORT. That is another question, however.

Mr. DUNBAR. That is the one I was talking about.

Mr. FORT. What I mean is that there ought to be some law that would be definitely applicable to banks on that.

The CHAIRMAN. The point I was raising was that there was a sensitiveness here that probably could not be reached by law. It comes back to the element of human nature, and I do not know but that it goes even beyond that, where a man, by not saying anything, really answers a question, because the understanding is so close between those who are associated in the actual operation of the system and those who are either engaged in market operations or in

business that they decide the course as to a change in policy as affecting their own particular situations or their opportunity to make money. That is something that no law can cover. It is a situation that an officer of an institution, either as a director or an active officer, be he ever so honest, might, by evading an answer to a direct question, give information of material value to one engaged in speculative operations.

Mr. DUNBAR. I agree with you as to that; that is the difficulty that the directors of the Federal reserve system labor under, and it is one that they would like to solve if possible, and yet at the same time it is a condition that more or less reflects unjustly upon them.

Mr. WINGO. Mr. Chairman——

The CHAIRMAN. I might say here for the purpose of this record that this present discussion is proceeding as it is because of the fact that Judge Brand does not happen to be present, but he will proceed to-morrow, and, having this time available, a latitude is being given to the members of the committee to ask questions of Governor Young out of the regular order.

Mr. WINGO. A while ago, Governor, you were talking about rates, and you suggested that the board had the poower to fix rates. I believe that has been decided by the present board and I also believe that you have had one or two Attorney Generals tell you that you had the power to fix rates.

I do not know that it is worth while, and may be it is just a personal satisfaction, but I would like to reiterate what I have said every time that question was raised, that that was not the original contemplation. One of the bitter controversies as far as this House committee was concerned was where the power to fix rates should be lodged, and originally it was suggested that the board should have that power. That very controversy was involved in the question which concerned the selection of directors, and the directors we divided into three classes, letting the member banks be represented, letting business be represented and letting the board be represented. Those who had raised the original controversy objected to a central board having the power to dominate the rate by initiatory declarations, and they were led to believe that all on earth that this final language which was used meant was to approve or review or determine, I believe the language is "subject to review and determination."

That word "determination," they were led to believe meant the final determination; in other words, that the rate should not become effective until reviewed and determined finally by the board, and, of course, it may be another one of those instances where a few knew what they were driving at and used language to conceal what they were doing to get by the opposition of an unquestioned majority, both in the committee and in the House. It is also true that some gentlemen who were connected with the writing of the act have right-about-faced on that, for they have given two opinions in writing, and one was that it was intended for them to have the power and the other that they should not have it; and, while my judgment or my recollection may be confused on some things, on a major controversy like that I do not think I can be confused, and only recently did I refer to my notes as to the controversy in which I engaged in reference to that very question, and I specifically asked the question not on the floor but of some gentleman who had some-

thing to do with it if that language would be interpreted as centralizing the power to fix rates here in the board at Washington, and I was assured that it would not, that they simply wanted to have the checks and balances, and the review and the determination was intended to give the supervisory board some control and veto power and not just unlimited power to fix the rate.

Governor YOUNG. It clearly gives the board the veto power.

Mr. WINGO. No question about it. The argument used was this, in connection with the original proposal for a uniform rate, that there are different types of business in different parts of the country, and seasonal demands are different, and that therefore a rate which might be beneficial for a New York bank would be just the opposite for Minneapolis or San Francisco or Kansas City. Then the argument to leave the final determination with the board, the veto power, was urged by those replying to that argument, that that was true, but that if you leave the power without any review by the Federal Reserve Board in any one of the 12 banks, that then that one bank might be arbitrary in the use of its power and might put in effect a rate which by its reaction would affect the other 11 banks, and therefore the board sitting here at Washington should have the final veto power, so as to check a bank that used its power unwisely or arbitrarily so far as the whole country was concerned or abused its power by putting in effect a rate which it realized would have a punitive effect on some other bank that it wanted to affect.

That is the argument that was made pro and con here at the table and in conferences, and the real intention was that never should the board initiate a rate, that the board should take no action at all until the bank submitted a proposed change, and then the board could either approve it, or else it could veto it and the bank then, if it wanted to take any further action, would have to make some other suggestion.

That was the original thought. Maybe it was wrong, and maybe the present determination is wise—I do not undertake to discuss that, but I just wanted to put that in the record in view of some contentions that have been made.

Governor YOUNG. It has been my observation, Mr. Congressman, in the actual operation of the system, that the initiation of a rate in one district does have an effect on other districts, not to the extent, however, of requiring a uniform rate throughout the system.

Mr. WINGO. Well, this is true, is it not, that at a certain season of the year there is a larger demand for credit, say, in Kansas City, and under normal conditions, especially before the war, at the very time you had the heaviest load, at the peak of your credit load in Kansas City, nine times out of ten, for a period of 10 years prior to 1913, that was the dull period in New York. In other words, credit was more plentiful then and as a rule New York sent out its surplus credit into the Kansas City territory and met the demands out there for surplus credit.

Now, if there is a heavy demand for credit in Kansas City or in some of the States where they recognize under the usury laws a 10 per cent rate in advance that the member banks may charge their borrowers, and the wheat farmers and the country bankers are carrying those accounts, on account of the scarcity of cash, say at a rate of 8 per cent, the very necessities of the case demand the highest seasonable rate in that territory, and if at the particular moment the

New York rate should be put abnormally low, it would have one effect and, on the other hand, if the New York rate were put very high, it would have just the opposite effect. If the New York rate was the same that day that the rate is at Kansas City, it would make the burden in Kansas City a little bit heavier, would it not? In other words, a 6 per cent rate in New York is higher for New York than a 6 per cent rate in Kansas City is for that territory, is it not?

Governor YOUNG. I would say yes.

Mr. WINGO. You catch the point? In other words, 6 per cent is a high rate in New York City, is it not?

Governor YOUNG. Very high.

Mr. WINGO. But a 6 per cent rate in the Kansas City territory is not an abnormally high rate?

Governor YOUNG. It might be a very effective rate in that district.

Mr. WINGO. I am talking about member banks. I do not know of a bank in my district that charges the general run of people——

Governor YOUNG. You are talking about member banks?

Mr. WINGO. Yes; about the general credit rate. In other words, I do not know of a single member bank in my district that is making a 6 per cent rate to all of its customers. Its preferred customers get it, but I can not get a 6 per cent rate; I have to pay 10 per cent in advance at my bank, even now with this plentiful money and with this wonderful easy credit.

The point I am getting at is the necessity for having a different rate sometimes in different Federal reserve districts.

Governor YOUNG. Oh, yes.

Mr. WINGO. That was recognized in the beginning, and for that reason it was first urged that you ought to have 12 different banks and that each bank ought to fix the rate to meet the needs of each particular district with which they were more familiar, but, on account of the general effect that might have on any other single bank, it was thought that the Federal Reserve Board ought to have the veto power so that if some bank showed a reckless disregard of the whole country, the board could preserve and protect the general public interest in that way.

Governor YOUNG. I think that has been followed out in the operation of the system. Uniform rates have not been general. We have rates now ranging from 3½ to 4½ per cent in the system.

Mr. WINGO. But, within itself, a 3½ per cent rate in one district is relatively lower than a 3½ per cent rate in another district at the same time, is it not?

Governor YOUNG. It might be.

Mr. WINGO. In other words, as to the effect—and that is what you go by—a 3½ per cent rate in Kansas City would be entirely different from a 3½ per cent rate in New York City, would it not?

Or, let us take a 4½ per cent rate; a 4½ per cent rate in New York City would have a very different effect than a 4½ per cent rate in Kansas City, would it not?

Governor YOUNG. It would depend upon the conditions and circumstances.

Mr. WINGO. In other words, there is more than just a 1 per cent difference in the relative demands and actual price of credit as fixed by supply and demand in Kansas City on the one hand and New York on the other?

Governor YOUNG. There might be.

Mr. WINGO. As a general rule, measured by the actual transaction, it runs between 2 per cent and 3 per cent, does it not, so far as the member banks are concerned? In other words, the current level of interest rates in the Kansas City district runs from 2 to 3 per cent above the current interest rate in the New York district. That was true the last time I checked up on it and got expert advice, although it may not be true now. That was a few years ago.

The CHAIRMAN. It is now 1 o'clock, but before we adjourn I want to place into the record a letter from the Comptroller of the Currency under date of March 27, 1930, inclosing certain information previously asked for in regard to a comparison of bank assets in the United States between July, 1914, and July, 1929, showing the increase in banking assets in a number of the larger cities in the United States.

Mr. WINGO. Does that statement show the assets with reference to what you might call the two major groups, the independent unit banking group and then the others?

The CHAIRMAN. No; it does not. It shows the entire banking assets in the United States for July, 1914, and July, 1929, showing the per cent of increase to be 180 per cent.

(The letter and statement referred to are reproduced below.)

COMPTROLLER OF THE CURRENCY,
Washington, March 27, 1930.

Hon. LOUIS T. MCFADDEN,
Chairman Committee on Banking and Currency,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: In compliance with the request of the Hon. James W. Dunbar upon the occasion of my appearance before your committee on March 14, I am inclosing a table showing a comparison of total loans and investments of all banks in each of the 12 Federal reserve bank cities and 4 other selected cities as of July, 1914, and July, 1929, together with the percentage of increase during that period.

This is submitted to you for insertion on page 256, Volume I, part 3, of the hearings before the Committee on Banking and Currency, House of Representatives, Seventy-first Congress, second session, under H. Res. 141.

Yours very truly,

J. W. POLE, *Comptroller.*

MARCH 25, 1930.

Subject: Banking resources in New York and other cities, 1914–1929.

In order to measure the relative increase in banking resources between 1914 and 1929 in each of the 12 Federal reserve bank cities and in 4 other selected cities, also in the United States as a whole, as well as in the United States exclusive of New York City, the following table has been prepared comparing total loans and investments of all banks in each of such cities in the two years. The results, while believed to be substantially correct, can not be said to be exact, for official figures for State banks are often not available separately for individual cities (only State totals often being published). The figures given were taken from the Rand-McNally bankers' directories for July, 1914, and July, 1929, except in the case of New York City. For that city official figures as published by the Comptroller of the Currency and by the State banking department were used, due to the fact that it was not practicable to eliminate from the bankers' directory figures the assets of the foreign branches of New York City banks.

City	Total loans and investments [1]		Increase, July, 1914, to July, 1929
	July, 1914	July, 1929	
			Per cent
United States [2]	$20,876,000,000	$58,533,000,000	180
Unites States, excluding New York City	16,898,000,000	45,928,000,000	172
New York	3,978,000,000	12,605,000,000	217
Chicago	873,000,000	2,708,000,000	210
Boston	744,000,000	1,850,000,000	149
Philadelphia	775,000,000	2,030,000,000	162
Cleveland	297,000,000	966,000,000	225
Richmond	59,000,000	135,000,000	129
Atlanta	41,000,000	137,000,000	234
St. Louis	301,000,000	594,000,000	97
Minneapolis	109,000,000	310,000,000	184
Kansas City	106,000,000	242,000,000	128
Dallas	30,000,000	161,000,000	437
San Francisco	394,000,000	1,895,000,000	[3]
Baltimore	242,000,000	591,000,000	144
Pittsburgh	489,000,000	1,083,000,000	121
Detroit	178,000,000	1,008,000,000	466
New Orleans	85,000,000	242,000,000	185

[1] Exclusive of joint-stock land banks, Federal Intermediate credit banks, and Morris-plan banks; figures for New York City also exclude private banks.
[2] From annual reports of the Comptroller of the Currency, exclusive of Alaska and insular possessions.
[3] Available figures for 1914 and 1929 are not comparable, due to the fact that the published figures for the city include a large number of out-of-town branches.

Mr. WINGO. Right on that point, if I may, I would like to ask the governor one question before we go.

In the last three years, measuring banking capital and resources by loans and investments, while there has been a large increase, yet relatively the larger increase has been in the resources of other than the independent unit banking system. There has been a very rapid trend toward group, chain, and branch banking in the last few years, has there not?

Governor YOUNG. That is correct.

Mr. WINGO. My recollection of that table that you had here the other day of member banks shows that the independent unit banking system had about thirteen billions in loans and investments out of thirty-five billions. I checked it up the other day, and that is one thing that I intended to ask the governor about, but I failed to bring over my notes.

Governor YOUNG. I think that was some information that was presented by the comptroller. I have a copy of it.

Mr. WINGO. I questioned you some about it.

Governor YOUNG. But we put in some other information that included all of the banks of the United States, and the sum and substance of it was——

Mr. WINGO. Let me have that table that is before you; I think that is it. It is Table 4, "Number and loans and investments of all member banks in each State, and of member banks that operate branches or belong to groups or chains, by States, December 31, 1929," and is marked "St. 6526."

I notice that for the whole United States, the loans and investments amount to $35,934,000,000; for the independent unit member banks, $13,275,000,000.

The point I want to get at is this, that that trend has been very noticeable in the last three years, and it leads to this conclusion—and whether it be wise or unwise, I am not discussing now—that,

measuring the resources of banks by the item of loans and investments, the greater part of the resources are in the banks other than the independent unit banks.

Governor YOUNG. That is correct.

Mr. WINGO. The natural tendency seems to be that way, and I am not discussing the merits of whether that is wise or unwise. But we have reached that point where, from a practical operating standpoint, the banking business of the country has already gone into either chain, group, or branch banking, or the dominating volume of it has, has it not?

Governor YOUNG. Yes, sir.

Mr. WINGO. So under the present law your independent unit banking system is being forced out. I am not talking about whether it is wise or not, and I am not using the word "forced" in an offensive sense, but, just on account of the competition and the natural choice of those engaged in banking, the independent unit bank seems to be passing to a large extent out of the picture.

Governor YOUNG. I would not be prepared to say that it is forced; I am rather inclined to think that it is being done voluntarily in the greater number of cases.

Mr. WINGO. I am not, as I have previously stated, using the word "force" in an offensive sense, but it is that force that flows from the natural exercise of judgment of those who choose between the different types of banking. They voluntarily are going more and more into group, chain, and branch banking and less and less maintaining the independent banking system.

Governor YOUNG. The figures show that.

Mr. WINGO. In other words, I am not talking about any improper methods being used; that is not the point; but I am just talking about the natural trend of those who are responsible for the forms of banking in the United States represented by their actual action in that type of banking in which they engage, and it shows more and more that they are going into group, chain, or branch banking, and less and less to independent unit banking.

Governor YOUNG. Modified to this extent: In volume, yes; in number, no.

Mr. WINGO. That is very striking. That is another point I wanted to call attention to, and then I will close. The independent unit member banks of the Federal reserve system number 7,321, and only have resources, measured by loans and investments, of $13,275,000,000. The remaining banks, out of a total number of 8,522, have total resources, measured by loans and investments, of $22,659,000,000.

So that the only predominance of the independent unit banks to-day is in mere numbers of the banks. There are 7,321 out of 8,522, and a little more than a thousand other banks, other than the independent unit banks, have the remainder of the $35,934,000,000 of resources, as against the $13,275,000,000 that the larger number of small independent unit banks have.

Governor YOUNG. Correct.

Mr. WINGO. Whatever is responsible for that we are not discussing; we are just talking about the natural trend. There is nothing strange about it, measured by the experience of other countries; it is the same

story of the way they went in England, Canada, France, and Germany—it is a natural trend in all countries, is it not?

Governor YOUNG. Every country that I recall, although I do not remember that the independent bank ever developed in Canada. I do not think it did.

Mr. WINGO. Well, they had, when we first commenced this branch-banking controversy, over 30 banking systems there.

Governor YOUNG. They were all branch systems.

Mr. WINGO. Yet they were all independent systems. Now they have gotten down to where they have 10 actual banking systems, and 3 of them dominate all 10. I do not mean that they have a majority control, but it is generally admitted that the "big three" now dominate in Canada.

I have all of those statistics on these other countries, and I will put them in the record, but at this point, in connection with a suggestion that he made and without discussing the merits of the respective systems, I wanted to show what the natural trend is in this country.

That is all.

The CHAIRMAN. The meeting is adjourned.

(Thereupon, at 1.05 o'clock p. m., an adjournment was taken until 10.30 o'clock Wednesday norning, April 2, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, APRIL 2, 1930

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

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

The CHAIRMAN. The committee will come to order.

Governor Young, have you something further to submit?

STATEMENT OF GOV. ROY A. YOUNG—Resumed

Governor YOUNG. Yesterday it was requested that I secure and put into the record a statement of the Federal advisory council as of date February 15.

The CHAIRMAN. That will go into the record at this point.

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

[Statement for the press. For immediate release Friday, February 15, 3 p. m.]

The Federal advisory council at a preliminary meeting yesterday made the following minute, which was delivered to the Federal Reserve Board at the regular quarterly meeting of the council and the board this morning:

"The Federal advisory council approves the action of the Federal Reserve Board in instructing the Federal reserve banks to prevent, as far as possible, the diversion of Federal reserve funds for the purpose of carrying loans based on securities. The Federal advisory council suggests that all the member banks in each district be asked directly by the Federal reserve bank of the district to cooperate in order to attain the end desired. The council believes beneficial results can be attained in this manner."

The CHAIRMAN. Have you anything further, Governor?

Governor YOUNG. The other information will take some time, Mr. Chairman.

The CHAIRMAN. Now, Mr. Busby, you are to proceed next.

Mr. BUSBY. Some days ago when the Comptroller of the Currency, Mr. Pole, was before the committee, the main argument, as I understood it, urged by him for branch banking was that many of the unit banks had failed during the last 10 years. I called his attention to the fact that four States along the Atlantic coast—North Carolina, South Carolina, Georgia, and Florida—with a population of 7⅞ per cent of that of the whole United States, had had 729 bank failures, and that nine States in the agricultural northwest—Minnesota, Iowa, Missouri, Oklahoma, North Dakota, South Dakota, Nebraska, Kansas, and Montana—with 14⅛ per cent of the country's population, had had 2,768 bank failures, while 78 per cent of the population had 2,157 bank failures or 28.4 per cent of failures. So, that gave us 22 per cent of the population of the country having 71.6 per cent of the bank failures out of a total of 4,925 banks which failed from 1920 to 1929.

I asked him the question whether chain, group, or branch banks located in that type of territory—that is, agricultural territory—would not be subject to the same pressure in times of deflation, especially where the loans were secured almost wholly by agricultural products, stock, and other products of the farm. What is your opinion regarding that situation with reference to these bank failures, about which you know?

Governor YOUNG. I think that the pressure would have been just as great for additional credit. I think under a branch set-up that probably there would have been greater discrimination in the way the money was lent.

Now, I want to refer to something I referred to the other day, something that is very seldom mentioned in the causes for bank failures, and that is the tremendous loss of deposits in many of those banks. I could name a great number of them that did lose during that period at least 50 per cent of their deposits.

Mr. BUSBY. In what way did they lose them?

Governor YOUNG. Lack of confidence on the part of the public; they withdrew their deposits, so that the country banker was not able to liquidate rapidly enough to pay those deposits without getting assistance from a correspondent or from the Federal reserve bank, and even with the assistance that he got from the Federal reserve bank there was great hesitancy upon his part in acquiring any new loans, and I think, coming from that territory, as you have and I have, that we both know that many of these agricultural problems could have been worked out and were actually worked out by the banks that were in position to lend additional money to bridge men over and to take care of them.

The CHAIRMAN. Will you yield there, Mr. Busby?

Mr. BUSBY. Yes.

The CHAIRMAN. What caused the lack of confidence, Governor Young, that you referred to?

Governor YOUNG. One bank fails and that always creates a lack of confidence in the remaining banks, and, in the Northwest where they failed in such great number, there was an inclination on the part of the public to withdraw the funds, hoard them, or move them into the larger centers. Now, under a branch system, where these difficulties frequently are local and not general—in other words, where you may have a drought in one section but not in another, or you may have, difficulty with the sheep industry in one place but the cattle in another place you are not having difficulty with—many of those situations can be worked out if time is granted and if additional funds are lent to the proper kind of people. I think that a branch system would enable them to do that where in many, many cases the unit banker was not in position to do it.

Mr. BUSBY. Do you not think that the biggest argument for a branch system is the fact that where there are several banks in the system a run on one of the banks would not be near so likely, and, if it were made, the other banks the system could come to its rescue in a sufficient way to reestablish confidence and stop the run?

Governor YOUNG. I will go a little further than that and say that they would have to go to its assistance, because the failure of any branch or the failure of any part of the chain naturally would tear down the whole branch system or the whole chain system, and they could not let one section of it fail.

Mr. BUSBY. Of course, if the distress became so general as to reach nearly every bank, as it did in the central northwest when they had 467 failures in Iowa during a 9-year period, that would affect the parent bank as well as the branches if they were all located in that territory, would it not?

Governor YOUNG. It would, Mr. Congressman, but the probabilities are that if we had a branch system established, say 20 years ago within those little trade areas, that they never would have accumulated many of the loans that they did accumulate. That is why many of those unit bankers in that territory have been able to stand up, because they did resort to diversification.

Mr. BUSBY. You stated the other day that undoubtedly there was great depreciation in the collateral used as a basis for loans in that section and all sections of the country, or words to that effect, I believe?

Governor YOUNG. Yes, sir.

Mr. BUSBY. You stated in so many words that undoubtedly the Federal reserve system would have taken in, after having made due examination of these banks and their collateral, as many as 2,500 of the banks which later failed had they applied in 1917 or 1918 for membership in the Federal reserve system.

Governor YOUNG. I made this statement, that there were 3,000 nonmember banks in the ninth Federal reserve district in 1917, and that if they had applied for membership in the Federal reserve system we probably would have accepted at least 2,500 on the information that we had in reference to those banks at that time, or, I will put it this way, on the information that we thought we had.

Mr. BUSBY. This is about what I wrote down at the time you were here before; that from what you, the Federal Reserve Board, knew about the banks in the agricultural section, and your opinion of their solvency, you were sure that 2,500 of those which had failed during the last 10 years would have been admitted as members of the Federal reserve system.

Governor YOUNG. Well, if I stated it that way, I misstated it, Mr. Congressman. I would like to refer to the record.

Mr. BUSBY. I am not positive that these are your exact words, but I think I was taking down about what you said as nearly as I could follow you while you were stating it.

Governor YOUNG. I will attempt to make that clear.

Mr. BUSBY. I just called your attention to it for that reason.

The CHAIRMAN. I would suggest that in order to clear this up, the exact statement of just what Governor Young did say on this particular subject be placed in the record.

Mr. BUSBY. It is already in the record, and I think it would be well for him to cover this again. If I did not get it right, it is not due to any intention to mislead, but merely for the purpose of getting more light as to the attitude of the Federal Reserve Board.

What I want to get is whether or not the Federal Reserve Board and the highest banking authorities in the country believed that the banks to which we referred and about which we have been talking were sound and were being conducted in a proper banking manner, and, of course, any explanation or any light that the governor may be able to give us on that subject is all that I am asking for.

Governor YOUNG. That will require a little explanation, Mr. Congressman, which I am very glad to give.

You are familiar enough with country banking as it was conducted for a great number of years to know that such a thing as a statement of a borrower was very, very seldom ever given to a country banker. The country banker felt he knew everyone in the community and knew all about their affairs, and he lent on that knowledge or that assumed knowledge. That was the information that the examiner had, to pass upon the assets of that bank, simply what the banker told him. I do not mean by that that the banker was dishonest; he really thought that he knew all about that bank; he would tell the examiner what he knew about a note. It would appear like good credit and the examiner would pass it.

From 1918 on, however, country banks proceeded to secure statements from their borrowers, so that by 1921, in the Northwest, it was a general practice both with member and nonmember banks to secure statements from all borrowers. Those statements were not always accurate as to values. The farmer in good faith would list 160 acres of land at $200 an acre——

Mr. BUSBY. Well, now, let me interrupt you there. The fact was that the market value of those 160 acres in all probability was $200 an acre at the time he listed it.

Governor YOUNG. Probably.

Mr. BUSBY. And is it not a fact that conditions could have changed so much within a year that that same land on the market would not have brought more than 50 per cent of the price that it was listed at a year before?

Governor YOUNG. Yes.

Mr. BUSBY. That was really the trouble with the banks in that territory and in all agricultural territory, to a large extent, was it not, that the deflation brought down the values and left the loans without sufficient security?

Governor YOUNG. Well, that came with too liberal lending in the first place. What I am attempting to point out, if I can just go a little bit farther, Mr. Congressman——

Mr. BUSBY. I wanted to cover several other things, and wanted to abandon this line.

Governor YOUNG (continuing). Is that previous to 1919 national-bank examiners and Federal reserve authorities had very little to go on other than the word of the country banker, and I am not accusing him of anything dishonest at all; it may be that he thought he knew all about this territory when he really did not, and under those conditions, with the reports on those banks, we probably would have accepted many of them for membership. After 1920 or 1921, when these lines of credit were supported by statements of the farmer, and the banker learned that the farmer not only owed his bank but owed maybe another bank and maybe three or four banks, and was liable in many ways as an indorser, that paper had an entirely different complexion, so that after 1921, had these same 2,500 banks applied to the Federal reserve for admission, probably a great number of them would not have been admitted.

Now, do I make my point clear?

Mr. BUSBY. I wanted to come to this, and that is the idea of a trade area—of a branch banking system being made secure by operating in a trade area. Had a branch banking system with the same view that the Federal Reserve Board had concerning the solidity

or stability of many of these banks operated in the territory of the central northwest and been subjected to the same deflation which was brought about, according to my notion, largely by reason of the action of the Federal Reserve Board in 1920, especially with regard to lands, would not the branch banking system confined to that trade area have received a considerable shock if it had not gone under just like the individual banks did?

Governor YOUNG. To a degree, Mr. Congressman, I think it would have, but let us follow that in actual practice. Everything is a trade area.

Mr. BUSBY. That is my idea about it.

Governor YOUNG. A little community, say in South Dakota, finally got up to a place where it had inhabitants numbering 200 or 300, with a trade area for a radious of 5 or 10 miles. After it became that trade area, the unit banker entered into that community and did business. That trade area, in turn, was connected with another trade area.

Sometimes it is well to illustrate by specific example, and I will in this case by taking Aberdeen, S. Dak. Aberdeen, S. Dak., is a trade area, I suspect, for a distance of from 50 to 75 miles north, south, and west, and possibly 25 miles east. Those banks did business with possibly 200 little banks in that neighborhood. It was the customary practice, however, of the Aberdeen bank to lend those smaller banks money for seasonal requirements in the fall of the year, and it was always paid back. In 1919, because of railroad conditions and many other factors, they were not paid back, and, in fact, many of these little bankers went to the Aberdeen banker and told him all of their troubles and asked what they should do and asked for advice and also asked for more money. The Aberdeen banker lent more money. In 1920 that did not come back, and more money was required. Obviously the Aberdeen banker proceeded to look into many of these little units, and, while he could not operate them, he could state the conditions under which he would lend additional money to them, which he did, but even that was too small, and many of these little banks in that neighborhood, and, say, 50 other communities like it in the Northwest, found it necessary to go to their Minneapolis and St. Paul correspondents and they in turn found it necessary to go to the Federal reserve bank of Minneapolis, and, for the years 1920, 1921, 1922, 1923, and 1924 they borrowed very heavily, so much so that the Federal reserve bank at Minneapolis, if I remember correctly, was a continuous borrower from other Federal reserve banks for almost a period of a year and a half.

Now, there was a larger trade area centering in Minneapolis and St. Paul. I believe, Mr. Congressman—and our hindsight is always better than our foresight—that if branch banking had been permitted in that little trade area of Aberdeen 20 years ago many of these difficulties would have been avoided. However, that is an opinion. I believe to-day that that small trade area has passed; there has been a development away beyond that. It is almost beyond district lines, but it is confined pretty well to trade areas.

You can not define a trade area by mileage. It might be 50 miles from one community; it might be 100 miles from another community; and, as it is in the Northwest, it stretches almost two-thirds of the way across the United States.

Mr. BUSBY. All right. In that connection, I want to read just a few lines from a book, Reserve Banks and the Money Market, by Mr. W. Randolph Burgess, assistant Federal reserve agent for the Federal Reserve Bank of New York, which book has a foreword by Mr. Benjamin Strong. On page 1 he says, "To reap the benefits of nation-wide branch banking this country would have needed banks with branches so far separated as the distances between London and Moscow, Constantinople and Paris, or Madrid and Vienna," giving me an idea as to what he conceives to be the proper "trade area" for branch banking.

What do you have to say in connection with his view as to the extent to which branch banking ought to be operated if it is going to be worth while and effective in this country?

Governor YOUNG. That, Mr. Congressman, is what I have been attempting to determine in my own mind, the trade area that it should be confined to. I have just stated that I thought it would have been a better development in this country if it had been confined to that little trade area that I recently described surrounding Aberdeen, S. Dak., but it has now gone beyond that, and what limit should be placed on that I do not know at the moment. I hope that this committee can get something that will define that area.

The CHAIRMAN. Will the gentleman yield for a question?

Mr. BUSBY. Certainly.

The CHAIRMAN. Governor, when the Federal reserve system was established, we created 12 districts. Those were sort of trade areas, were they not?

Governor YOUNG. They were.

The CHAIRMAN. And has the idea been abandoned that the tying up of the member banks with the Federal reserve bank for the district can not serve the public satisfactorily and thus observe a unit system?

Governor YOUNG. There are some difficulties with that, Mr. Congressman—for instance, in Kansas City. Kansas City only has a very small strip in the State of Missouri that belongs to the Kansas City Federal reserve district. Obviously their trade area must extend into the Missouri territory much farther than the Federal reserve has outlined. You will find that in all the districts there is an overlapping. For instance, in the ninth Federal reserve district, where northern Michigan and northern Wisconsin have been assigned to the Minneapolis district, both Chicago and Minneapolis serve a trade area in that territory.

The CHAIRMAN. Is not that the fault of the laying out of the districts, and could not that be corrected by a rearrangement of districts?

Governor YOUNG. I do not believe so.

The CHAIRMAN. Then apparently there are defects in the theory which was the basis for the establishment of the 12 Federal reserve distrcts.

Governor YOUNG. No, I do not think so. There will always be overlapping.

I will put it this way, Mr. Chairman, that the 12 Federal reserve districts, with the 25 branch districts, come just about as close as it is practicable to define a trade area at the present time.

Mr. BUSBY. I understand Mr. Seiberling wishes to ask a question.

Mr. SEIBERLING. I just wanted to ask you one question. I find that there is objection in my city to branch banking because the plan that you have would enable a bank in Cleveland to put a branch down in Akron, where we have all the banking facilities that we need. Would it be a feasible thing to have a bill passed to provide that branches might be put in trade areas but not in any county where they had a city with a population of, say, 100,000, or something of that kind?

Governor YOUNG. That branch could not be put in Akron except with the approval of the Comptroller of the Currency.

Mr. SEIBERLING. But he might approve it.

Governor YOUNG. And I think that with the experience that we have had, the probabilities are that the Cleveland bank would not go into Akron territory and establish a branch, but they would probably associate or affiliate with some established bank in Akron and establish that as a branch.

Mr. SEIBERLING. Would such a provision as I have indicated be a feasible one, in your judgment?

Governor YOUNG. I have thought of that, but have not arrived at any conclusion about it yet.

Mr. SIEBERLING. Thank you, Mr. Busby.

Mr. STRONG. May I ask a question? It would be rather dangerous to rest upon the presumption that the Cleveland bank would not be allowed to put a bank in Akron, or Dayton——

Mr. SEIBERLING. Or Canton.

Mr. STRONG (continuing). As long as we had a comptroller who believed in branch banking, would it not?

Governor YOUNG. Well, can we not take the results of the McFadden Act, Mr. Congressman? You recall when the McFadden Act was before Congress, everyone believed that there would be a branch established on every corner the same as is the case with chain stores.

Mr. STRONG. I did not.

Goveror YOUNG. That was one of the arguments that was used.

Mr. STRONG. I can not speak for anybody else, but I did not believe in any such proposition as that.

Governor YOUNG. That was one of the arguments made at the time. However, that has not developed, and, in so far as the McFadden Act is concerned, I can not help but feel that there has been no abuse in connection with the establishment of branches in the larger centers of the United States.

Mr. STRONG. Has not the argument been made that the bankers are doing now indirectly what the law prohibited them from doing directly in establishing groups and chains all over the United States? If they are going to keep it up, in two years they will have them in every State of the Union.

Governor YOUNG. I assume that those groups are operating within the law.

Mr. STRONG. The intention of the law was that they should not proceed in that way. It was said here at the time that if we would give the national banks the right to have branches in the States where they permit branch banking, and limit them to the cities where the parent banks are located, that that would satisfy the situation. Now we are told by men who believe in branch banking that group and chain banking are developing to such an extent that within two years they will be in every State in the Union and Congress

will then feel that it is desirable to go to branch banking to avoid the more undesirable group and chain banking.

Governor YOUNG. It appears to me, Mr. Congressman, that that is what you are confronted with right at the moment. These groups and chains have developed; they have been in existence for 30 or 40 years.

Mr. STRONG. Only a few of them for that length of time.

Mr. BUSBY. I would like to go ahead whenever you get through with that, Mr. Strong, as consistently as I can, because I want to get through.

The Canadian branch-banking system is such that the banks in Canada may establish a branch in the most remote part of the Province, is it not?

Governor YOUNG. I am not familiar with the law, whether they have to secure permission from the Government, or whether they just establish it.

Mr. BUSBY. I am not talking about how they do it, but the law permits any one of the 34 banks there to establish branches wherever they care to by complying with the proper requirements of the law.

Governor YOUNG. That is my understanding.

Mr. BUSBY. So that there is no attempt to define a trade area in branch banking in Canada?

Governor YOUNG. That is correct.

Mr. BUSBY. I read in this same volume of Mr. Burgess's that about 20 years ago the writer took part in a debate on the subject, "Resolved, that the United States should adopt the Canadian banking system."

Did it ever occur to you that we would be better off with our banking arrangements if we had the Canadian system instead of the American system?

Governor YOUNG. No; I would prefer to see a central bank of issue, which Canada has not.

Mr. BUSBY. The Canadian banks issue what we call paper money in this country without putting up any deposit or reserve whatever back of that to secure it, do they not?

Governor YOUNG. I do not think so. It is secured by gold up to a certain point, and, for seasonal requirements, the Government permits them to issue up to a limited amount against securities, if my memory of the law is correct.

Mr. BUSBY. I am not particularly interested in following that.

Governor YOUNG. It is a secured currency, I am sure, Mr. Congressman.

Mr. BUSBY. Now, in Scott on Money and Banking, I read this, on page 240:

After several bank failures in Canada—

About 1880—

agitation for a radical modification of the banking system was revived, and it was again proposed that the system in vogue in the United States should be introduced

So that the Canadian system, with all of its advantages of branch banking, is not to them the ideal system, as I understand their attitude toward banking?

Governor YOUNG. I can not answer for the Canadians. I know that on different occasions they have investigated the Federal reserve system. Two years ago Governor Harding of the Federal Reserve

Bank of Boston appeared before the Canadian authorities and gave them a very complete and very accurate description of the Federal reserve system. What action has been taken since then I do not know.

Mr. BUSBY. In order that we may have a general conception of the field in which banking operates, and the necessity for banking, the national wealth of our country is estimated around $300,000,000,000 is it not, in round numbers?

Governor YOUNG. Yes.

Mr. BUSBY. I notice that Mr. Pole states in the 1929 report of the Comptroller of the Currency that the bank assets are about $72,000,000,000, so that the bank assets represent about 24 per cent of the national wealth. In the same report he also states that the loans and investments of banks in this country are practically $58,000,000,000, and that the other $14,000,000,000 represent bank shares and other assets of the banks.

What I am coming to is this, the usual growth of our business activities in this country increases its need for credit, according to actuaries and economists, amounts to about 4 per cent a year, but in 1928 business developments need for credit amounted to an increase of only about 3 per cent.

Mr. SEIBERLING. Three per cent of what?

Mr. BUSBY. Three per cent of the bank credits outstanding; 1928 was a very active year in stocks and bonds, and in speculation, and I am coming now not to all the loans made by the banks in the country, but to brokers' loans made on the New York Stock Exchange, and I am reciting more than perhaps I ought to in order to get to the point that I want to talk about.

Taking the reports of all banks in the United States, the combined loans and investments on January 1, 1928, total $55,450,000,000; on January 1, 1929, they were $58,206,000,000. That was an increase in bank loans of $2,816,000,000, or an increase of 5.1 per cent increase.

Now, as to loans by banks "for the account of others," and that type of loan carries no reserve whatever, does it—it is simply put out and called in?

Governor YOUNG. That is correct.

Mr. BUSBY. On January 1, 1928, those loans amounted to $1,627,000,000, but by January 1, 1929, loans made by banks for "account of others" were $3,361,000,000, or an increase of $1,734,000,000, more than a 3 per cent increase in the Nation's bank credit—in that type of loan, with the 3 per cent increase in the Nation's need for credit for the country and adding it to the 5.1 per cent increase of credit made by banks in the regular channels of banking loans, there was more than an 8 per cent increase in credit as against a 3 per cent requirement for credit for business needs. That gave a certain inflation of credit of more than 5 per cent over and above the increase in the need for credit by business. Is that not true?

Governor YOUNG. I have tried to follow you very carefully, Mr. Congressman. Let us go back to one figure you gave, or possibly two. You figured the increase in brokers' loans between January 1, 1928, and January 1, 1929, for the account of others, as $1,700,000,000?

Mr. BUSBY. Yes.

Governor YOUNG. And, figured that is 3 per cent of the total wealth of the country?

Mr. BUSBY. I will state it this way: So the necessity for credit on the bank credit outstanding was 3 per cent, but the credit extended was 8 per cent, and, if that be the situation, would that not increase inflation of credit tremendously and tend to cause just what happened in the stock market in October, 1929?

Governor YOUNG. I think it did. I am not subscribing to your figures, but I think they are approximately correct.

Is not that right, Doctor Goldenweiser?

Doctor GOLDENWEISER. I think so.

Governor YOUNG. There is a natural increase each year of about 3 per cent, I believe. Is not that about the normal increase?

Doctor GOLDENWEISER. Increase of credit?

Governor YOUNG. Increase of credit.

Doctor GOLDENWEISER. They usually estimate it from 4 per cent to 5 per cent.

Mr. BUSBY. Going along further, brokers' loans, call loans, on September 26, 1928, were $4,435,000,000. On the same date in 1929 they amounted to $6,671,000,000, a considerable increase. On October 2, 1929, they jumped to $6,804,000,000, the peak of brokers' loans.

Now, I want to divide those into the sources from which they came, so that we can understand the operation of money in New York City and where it came from.

I find that brokers' loans made by New York City banks on January 5, 1929, were $837,000,000, and on September 25, 1929, the New York banks had increased their loans to $1,024,000,000, an increase of $187,000,000 in that short time.

Now, the second source from which the call loans came was from the New York banks for out-of-town banks, and that relates specifically to instances such as Mr. Dunbar referred to the other day when he said that one of his city banks of New Albany, Ind., sent $200,000 to New York banks to loan on call because of the splendid rate of interest.

The New York banks, were loaning for out-of-town banks, on June 5, 1929, $1,513,000,000, and on September 25, 1929, $1,876,000,000, an increase of $363,000,000 in three and a half month's time.

Governor YOUNG. May I make a slight explanation of that particular figure? That may represent loans of country banks to that amount and it may not. For instance, if I am a customer of a bank in Chicago, and I elect to lend $1,000,000 on call in New York, I instruct my Chicago bank to charge my account and to lend that amount. When that goes to New York, the transaction is made for the Chicago bank and may be reported in these figures as lent for out-of-town banks when, if you were to trace the transaction back, you would really find that it was lent for a customer bank. Those figures we can not separate. So that may have some bearing on this increase.

Mr. BUSBY. I am glad to have that explanation.

In coming to the third source of call loans, on June 5, 1929, the loans made through New York banks for the account of others were $2,934,000,000——

Governor YOUNG. $2,923,000,000.

Mr. BUSBY. And on September 25, 1929, those loans had increased to $3,860,000,000.

Governor YOUNG. Correct.

Mr. BUSBY. Or, in three and a half months, this increase in call loans made by other than banking institutions was $926,000,000, so

that in percentages the call loans shortly before the break in the market stood as follows: The New York banks were lending 15 plus per cent of the money; the banks outside of New York City were lending about 28 per cent of the money; and individuals, corporations, and trust companies were lending 57 per cent of the call money in New York City; and that 57 per cent had no reserve whatever back of it, did it?

Governor YOUNG. None whatever.

Mr. BUSBY. Now, in the event that the market should become shaky and in the event that the individuals who had made call loans wanted to get their money, what could be done by investors in stocks when called on for a repayment of these loans except to throw their securities on the market or have them supported by the banks?

Governor YOUNG. It was either one or the other.

Mrs. PRATT. May I ask a question?

Mr. BUSBY. Surely.

Mrs. PRATT. Did that cover entirely call loans?

Governor YOUNG. There were some time loans aggregating about $600,000,000.

Mr. BUSBY. I believe I am dealing with call loans altogether.

Governor YOUNG. No; both time and call loans, but the time loans are very small.

Mr. BUSBY. The time loans about that time ran only about ten or twelve per cent of the total of brokers' loans, did they not?

Governor YOUNG. I think that is approximately correct.

Mr. BUSBY. So you can see how little of that amount was stable and fixed and how much of it was liquid and could be slipped out from under the stock investors in a days'time and leave them stranded in the air, so to speak.

Now, I beg your pardon for calling attention to so many figures, but banks deal with figures and the only way we can get at conclusions is to come along down this line.

Now, the banking situation in the country as developed during the last two years especially has been conducive to the result we have just described here, has it not?

Governor YOUNG. It has permitted it, but I think, generally speaking, the bankers of the country discouraged it. Competition and many factors forced them to do——

Mr. BUSBY. But many of the banks in the country have established very extensive trust and investment subsidiaries which have brought to the front many of the stocks which went on the market and increased the number of listings on the New York Stock Exchange. I will add to that question this, so that you can answer it all together: Has not the "right to purchase" shares issued to members of these financial institutions been a source of great inflation in stock issues?

Governor YOUNG. Generally speaking, and I am talking a good deal from memory, Mr. Congressman, the banks in the country did not participate in that inflation. Now, there are exceptions to every statement, of course.

Mr. BUSBY. Banks now operate many kinds of businesses. I use the Bank of Italy again as an example. The best information we have here is that the Transamerica Corporation, which is the controlling body of all of the Bank of Italy interests, has these different activities in hand—banking, securities, dealing in realty, security underwriting,

holding company, dealers in mortgages, farm loans, both joint-stock land bank loans and the ordinary farm loans, fire insurance, and, in fact, practically every business activity that our country deals with in a large way. Now, does it not strike you that a bank interested in the development of all of those lines, many of which presuppose the issuance of stocks that are eligible for listing on the New York Stock Exchange, tends greatly to increase the amount of listings?

Governor YOUNG. Well, the stocks that you have mentioned so far, Mr. Congressman—land bank bonds, insurance stocks, Transamerica, and the various ones that you did name, are not listed on the New York Stock Exchange, I think, and I question very much whether any of the loans represented by the brokers' figures that you have cited cover any of those securities which you mentioned.

Mr. BUSBY. How about securities underwriting and the activities that the underwriting business develops?

Governor YOUNG. Those credits covering underwritings of bonds and others are included in those brokers' figures. To what extent I do not know, and I do not think anyone else knows. It is extremely difficult to get that information. As a guess, however, I would say that it represents a very small percentage of it in so far as bonds are concerned. Obviously when the larger corporations that were listed on the stock exchange issue rights and those rights were subscribed and paid for, much of the credit extended was represented by this increase in brokers' loans.

Mr. BUSBY. A few days ago I ran across an article written by Lawrence Stern & Co., investment bankers of Chicago and New York, in which investments in bonds are shown in the aggregate over a 10-year period and the investments in stocks are shown during the same period. These are reliable people that I quote from, are they not?

Governor YOUNG. I assume so.

Mr. BUSBY. I say that with a view of asking that these figures may be inserted in the record for the information of those who may want to refer to them later.

The CHAIRMAN. Without objection, that will be placed in the record.

(The article referred to is reproduced below.)

PROSPERITY SHOWN BY INVESTMENTS—GROWTH OF PUBLIC PARTICIPATION IN NEW FINANCING IS ANALYZED

CHICAGO, March 26.—A striking indication of the rapid growth of wealth and prosperity in the United States is found in the constantly increasing amounts invested annually by the American public in new securities. Such investment for the past 10 years has totaled more than $72,000,000,000, according to a statistical survey just completed by Lawrence Stern & Co., investment bankers of Chicago and New York.

Significant of the rapid growth of interest in securities, the survey pointed out, is the fact that while in 1920 the annual volume of investments was only 5 per cent of the national income, in 1929 annual security purchases had risen to 13 per cent of the estimated national income.

INVESTMENT AND POPULATION

"A comparison of the growth of security buying with the growth of population," said the survey, "furnishes an equally striking illustration of the increase in the securities market. The 1920 total of new security issues represented an annual per capita investment of only about $36.50, whereas in 1929 the annual

investment in new securities per capita had risen to approximately $96.50. In other words, new securities absorbed by the American public in 1929 were equivalent to nearly $100 for each man, woman, and child in the country.

"According to recent estimates, there are about 17,000,000 investors in the country, so the per capita share among actual investors would amount to about $600 in 1929. It also is interesting to note that available income tax figures show that while only 936,470 in the entire country have incomes of $5,000 or more, almost 20 times that number have had the vision and confidence to lend their savings to the furtherance of the Nation's industrial and commercial importance.

"Expressed in terms of volume, the increase in new securities purchased by investors shows a gain of 190 per cent in the 10-year period—from an annual total of about $4,000,000,000 in 1920 to more than $11,500,000,000 in 1929.

"Except for slight declines in the years of 1925 and 1926, there has been a gradual increase each year in the volume of new securities sold. Since 1926 a yearly average of more than $10,000,000,000 in investment capital has been poured into new stocks and bond securities, climaxed by the new high record established last year.

NEW SECURITIES

"While the relative importance of stocks as investment media has increased in recent years, bond issues comprised 74 per cent of the total of new securities sold during the 10-year period studied, 1920 to 1930, inclusive. Bonds have constantly led stocks in popularity until 1929, the first year in history in which stock issues exceeded bond offerings.

"Since 1922 the volume of stock financing has been increasing—in that year only $623,299,000 in stock issues was sold out of a total of $5,239,000,000 securities offered. Gradually increasing stock investments, however, reached $3,575,000,000 in 1928 and then almost doubled in volume in 1929, reaching the high point of $6,865,000,000 and exceeding the bond offerings by more than two billions of dollars.

"That the excessive stock offerings in 1929 represented an abnormal condition seems to be proved by the fact that immediately following the stock market decline in November, a preponderance of bond offerings was again established and has been consistently maintained ever since. Bond financing has long been the favorite method of providing capital for the country's business and industrial growth and continues to carry a strong appeal to the conservative investor.

"So far in 1930 the bond volume has been substantially in excess of 1929, new offerings in the first two months of the year having totaled over $1,200,000,000, as against $850,000,000 in the same period last year—an increase of nearly 45 per cent.

"Ever since the Liberty loan campaigns the volume of bonds absorbed by the public has been gradually growing. For the 10-year period, 1920 to 1929, inclusive, investors have purchased $53,156,383,000 in bond issues.

TREND OF FINANCING

"In the same period the total of stock issues was but $19,003,738,000—more than 60 per cent of which were purchased by investors during the last three years."

The following compilation shows the trend of new security financing annually during the 10-year period, 1920 to 1929, inclusive:

	Bonds	Stocks
1920	$2,938,964,000	$1,071,984,000
1921	3,924,429,000	867,010,000
1922	4,615,870,000	623,992,000
1923	4,233,120,000	746,459,000
1924	5,482,033,000	866,285,000
1925	6,432,921,000	1,310,971,000
1926	6,183,395,000	1,317,772,000
1927	8,429,193,000	1,758,696,000
1928	6,397,657,000	3,575,979,000
1929	4,820,804,000	6,865,579,000

Mr. BUSBY. I have called your attention to these figures which, of course, you do not vouch for, but which, if correct, would show, would they not, that our system of banking or the disposition of the public or some other unmentioned reason has caused a considerable increase in the buying of stocks and a disposition to disregard the buying of bonds?

Governor YOUNG. I would say that it was the disposition of the public, and that that prevailed until October of 1929; and, since December, I have not the figures, but I would not be at all surprised if it would show that they were turning back to bonds.

Mr. BUSBY. Bonds are more stable and a sounder investment than stocks, are they not?

Governor YOUNG. I would say so; yes.

Mr. BUSBY. Banking circles so regard them, do they not?

Governor YOUNG. They do. A bond is usually a secured obligation. A stock is an equity security, as a rule.

Mr. FORT. In some companies the bonds are not as good as in others.

Governor YOUNG. That is true. There are exceptions to every statement I make.

Mr. BUSBY. I would like to call attention, just for the purpose of placing it in the record, to a statement in the report of the president of the New York Stock Exchange issued in 1929, wherein he says, on pages 24 and 25, that the bonds listed on the New York Stock Exchange in 1929 amounted to $47,379,000,000 and the stocks listed amounted to $67,474,000,000, a total of $114,851,000,000 in listings on the New York Stock Exchange for 1929, an increase over 1928 of $28,240,000,000, or 33 per cent. I do that for the purpose of showing the disposition, either under our present banking system or for some other reason, on the part of the public to get into that type of transaction which most of the people in this country believe to be almost wholly a gambling proposition instead of an investment proposition.

Governor YOUNG. Mr. Congressman, I would like to call attention, in connection with that point, to this: I think you said that the listings on the New York Stock Exchange now were $140,000,000,000, or were in January?

Mr. BUSBY. $114,000,000,000 on January 1, 1929.

Governor YOUNG. Well, let us take January 1, 1929; there was $114,000,000,000 worth of securities, all paid for except $5,330,000,000 represented by brokers loans at that time, or, going a little beyond that and taking all the security loans by all the banks, you bring it up to $7,800,000,000. It illustrates the tremendous buying power of the American public.

Mr. BUSBY. I realize it.

Governor YOUNG. When you figure that over 90 per cent of all of these securities are paid for.

Mr. BUSBY. Now, that brings us back to this: Is it not a fact that this buying power of the public has been brought together and centered in New York and that that was largely responsible for the distressed conditions in many other sections of the country? In other words, did not the New York Stock Exchange siphon the money out of all other sections of the country to that one center, to the great detriment of business and, in many cases, to the absolute destruction of business?

Governor YOUNG. I would not put it quite as strong as that, Mr. Congressman. The entire banking structure of the country had fifty-eight billions in loans and investments, of which the banks, at the peak before the crash, had loaned about two billion and a half. That is about 5 per cent.

Mr. BUSBY. I know that down in my State you could not sell municipal, county, or State 6 per cent bonds to any advantage at all, because the money had all been taken out to be used in operations on the New York Stock Exchange, not with a view of getting dividends but with the hope that the stocks would go up in price and that the buyers could get out from under them at a profit, and leave them with somebody else.

Governor YOUNG. That was the general feeling with many people in the United States.

Mr. BUSBY. Do you not think that a banking system that will encourage that condition is not to the best interests of the country as a whole?

Governor YOUNG. Well, I take the other view, Mr. Congressman, that the banking interests of the country, generally speaking, discouraged that.

Mr. BUSBY. When those same banking institutions have trust subsidiaries and bond-selling syndicates organized under their control, do you not think that those were the direct causes of the overissuance of bonds that were listed on the New York Stock Exchange?

Governor YOUNG. Bonds or stocks?

Mr. BUSBY. Bonds and stocks.

Governor YOUNG. To a degree; yes.

Mr. BUSBY. In other words, if these syndicates did not develop the business they are in, there would be no profits in their operations; and was that not involved at that time as a buying factor?

Governor YOUNG. Correct; but I think we will all agree that the distribution of bonds through independent houses or any selling organization is all right; I mean good bonds.

Mr. BUSBY. Yes; I think so; but will you not also go far enough to say that many of the stocks listed on the New York Stock Exchange never paid a dividend, and that many of them never will pay a dividend to the buying public?

Governor YOUNG. Well, I am not familiar with the details of the stock, but I will just accept your statement as an accurate one.

Mr. BUSBY. One other thought. There is a great tendency in this country among the bigger banking institutions to combine with other big banking institutions and make still bigger banking institutions, is there not?

Governor YOUNG. That is true in the larger centers.

Mr. BUSBY. A list given out by the New York Times a few days ago contains 12 banks throughout the world 5 of them in the United States, with total resources of more than $20,000,000,000. What do you have to say with regard to there being a disposition among the banking interests of the world to bring their operations together in such a way that will unify the banking activities of the world into one general or great system of financing?

Governor YOUNG. I believe it is impossible.

Mr. BUSBY. You believe it is impossible?

Governor YOUNG. Yes.

Mr. BUSBY. Well, is it not a fact that the Federal reserve system of our country has been operating, within recent months, so as to assist the banking interests in England?

Governor YOUNG. Not that I know of.

Mr. BUSBY. Has it not maintained a discount rate favorable to the Bank of England, so that the Bank of England might build up its gold reserves?

Governor YOUNG. The Bank of England has preceded the Federal reserve systen for a period of four or five months in discount rates.

Mr. BUSBY. That is what I speak of. Has it not always maintained——

The CHAIRMAN. If you will pardon an interruption, I was going to suggest that we have matters in the House that are of importance to all of us, and perhaps we had better quit at 12 o'clock. I suggest that we adjourn at that time.

Mr. BUSBY. I can suspend at any time, Mr. Chairman.

The CHAIRMAN. Well, I suggest you go ahead until 12 o'clock.

Mr. BUSBY. Has it not always maintained a discount rate that gave the Bank of England an advantage of one-half of 1 per cent until recently, and would not that situation naturally tend to build up the Bank of England's gold reserve?

Governor YOUNG. It would under normal conditions, with the free flow of gold between the countries. The situation that existed from, I am going to say, January 1, 1928, until October, 1929, a period of approximately 21 months, was such that the discount rate had but little effect. The call rate was the controlling factor.

I should like to put a little something else in the record here; that is, when you refer to brokers' loans, many of those were for foreign account.

Mr. BUSBY. I see, but they affected our stock market just the same, nevertheless.

Governor YOUNG. Doctor Goldenweiser calls my attention to the fact that the Bank of England's discount rate is below our rate.

Suppose you make that statement for the record, Doctor Goldenweiser.

Mr. GOLDENWEISER. The Bank of England's discount rate was below the New York discount rate from July 13, 1928, until February 7, 1929.

Mr. BUSBY. Now that condition existing has enabled the Bank of England to build up the best gold reserve that it has had for some years, has it not?

Governor YOUNG. I think their gold holdings have been much higher at different times.

Mr. GOLDENWEISER. They have been losing gold.

Governor YOUNG. They have not accumulated any great amount of gold during the last five months. They are apparently satisfied with their position.

Mr. BUSBY. Two nights ago, Mr. James G. MacDonald, who talks on the international stituation, especially with regard to finance, spoke on the Bank for International Settlement. He made the statement, that shortly after its organization, $9,000,000,000 in German bonds would be turned over to the Bank for International Settlements—which is located in Switzerland and will be managed by

25 individuals, and those bonds are to be sold to the public throughout the world to finance Germany's reparations. I will ask you if you have given any study to the preliminary steps that have been taken to organize this international bank.

Governor YOUNG. I have.

Mr. BUSBY. That is about the amount of German bonds it will undertake to handle, is it not?

Governor YOUNG. Yes.

Mr. BUSBY. He also stated that the New York market will be expected to take a considerable share of these bonds. Do you know whether or not that is true?

Governor YOUNG. They expect the New York market will absorb some.

Mr. BUSBY. The New York market is the greatest market in the world to-day for stocks and bonds, is it not?

Governor YOUNG. I think so; yes, sir.

Mr. BUSBY. When the New York market takes those bonds, what will be the natural course, in a banking way, for it to take with respect to them?

Governor YOUNG. They will be taken by private or public subscription, I suspect.

Mr. BUSBY. Well, is it your opinion there will be any limit to which New York will be supplied with those bonds?

Governor YOUNG. Well, they can not take them, Mr. Congressman, any faster than the public will take them.

Mr. BUSBY. In other words, as fast as the American public will absorb them by purchasing them, bonds will be supplied to the New York banks or the New York bond market for the public in America, will they not?

Governor YOUNG. I think there will be many restrictions on that. Obviously on one would care to borrow the entire amount at once. It will be borrowed as and when needed.

I think the initial offering that has been suggested is in the neighborhood of $300,000,000 of which this market will be expected to take $100,000,000. That is nothing but gossip, however.

Mr. BUSBY. I understand.

Governor YOUNG. Our people have figured out that the maximum that could be out at any one time, under the reparations settlements, will be in the neighborhood of $2,000,000,000. Is not that correct, Doctor?

Mr. GOLDENWEISER. Yes, sir.

Mr. BUSBY. I suppose it is generally understood that the New York bankers have loaned billions of dollars to the European governments and European nationals and those loans are outstanding at the present time. Have you any information on that?

Governor YOUNG. I have not, but I can get that.

Mr. BUSBY. Would you mind, if the chairman thinks this is proper, furnishing us, for the record, the amount of loans made by American banking institutions to European government and European nationals, so that we may see something concerning the status of the private banking condition between our country and the countries in Europe?

Governor YOUNG. That would cover municipalities and industrial concerns, or any bond issues floated——

Mr. BUSBY. Due to be repaid to our people.

Governor YOUNG. I think those figures can be obtained.

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

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

INTERNATIONAL CAPITAL POSITION OF THE UNITED STATES

Following is a brief statement of the best available estimates of the international capital position of the United States at the end of 1928, the latest date for which figures are available, based on the publication of the Department of Commerce, entitled "The Balance of International Payments in the United States in 1928." It should be noted that these figures are in the nature of estimates—

[In millions of dollars]

	Due from abroad	Due to abroad
Securities (excluding war debts)	13,555	4,181
Deposits and short-term loans	797	2,803
Liability on account of acceptances	779	53
	15,131	7,037

Mr. BUSBY. As fast as the reparation payments are made through the Bank for International Settlements what would prevent the funds from being applied as credits to the countries to whom they should be paid and then passed over to liquidate the obligations of those countries to the international bankers and the American lenders of those countries?

Governor YOUNG. If I correctly understand your inquiry——

Mr. BUSBY. Through the Bank for International Settlements?

Governor YOUNG. The initial transaction will be through the Bank for International Settlements, and those countries that receive the money and receive the credits could do whatever they wanted to with the money. If they wanted to pay their obligations to America, of course, they could pay them.

Mr. BUSBY. Practically the same situation was pictured the other night by our chairman, and it was his deduction that those payments would actually come into—and if I misstate the chairman I hope he will correct me—will come largely into the hands of those who had extended the loans to European countries, and they would get immediate payments of those amounts immediately after they are paid on the reparations, and they could proceed with their banking activities, having collected their money from the European countries in that way. Would there be anything to prevent that?

Governor YOUNG. Immediately? Yes; many things.

Mr. BUSBY. I mean within a reasonably short time.

Governor YOUNG. I would rather say it was possible over the period of 60 years, which period is set up as the period over which the payments are to be made, and the assumption is that a sum has been fixed that Germany can and will pay.

Mr. BUSBY. As soon as the bonds are sold the amount of money secured through the sale of reparation bonds of the German Government would be available to somebody, would it not?

Governor YOUNG. Yes.

Mr. BUSBY. Would anything prevent an arrangement between the American bankers and European countries whereby this money

may be paid over directly to the American bankers as soon as the bonds are sold?

Governor YOUNG. Those are details that I should like to make some inquiries into. I suppose they can pay that when they want to. Obviously, I should think they would use it to reduce their obligations to this Government.

Mr. BUSBY. That would be the natural inclination if the bankers did not intervene with their scheme.

Now, one newspaper in this country sought to criticise our chairman, and I think very unjustly so, for having expressed a conclusion which we have practically reached in discussing this same proposition. There is nothing that you know of in the plan for organizing this international bank that would prevent the European governments from paying this money over when the bonds are sold, to satisfy their obligations to the American bankers, is there?

Governor YOUNG. Well, I shall have to check that again, Mr. Congressman.

Mr. BUSBY. That is all I care to ask.

Mr. SEIBERLING. I have just one question, Mr. Chairman.

Mr. FORT. May I ask just one question of Mr. Busby?

Mr. BUSBY. Just a second, please.

The CHAIRMAN. Did you have a question, Mr. Seiberling?

Mr. SEIBERLING. Yes.

Mr. FORT. I wanted to ask Mr. Busby a question in reference to his last question.

The CHAIRMAN. Very well; go ahead.

Mr. FORT. On your previous questions you have developed the idea that the bonds that the American bankers took were all now distributed to the American investing public. When you say these moneys would be used for payment to the American bankers, you mean in order to cancel the obligations held by the American investing public and originally floated by the bankers, do you not?

Mr. BUSBY. I mean this—and of course it is a matter of detail and in the future—when the bonds are delivered to the Bank for International Settlements, if they are passed out to the American public, or to the extent they are passed out to the American public and paid for, the funds would go in to displace the bonds. Then, according to the scheme of things, when payments are to be made to the several countries as fast as these payments are credited to the countries by the Bank for International Settlements, the bankers of America, who have heretofore made loans to those same countries, could come in, and in all probability would, and present their claims for payment.

Mr. FORT. That is what I meant. Their claims, however, are for money they have loaned initially by purchasing the bonds of those countries, but they have turned around and sold those bonds to individual average investors; so, the money would go to the average investor and not the banker. That is what I am getting at.

Mr. BUSBY. To the extent, perhaps, that the individual investor deals with the New York banks in representing him in managing his bond purchases.

Mr. FORT. I know a great many of those issues are wdiely held by individuals and they would get the money.

Governor YOUNG. I think Congressman Fort's conclusions would be more in line with my own views on that.

Mr. BUSBY. And in meeting that, I want to say this: We have had various Liberty and other loan issues in this country. They went out to the people and the people held them until after 1920 when they sold at 85 or 87 per cent then they drifted back into the hands of the big bankers and they got the people on our own bonds. I do not think our people would fare any better on these international bonds.

Mr. FORT. Of the total floated by the big bankers of about $300,000,000, they retain part and the public has the rest.

Mr. BUSBY. If something like that $300,000,000 of bonds have been sold in this country, have you any idea how much of that money will stay in this country?

Governor YOUNG. That would depend upon many factors, Mr. Congressman. It would depend, in a measure, on the gold movement.

Mr. FORT. The payments from all sources would be $300,000,000; and if the bonds stayed here, there would be no money taken out of the country.

Mr. BUSBY. In order to keep the record straight, let me say this: When the money is available on the reparation bonds when sold, the New York banks that operate in international banking transactions would get the European bonds heretofore issued and sold to the people in the United States at a discount from the public, like they did the Liberty loan bonds, and profit by the discount in purchase. The public would be worked in the same way it was on their own national bonds. There is no reason why they should not, according to the bankers' view.

Governor YOUNG. Liberty bonds sold in 1920 at about 82, 83 or 84. Mr. Smead, have you any figures of the bonds held by the banks in the United States in 1920? They were much higher than the amount held now, so I do not think you can accuse the bankers of the country of taking the profit. They hold less to-day than in 1920.

Mr. BUSBY. I can go into that further, but I will save that for another day. Many of that class of bonds have been called or have matured, and of course are off the market.

The CHAIRMAN. We will adjourn now until Friday morning at 10.30.

(Whereupon, at 12 o'clock, noon, the committee adjourned until Friday, April 4, 1930, at 10.30 o'clock, a. m.)

FRIDAY, APRIL 4, 1930

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

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

The CHAIRMAN. The committee will come to order. Judge Brand, I think you are the next on the list.

STATEMENT OF GOV. ROY A. YOUNG—Resumed

Mr. BRAND. Before proceeding, Governor, to the real issue before the committee, I want to submit a few facts relative to the Federal

reserve banks and the amount of franchise tax they have paid and when they have not paid, and get your judgment about it.

During the years 1914 to 1925, inclusive, the franchise tax paid to the Government by the 12 Federal reserve banks, amounted to $139,173,943. For the year 1926, only $818,150 was paid.

In the year 1927 all the 12 banks paid was $249,591.

In the year 1928 all of the banks together paid an aggregate of $2,584,659.

The aggregate amount throughout the years up to 1929 was $142,826,343.

During the years 1927, 1928, and 1929 the New York Bank, the Boston Bank, the Philadelphia Bank, the Cleveland bank, and the San Francisco bank paid nothing. During the years 1927 and 1928 the Chicago bank paid nothing. During the year 1927 the Richmond bank, the Atlanta bank, the St. Louis bank, and the Dallas bank paid nothing.

What I want to know is why these banks did not pay any franchise tax during those years.

Governor YOUNG. Solely because of the law. The law permits the accumulation of a surplus 100 per cent of the subscribed capital of a reserve bank. Generally speaking, the banks in those sections increased their capital, thereby increasing their stock subscription to the Federal reserve stock, thereby increasing the possibility of increasing their surplus account.

In the other sections where a franchise tax was paid the profits in previous years were large enough so that they accumulated their surplus account up to 100 per cent of their subscribed capital, with the result that the balance went to the Government.

Now, in addition to that, I want to call your attention to this, in the Minneapolis district: I am not quoting these figures accurately, but they are approximately correct. Seven or eight years ago the paid-in capital of the Federal reserve bank in Minneapolis was approximately three and one half millions of dollars. Many banks in that territory have closed, and as they closed they used their capital stock as an asset and it was withdrawn from the capital of the Federal Reserve Bank of Minneapolis, so that figures now of the paid-in capital of the Federal Reserve Bank of Minneapolis is approximately three million to three million one hundred thousand dollars. So, the Minneapolis bank reached its 100 per cent of its subscribed capital four or five years ago.

Mr. BRAND. What district is that?

Governor YOUNG. The ninth district.

Mr. BRAND. Is it not strange to you, even in the face of your statement, that during all of the hard and lean years of the country from 1920 on down to 1927, these banks paid millions and millions of dollars of franchise tax into the Treasury and yet these large banks to which I referred during the years 1927, 1928, and 1929, did not pay a cent?

Governor YOUNG. Not strange, under the law.

Mr. BRAND. I do not understand your answer. I asked this question a few years ago, and followed it up by another question, namely: By manipulation of figures and other ways of getting around it, would it not be possible that these banks could reach the point where they would not pay any franchise tax—and on that occasion I got an affirmative answer from that witness. Now, I want to ask you if that is not a fact?

Governor YOUNG. Your inquiry is that they can juggle the figures in such a way that they do not have to pay a franchise tax?

Mr. BRAND. Can they do that or something else in such a way as to avoid paying a franchise tax?

Governor YOUNG. My answer is no.

Mr. BRAND. Why do they increase the stock—to keep from paying a franchise tax or for what reason?

Governor YOUNG. When a member bank that has a capital stock of $50,000 and increases that capital stock to $100,000, that requires it to subscribe for that much more stock in the Federal Reserve bank.

Mr. BRAND. Well, I know; but is not the increase of this capital stock one of the reasons why the franchise tax has not been paid?

Governor YOUNG. For the last 10 years there has been an increase in the capital stock of member banks of approximately $400,000,000. I can get those figures for you, Mr. Congressman. It is very hard to remember them all.

Since December 31, 1926, the capital stock of member banks has increased from $2,200,000,000 to $2,700,000,000 and the surplus has increased from $1,955,000,000 to $2,864,000,000. I am just taking this roughly.

Mr. BRAND. Yes; I want you to do that in the interest of time.

Governor YOUNG. Yes. That shows an increase of $1,400,000,000 in capital stock, which requires those banks to subscribe for additional capital to the extent of 6 per cent of that amount, which is $84,000,000, and to pay in 3 per cent, or $42,000,000. I will reconcile those figures if I can. I want this to be fairly accurate.

Mr. BRAND. I do not care to go into details too much about it.

Governor YOUNG. I would like to go into details to explain the law and how it came about.

Mr. BRAND. I know what the law is, but I do not know how it came about that those 10 banks ceased, for the years named, paying any franchise tax into the Treasury.

Governor YOUNG. That was an increase in the subscribed capital of the Federal reserve banks by member banks of $84,000,000, of which $42,000,000 was paid in, but as those banks earned they were not required to pay a franchise tax to the Government until they had accumulated $84,000,000 in their surplus account.

Now, maybe I can be specific by taking a certain bank and illustrate by that just what does happen.

Mr. BRAND. Which one will you take?

Governor YOUNG. I will take New York, if that is all right with you.

Mr. BRAND. That is all right with me. For three years they paid nothing.

Governor YOUNG. New York, as of the date of March 26, 1930, has a paid in capital of $69,718,000, which means a subscribed capital of $139,436,000.

Its surplus fund at the moment is $80,001,000, meaning that the Federal Reserve Bank of New York would have to accumulate additional earnings above the 6 per cent that it pays on stock, $59,435,000 before it would be required to pay any franchise tax to the United States Government.

Mr. BRAND. According to your answer, based upon your figures there, there may come a time when none of the banks will pay anything into the Treasury on the franchise tax.

Governor YOUNG. Quite true. One year Minneapolis was the only bank that paid a franchise tax. I will make that statement and correct if it it is not accurate. The method of distribution of earnings of reserve banks is mandatory under the law.

Mr. BRAND. Yes, I know; and it is a very wise requirement.

Governor YOUNG. But there is no way they could juggle those figures at all.

Mr. BRAND. I am glad to hear that. I am surprised to hear that is the only reason they have paid nothing in the last three years into the Treasury.

Governor YOUNG. Well, now, if some one made that other statement, they may have had this in mind, Mr. Congressman: One Federal reserve bank is permitted to rediscount for another Federal reserve bank, so that if the borrowings were very high in the New York district, the Federal Reserve Board would require the Federal Reserve Bank of Minneapolis to rediscount some of that paper for New York. There is a remote possibility of doing that and avoiding the payment of franchise tax, but it has never been done. That is the only thing that comes to mind.

Mr. BRAND. This is not germane exactly to the present questions before the committee and I will not go into it any further. When, in your opinion—and this question is suggested by my friend to my left—will these 12 Federal reserve banks resume paying any franchise tax, if ever?

Governor YOUNG. That would be extremely difficult to answer, Mr. Congressman. If we should have a repetition of what we had in 1919 and 1920, when borrowings were very heavy and profits large, those surpluses would be built up very quickly. If, on the other hand, we should run into an easy money period for the next four or five years, it might be difficult for the reserve banks even to earn the 6 per cent dividends. I could not answer that.

Mr. BRAND. Well, I will proceed with my regular questions on the issue that is now before the committee.

I want to ask you, Governor, what is the chief evil, if you admit there is any, to the present system of banking under existing law, which would appeal to Congress to take into consideration the advisability of making a change?

Governor YOUNG. I would say, first, too many banks.

Second, that group systems have developed which may be good and which may be bad; but, in my opinion, the branch system within trade areas, if you can define that, would be better than the group or chain systems.

Third, I think examination and surveillance have improved tremendously in the last 8 or 10 years. I think there is a possibility for further improvement along that line.

Fourth, if it were possible, I should like to see more banks supporting the Federal reserve system.

Mr. BRAND. Would it interrupt you there to ask this question: What benefit is it to a member bank—a bank of the Federal reserve system which does not have any occasion to borrow any money from its correspondents and does not have any occasion to discount any eligible paper with the Federal reserve bank—to remain a member of the Federal reserve system?

Governor YOUNG. The main advantage in my opinion is that that bank which you describe is contributing to a system which I believe has been of tremendous benefit to the business, agricultural, and commercial interests of the country, and that banker has to look to an indirect benefit more than a direct benefit.

Mr. BRAND. How will it benefit such a bank, for instance, when it receives no interest on its daily balances or for the use of its reserve fund, and not borrowing any money or discounting any paper——

Governor YOUNG. I think it is an insurance, Mr. Congressman, and the day will come when it will have to borrow some money.

Mr. BRAND. When that time comes he can get back into the system, if that necessity arises and he has withdrawn from the system.

Governor YOUNG. I am inclined to agree with you that, under ordinary circumstances a nonmember bank can not operate without contributing. However, that is an opportunity that every member bank has the same as the nonmember bank, and if all banks of the United States should arrive at the same conclusions, we would have no Federal reserve system, and I do not think that anyone wants that.

Mr. BRAND. Now, in answer to the first question, you gave different reasons which account for the evil in the present existing law. Are you prepared, at this time, to suggest any remedy by way of proposed legislation or otherwise to correct this evil?

Governor YOUNG. I am not, but I expect that the Federal Reserve Board will be in a position to do so at a later date.

Mr. BRAND. Governor, what, in your judgment, is the motive or real reason why these large banks are merging, such as occurred in New York a week or two ago, and the Fourth National Bank and the Atlanta & Lowry National Bank of Atlanta merging into the First National Bank of Atlanta a few months ago?

Governor YOUNG. We have become a great commercial nation and a great factor in international finance, and larger units are required to conduct that business.

Mr. BRAND. Is it not true that such mergers and consolidations of these large banks tend to monopolize capital and credit?

Governor YOUNG. I have repeatedly said before the committee that I thought that was a possibility but highly improbable and I am still of that opinion.

Mr. BRAND. Are not such consolidations as I have referred to prima facie evidence that these mergers will give to the consolidating banks greater control over capital and credit?

Governor YOUNG. Well, if there was just one developing, there might be some strength to your statement, but there are many of them developing.

Mr. BRAND. Many consolidations?

Governor YOUNG. Yes.

Mr. BRAND. Does not that increase the tendency to give a monopoly upon capital?

Governor YOUNG. I do not think so. I would say that the competition is just as strong to-day as it ever was and just as keen.

Mr. BRAND. What sort of competition do you refer to?

Governor YOUNG. For banking business.

Mr. BRAND. Do the mergers of these great banking institutions meet with the approval of the general business interests of the country at large?

Governor YOUNG. Any reply I make, Mr. Congressman, would have to be an assumption.

Mr. BRAND. It would be your opinion, I take it.

Governor YOUNG. These banks are owned by the public as stockholders. Many of them represent the business interests of the country, and if they consent to the consolidation or the merger or the grouping, I think it is fair for me to assume that the business interests of the country do approve of it.

Mr. BRAND. Of course, if they consent. That is the crux of the question. Are the general business interests throughout the country approving, in your judgment, the great consolidations that are going along all over the country in the great centers?

Governor YOUNG. I do not know, Mr. Congressman. Certainly those that are stockholders have consented.

Mr. BRAND. I am not talking about the stockholders. They are part of the banks and they are in this business of consolidating. I am talking about the business interests of the country that have no stock in the banks and have no connection in a financial way with the banks except possibly a desire to borrow money.

Governor YOUNG. I can not answer that, Mr. Congressman.

Mr. BRAND. I will ask you this question, in which I am very much interested: Are not such consolidations and mergers particularly antagonistic to the agricultural States and the agricultural classes in these States?

Governor YOUNG. I do not think so.

Mr. BRAND. Will not the effect of such mergers force the agricultural States to adopt branch banking, notwithstanding such States are opposed to universal branch banking?

Governor YOUNG. I think so. I do not like the word "force." I think, as time goes on, the rural communities and agricultural communities will learn some of the advantages of branch banking.

Mr. BRAND. As a general proposition does this—pardon me if I interrupted you.

Governor YOUNG. No; go ahead.

Mr. BRAND. As a general proposition, does this merger proceeding going on throughout the country meet with the approval of the Federal Reserve Board?

Governor YOUNG. When I first appeared before the committee I read a statement to the committee. The sum and substance of that letter was that the board wanted more time to investigate it.

Mr. BRAND. I did not hear your answer.

Governor YOUNG. The board wanted more time to investigate the whole general question of group, chain, and branch banking before they made any commitments. That was also a statement of my own and anything I might say before the committee would be a rather impulsive conclusion. I would prefer to have more time to study the problems.

The CHAIRMAN. Would you allow me to ask a question there, Judge Brand?

Mr. BRAND. Yes.

The CHAIRMAN. In connection with this consolidation and concentration of assets the movement is pretty fast now. Is the board concerned about that development?

Governor YOUNG. It is extremely hard for me to speak for my colleagues, but obviously, when they are arranging for an extensive investigation and study of the whole question, they are at least interested in the subject if not concerned.

The CHAIRMAN. Supposing that study should take a period of one or two years. Might it not happen that the consolidation and the full plan of the men aggressively at work now may be entirely completed before that determination is made?

Governor YOUNG. Well, the figures I presented here the other day show that it is pretty well completed now.

Mr. BRAND. Does the Comptroller of the Currency consult with the Federal Reserve Board before giving his approval of these large banks consolidating into one large institution?

Governor YOUNG. I will have to refer to Mr. Wyatt as to the legal status of that. Not as a matter of statutory procedure, Mr. Congressman. He has frequently discussed with me as to what consolidations were taking place. There is nothing in the law that requires him to consult with the Federal Reserve Board.

Mr. BRAND. I know that, but I did not know, as a matter of fact, whether he consulted with you or not.

Governor YOUNG. My relations are very close with the Comptroller of the Currency.

Mr. BRAND. I am very fond of him, too, but when you come to dealing with such propositions as the great mergers going on in New York and the great one in Atlanta, so far as we are concerned, it might not be out of place for him to consult you and other members of the board. I do not criticise him for doing or not doing so, however.

Governor YOUNG. Congressman, all of those consolidations and mergers are reported to the Federal Reserve Board, and inasmuch as we have no authority in the matter, we simply note them.

Mr. BRAND. In your judgment, should Congress take any action by appropriate legislation seeking to check such mergers, or is that one of the questions you have under advisement?

Governor YOUNG. That is one of the questions we are considering.

Mr. BRAND. Along the same line—I wrote down these questions two weeks ago but did not get an opportunity to interrogate you sooner—should Congress take any action by appropriate legislation to give the Comptroller of the Currency authority, in his approval, when he gives it, of such mergers, to impose some limitation upon such mergers? It may be that the answer to that is now being considered likewise.

Governor YOUNG. Yes; we are considering that.

Mr. BRAND. Under your construction of the Federal reserve act, has the Comptroller of the Currency or the Federal Reserve Board any right or authority to impose any limitations upon such consolidations at the present time?

Governor YOUNG. The Comptroller of the Currency, so Mr. Awalt informs me, has the authority to approve or disapprove these mergers and consolidations. The Federal Reserve Board has nothing to do with it in so far as national banks are concerned. We do, however, have the authority to approve or disapprove them in so far as State member banks are concerned.

Mr. BRAND. Yes; I knew that the comptroller had authority to approve or disapprove, but I did not know whether, under the act

creating the Federal Reserve Board, or in any other act of Congress, he had authority to put any conditions or limitations upon his approval.

Governor YOUNG. If he disapproved, he would put a limitation upon it.

Mr. BRAND. That, of course, would be the end of it. They would not merge. Could he say, for instance, "I am going to allow you to consolidate these institutions, provided it is done in certain areas or sections of the country or by imposing certain capital requirements, etc."? I am wondering if he has any authority, under existing law, to put any conditions on his approval?

Governor YOUNG. Are you speaking now about chains?

Mr. BRAND. I am speaking about approving the mergers of large banks—the consolidations in great centers of capital of different banks, like the First National and the Chase, of New York, recently, and the two banks in Atlanta.

Governor YOUNG. We term that as a merger, and he has no authority, if I understand the law correctly, except approval or disapproval. May Mr. Awalt answer that?

Mr. BRAND. Yes.

Mr. AWALT. Judge Brand, under the law, the comptroller is given the right to approve or disapprove.

Mr. BRAND. Yes.

Mr. AWALT. Now, before he approves, he can say to these banks, "You must do so and so before I will give approval to this consolidation." So, while the law does not specifically state that he can put some limitations on it in the consolidation, they have to meet his approval. In order to do that, of course, certain conditions have to be met. Does that answer your question?

Mr. BRAND. That is a more concrete answer to it. He has the right to impose certain conditions on it?

Mr. AWALT. Before they consolidate, but not after it. The law sets down certain conditions, of course, in itself.

Mr. BRAND. I am going to ask you this question, Governor, which you may take under advisement when considering the other questions which have been submitted to you and which are unanswered, but which later on you will submit answers to:

As governor of the board, do you think it advisable to enact legislation to prevent such consolidations of the banks in the large centers of the country? If not, don't you think it advisable, if the board has no power to prevent such consolidation, that the Federal reserve act ought to be amended so as to give the board authority to impose limitations upon such consolidations?

You need not answer that now unless you are prepared to do so.

Governor YOUNG. I should like to answer that later.

Mr. BRAND. I think the authority ought to be lodged somewhere, in the Comptroller of the Currency or the Federal Reserve Board, to check or put some limitation upon them in the interest of the business world.

Governor YOUNG. Mr. Awalt has just informed me that the Comptroller of the Currency, in his testimony, said that if the branch banking privilege was extended to the national or member banks, in his opinion Congress properly should place some limitation.

Mr. BRAND. I am glad to hear that. I want you to take into consideration, when you are preparing your opinion about the questions already submitted to you, the answer to this question: If nothing is done to prevent such mergers or consolidations of the large banking institutions of the country, won't the inevitable result be that these large banking institutions will absolutely control or put the smaller banks of the country at the mercy of these consolidated banks? In short, if this consolidation or merger of large banks continues, won't it in the end give these banks absolute control and a monopoly of capital and credit throughout the country?

You need not answer those two questions now, but I should like to have you answer them when you are ready to give your opinion to the committee upon other questions propounded to you.

Governor YOUNG. I would like to do that, but I have answered that so many times before the committee, that it is a possibility but not a probability.

Mr. BRAND. I have not had the opportunity to be present at all the hearings, and therefore am probably asking questions which have already been submitted to you by other members of the committee.

Governor YOUNG. I have a stenographic record of that and will be glad to answer that at a later date.

Mr. BEEDY. Would it not be helpful to have the governor explain why he thinks that is a possibility but not a probability?

Mr. BRAND. I did not catch that that was his answer.

Governor YOUNG. I have gotten the idea from the inquiries of the committee that there seems to be a fear 1 unit or 2 units or 3 units will eventually control all of the credit of the United States. The credit of the United States comes largely from the depositors who are great in number and, collectively, represent a tremendous volume of this credit. If those units become so strong, they become a monopoly to the detriment of other depositors and customers, the business being profitable, obviously it will induce many of these depositors and owners of credit to set up other organizations.

I think we will always have competition in credit, regardless of whether it be 26,000 independent units, as it has been, or whether it may be two or three hundred larger units. I just can not conceive of all the credit in the United States, which is owned by the people, being centered in the hands of a few people.

Mr. BRAND. I want to come nearer home. Take Atlanta, for instance, where the Fourth National Bank and the Atlanta & Lowry National Bank merged into the First National Bank, being only one or two banks left in Atlanta outside of their branches: What effect will such merger have upon the individual, and the small country bank borrowers?

Governor YOUNG. The ability of the small country bank to borrow from——

Mr. BRAND. From the merged banks; and the farmer, for instance, who wants to borrow money to make a crop.

Governor YOUNG. Well, let us assume that the organization in Atlanta refused a deserving country bank credit. That country bank would not stop there. The country bank would go to New York or somewhere else.

Mr. BRAND. He might go to New York or somewhere else, but it would be a vain thing to do if he is not known and could not borrow money or get credit elsewhere.

Governor YOUNG. My observation is that the banks are always looking for good customers.

Mr. BRAND. Referring again to the merger of banks in the great cities, what effect will that have on the rate of interest paid to small banks who have deposits with their correspondents in large cities? They only pay 2 or 2½ per cent now. If this reorganization of large banks continues, won't it have the effect to decrease the rate of interest on daily balances?

Governor YOUNG. Not in my opinion. There will be sufficient competition in this country so that if Atlanta gets down too low in its rate it pays the country correspondents, they would seek correspondents elsewhere and get them.

Mr. BRAND. I know that is sound as a general proposition, but suppose the other two banks in Atlanta join with the First National Bank? What would prevent that group from running down the rate of interest they pay their correspondents on daily balances, when the correspondents have no other connections and are known to no other banks in the city or State?

Governor YOUNG. If I were operating a bank in New York and knew of any such condition in the Atlanta district, it would not take me 24 hours to get down there to Atlanta and solicit that business and get it on a profitable basis.

Mr. BRAND. I hope you are right.

What effect will these mergers have on the rate of interest these New York banks, for instance, will charge a bank in Georgia if he wants to borrow some money; in my judgment it will have the effect of making the bank pay a higher rate of interest than now. Is that right in your judgment?

Governor YOUNG. I do not think so. There will still be sufficient competition, Mr. Congressman, to compel those banks, whether in New York or Atlanta, to follow the market and obtain that business on a competitive basis.

Mr. BRAND. Take a country bank, for instance, member of the Federal reserve system, which has been doing business with New York and Atlanta banks, assuming the consolidation of large banks in New York and Atlanta will continue and they should decide to increase their interest rates on loans, what fix would this country bank be in when it has no financial connection with other banks in New York and Atlanta?

Governor YOUNG. You have the simplest solution in the world on that, Mr. Congressman. Go to your Federal reserve bank where you can always get a lower rate than you get from your correspondents.

Mr. BRAND. Suppose you take a bank that does not belong to the Federal reserve system?

Governor YOUNG. That is the strongest argument I have heard for a long time for membership in the Federal reserve system. That is why he should be a member. That is the assurance he will have.

Mr. BRAND. Still, this is forcing the nonmember banks to join the Federal reserve system. This situation compels him from necessity to become a member.

Governor YOUNG. That is proving to him it is advisable for him to go in.

Mr. BRAND. In your judgment?

Governor YOUNG. Yes, sir.

Mr. BRAND. What effect does the increase in the discount rate or a decrease in the discount rate of the Federal reserve banks have on the price of farm commodities?

Governor YOUNG. That is a question that has been before this committee on many occasions.

Mr. BRAND. But I never asked you about it before.

Governor YOUNG. My opinion is that it is a factor and a contributing factor, but not a determining one; in other words, I do not think we could put the price of money down to 2 per cent and arrive at the conclusion that agricultural products are going to increase in price 10 per cent or 20 per cent any more than you could put up the rate to 7 per cent and it will depress agricultural products further than they have been.

Mr. BRAND. How came cotton to go down from 40 to 10 cents a pound, under the deflation policy of 1920, if it does not have that effect?

Governor YOUNG. I will not admit there was a deflation policy in the Federal reserve system in 1920, because I operated a Federal reserve bank in an agricultural section and there was no deflation of credit.

Mr. BRAND. I thought it had become an historic fact all over the world that there was a deflation policy inaugurated in 1920 and that the policy caused a decrease in the price of farm commodities, including cotton.

Governor YOUNG. There was a thorough investigation by a joint committee of the House and Senate in 1922, if I remember correctly, in which the House and Senate did not arrive at that conclusion.

Mr. BRAND. Well, I have great respect for the members of the committee of the House and Senate to which you refer, but I do not agree with them if they reached such a conclusion. I know as a matter of fact that subsequent to the inauguration of this policy, unlike the policy inauguarted after the Civil War, when the people were given a year's advance notice of it, which was suddenly and secretly inaugurated so far as 90 per cent of the world was concerned, cotton which was selling at 40 cents per pound went down to 10 cents per pound, on account of which fact thousands of farmers and hundreds of banks in my State went broke.

Mr. GOLDSBOROUGH. May I ask a question there in order to make a suggestion?

Mr. BRAND. Yes.

Mr. GOLDSBOROUGH. Governor, in 1921, Governor Harding was before this committee and I remember very distinctly he had a large chart over on that side of the room [indicating] and I guess he was asked by different members of this committee twenty times about the deflation in the agricultural districts and he always evaded the question. He never did answer it. He undertook to say that the credit throughout the country was not deflated, but when it came to the specific question regarding the agricultural sections, he would not answer. I was here in the committee and know that is a fact.

Governor YOUNG. I was in an agricultural section——

Mr. BRAND. And it is broke, too, is it not?

Governor YOUNG. And there was lent not less than $118,000,000, if I remember correctly, in the ninth Federal reserve district, an amount far in excess of what the Federal Reserve Bank of Minneapolis had.

Mr. GOLDSBOROUGH. Is it not a fact that all our leading economists recognized that that deflation policy did take place as far as the agricultural sections were concerned; that they deplored it, but excused it on the ground that it was a very unusual condition; the first time the Federal Reserve Board had been subjected to that condition and they simply used poor judgment. Is not that generally recognized among economists?

Governor YOUNG. Not that I know of, Mr. Congressman. It may be true.

Mr. STEAGALL. That is what they said before this committee. They said the Federal Reserve Board in that period was simply feeling its way in the dark and finding their powers, and the statement was made not in support of the more bitter criticisms indulged against the Federal Reserve Board but, on the contrary, exculpating the board from the purposes so often attributed to them, but clearly insisting that the board did pursue a deflation policy in reference to agriculture.

Mr. BRAND. I know it to be a fact that the people in my district and State clearly understood that a deflation policy had been inaugurated, with the results, so far as our farmers and banks are concerned, as above indicated.

Say January, for instance, before this deflation policy was inaugurated, cotton was selling for 40 cents per pound, and in November thereafter this same cotton, of the same grade, weight, and condition, which was worth as much in November as it was in January, was selling for 10 cents per pound.

Governor YOUNG. In 1920?

Mr. BRAND. The year deflation of prices began. What caused this great reduction in the price of cotton, if not due to the effect of this deflation policy, as I call it and have always called it, right or wrong?

Governor YOUNG. I think the main cause was a buyers' strike throughout the world. The first evidence we had of the deflation was in Japan, where the price of silk became so high there was no consumptive demand for it. That was the first evidence we had of the starting of a world-wide depreciation of products. It did not start in this country.

Mr. BRAND. I remember very well the Georgia National Bank of Athens had cotton warehouse receipts from farmers all over the country. They made the mistake of holding the cotton when it was 40 cents a pound for higher prices and when it got to 10 cents, the Atlanta Federal Reserve Bank and the bank's correspondent in New York called upon the president and directors of that bank to collect their money. When they called for it the farmer had to sell his cotton at this low price, the proceeds of which was not enough to pay his loan, and the consequence was he not only lost his cotton but his farm also, which broke the ordinary farmer and he has been broke ever since.

Mr. STEAGALL. Let me have the witness for a minute, please. This was shown in Omaha, Governor Young, before the committee to which you referred, which I suppose is the same committee: The insistence had been made all along and they brought figures to show there had been no decrease in loans to justify the charge

that a deflation policy had been effected. At Omaha—I forget who the witness was—but at Omaha a witness from the Federal reserve bank in that district brought a chart that showed this: When the seasonal demand for an increase in the loans for crop marketing and the like took place, the figures showed that there had been some increase in loans, but just as the chart showed an increase in loans, it showed a decrease in nonborrowers, clearly demonstrating that the regular borrowers from that Federal reserve bank did not enjoy any of the increase in loans for seasonal demands. The testimony was all to the effect that there was a normal seasonal increase in demands for loans but the banks in the small communities, instead of being able to carry their customers, and furnish additional credit had to collect on their paper. The only way they could collect was by the sale of their farm products and they were being thrown on a constantly falling market. That is what the testimony showed out there.

Mr. WINGO. I ask permission at this point to put that chart in the record.

The CHAIRMAN. Without objection that will be done.

Mr. WINGO. I think I have a copy of it in my files.

(The chart referred to will be reproduced in a later part of these printed hearings.)

Mr. BUSBY. Governor Young, do you know anything of a meeting held here in Washington on May 18, 1920, by the Federal Advisory Council and the class A directors of the Federal Reserve Board with a view to discussing a policy of deflation, that policy being to withdraw from the eligible paper for rediscount certain types of securities? It was not any open public meeting, but in a meeting held with Governor Harding and the type of directors I have mentioned.

Governor YOUNG. I do not think I attended that meeting, but if I remember correctly, that was the meeting referred to many times in the public press in which they had a stenographic record of what was said.

Mr. BUSBY. Where the public was not taken into consideration in the way of giving——

Governor YOUNG. That has been published.

Mr. BUSBY. As a direct result of that meeting and its actions and policies, discussed by it, the deflation policy of 1920 soon followed, and then the break in farm commodity prices Judge Brand referred to was the natural result. Was not that true?

Governor YOUNG. I am not familiar with the meeting, Mr. Congressman. Mr. Wyatt can make a statement in reference to it.

Mr. BUSBY. I do not want to take any more time from Judge Brand.

Mr. STEAGALL. With Judge Brand's permission, I want to ask another question. Regarding the policy of the Federal reserve banks in handling Government bonds carried by member banks——

Governor YOUNG. I can only speak for one district—the ninth Federal reserve district.

Mr. STEAGALL. You know that general situation as regards the market for bonds, and the way the bonds were carried by the banks, do you not?

Governor YOUNG. Well, I think it was optional with the bank to sell or buy. I talked frequently with bankers who paid, I think 5 or 6 per cent to carry the bonds, and they were only yielding 4¼ per

cent, as to whether it was advisable to sell or not. Sometimes they sold, and sometimes they did not.

I ought to make this statement in defense of the board at that time. I was operating the Federal Reserve Bank of Minneapolis, where conditions were very bad. We lent in great volume, lent beyond our own capacity. The New York and other reserve banks in turn lent to us. We took care of the member banks, and the nonmember banks were taken care of by city correspondents. We, in turn, lent the city correspondents to take care of the nonmember banks.

I recall very well coming to Washington at one time and talking with Governor Harding, of the Federal Reserve Board. We had gone up to $113,000,000, and we were attempting to analyze the situation. At that time we felt we might possibly have to go up to $150,000,000 or $175,000,000 to take care of it or attempt to take care of it.

There was no restriction on that bank, never a letter to the Federal reserve bank, and no one ever bothered me in the operation of the Federal Reserve Bank of Minneapolis from 1919 right clear through to the time I left.

Mr. SEIBERLING. May I ask a question there?

Mr. BRAND. Certainly.

Mr. SEIBERLING. Did you not get instructions from the Federal Reserve Board to quit taking automobile accessory paper early in 1921?

Governor YOUNG. Never did; not that I remember.

Mr. SEIBERLING. You do not know that the Atlanta Federal Reserve Bank got such instructions, do you?

Governor YOUNG. No; I do not know. I know that we in Minneapolis did make a very strong plea to some of our member banks to take care of the agricultural interests and avoid some of the unnecessary credit at the time.

Mr. SEIBERLING. It was the opinion of the Federal Reserve Board that the automobile business had gone about as far as the country would stand at that time, was it not?

Governor YOUNG. I would have to check that up, Mr. Congressman.

Mr. SEIBERLING. And since then the automobile business has increased many times beyond what it was then.

Governor YOUNG. I can express my own opinion. Under the conditions that existed in the ninth Federal reserve district, I thought it was best at that time to give more attention to agriculture, to put them in a position so that they could buy the automobiles later. In other words, it was our desire to take care of agriculture first, in preference to anything else.

Mr. BRAND. Governor, the question was asked several years ago of a representative of the Agriculture Department if the Federal reserve banks, acting in conjunction with the Federal Reserve Board, could by the adoption and inauguration of a given policy, cause a decrease or an increase of prices of all farm commodities, and he answered yes.

Governor YOUNG. Who answered that way?

Mr. BRAND. I think it was the Secretary of Agriculture that appeared before this committee several years ago after Governor Harding left the Federal Reserve Board. I asked the question myself.

In other words, do you not think that with cotton, say, selling now at 50 cents a pound and wheat at $1.50 a bushel the 12 Federal reserve banks and the Federal Reserve Board can get together and agree upon a policy which when promulgated would have the effect of deflating the prices of these farm commodities?

Governor YOUNG. I do not think so. I am going to illustrate that by a specific example. It does not make any difference whether you are operating a Federal reserve bank or a commercial bank; your object is to conduct that institution in such a way that you will not lose money.

Now, this deflation that they speak about occurred in 1920. In 1919 the Federal reserve bank had loaned in the neighborhood of $90,000,000 in the Northwest. Practically every penny of it depended upon agriculture. Now, would I, as the executive officer of that bank, deliberately go out on any policy or campaign that would destroy the collateral back of the $90,000,000 I lent? I do not think so.

Mr. BRAND. I do not think you would have done it, but, as a matter of fact, something happened in the country that caused that very effect on farm commodities, and the Federal Reserve Board and the 12 Federal reserve banks constituted the only machinery of the Government that could do it. It seems to me that the conclusion is logical that it was done by the Federal Reserve Board, and if it was done one time by the Federal Reserve Board it could be done again.

Mr. STEAGALL. If I may interrupt, a chart that we had showed this, that the amount of loans in that Federal Reserve district remained substantially the same during the period in which there was a largely increased seasonal demand for credit. There was no increase in loans, but there was a big decrease in nonborrowers, or the list of non borrowing member banks. In other words, the Federal reserve bank in that district had accommodated quite a number of new customers without increasing the amount of money it had out, leading inevitably to the conclusion that instead of increasing the loans to the member banks in the agricultural sections to take care of the seasonal demand, there had necessarily been a decrease in the amount of loans to them, and the only way that could happen would have been for them to have collected out of their farmers in a market where prices were constantly falling and where the only possible effect of calling a loan would be further to depress the price.

That chart showed all of that.

Mr. WINGO. I think the gentleman from Alabama is in error as to what locality the chart covered; I think it was either St. Louis or Kansas City.

Mr. STEAGALL. My recollection is that it was Omaha.

Mr. WINGO. But, anyway, wherever it was, I will put it into the record.

Mr. STEAGALL. This happened in Nebraska; the chairman will remember it.

Mr. BRAND. One other question, and I believe I will conclude.

The Citizens and Southern Bank with which you are very familiar has a branch bank in Athens and others in Atlanta and different cities in the State. There is one other bank there ar Athens. Neither one of these banks nor any of the Atlanta banks will lend money on

crop mortgages which I know are very poor security. There is a great section of my district and in Congressman Bell's district where farmers have no money with which to make a crop and they can't borrow it unless the banks lend them money on crop mortgages. We have no branch banking law in the State of Georgia now, but our little bank, the Brand Banking Co. of Laureville, Ga., does make loans to these farmers on crop mortgages.

Now, what is going to become of such farmers if all the banks of my district, say, refused to loan money for the purpose of enabling them to make crops? Many of the small banks in my district and Congressman Bell's district have been lending money on crop mortgages. What is to become of this class of people? What suggestion can you make as an expert witness and as a man who has had considerable experience in all phases of the banking business with respect to what such people should do, and what does the banking system of the United States owe to the farmers of the agricultural sections of the country in the condition indicated by me?

Governor YOUNG. Mr. Congressman, I do not think that I can afford to advocate any program that would take depositors' money and lend it on poor security or poor collateral, as you say these loans are. That condition has happened frequently in the ninth Federal reserve district. It was taken care of by a seed lien loan of the Government on several occasions. It was taken care of in 1927 by a seed lien loan authorized by the Congress, because there was failure to pass the deficiency appropriation bill, with the result that the Government was in the position of having the loans authorized with no money to lend. That situation was handled by those various counties issuing warrants, and those warrants were sold to Minneapolis and St. Paul banks and the proceeds loaned by the counties to the farmers.

Mr. BRAND. Then if that is the only remedy, the banking business does not do the farming class any good in such a case as I have referred to

Governor YOUNG. I think that they have done a great deal along those lines, to their sorrow in many cases. Surely, Mr. Congressman, you do not want me to advocate that a bank should take a depositor's money—a widow's, if you please—and make a poor loan with it?

Mr. BRAND. Of course not, and that is the first time I have heard the word "depositor" used in all of this investigation. I thought he was lost sight of entirely.

Governor YOUNG. I think he is the man we should give a great deal of attention to.

Mr. BRAND. I think so, too; but I do not think that he is being given enough attention by the Federal reserve banks and the banks that belong to the Federal reserve system or do not belong to it.

I have given you a case where the situation is serious, and it is no hypothetical question. This class of farmers are in a position where they can not farm and cultivate a crop, which they must do if they feed and clothe themselves, their wives, and children, much less educate them, unless a bank loans them money on crop mortgages; and the banks in the large cities will not do this.

In such a case as I have cited, if we should have a good crop—and no one ever knows what it is going to be—the bank which loans money to these people on crop mortgages gets it back, because they

are honest and pay their debts when they can; but if there is not a good crop I concede there is a loss to the bank.

Governor YOUNG. My experience with crop mortgages has been this, that a crop mortgage may be the best security in the world if they get a good crop, but it is the poorest security in the world if they do not get a good crop.

Mr. BRAND. When you are ready to answer the questions propounded to you by myself and other members of the committee, I will thank you, at that time, to answer the following:

(1) Are the people in this section of the State of Georgia—and there are many sections of Georgia in the same condition—receiving the help or assistance they are entitled to at the hands of the present banking system of the United States?

(2) If they are not, what remedy do you suggest to correct this evil?

(3) What system of banking would you suggest would best subserve the interests of the people of this section in the condition they are in as described by me?

(4) Particularly in the counties where banks have all become insolvent, and on account of the distressed condition of the people they are unable to organize a bank, what would you advise to be done in order that such sections of the country may have the benefit of banking facilities?

Now, coming back to the depositor, what have you to suggest? I am not going into the subject of insurance for depositors, because both the Comptroller of the Currency and yourself are opposed to any sort of a guarantee of deposits, and it looks like the whole Treasury Department is.

You have given us your opinion about helping the banks which are members of the Federal reserve system. Taking into consideration that you are opposed to paying any interest on reserve funds in the Federal reserve banks, are you prepared now to state in what manner you would suggest helping the member banks? They are not getting enough out of the system as I see it.

Governor YOUNG. I stated the other day, Mr. Congressman, that the board in its annual report to the Congress of the United States would recommend that more of the earnings of the Federal reserve system be distributed to the member banks, but the method by which that distribution would be made has not yet been arrived at.

Mr. BRAND. Have you any way of helping member banks other than using part of the franchise tax? If not, where are you going to get the money to help?

Governor YOUNG. One suggestion has been made that the amount that goes into surplus be reduced and that what is over that be distributed to the member banks. That is complicated and requires a good deal of study.

Mr. BRAND. I have finished, except for this suggestion, that I would like to have the board confer with the Comptroller of the Currency, the Secretary of the Treasury, and also with Judge Garrett, who once had a plan in mind, the details of which I do not have, and submit to the committee some workable plan to protect depositors or to guarantee deposits. Some sort of deposit guaranty is coming sooner or later. It may not come in your lifetime or mine either, but there

is going to be a revolution in this country unless depositors are given some character of protection against loss.

An amendment along this line was proposed to the original Federal reserve act when the same was before the Finance Committee of the Senate. If the Federal Reserve Board can work out a plan and make some recommendation for legislation giving protection to depositors by way of a guaranty fund or otherwise, without making the strong banks take care of the weak banks, I think it should be done. I think the highest duty you can render to the people of the United States and to the depositors in all of the banks, particularly the small ones in the agricultural States, is to devise such a plan, if you can. I am thinking more about the depositors than I am of the stockholders.

Mr. STEAGALL. Let me ask one or two questions.

Mr. FORT. We had a special order for 12 o'clock.

Mr. STEAGALL. I thought he was through.

Mr. LUCE. Mr. Chairman, I move that we now go into executive session.

Mr. FORT. I second the motion.

The CHAIRMAN. It has been moved and seconded that the committee resolve itself into executive session.

(The question was put, the motion agreed to, and the committee went into executive session.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

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

APRIL 8 AND 11, 1930

VOLUME 1

Part 7

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1930

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, APRIL 8, 1930

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

The committee met in the committee room, Capitol, at 11 o'clock, a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order.

STATEMENT OF GOV. ROY A. YOUNG—Resumed

The CHAIRMAN. Mr. Luce, would you like to question the witness this morning?

Mr. LUCE. For a few minutes.

Governor Young, some days ago Mr. Wingo made an observation that interested me much and will furnish a peg on which I may ask some questions of a general nature. He said that he was obliged to pay 10 per cent if he chose to borrow from his local bank. Of course I am referring to it as a typical instance, if I am right in my understanding that interest rates in the West average higher than those in the East.

One of the criticisms made against branch banking is to the effect that it will tend to draw money away from the smaller communities and center it in the metropolis where it will be used for purposes of the stock exchange. This puzzles me. I had understood that the purpose of decentralizing the Federal reserve system or one purpose was to equalize the supply of money throughout the country and to equalize rates on commercial paper.

Will you explain to me how it happens that the cotton factor in Arkansas must pay a higher rate of interest than, say, a potato merchant in northern Maine?

Governor YOUNG. Mr. Congressman, I do not know what the legal rate is in Arkansas, but I assume it is 10 per cent. If that cotton factor is a small operator and depends upon one or two local banks, he might have to pay a 10 per cent rate, although I doubt it. If he was a larger cotton factor, so that he had connections in various parts of the country, he would be in a position to bargain for his money the same as the jobber or wholesaler and he would know where he could get it cheapest, even though he had to go to New York City.

The smaller man would have to pay a higher rate and, to answer your specific inquiry, I think that the State usury laws have more to do with that than any one thing I know of.

I have a list here showing the legal rate of interest and rate by contract in all of the States of the Union. It ranges all the way from

a minimum of 6 per cent to a maximum of 12 per cent, and in a few States, any rate.

Mr. LUCE. My difficulty goes beyond that. Twenty years ago it was known that loans on real estate commanded a higher interest in the West than in the East. We had, in the East, formed numerous investment companies for the purpose of taking advantage of that. Then we created the Federal farm system which seems to have equalized the opportunities for all parts of the country. At any rate in the insurance company in which I happen, by chance, to be a director and when I am able to attend a directors' meeting, when the list of loans in the preceding month is read off I notice loans in the Mississippi Valley, Ohio, Missouri, and so forth, at the same rate that is paid for loans in the immediate neighborhood of Boston. That leads me to conclude that the farm loan system has given all parts of the country equal opportunity in a general way.

But am I wrong in my understanding that still the rate for loans on commercial paper in the territory beyond the Mississippi is distinctly higher than it is on the Atlantic seaboard?

Governor YOUNG. From what I have been able to observe, Mr. Congressman, I should say yes.

Mr. LUCE. I am including the South also in my question.

Governor YOUNG. I would say yes, with the exceptions of Virginia, where I think they have a maximum rate of 6 per cent, also North Carolina, Tennessee, and West Virginia.

Mr. LUCE. In those States where the usury law permits high rates, why does not the law of supply and demand operate to bring those rates down? There are large numbers of citizens in the East at the present moment who are seeking opportunity for investing their money at what they have, since the war, commenced to look upon as a fair rate and they can not get it. The money market is so flooded with money for investment that a prudent man will look askance at any offering on which he can earn more than 6 per cent. When money can be loaned in Arkansas and Georgia or anywhere west or south at 10 per cent, why does not capital flow from the East to those places?

Governor YOUNG. It does to a certain extent, Mr. Congressman. We had a very specific illustration of that in December, January, and February of 1929 and 1930. Conditions eased in the New York market first. The surplus funds gradually drifted to the interior. They drifted in this way—and I am going to take a territory I am familiar with no illustrate what I have in mind: Minneapolis has several large grain concerns that are nationally known. They have banking connections in many sections of the country. At times they are very heavy borrowers. They have a very large credit standing so that if they, in a tight money period, should be asked to pay 6 per cent in the Minneapolis district and the New York correspondents offered them 5½ or even 5¾, they would immediately borrow in New York to save that one-quarter per cent over the rate they would have to pay in Minneapolis. That shifts the funds from the larger centers to the smaller centers.

Now, on the other hand, when we have a condition such as we had in January, 1927, and January, 1928, clear through until October of 1929, when the call rate was so high that it attracted funds from the interior to New York, credit has the tendency to a degree to flow where it brings the better rate.

Mr. LUCE. That is what I wanted to bring out, because it seems to me inconsistent with the allegations that the West has to pay more for money than the East. I want to find out whether Maine, New Hampshire, and Vermont are any worse or any better off in that particular than Arkansas, Oklahoma, and Texas?

Governor YOUNG. I think, generally speaking, that the customers through that territory—that is, Maine, Vermont and through there—pay a lower rate——

Mr. LUCE. Why?

Governor YOUNG. Than they do in Minnesota, Montana, and the Dakotas, because the small borrowers—and I refer to the small borrower when I make that statement—has not the opportunity to deal in several sections of the country the same as the large operator has.

Mr. LUCE. You mean that the centers of commerce are far apart?

Governor YOUNG. He is so small that he is not known. For instance, let us take a small community in South Dakota: A farmer who has to borrow $1,000 or $2,000 is known to the local banker and not known to any one else. He can not go to New York, Vermont, or Maine and present his note. No one knows him. Therefore he has to pay the legal rate or contract rate, generally speaking. I have forgotten about South Dakota, but it seems to me the maximum rate is 10 per cent. That is the rate he would probably have to pay to the local bank unless he was well enough known so he could go to a near-by town with a very desirable piece fo paper and drive a bargain, say, for 8 per cent.

Mr. LUCE. His local banker can take his note and send it to Minneapolis, through his correspondent, can he not, and then the correspondent there can rediscount, if he sees fit, with the Federal reserve bank?

Governor YOUNG. If he was dealing with a nonmember bank, the correspondent bank could not discount that with the Federal reserve bank at Minneapolis at the present time, although during the war period and for some time after the war period we did accept notes originating in nonmember banks.

Mr. LUCE. Would that give the note a different standing when it reached Minneapolis from the paper of a member bank? In other words would there be a discrimination in the rate that the Minneapolis bank would impose upon that piece of paper?

Governor YOUNG. Well, if that was a member bank, Mr. Congressman, in all probabilities they would go to the Federal reserve bank rather than their correspondent, because the Federal reserve bank always has a lower rate than the correspondent bank.

Mr. LUCE. Then, it is easy for the paper, ultimately, to reach some place where it gets the standard rate for time loans fixed throughout the country?

Governor YOUNG. For instance, the Minneapolis bank—if the farmer's note bore 8 per cent and it was sent to the Minneapolis Reserve Bank, it would be discounted at 4½ per cent, and if it was 6 per cent it would be discounted at 4½ per cent. We pay no attention to the rate the paper bears.

Mr. LUCE. Then the spread between the final discount rate and the initial rate furnishes the western banker a larger profit than it furnishes the New Hampshire banker, for instance?

Governor YOUNG. Generally speaking, I would say yes.

Mr. LUCE. Now we come to what I mean. Under a branch banking system, would that still prevail? Assume that a bank in Chicago owned branches out in the district of which we are speaking: Would it impose a different rate on a customer in Fargo than it would on a customer in Springfield, Ill.?

Governor YOUNG. I am inclined to think, Mr. Congressman, that it would have a tendency to bring rates down to the borrower and I base that statement on the experience we have had in California where there is a very extensive development of branch banking.

Mr. LUCE. Then the branch-banking system would, if this line of reasoning is correct, directly aid the borrower in the small western town rather than hurt him?

Governor YOUNG. That would be my opinion.

Mr. LUCE. Would you say that the argument is fallacious under those circumstances, which is to the effect that a branch-banking system would tend to drain the aggricultural districts to the benefit of the industrial centers?

Governor YOUNG. I do not believe that it would.

Mr. LUCE. You have brought in usury as an important factor here. I do not quite reconcile that with my general understanding of the flow of capital. If North Carolina has a usury law of 6 per cent and South Carolina has 10 per cent, why does not all the money flow in to South Carolina instead of North Carolina?

Governor YOUNG. Well, I am not familiar——

Mr. LUCE. Oh, well, I am just assuming these quite arbitrary figures. There are throughout the country apparently different usury rates. Why does not the money go where it would get the most profit, to the detriment of places where it is prevented from getting the bigger profits?

Governor YOUNG. Generally speaking, in the larger communities, it does do that, Mr. Congressman.

Mr. LUCE. If it does that, when it gets into that State, does not the law of supply and demand operate? Is there not competition between financial institutions? Do not they level again? I am puzzled by these discriminations between different parts of the country and do not understand why all the water in the reservoir does not seek the same level?

Governor YOUNG. With the larger units and with the people that have national connections, it does. With the smaller communities and the smaller borrowers, it does not to the same degree.

Now, perhaps we can take the intermediate credit bank and illustrate that the smaller borrower does get pretty close to a uniform rate throughout the United States. Yet the intermediate credit bank has not developed to a very large organization. I think the total outstanding amount is $60,000,000. In so far as the intermediate credit banks are concerned, they have leveled those rates to borrowers in various sections of the country.

Mr. LUCE. Can anything be done in the matter of the national banking system to carry still further the purpose of the Government in equalizing opportunities throughout the land?

Governor YOUNG. Well, Mr. Luce, I am not an attorney and I assume that States' rights come into that, but I suspect, that the legal rate and contract rate is too high in any State, it would have to be corrected by the State.

Mr. LUCE. You doubt if any Federal usury law would stand?

Governor YOUNG. I have no right to say that. I am not a lawyer. I do not know.

Mr. LUCE. Yet we do control the national banks?

Governor YOUNG. We do.

Mr. LUCE. And the regulations imposed upon them, without a Federal usury law might stand where the Federal usury law might not stand?

Governor YOUNG. If you did that, Mr. Congressman, would you not put the national banks at such a disadvantage with their competitors, with the State nonmember banks, that they would be prompted to leave the Federal reserve system?

Mr. LUCE. It would seem to me to work the other way. If you say that the national banker shall not charge more than 8 per cent and other banks charge 10 per cent, why does not all the trade go to the national banks?

Governor YOUNG. If they reduced the rate of charge, obviously they would have to reduce the rate they pay depositors to operate as a profitable institution.

Mr. LUCE. They pay next to nothing to their depositors. I get the gorgeous sum of 2 per cent per year and it has to be pretty big to amount to anything and they chop off a lot of that.

Governor YOUNG. In western banks they pay on savings accounts all the way from 3 to 4 per cent.

Mr. LUCE. I am speaking of checking balances. In New York City they look askance at a man who asks interest on a balance of less than $20,000, and when it gets below $15,000 the operators of the bank begin to prod the depositor. I doubt if that end of it would, in that city, be a great factor.

Governor YOUNG. Well, if New York pays 2 per cent and Chicago decides to pay 2½ per cent, obviously the deposits of the people that do business in both places will drift to Chicago.

Mr. LUCE. Well, that is true; but it is hardly——

Governor YOUNG. I have seen instances of that.

Mr. LUCE. It would be the case in big business, but it would hardly be the case in a small community where the bank balance of most of the depositors is not large anyhow.

Governor YOUNG. It applies to the larger communities in the country. That is true.

Mr. LUCE. We are most naturally greatly concerned with the little man. He is the chap who is most unhappy in the present situation, and what we would like to do is to give the little man in Fargo, N. Dak., the same chance as the man in Bangor, Me.

Governor YOUNG. If the competition was keen in Fargo, a good outstanding man would probably get six per cent there.

Mr. LUCE. Would that be true of a man of the same financial status who chances to be a rancher with his nearest banking point a much smaller place than Fargo?

Governor YOUNG. What I have been able to observe of the notes that come to the Federal Reserve Bank of Minneapolis, the farmers, ranchmen, sheepmen, and other are generally above 6 per cent.

Mr. LUCE. Now, that is just what we are aiming at. Why is that so, and can we correct it?

Governor YOUNG. Well, it has been corrected in Virginia by the 6 per cent contract rate.

Mr. LUCE. Is there any agitation in the west for similar usury laws?

Governor YOUNG. I never heard of it. When I first went to Minnesota, the contract rate was 10 per cent. I think about 8 years ago it was reduced to 8 per cent. I think that Montana had a 12 per cent contract rate and that since has been reduced to 10 per cent.

In Michigan, in my own State, the contract rate 30 years ago was 8 per cent and was changed to 7 per cent 30 years ago. There is a general tendency in all States of the Union to reduce the maximum rate.

Mr. LUCE. Would it be a fair conclusion, then, to say to our western friends, rather than lay the blame at Wall Street, they should seek the remedy in their own State legislatures?

Governor YOUNG. If that complaint was being made, I would say yes. That is the quickest way to correct it.

Mr. LUCE. That is all.

The CHAIRMAN. I should like to ask you this question, Governor, in connection with the questions that Mr. Luce has asked:

Referring to the rates of interest paid in these agricultural sections of the country that Mr. Luce referred to in the Northwest, the Middle West, and the South—agricultural sections particularly—the rate of interest paid on deposits in those banks is usually higher than in the eastern cities and States of the east, is it not? My thought goes to some specific cases where the general rate is from 4 to 6 per cent on deposits, whereas in the east we have rates that start with no interest and run up to 4 per cent, as the prevailing rate. In the east, of course, rates to borrowers are lower, whereas in those localities where the banks pay higher rates of interest, the laws of those States also permit higher rates of interest to be charged. I should like to get your general reaction as to what the situation is there, and I would also like to have you express the attitude of the Federal Reserve in regard to the discount of paper by those banks that charge 8 and 10 per cent interest and rediscount with the Federal reserve bank at a lower rate of interest. Is it the policy of the Federal reserve to admonish those people to make a lower rate to borrowers, or what do they do about that?

That is a composite question and you may answer any one or all of the parts in your own way.

Governor YOUNG. You asked three questions. In reply to the first one, I would say that previous to 1922 rates paid by banks in the Western States—and I am thinking of the Ninth Federal Reserve District with which I am familiar—were higher than the rates paid by the banks in the New England and Eastern States. After 1922, however, many of the banks in the West, if not all of them, found that they were paying an interest rate to depositors that was too high to permit them to make a profit on the rates that they were receiving, with the result that there was a general movement in the Northwest from 1922 clear through to 1927, to reduce the interest rate paid to depositors, so that, generally speaking, throughout the Northwest the rate was 3, 3½, and, in no cases that I recall, in excess of 4 per cent, and, while I may be mistaken, I should be inclined to say that the rates paid in the West now are just about the same as those paid

in the East, although I have been informed that some mutual savings banks in the East pay as high as 4½ per cent. They, of course, do not deal with commercial borrowers. Their money is invested almost entirely in bonds and mortgages.

The CHAIRMAN. Is that true in respect to the past two years? Do not the savings banks go in for investments and brokers' loans and various other investments that exist?

Governor YOUNG. I am not familiar with the law, but I am of the opinion that the law prohibits savings banks from taking collateral loans.

Mr. LUCE. That is true, but they do it indirectly through their connections with national banks and, in my own State, I think the banks are paying 5 per cent.

Governor YOUNG. I think I am safe in saying that there is not a bank in the ninth Federal reserve district that pays 5 per cent on savings accounts.

Mr. LUCE. I may be inaccurate about that.

Governor YOUNG. I doubt if any bank pays in excess of 4 per cent.

Mr. LUCE. I may be mistaken, but I am sure that until a short time ago 5 per cent was paid.

The CHAIRMAN. Has the Federal Reserve Board an opinion in regard to rediscounting paper that draws 6 per cent or above in rates of interest?

Governor YOUNG. None whatever.

The CHAIRMAN. You do not admonish those banks that are charging excessive rates to borrowers?

Governor YOUNG. We never have.

The CHAIRMAN. You feel that is not part of your function, inasmuch as the State laws permit it?

Governor YOUNG. That is correct.

The CHAIRMAN. What is your opinion of these State laws permitting higher rates of interest in those localities? Do you think it is justified?

Governor YOUNG. Well, if they were not justified, Mr. Chairman, it seems to me the people of the States would repeal the laws. The conditions and circumstances as to hazard, and so forth, are all factors that must be taken into consideration in establishing a maximum contract rate. As I explained before, over the past 30 years there has been a tendency downward, and in no case that I know of has the rate ever been raised.

The CHAIRMAN. Of course the continuance of those laws permitting higher rates of interest, tends to sustain that policy?

Governor YOUNG. That is true.

Now, in so far as the reserve bank is concerned, when a bank borrows from a Federal reserve bank, we usually satisfy ourselves that the request is justifiable and, while the banks were in our debt heavily in 1920, in 1921, and 1922, since 1923 the requirements have been seasonal, rather than continuous borrowing, lasting for a period of from three to six months, and, by tradition, the banks object to borrowing continuously. I do not know of any evidences at all of where banks have deliberately borrowed, for profit, in the last seven or eight years.

The CHAIRMAN. Has it been your observation in those sections that the change in the Federal Reserve discount rate affects the rate of interest charged their borrowers?

Governor YOUNG. We are told by member banks that it does; in other words, when we reduce our discount rate they say they have a demand from their customers for a lower rate because of the lower Federal discount rate. We are told also by the borrowers that when we raise the rate, that gives the member banks a stronger argument for charging the customers more.

The CHAIRMAN. Whether borrowing from the Federal Reserve bank or rediscounting?

Governor YOUNG. It works both ways. The discount rate of the Federal reserve bank is used by the lender and also by the borrower as an argument.

The CHAIRMAN. Mr. Beedy.

Mr. BEEDY. Governor Young, other things being equal, money does generally flow into that market where the greatest return may be immediately realized, does it not?

Governor YOUNG. Generally speaking, yes.

Mr. BEEDY. As suggested by Mr. Luce's questions—I think he asked you why, we will say, in the State of Arkansas, with the State law permitting a charge of 10 per cent interest and the State law of Maine permitting 6 per cent—why does not the money flow into Arkansas? Of course the rate of interest alone would not influence the flow of money, would it? There must be coupled with it such a measure of industrial activity, with an incidental demand for the use of money which, coupled with the rate, would influence the flow?

Governor YOUNG. Many factors would influence it.

Mr. BEEDY. And is it not probably true in these States where people do not revolt against the higher legalized rate of interest that fundamental conditions justify it? For example, in the Western States where they have not reached the high state of development which we have attained here in the East, loans to the small borrower are more hazardous, in the main, are they not?

Governor YOUNG. Well, I am not going to put it quite that way, Mr. Congressman. I think that the smaller loan requires more attention and more inspection and, obviously, if you lend $500 to a farmer on a chattel mortgage, the inspection requires as much labor as a $2,000 loan. Generally speaking, the expense of the inspection of chattel loans runs about 1½ per cent.

Mr. BEEDY. A banker, when applied to for a loan by an established business concern, with large assets, in a highly developed community, would naturally be influenced by the attraction of such a loan as against a loan sought by a small concern just getting under way in a new territory where the development and growth were problematical?

Governor YOUNG. Obviously so. We have very specific evidence of that in commercial paper, bankers' bills, and so forth.

Mr. BEEDY. Is that not one of the reasons why there is a difference in the legalized rate in the different States and sections of the country in the rate customarily charged by banks?

Governor YOUNG. That is one of the reasons; yes, sir.

Mr. WINGO. I think both of you gentlemen are speaking without experience in that 10 per cent territory. That rate applies to a loan to a Congressman putting up Government bonds as security, so that there is not any risk.

Mr. BEEDY. I could make the retort courteous, but I do not care to enter into any discussion about that. Personally what I am trying

to bring out are the fundamental underlying conditions which justify the institution of different interest rates and justify their maintenance. They are such as the governor has said obtain and he is not without experience, as I understand it, in the western country.

Mr. WINGO. He is from the Northwest. I do not think they have a 10 per cent rate there.

Governor YOUNG. South Dakota permits 10 per cent and Montana 10 per cent; Minnesota 8 per cent and North Dakota 9 per cent. Those notes that I have seen out there would average, I would say, between 7 and 8 per cent.

Mr. WINGO. What I want to suggest to the gentleman from Maine is that the reason for this has been studied by practical bankers in that territory and it is unanimously agreed that the two major reasons for the higher rates are the law of supply and demand and the other is the expense of doing business and the necessity of making expenses and a profit for the stockholders. Those are the two major factors. I think the governor will agree with that.

That enters into the contention with respect to branch banks, that because of the expense of doing business——

Mr. BEEDY. And I suppose the element of risk and hazard is equally important in connection with the maintenance of laws authorizing different rates.

Mr. WINGO. Of course the element of hazard has something to do with that in that territory, but my general contention has been that the rate is the same. I mean if you walk up to a bank that is maintaining a 10 per cent rate and put up $10,000 worth of Government bonds to cover a $500 loan, you would still be charged 10 per cent. There is no risk involved there.

Governor YOUNG. Where would they charge that?

Mr. WINGO. In any of the Southwestern States.

Governor YOUNG. I do not see why a borrower would pay 10 per cent on a note secured by Government bonds.

Mr. BEEDY. Governor Young, you have testified that the fundamental and underlying differences in conditions justify, for the most part, the variation in rates of interest which are charged, and probably justify the continuance of State laws permitting those differences in rates.

Governor YOUNG. In a general way; yes.

Mr. BEEDY. Exactly. In other words, the banker in Maine is no more humanitarian than the banker in Arkansas; the banker in Arkansas is just as decent a fellow as the banker in Maine; he does not arbitrarily rob his borrowers of that difference between 8 and 10 per cent as against the rate of the humanitarian banker in Maine who will take 6 per cent?

Governor YOUNG. I do not think so.

Mr. BEEDY. One other thing has been gone into here. It is the fixing of the call loan rate in New York and the effect that call loan rates has on the credit situation in general. If no one objects to it, I should like to have five minutes on it.

We got to the point, in questions by Mr. Seiberling, Governor Young, where you said, in order for the price of securities to keep on ascending, there must be a continuous supply of money to make it possible, and the higher the call loan rate goes the more attractive becomes the money market in New York and the more money from the more distant places bgeins to flow in.

Now, do you think it is a good thing for call loan rates to go on pyramiding until there comes such a strain on the credit situation that ordinary borrowers engaged in legitimate business can not get money?

Governor YOUNG. I do not.

Mr. BEEDY. I did not understand why you do not think it is wise to limit the call money market rate, we will say, at 6 per cent?

Governor YOUNG. I am not hesitating to be evasive; I am trying to follow this along. I have referred to Doctor Goldenweiser a little, all of which I assume is agreeable to you.

Mr. BEEDY. Certainly.

Governor YOUNG. If there is anything in the theory at all that a higher rate has a restraint on a condition of that kind, obviously the 6 per cent rate from the experience I have had, would not be a restraint. It appeared for a long while that the higher rates of 10, 12, and 14 per cent did not have a restraint because the market kept continuing even under those conditions, but——

Mr. BEEDY. May I interrupt you? You and I are thinking at cross purposes. Far from being a restraint, it is an encouragement. It is an inducement to a further continuation of the bad condition—a concededly bad situation. The higher you raise your rates, the more you induce the flow of money to that particular center and the more you accentuate the movement which multiplies the possibilities for evil consequences.

Governor YOUNG. On the other hand, the more the speculator is penalized and obviously no man could continue indefinitely with such rates as 14 per cent and 15 per cent and expect to get a profit out of his speculative transactions. Eventually the interest that he pays would eliminate any appreciation in the value of his securities.

Now, under a 6 per cent rate, that restraint would not have been there and while I will have to admit that, for a long period it seemed as if the higher rates did not have an effect on speculation, obviously, in the last analysis, they did have some effect and were a contributing factor in controlling that situation.

Mr. BEEDY. During that time, when the rates were mounting in the call money market, the Federal Reserve Board in October—was it October when you sent your letter of warning?

Governor YOUNG. February.

Mr. BEEDY. February of this year?

Governor YOUNG. February of 1929.

Mr. BEEDY. February 1929?

Governor YOUNG. Yes. It was February 6 or 7. I have forgotten which.

Mr. BEEDY. You sent out your first letter of warning and from then on it was the policy of the board to do what it could to curb further extension of credit, was it not?

Governor YOUNG. Correct.

Mr. BEEDY. Now, the late Governor Strong, governor of the New York bank, testified a year or two ago that from the time the Federal Reserve Board began to increase its rediscount rate or decrease it, according to the results it hoped thereby to assist at least in attaining, a period of about six months elapsed before the first consequences of that step begin to be observed. Would you agree with that statement?

Governor YOUNG. Well, the period would be different—and I am just trying to think of the last period. The Federal reserve system started a firming-up policy about in November, 1927. That would bring it up to April. I should say that it was just about six months before any effects were seen.

Mr. BEEDY. His testimony was that as he looked back over the operations of the Federal reserve system, it had taken about six months for the machinery to turn out results.

Your letter of warning started in February. That would bring us up, if that six months' period obtained, into August. The call money rate, in the meantime, was firming up. Do you recall what the call money rate of August, 1929, was?

Governor YOUNG. I think the call money rate had dropped a bit by August. It had dropped somewhat. It was 8¾ at that time—the average rate.

Mr. BEEDY. That is a fairly high call money rate, is it not? It is more than twice the present call money rate.

Governor YOUNG. It is very high.

Mr. BEEDY. From that time on how did the call money rate stand?

Governor YOUNG. The call money rate, on an average——

Mr. BEEDY. From then on up to October, when the crash or break came?

Governor YOUNG. I find I was mistaken in my statement. The call rate was—it dropped down to as low as 7½ per cent—but at the beginning of August it was pretty close to 10 per cent on an average. Toward the end of the month it dropped to 8 per cent and at the time of the crash in the stock market the call rate was about 6 per cent.

Mr. BEEDY. In other words, in August a 10 per cent rate prevailed in the call money market?

Governor YOUNG. In the early part of August.

Mr. BEEDY. In other words, in about six months from the February warning, your call money market rate had gone up to a point higher than that which obtained when the crash itself came?

Governor YOUNG. That is correct.

Mr. BEEDY. Of course that rate fluctuated during the months of June, July, and August to the extent of 1 or 2 per cent according as money flowed in from, we will say, places where it had been theretofore unattracted by the call money rate or for some other reason which, for the moment, increased the supply of available funds in New York City?

Governor YOUNG. Correct. The highest average was in April or May of that year.

Mr. BEEDY. Between February and August, 1929, the Federal Reserve Board was finding that legitimate borrowers were not able to be accommodated to meet demands of industry, were they not?

Governor YOUNG. We had complaints in reference to that. We investigated through many sources and felt that in the great majority of cases business was being taken care of.

Mr. BEEDY. I am surprised at that because I understood the position of the board to be that the fundamental justification for their February warning was the failure of the legitimate borrower, the man engaged in industry, to be accommodated.

Governor YOUNG. I think the warning specifically stated that they anticipated that it might develop to a point where it would be a

deterrent to business. I do not think they took the position that it had been a deterrent up to February.

Mr. BEEDY. Probably I am wrong but you say you investigated the rumor. How did you investigate that rumor? I am now referring to the rumor that legitimate borrowers were not being accommodated between February and August of 1929?

Governor YOUNG. I dispatched a telegram—I do not know whether it was just at that time or some time before that—to all the Federal reserve banks to make a careful inquiry in their own territory as to whether business was being denied credit and whether high rates were a real deterrent to business at that time, and if I remember correctly, the replies we got back were that up to that time it had not operated as a deterrent to business, although rates were higher.

Mr. BEEDY. If the call money rate had not mounted to 20 per cent, do you believe there would have been anywhere near the amount of money available in New York City for the purchase of securities that was available?

Governor YOUNG. I think so. That was a world market and I believe that they could have gone across the water and borrowed the money in a circuitous way and then transferred the funds here and handled the situation in that way. International finance naturally enters into the call loan rate.

Mr. BEEDY. Exactly. They could have gone abroad and borrowed it, if what?

Governor YOUNG. If the lenders across the water were willing to lend, as they apparently were.

Mr. BEEDY. I am asking you to keep in mind the call money rate as a factor in the situation?

Governor YOUNG. Suppose they could not make a loan of that kind in New York City. There would be nothing to prohibit their making the loan in London or Paris or elsewhere. They could go all over the world to get that money and would have gone.

Mr. BEEDY. Suppose some one had the power to pass a law or had passed a law which held the call-loan rate at 6 per cent in New York City and money would not as easily have flown into New York City, yet you say that, granted a sufficiently strong combination of capital, so minded, they might have gone across the water and made a deal to get capital further to boost prices in this country?

Governor YOUNG. They might have.

Mr. BEEDY. That, of course, would depend on whether there was surplus funds available in foreign countries?

Governor YOUNG. Or even in this country. Our own funds could be sent to those countries and loaned there and transferred back here.

Mr. BEEDY. It would be possible only when business itself in the various sections of the country was not developing to such an extent that the demands for further credit absorbed the available funds in the various localities?

Governor YOUNG. That was a tremendous volume, Mr. Congressman, as shown by the brokers' loans for others which aggregated in the neighborhood of four or five billions of dollars, I think—four billion at the maximum.

Mr. BEEDY. Assuming that the call rate could never go above 6 per cent and assuming there are no available funds abroad. Before a bull market can be continued with profit to the operators in that

market, there must be a decline in business throughout the country generally and a let-up in the demands for credit generally by legitimate borrowers before they can go out with a rate of 6 per cent and induce further capital to come to New York?

Governor YOUNG. There is an old saying that if the rate is high enough, it will draw gold out of the ground, and it will.

Mr. BEEDY. That is why I asked you if you do not think it would be highly desirable for some legislative body, having the power, to limit the call loan rate?

Governor YOUNG. No; I do not think so. I think that if there is another bull movement started in the country and the speculators are so ambitious for funds that they are willing to pay the rates they paid before, that that credit would be produced in some way—some circuitous way.

Mr. BEEDY. But I say if industry absorbed all available funds in the various localities of the country and the world, where would you get money unless you had some higher rate as an inducement?

Governor YOUNG. Well, I suspect somebody would manufacture some credit.

Mr. BEEDY. Governor, as a matter of logic, if business is demanding credit—if business is on the upswing and is demanding credit which takes up the available funds of banks throughout the country and the bankers are loaning their money and getting their 6 per cent return, and they can not get 7 per cent in New York City under the call loan rate, they are going to loan their money at home, are they not?

Governor YOUNG. The first procedure they follow is to buy bankers' bills and Government bonds and anything that offers the best yield and the best possibility of profit.

Mr. BEEDY. But they will not go away from home when they can use their money there and get 6 per cent when, to go away, it will not yield them any more than 6 per cent, no matter what they buy?

Governor YOUNG. Business would not get the 6 per cent rate locally. They would get what the local bankers would pay, which would be probably 2 or 3 per cent.

Mr. BEEDY. Why, business men can not borrow money at 2 or 3 per cent.

Governor. YOUNG. You are speaking about the borrower?

Mr. BEEDY. Yes.

Governor YOUNG. I thought you were speaking about the lender.

Mr. BEEDY. As long as borrowers can take money from their local banks in order to satisfy the needs of their business at 6 per cent, those banks would rather lend it at home?

Governor YOUNG. That has been my observation. They take care of the local industries first.

Mr. BEEDY. If they can get 8 per cent in New York, it is human nature they would divide up—fairly equitable perhaps—some of the money at home to meet the local needs and skimp out a little to send to New York to make more profit out of the call money rate?

Governor. YOUNG. The bankers deny that.

Mr. BEEDY. Oh, well——

Governor YOUNG. I think it was done to a certain extent, but not in large volume.

Mr. BEEDY. From your experience, do you think there is a banker in the country that would not try to take a little of his money and send it to New York where he can get, on perfectly good security, 8 per cent, rather than lend it all out at home at 6 per cent?

Governor YOUNG. No; my observation among the bankers in the interior of the country was that they continued to lend at home money on which they could get much more interest by sending it to New York.

Mr. BEEDY. What about the small banks?

Governor YOUNG. Some of the small banks lent their surplus funds, as well as the large banks.

Mr. BEEDY. Would they lend as much of their surplus funds when the rate is 20 per cent as they would if it stays at 6 per cent?

Governor YOUNG. No; not as much.

Mr. BEEDY. It would be a pretty good idea, then, to have somebody limit the call money rate on the ground that the human tendency would be not to make it as easy to bull the prices of securities as would otherwise obtain, would it not?

Governor YOUNG. There are so many other factors you have to take into consideration, Mr. Congressman, that I believe that the factor that you stress so much is insignificant in comparison with the others.

Mr. BEEDY. We can not take them all into consideration. We have to deal with them one at a time, but this factor has some influence.

Governor YOUNG. It has some.

Mr. BEEDY. And I say, would it not be a wise thing to start in with this one factor which has a tendency to induce a flow of money in great quantities to a single center, when we are on the upward swing, by limiting the returns which can be realized by sending funds to such center?

Governor YOUNG. I do not see how you can do that, Mr. Congressman.

Mr. BEEDY. Possibly we can not, but waiving that for the moment, I am trying to get an answer as to whether or not it would be a wise thing to take that one factor and deal with it in such a way as would have a tendency to be helpful and prevent these wide swings in prices.

Governor YOUNG. Mr. Congressman, I could not answer yes to an inquiry that I do not see a solution of.

The CHAIRMAN. May I make an observation here, Mr. Beedy?

Mr. BEEDY. I do not want to be swung off this line of thought.

The CHAIRMAN. You will not be swung away from your line of thought. I simply want to observe, because of this situation in regard to high rates in New York City during the period you referred to here, that it was necessary for Pennsylvania to change its usury laws in order to hold funds in Pennsylvania that were flowing into New York; in other words, the banks of Philadelphia felt they should have the same right to lend money at the rates New York had to protect their own funds in Philadelphia; otherwise they were being sucked into New York on account of the high rates there.

Governor YOUNG. That was true also of Illinois. But meanwhile those banks maintained a 6 per cent rate to business.

The CHAIRMAN. I do not know as to that.

Governor YOUNG. But I do.

The CHAIRMAN. They are not in the habit, I know, of sending money into New York, when they can hold it and get the same rates at home, but the situation did arise where they changed the usury laws in Pennsylvania so as to conform to the laws in New York whereas, if New York had a law such as Pennsylvania, the rate would have been held down to 6 per cent.

Mr. BEEDY. You have answered my question partly when you say, of course, if we make the rate of return on money high enough it will drag gold dollars right out of the earth.

Following that thought, brokers' loans advanced from, we will say, the spring of 1929 from between four and five billion dollars to right around—what did they go up to in August, 1929?

Mr. GOLDENWEISER. The peak was $6,900,000,000.

Mr. BEEDY. What month was that?

Mr. GOLDENWEISER. October.

Mr. BEEDY. What were they in the spring of 1929?

Governor YOUNG. $5,400,000,000, approximately.

Mr. BEEDY. So, in six months, they went over a billion and a half dollars. Would that be an accurate statement?

Governor YOUNG. About a billion and a half.

Mr. BEEDY. Where did that money come from?

Governor YOUNG. From all over the world, in my opinion.

Mr. BEEDY. You think the call money rate had anything to do with it at all?

Governor YOUNG. The call loan rate had a great deal to do with it—the high rates—up to, say, September, when the rates were frequently above 10 per cent, but there was a tremendous increase in those brokers' loans even after the rate went down.

Mr. BEEDY. Exactly, because by the mere change in the rates, you can not cause the business world to readjust itself in a moment. It takes approximately six months for the tangible results to be evident to the ordinary person and even to the banker himself. That continued increase in brokers' loans and the attendant increase in price of securities was not a good thing, was it?

Governor YOUNG. Not in my opinion.

Mr. BEEDY. You have just said that one of the very considerable factors in the situation was the high rate of interest on call loans. Therefore, does it not follow, as a logical conclusion, that if the call loan rate had been fixed, it would have at least had a tendency to prevent that additional increase of a billion and a half in brokers' loans in a six months' period in 1929?

Governor YOUNG. Not in my opinion. They would have gotten that money from other sources in a circuitous way.

Mr. BEEDY. It would have made it more difficult for them, at least, would it not? Here was the money available in New York City. It was easy to step out of one door and into another and get the money.

Governor YOUNG. I do not think so. I think that is what put the rate up, because money was not available. Certainly the New York banks attempted to check this and if you will take their brokers' loans figures from 1927 clear through to October, 1929, there is very little difference in the amount they lent. It is the fact that they did not lend that forced the borrower to put his bid up so that it invited the entire world to come there with their funds. Generally speaking,

Mr. Congressman, there was a tendency upon the part of all banks of the United States to control the situation.

The thing that seriously interferes with any control of it—and I do not know that they could have controlled it—was the so-called bootleg loan of funds coming from some source. If they had not come from one source, they would have come from another and if they had not come directly they would come indirectly. It was the lack of funds that put the rate up.

Mr. BEEDY. If you put the rate high enough—or, if you can not put the rates high enough, those funds will not come.

Governor YOUNG. They will come in a circuitous way just as sure as I am sitting here.

Mr. BEEDY. They have to be used by somebody, do they not? Money is to be used by some one.

Governor YOUNG. Yes, it has got to be used.

Mr. BEEDY. Now, you are going to let the fellow use the money that pays you the most, other things being equal?

Governor YOUNG. Yes.

Mr. BEEDY. If you get the call money rate high enough in New York, you will let that fellow in New York use it?

Governor YOUNG. Not all of it.

Mr. BEEDY. Well, as much as he can get hold of with safety, and retaining enough to satisfy the local interests at the same time?

Governor YOUNG. Yes, sir, and credit is pyramided. You know that?

Mr. BEEDY. That is true.

Governor YOUNG. Those high rates tended to pyramid credit and expand credit. That is the one position the Federal Reserve took. It did not take any position with reference to the prices of securities. It took the position that this considerable expansion of credit for this particular purpose eventually would work to the harm of the business interests of the country, and all their efforts were used to curb that tremendous expansion.

Mr. BEEDY. Now, following up this testimony of Governor Strong's, that it takes about six months for the machinery of the Federal Reserve Board to work out results, you began to cut down your rediscount rates in 1929 when?

Governor YOUNG. The first rate reduction was in November, I think. November 1, the New York rate was reduced from 6 to 5 per cent.

Mr. BEEDY. And the next reduction was?

Governor YOUNG. November 15, to 4½ per cent.

Mr. BEEDY. And the next reduction?

Governor YOUNG. February 7, 4 per cent. The last reduction was March 15, 3½ per cent.

Mr. BEEDY. Now, then, along in the middle of this summer, unless the Federal Reserve Board—the latter part of the summer—unless the Federal Reserve Board changes its policy of doing what it can to ease the credit situation, let us see what will happen in the prices of securities.

Governor YOUNG. You are not making an inquiry of me?

Mr. BEEDY. No; I say let us see.

The CHAIRMAN. Governor, supposing a banker in Fargo, N. Dak. wants to lend some money in the call market in New York. I merely

mention Fargo by way of illustration. It might be Memphis or any other part of the United States. What method do they pursue in lending that money?

Governor YOUNG. They wire the New York correspondent to charge their account a certain amount and invest it in call loans.

The CHAIRMAN. There is a limitation to lending money to brokers; that is, an individual or an individual banker, unless they go through a New York bank, can not lend money on the call market?

Governor YOUNG. What is that, Mr. Chairman?

The CHAIRMAN. A bank in Fargo, N. Dak., can not lend money on the call market without going through a New York bank?

Governor YOUNG. It is a matter of procedure and not law.

The CHAIRMAN. All these brokers' loans have to be made through a New York bank?

Governor YOUNG. That is correct.

The CHAIRMAN. A Chicago banker can not lend money in New York—I am speaking of brokers' loans—without going through a New York bank?

Governor YOUNG. That is the procedure, if I am correctly informed.

The CHAIRMAN. Do I understand this to be a practice which has grown up in recent years—the question of banks throughout the country lending their surplus funds in the New York call loan market? My understanding is that that has developed somewhat in this manner, and I should like to have you check me up on it if I am wrong, that the large New York banks are largely responsible for this development of country bank loans in the call money market and loans for the account of others, through their practice of getting business throughout the country; in other words I have been told that a business concern or a bank that kept, say, $3,000,000 on deposit in New York, would be approached by a New York bank and asked to transfer their account to that bank, and as an inducement to do that, they will say, "We will lend $2,000,000 of that on the call market if you will keep the other million on deposit with us."

Through the operation of that plan they have built up a large clientele and have induced country banks to lend their surplus funds in the call-loan market and have also induced industrial concerns with surplus funds, concerns with attractive and profitable accounts for banks, to do the same thing. This development is due apparently to the large banks going to the small banks and offering the opportunity of lending their money at twice the usual rates in the call-loan market. Do you know anything about that?

Governor YOUNG. I have never had any actual experience with it myself, Mr. Chairman, but I am told that has been the procedure.

Mr. BEEDY. You stated that the call-money rate got to a point where it was no longer profitable or would reach a point where it was no longer profitable to carry the stocks and make money and that, as I understood you to say, contributed to the collapse of the market last fall.

Governor YOUNG. In my opinion it had an effect; yes.

Mr. BEEDY. Was it not rather the fact that, even though a 20 per cent call-money rate obtained, they were not able to get any more money, and so had to stop?

Governor YOUNG. No; the money was always forthcoming from some source.

Mr. BEEDY. Was it still continuing to come when the market broke?

Governor YOUNG. Oh, yes; there was a tremendous increase in broker's loans from July 29 to October 16; they raised almost $800,000,000 in that short period, on rates averaging about 8 per cent, I should say.

Mr. BEEDY. As you say, there are always so many factors in these situations that it is impossible to single out any one and attribute to it a major influence.

Governor YOUNG. That is true.

Mr. BEEDY. But it seems to me, as we look back over the history of the country and see what has happened to the market, that it was not because it was unprofitable to pay 20 per cent and to realize five, six, and eight points in three or four days on a stock that it collapsed, but it was because they could not get any more money.

Governor YOUNG. No; the money was forthcoming.

Mr. STRONG. From where?

Governor YOUNG. I suspect, Mr. Congressman, that when we refer to money we mean credit. Much of it was manufactured.

Mr. WINGO. I either misunderstand Mr. Beedy or the governor on some of the figures that you have been talking about. I have before me your table that you referred to, "Loans to brokers and dealers in securities made by reporting member banks in New York City," and, on October 2—and these figures refer to millions of dollars—there were 6,804; on October 9, 6,713; on October 16, 6,801; on October 23, 6,634; on October 30, 5,538; on October 6, 4,882; on November 13, 4,172; on November 20, 3,587, and so on; and now, commencing with the 1st of October, instead of declining, the peak on October 2 occurred; it was $3,000,000 more on October 2 than on October 16, the other peak, and then it dropped $200,000,000 from the 16th to the 23d, and dropped over a million between the 23d and the 30th.

Governor YOUNG. My statement, Mr. Congressman, is that between June and October there was a tremendous increase in brokers' loans; almost $800,000,000.

Mr. BEEDY. But the collapse did not come between June and October; it came in October, and at that time there was evidently a failure of funds in New York City banks to sustain the market.

Governor YOUNG. That is the point; the funds did come when the crash came; the New York banks stepped right into that situation and took over those brokers' loans as rapidly as they were called. That was the only thing they could do to prevent a widespread panic throughout the world.

Mr. BEEDY. That was not an increase in the supply of money; it was a matter of bookkeeping. In other words, it was changing from brokers' loans to bank loans.

Governor YOUNG. That is correct.

Mr. BEEDY. But they did not have any more money to do it than in the first place; there was not any more money in New York City when they began to cut down brokers' loans and increase their own borrowings.

The CHAIRMAN. And increase their borrowings at the Federal reserve banks.

Mr. BEEDY. And increase their borrowings at the Federal reserve banks. There was not any more money coming in from world

sources or from a mysterious source. Either one of two things happened—either somebody somewhere stopped manufacturing credit, or else, as the figures would seem to indicate in the New York banking situation, the available funds either for brokers' loans or for borrowings by banks began to fall off.

Governor YOUNG. The demand began to fall off. The funds were always available there, and that is what that call loan committee does; they fix the rate that will bring those funds, so that there will be no shortage.

Mr. WINGO. Right in that connection, before you get away from that, Mr. Beedy, attention should be directed to those figures that I gave a while ago so as to have the full picture, those figures showing a drop of about a billion dollars; and you should also consider the fact that there was an enormous drop in the value of the stocks and that there was a greater volume of stocks carried, even though it took a billion less, because the general average of stocks dropped very greatly. And I suspect the actual facts were that there was a larger volume of stocks carried. In other words, they took care of them, as the governor states, when the crash came, but it took less dollars in loans to take care of a larger volume of stock.

You catch the point I am making?

Mr. BEEDY. That is a fact.

Mr. Seiberling wanted me to yield to him.

Mr. SEIBERLING. Governor, if your theory is correct that there was always sufficient money in New York, then why did the call money rate go up?

Governor YOUNG. During that period?

Mr. SEIBERLING. Yes.

Governor YOUNG. It went down.

Mr. SEIBERLING. I am talking about prior to that time. Why did the rate on call money go up if they always had sufficient money in New York?

Governor YOUNG. It was the rate that brought it there. For instance, you may have a shortage of $30,000,000 in the call loan situation to-day, and this committee that we were speaking about the other day sizes that situation up. We will say that there is a rate of 4 per cent at the moment, and they figure that a 4½ per cent rate will bring that money in, and they may change it at 11 o'clock, and they are still short and they will raise it to 5 per cent, and that may not bring the money in, and they will raise it to 5½, and, if that does not bring the money in, they will raise it to 6 per cent, and before the close of business that night they will have a rate that will bring that money from some place in the United States by telegraph.

Mr. SEIBERLING. But the call money rate went up because they did not have sufficient call money in New York?

Governor YOUNG. At the time, but the rate always brought the money and credit.

Mr. SEIBERLING. But when they got the rate away up and it still did not bring the money, something had to happen, did it not?

Governor YOUNG. It did bring the money, Mr. Congressman.

Mr. SEIBERLING. But there is a limit to the amount of money you can get even in New York at any call money rate, is there not?

Governor YOUNG. A theoretical limit, yes.

Mr. SEIBERLING. Well, the estimate is that it was $58,000,000,000 that was lost in the stock market crash in paper values. Is that correct?

Governor YOUNG. I have heard estimates much higher than that.

Mr. SEIBERLING. That is as much as all the deposits of all the banks in the country, is it not?

Governor YOUNG. Yes.

Mr. SEIBERLING. So that putting this money in New York is a very serious thing for the country. The banker might continue to carry his old loans, but he would not encourage any new business or enterprises or anything of that kind in dealing with a customer from whom he could not get more than the usury rate in his State when he could lend the money at 15 to 20 per cent in New York, would he?

Governor YOUNG. I think he would.

Mr. SEIBERLING. It is contrary to human nature.

Governor YOUNG. No, I do not think so. If I am running a commercial bank, I am interested in my community and in the industries in my community, and if I can make a good loan to a permanent customer at 6 per cent, I would hesitate before I would lend to a temporary borrower at 18 or 10 or 12 or 14 per cent, because the local customer is going to be with me forever.

Mr. SEIBERLING. You would just put him off for a few months?

Governor YOUNG. I would not do that.

Mr. SEIBERLING. You would not do it, but, as a matter of fact I know it was done.

Governor YOUNG. I do not think it was done in the majority of cases, Mr. Congressman, and I say that with all sincerity. I believe that the bankers of the country——

Mr. BEEDY. Of course, we do not know about that. Nobody knows about it, but it is clear from your testimony that the call rate does now suffice to bring money into New York when they want it, and if the then existing rate does not bring it in, they put it up until they get it in New York, and in getting it into New York they brought about a bad situation in the market, and we are feeling the consequences of it at the present time.

Governor YOUNG. That is correct.

The CHAIRMAN. Following up my questions of a few moments ago one of the problems which confronted you as the head of the Federal reserve system, I inferred from your testimony, was the lack of control over the money that came into this market for the account of others and country banks. Am I correct in that? You referred to them as bootleg loans.

Governor YOUNG. Lack of complete control. We did have some surveillance over it—for instance, we watched the situation very carefully and would not permit a member bank to borrow from us and then turn around and lend on call solely for profit.

The CHAIRMAN. But that was one of your problems, the fact that there was money coming in over which the Federal Reserve Board did not have jurisdiction?

Governor YOUNG. I will go a little bit further than that and say that the member banks did not have jurisdiction.

The CHAIRMAN. The point I am getting at is that this New York call loan money market is limited by the rules in New York. New

York banks introduced bootleg loans into the call-loan market, they introduced the country banks into that market, and they introduced the business concerns of the country into that market, because those loans had to be made through the New York banks. Therefore I am assuming that the New York banks were largely responsible for bringing that money into New York.

Now, I would like to ask whether or not that situation could not be remedied either by rules and regulations of the stock exchange pertaining to those brokers loans, or through putting limitations on the New York banks as to the amount of money they can loan for account of others, and, if such loans are made, whether they could not be regulated to a great extent by requiring reserves against those loans in the same manner as the banks are required to keep reserves against deposits, because it has been clearly proven in this particular situation that there is no difference between the total aggregate of those brokers' loans in New York City and deposits in those banks in New York City—in other words, when those loans were called, the New York banks had to meet them just as they would demands from their customers for the withdrawal of their own funds.

Governor YOUNG. Mr. Congressman, experience is a great teacher, and I suspect that the New York banks worried enough about that situation during 1928 and 1929, so that they are giving a great deal of thought to it. I have been informed that some studies are being made of it to see what can be done. I hope something can be developed.

Mr. BEEDY. I am through but would tie all my questions up to the issue by asking you one question.

In your opinion, is it going to be easier through call-money rates or other banking devices in New York City to get funds into that center under a group-banking or chain-banking or branch-banking system than it would be under a unit banking system? Is not one of the arguments for this branch banking movement the mobility of funds and the advantages of the system?

Governor YOUNG. That is an extremely hard question to answer, Mr. Congressman. The answer, I suppose, would be determined entirely by the attitude of the unit banker or the attitude of the group banker or the attitude of the branch banker.

Mr. STRONG. How are you going to control the attitude?

Mr. BEEDY. We can not go into that. Here is an opportunity, a possibility under a call-loan rate of 20 per cent, to get returns far in excess of any to be realized in any other interest market, and here is a big bank in New York City, in a group or a chain, extending clear across the country. All it has to do is to wire these banks and say, "Ship us so many thousand dollars." Is not that a fact?

We will not go into the attitude or the psychology of it, but it is going to much easier, as a matter of practical banking operation, to have that money there in New York and more quickly under a group, chain, or branch banking system than it would have been if consolidations had never been permitted or branch banks were never authorized throughout the country?

Governor YOUNG. Under a branch banking system, of course, they would have those funds in New York, theoretically; that is where the books would be kept. In the case of a group bank where they attempt to maintain local autonomy, the possibilities are that the

local bank had lent the money long before the central bank would have wired them.

Mr. BEEDY. Of course.

Governor YOUNG. The bank would not leave $200,000 lying around idle with a high call rate in New York.

Mr. BEEDY. Of course, they could not do anything unless the banks in the group had available funds for loaning purposes, but, if they had, it would be easier to get them in New York where they control the system or part of it than where they have to deal with independent banks.

Governor YOUNG. I do not think so.

Mr. BEEDY. Why not?

Governor YOUNG. If I am an independent banker in Minneapolis, Minn., I can get money on call inside of an hour's time and get it out just as quickly.

Mr. BEEDY. But you have to ask somebody else about it; you can not issue an order merely.

Governor YOUNG. I just have to wire my correspondent in New York to charge my account and put so much on call, and, if I want it back, I wire, "Call the loan and credit my account."

Mr. BEEDY. So that this argument which has been advanced here that there is an advantage under the branch-banking system in that it provides easier mobility of funds is not tenable, in your opinion?

Governor YOUNG. Mobility of funds to lend on the New York Stock Exchange?

Mr. BEEDY. For any purpose—getting funds and credits from one section of the country to the other in the group or chain or in the line of branches?

Governor YOUNG. Yes; I think there is something to the argument; but do not misunderstand me——

Mr. BEEDY. How can you answer that question "Yes" and the other question "No"?

Governor YOUNG. Because the argument for those funds was to get them into the interior and not in New York City.

Mr. BEEDY. Do you mean to say, then, that it would be easier to get funds out of New York City into the interior under a branch-banking system than it would be to get funds from the interior into New York City?

Governor YOUNG. That is the argument of the Comptroller of the Currency, and an argument that I am inclined to agree with.

Mr. BEEDY. Now, I think it would be interesting to have us understand why that is so. I have never grasped it.

Mr. WINGO. May I make a suggestion there? If I were to attempt to set forth the advantages of branch banking, I would say that there would be greater efficiency of control in a large bank with branches, with a quicker perception of the danger of keeping the money in the call-loan market, and a quicker tendency to pull it back to meet the needs of the interior.

Mr. BEEDY. It works both ways.

Mr. WINGO. I was moved to say that because you were about to infringe on my right; you have gotten over on my side, and, so, to keep the balance, I have gotten over on your side.

Mr. BEEDY. I do not know what you are talking about.

Mr. WINGO. Did you never play the old game of "shinny"?

Mr. BEEDY. Yes.

Mr. WINGO. You were "shinnying" on my side.

Mr. BEEDY. What is your position?

Mr. WINGO. My side is against branch banking, and, if you get over on this side, against branch banking, I just thought I would gravitate to the other side.

Mr. BEEDY. I want to get all the facts. My thought was that it is easier under a branch banking system to get funds out of New York City if the attitude of the banker in charge of the branch system is such as to take that step, and that it is likewise easier to get money out of the small localities into New York it is believed that greater returns for the moment under a branch banking system or group banking system may thus be realized than would otherwise be the case.

Governor YOUNG. I probably did not catch your former query. Obviously it would work both ways.

The CHAIRMAN. Mr. Strong, it is your turn to question the Governor.

Mr. STRONG. Mr. Chairman, I want to examine the Governor on branch, group, and chain banking, but this subject that has come up this morning is producing such a fund of information in favor of a policy of the Federal Reserve Board stabilizing the price of money that I want it continued, and I yield to Mr. Fort.

The CHAIRMAN. I understand Mr. Fort is, then, to proceed.

Mr. FORT. I want to ask one or two questions in reference to matters that have not been touched upon.

Customarily, Governor Young, call loans are not accompanied by any deposit from the borrower with the bank from which he secures the loan, are they?

Governor YOUNG. So far as the bank that lends the money in the interior is concerned, I do not think so. What arrangements a broker may have with the New York correspondents about compensating balances, I do not know.

Mr. FORT. As I get the practice, and certainly this is true as it relates to my own bank, if we lend money on the New York call market through our New York correspondent, we compensate that correspondent by a commission on the interest, but we get no deposits in Newark from anybody to compensate for the amount we loaned on call in New York.

Governor YOUNG. That is correct, unless you would make a time loan direct to that broker.

Mr. FORT. I am speaking of call loans only. Now, that differs from the usual rule of American banking, of requiring the borrower to maintain a deposit account with the bank that loans him the money, does it not?

Governor YOUNG. That is true, with the exception of commercial paper and bankers' bills.

Mr. FORT. Consequently, the bank has not the same opportunity to profit out of a call loan at 6 per cent when commercial loans in his vicinity are at 6 per cent, because it has no compensating deposit from the borrower on which it pays but 2 per cent or nothing.

Governor YOUNG. That is correct.

Mr. FORT. In other words, it is not lending him back part of his own money?

Governor YOUNG. No.

Mr. FORT. So that if you were to have a fixed call-loan rate, and desired to preserve the call-loan market, you would have to allow a higher charge for interest on call loans than on other loans, would you not?

Governor YOUNG. That is correct.

Mr. FORT. Now, the method of making call loans is that certain money brokers on the New York Stock Exchange handle those loans for all accounts, do they not, banks and nonbankers?

Governor YOUNG. In 90 per cent of the cases; yes.

Mr. FORT. And those money brokers make loans sometimes, we will say, of $5,000,000 in a single loan, which represents the money of 40 or 50 different lenders?

Governor YOUNG. It may be.

Mr. FORT. In one single loan?

Governor YOUNG. It may be.

Mr. FORT. That money broker gets a compensation for his services as the intermediary, based on the amount he places, does he not?

Governor YOUNG. I do not know, Mr. Congressman, whether that is so or not.

Mr. FORT. I think that is the fact.

Governor YOUNG. Well——

Mr. FORT. Now, in the peak of the money trouble last fall, the major part of the money loaned in New York on call was for the account of others and not for the account of member banks—is not that true?

Governor YOUNG. That is correct.

Mr. FORT. And that meant not merely loans for other banks, nonmember banks, but also very substantial loans for the account of business corporations and other types of financial institutions, did it not?

Governor YOUNG. That is correct.

Mr. FORT. There was nothing to prevent—and, indeed, it was done, was it not—the money brokers from handling the money for the account of nonmember banks directly without the intervention of any bank? For example, let us take the United States Steel Corporation; when it placed a call loan in the New York market of $30,000,000 or $40,000,000, it was placed through its own broker and not through its bank, was it not?

Governor YOUNG. I do not think so; it was placed through its bank.

Mr. FORT. But not invariably.

Doctor GOLDENWEISER. Not invariably.

Mr. FORT. Many of the large industrial corporations maintain their own lending offices, do they not?

Governor YOUNG. Not that I know of.

Mr. FORT. I thought they did. Many of the insurance companies and other institutions of that sort make the loans at their head offices and not through their banks.

Governor YOUNG. That is all news to me.

Mr. FORT. And there are many private bankers who loan direct, are there not?

Governor YOUNG. Yes; private bankers.

Mr. FORT. And when those men lend on call, they withdraw a deposit from a bank, do they not, in order to make a loan?

Governor YOUNG. In the great majority of cases.

Mr. FORT. The tendency of the high loan rate on call last year was toward a reduction in deposits in the New York banks, was it not?

Governor YOUNG. I will have to check those figures.

Mr. WINGO. Reduction of local deposits?

Mr. FORT. No; total deposits.

Governor YOUNG. Net demand deposits of reporting member banks of New York City between January and October 2 ranged from a low of $5,106,000,000 on August 2 to a high on January 2 of $5,682,000,000, and that $5,682,000,000 really should not be taken, because that is after the period that I have——

Mr. FORT. Now, the 1st of February.

Governor YOUNG. $5,354,000,000.

Mr. FORT. So that there was a decrease of $200,000,000 between the 1st of February and August?

Governor YOUNG. Approximately.

Mr. FORT. And that is the period when the highest call money rates prevailed, is it not?

Governor YOUNG. Correct.

Mr. FORT. Now, deposits increased after the collapse in the call-money rate which accompanied the collapse in the stock market, did they not?

Governor YOUNG. They increased very rapidly in New York City.

Mr. FORT. They went up from what?

Governor YOUNG. The peak of demand deposits, according to my figures here, occurred on October 30, when they mounted to $6,851,000,000.

Mr. FORT. And that was just at the time of the big crash?

Governor YOUNG. That was right at the end of it.

Mr. FORT. The crash went on into November.

Governor YOUNG. I mean that there was a very severe period from October 23 to November 1.

Mr. FORT. Was not this in very large part due to the return to the banks of money which had been previously loaned for the account of others?

Governor YOUNG. That is correct. What happened in October—that is from October 23 to November 1—is that the New York banks to save that situation (as the loans were called by country banks and by others, apparently through fear, because they had no use for the money), took the loans over, thereby increasing their loans, and the country banks and others left the money on deposit with the New York banks so that there was a very rapid increase in loans and a very rapid increase in deposits in the New York reporting member banks during that week.

Now, all that the New York banks needed to handle that situation was the additional reserve that they were required to carry with the Federal Reserve bank on the increase in deposits, and that is what the New York banks did during that period.

Mr. FORT. What happened to time deposits in that same period, between the 1st of February and the high point? What were the low and high dates?

Governor YOUNG. We will take February 1. Time deposits, New York reporting member banks, $1,200,000,000. On August 28 there were $1,189,000,000, practically no change.

Mr. FORT. What were they on the 30th of October?

Governor YOUNG. $1,257,000,000.

Mr. FORT. That is an increase of nearly $100,000,000.

Governor YOUNG. From February, an increase of $57,000,000.

Mr. FORT. But from August——

Governor YOUNG. From August, $100,000,000.

Mr. FORT. So that apparently between the low date of deposits in August, which was also at the time when the money rate was running very high and the time of the low money rate that followed the crash, there was a substantial increase in deposits with the member banks in New York City, both time and demand?

Governor YOUNG. There was an increase of $300,000,000.

Mr. FORT. Now, in that same period after the crash, would not the more significant figure be the total loans on collateral?

Governor YOUNG. I am inclined to think so.

Mr. FORT. What was the figure covering total loans on collateral in August?

Governor YOUNG. In New York, or throughout the United States?

Mr. FORT. In New York.

Governor YOUNG. My previous reply to you applied to the entire United States.

Mr. FORT. I appreciate that. I want to get New York first.

Governor YOUNG. I am giving you New York. Reporting member banks on January 30, loans on securities, which included brokers' loans, were $2,795,000,000.

Mr. FORT. What about the latter date?

Governor YOUNG. On October 30 they were $4,205,000,000.

Mr. FORT. What were they on that August date in between?

Governor YOUNG. On August 28 they were $2,819,000,000.

Mr. FORT. So that between February and August the figure is about the same, but by October 30 the loans on collateral had risen $1,300,000,000 by the New York banks?

Governor YOUNG. Correct. That practically all came in the week of October 23 to November 1st.

Mr. FORT. And that raise represented the transfer of securities by individuals from their broker's account to their bank, did it not?

Doctor GOLDENWEISER. Where customers borrowed directly from the banks instead of through brokers.

Governor YOUNG. That is correct; that represented a large part of the increase.

Mr. FORT. And it also represented a reduction in the amount of loans for the account of others which the banks had to step in and cover?

Governor YOUNG. Correct.

Mr. FORT. In this same period, when we have been observing that the change in the deposit figure was only a few per cent, the total brokers' loans had gone up from what figure on February 1 to the August 28 figure in New York City?

Governor YOUNG. On January 30 there were $5,559,000,000; on August 28, $6,217,000,000.

Mr. FORT. What was the peak?

Governor YOUNG. October 2, I think.

Mr. FORT. What was that?

Governor YOUNG. $6,804,000,000.

Mr. FORT. And that is an increase of $1,300,000,000 between February and October?

Governor YOUNG. That is approximately correct, sir.

Mr. FORT. But in that same period the deposits with all New York banks had remained practically stationary, had they not?

Governor YOUNG. Well, between February and August they had gone off——

Mr. FORT. No; February to October.

Governor YOUNG. Very little change.

Mr. FORT. So that the entire increase of $1,300,000,000 in the loan account between February and October 2 was provided other than through an increase of deposits with the New York banks which they loaned out?

Governor YOUNG. That is correct.

Mr. FORT. Now, that money came from abroad, as well as from this country, did it not?

Governor YOUNG. It did.

Mr. FORT. And as to the major portion of it, the bank must have acted simply as an agent and not as a lender for its own account?

Governor YOUNG. That is correct.

Mr. FORT. Otherwise it would be reflected by an increase in the deposit account?

Governor YOUNG. That is right.

Mr. FORT. Now, that would perhaps to some extent bear out your theory, Governor Young, that they could get the money somewhere if they could not get it from the banks, would it not?

Governor YOUNG. Yes.

Mr. FORT. You said in answer to a question—I think by Mr. Beedy—that the rapid decline in the call rate in October was due primarily to a drop in the demand rather than to an increase in the supply, in the total call loans.

Governor YOUNG. If I did I should have added some other factors to it.

Mr. FORT. I do not mean that you used those specific words, but that was the impression I got.

Governor YOUNG. I would like to add a little something to that. Starting with August, with the seasonal requirements of the country, the Federal reserve was buying bills and buying a limited amount of Government bonds, which had a tendency to put more credit into the market. In addition to that, in the latter part of October, when this crash did come, there was a willingness upon the part of New York banks to lend, when up to that time there had not been a willingness on their part.

Mr. FORT. I think you and I are not talking directly to the same point. As I recall it, the question of Mr. Beedy and your answer were something like this—or it may have been Mr. Seiberling's question: The question was asked you, in effect, whether the crash in the market was not due to a lessening of the supply of funds that even the high call rate failed to bring in, and your answer was that this decrease in loans was due rather to a decrease in demand for loans than to a lack of available funds. Is that correct, or is it not—to a decrease of brokers' loans?

Governor YOUNG. I want to answer that accurately, Mr. Congressman. That would cover the period from February until——

Mr. FORT. No. Perhaps I have not gotten it clear yet.

As I understood it, you were being questioned about the effect of high rates on drawing money in, and the question was asked you as to whether or not the high rate did not ultimately fail to draw enough money in to support the high stock market, and therefore it had to crash for want of money. What I am trying to get at is whether the crash came from the want of money to carry on, or whether it came from some other cuase, plenty of money being available?

Governor YOUNG. I think I did reply to that at the time, Mr. Congressman, that there was less demand, but in reviewing these figures I think perhaps it would be better for me to correct that and say that that there was an increase in the supply rather than a lack of demand.

Mr. FORT. It is now after 1, and there is a special matter coming up on the floor to-day.

The CHAIRMAN. I was simply letting you finish.

Mr. FORT. I know you were, and I would like, if I could, to finish because I had some conclusions I wanted to draw from these figures, and I would like to go on on Friday morning, as the governor says he can not be here to-morrow.

Mr. DUNBAR. Can we not have a session at 2.30 o'clock?

* * * * * * *

The CHAIRMAN. In accordance with the instructions of the committee, the chairman has sent invitations as follows:

To the Northwest Bank Corporation, Minneapolis, Minn., Mr. E. W. Decker, to appear before the committee April 15.

To the First Bank Stock Corporation, Minneapolis, Minn., Mr. L. E. Wakefield, to appear before the committee April 16.

To the Guardian Detroit Union Corporation, Detroit, Mich., Mr. Robert O. Lord, to appear before the committee April 23.

To the Marine Midland Corporation, Buffalo, N. Y., Mr. George F. Rand, to appear before the committee April 24.

To the First National Associates, Atlanta, Ga., Mr. John K. Ottley, to appear before the committee April 29.

To Mr. A. P. Giannini, Transamerica Corporation, San Francisco, and Mr. James A. Bacigalupi, Transamerica Corporation, San Francisco, to appear before the committee May 6.

These invitations have been accepted by all except Messrs. Ottley, Giannini, and Bacigalupi, and I have understood indirectly that it was agreeable to Mr. Giannini and Mr. Bacigalupi to appear on May 6 and I suppose I will receive later advice.

(Thereupon, at 1.05 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS

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

The CHAIRMAN. The committee will come to order.

Mr. Fort, will you proceed?

Mr. FORT. Governor, I wish you would put into the record that memorandum you were referring to this morning of the usury rates in the different States.

Governor YOUNG. It covers the legal rates of interest and contract rates of interest of all the States in the Union, as taken from the Rand McNally Bankers' Directory as of date of June 30, 1929.

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

(The statement referred to is as follows:)

Interest rates

States and Territories	Legal rate of interest	Rate by contract	States and Territories	Legal rate of interest	Rate by contract
	Per cent	*Per cent*		*Per cent*	*Per cent*
Alabama	8	8	Nebraska	7	10
Alaska	8	12	Nevada	7	12
Arizona	6	10	New Hampshire	6	[2]
Arkansas	6	10	New Jersey	6	6
California	7	[1]	New Mexico	6	12
Colorado	8	[1]	New York	6	[3] 6
Connecticut	6	12	North Carolina	6	6
Delaware	6	6	North Dakota	6	9
District of Columbia	6	8	Ohio	6	8
Florida	8	10	Oklahoma	6	10
Georgia	7	8	Oregon	6	10
Idaho	7	10	Pennsylvania	6	6
Illinois	8	7	Porto Rico	6	12
Indiana	6	8	Rhode Island	6	[4]
Iowa	6	8	South Carolina	7	8
Kansas	6	10	South Dakota	7	10
Kentucky	6	6	Tennessee	6	6
Louisiana	5	8	Texas	6	10
Maine	6	[2]	Utah	8	12
Maryland	6	6	Vermont	6	6
Massachusetts	6	[4]	Virginia	6	6
Michigan	5	7	Washington	6	12
Minnesota	6	8	West Virginia	6	6
Mississippi	6	8	Wisconsin	6	10
Missouri	6	8	Wyoming	7	10
Montana	8	10			

[1] Any rate agreed upon is legal on loans over $300 but Colorado courts decline to indorse grossly unreasonable rates.
[2] Any rate.
[3] Any rate agreed upon in writing is legal on collateral demand loans of $5,000 and over.
[4] On amounts exceeding $50, 30 per cent, including service and expenses; on amounts not exceeding $50, 5 per cent per month for the first six months, 2½ per cent thereafter.

Mr. FORT. Governor, we were talking this morning about the effect of the brokers' loan situation on deposits. Will you give me again for the record the total of brokers' loans on February 2, August 28, and October 30, was it not, that we were using this morning?

Governor YOUNG. Well, using January 30, 1929, August 28, 1929, October 2, 1929, and October 30, 1929—I think those are the dates we used——

Mr. FORT. Yes.

Governor YOUNG. Total loans and investments of all reporting New York City member banks, January 30——

Mr. FORT. No, brokers' loans.

Governor YOUNG. Loans on securities?

Mr. FORT. No, brokers' loans first, please. Then I will come to securities.

Governor YOUNG. The total of all brokers' loans on January 30, 1929, was $5,559,000,000; on August 28 they were $6,217,000,000; on October 2, $6,894,000,000; and on October 30, $5,538,000,000.

Mr. FORT. Now, will you give me the secured loans of the New York banks for the same dates?

Governor YOUNG. January 30, $2,795,000,000; August 28, $2,819,000,000; October 2, $2,947,000,000; and October 30, $4,205,000,000.

Mr. FORT. And the demand deposits as of those same dates, of the New York banks?

The CHAIRMAN. May I ask, does that include time as well as call loans?

Governor YOUNG. That includes time and call loans, both.

January 30, $5,334,000,000 net demand deposits; August 28, $5,106,000,000; October 2, $5,279,000,000; October 30, $6,851,000,000.

Time deposits, January 30, $1,200,000,000; August 28, $1,189,000,000; October 2, $1,256,000,000; and October 30, $1,257,000,000.

Mr. FORT. Now, will you give me the brokers loans for others?

Governor YOUNG. Will that include out of town banks?

Mr. FORT. Yes.

Governor YOUNG. I will have to add those figures.

Mr. FORT. Well, then, give them to me separately, loans for others and loans for out-of-town banks.

Governor YOUNG. For out-of-town banks, January 30, $1,853,000,000; August 28, $1,756,000,000; October 2, $1,826,000,000; and October 30, $1,005,000,000.

For others, January 30, $2,615,000,000; August 28, $3,468,000,000; October 2, $3,907,000,000; and October 30, $2,464,000,000.

Mr. FORT. Now, one other set of figures, for all reporting member banks, demand deposits and secured loans. Let me have secured loans first on those same four dates.

Governor YOUNG. Loans on securities?

Mr. FORT. Yes.

Governor YOUNG. January 30, $7,440,000,000; August 28, $7,515,000,000; October 2, $7,828,000,000; and October 30, $9,179,000,000.

Mr. FORT. And the deposits?

Governor YOUNG. Demand deposits, January 30, $13,395,000,000; August 28, $12,985,000,000; October 2, $13,295,000,000; and October 30, $15,110,000,000.

Now, time deposits. January 30, $6,893,000,000; August 28, $6,786,000,000; October 2, $6,825,000,000; and October 30, $6,868,000,000.

That covers about 700 banks, that represent 101 cities, about 40 per cent of all total loans and investments.

Mr. FORT. From these figures, Governor, it appears that brokers' loans between January 30 and October 2 of the New York City banks increased from $5,500,000,000 to $6,800,000,000, or $1,300,000,000?

Governor YOUNG. That is correct.

Mr. FORT. And in that same period the secured loans of the New York banks for their own account only increased $150,000,000?

Governor YOUNG. For October 2?

Mr. FORT. Yes, sir.

Governor YOUNG. $150,000,000.

Mr. FORT. And that the loans for out-of-town banks, brokers loans, decreased $27,000,000?

Governor YOUNG. $27,000,000; that is correct.

Mr. FORT. But that in the same period the loans for the account of others, which means non-banks, I take it, increased from $2,615,000,000 to $3,907,000,000, or $1,300,000,000?

Governor YOUNG. That is correct.

Mr. FORT. In that period it also appears that the deposits, demand deposits, in New York City banks actually decreased $55,000,000?

Governor YOUNG. That is correct.

Mr. FORT. And the deposits of all banks decreased $100,000,000?

Governor YOUNG. Demand deposits?

Mr. FORT. Demand deposits.

Governor YOUNG. That is correct.

Mr. FORT. And the deposits on time of all banks decreased $68,000,000?

Governor YOUNG. $68,000,000.

Mr. FORT. In other words, at the peak of brokers' loans on October 2, banks for their own account were lending less money, or only slightly more money, both out-of-town and New York banks, than they were lending at the end of January?

Governor YOUNG. That is, October 2?

Mr. FORT. Yes.

Governor YOUNG. $47,000,000 less.

Mr. FORT. The money that made the trouble, then, in New York was not bank money, was it; that is, the money that met the high interest rate?

Governor YOUNG. Not in my opinion; practically no increase in the amount the New York banks had loaned to brokers from 1927.

Mr. FORT. It is not only the New York banks, but the loans of all banks, secured loans, have gone up in that period, between January 30 and October 2, for their own account, $382,000,000, while the brokers' loans have risen $1,300,000,000?

Governor YOUNG. That is correct.

Mr. FORT. And the banks have lost $100,000,000 deposits in that interim?

Governor YOUNG. Demand deposits?

Mr. FORT. Yes.

The CHAIRMAN. May I suggest that it would be helpful if Governor Young would describe the sources from which this money came?

Mr. FORT. I was coming to that.

There are only two places from which a bank can get the resources with which to loan funds for its own account, are there not, and those are its own capital and surplus funds and its deposit account?

Governor YOUNG. And what it might borrow from the Federal reserve banks.

Mr. FORT. Yes. The outsiders, however, nonbankers, have available all of their funds in any form to loan if they want to loan them—I mean, they can withdraw their moneys from the bank to make loans with, if they want to?

Governor YOUNG. That is correct.

Mr. FORT. Do you know or do you know whether there were substantial withdrawals from the banks for the purpose of direct loan by corporations on the stock market?

Governor YOUNG. There were.

Mr. FORT. Now, one other figure. We have confined ourselves here to the period between January and October 2. I now want to use the October 30 figures which I have taken off as you read them. If I am wrong, will you correct me as I read them into the record?

Brokers' loans between October 2 and October 30 had gone down from $6,804,000,000 to $5,538,000,000?

Governor YOUNG. That is correct.

Mr. FORT. The secured loans of New York banks had in the same period gone up from $2,947,000,000 to $4,205,000,000?

Governor YOUNG. That is correct.

Mr. FORT. That difference is practically $1,300,000,000 in each case, is it not? Brokers' loans are down $1,300,000,000, and loans on security by New York banks are up $1,300,000,000?

Governor YOUNG. That is correct.

Mr. FORT. As to loans for the account of others in that period, brokers' loans had gone down from $3,907,000,000 to $2,464,000,000, or about $1,450,000,000?

Governor YOUNG. That is correct.

Mr. FORT. In that same period also New York demand deposits had increased from $5,279,000,000 to $6,851,000,000, had they not?

Governor YOUNG. Yes, sir.

Mr. FORT. Or about the same amount that their loans had increased?

Governor YOUNG. $1,550,000,000, approximately.

Mr. FORT. Their time deposits were stationary. Their loans for out-of-town banks in that period had gone down from $1,826,000,000 to $1,005,000,000; is that correct?

Governor YOUNG. $1,826,000,000 to $1,005,000,000.

Mr. FORT. Now, turning to all bank loans for their own account between October 2 and October 30 on secured loans, that figure had gone up from $7,828,000,000 to $9,179,000,000; is that not correct?

Governor YOUNG. Yes, sir.

Mr. FORT. Which, again, is that figure of $1,300,000,000 that we seem to get?

Governor YOUNG. Practically all in New York.

Mr. FORT. And their deposits had gone up from $13,295,000,000 to $15,110,000,000?

Governor YOUNG. That is correct.

Mr. FORT. So that we find, when we come to analyze that loan picture, that the banks gained in deposits as they increased their loan account?

Governor YOUNG. That is always true.

Mr. FORT. And that the market was not financed between January and October by way of increase in loans out of bank funds, but out of funds for others?

Governor YOUNG. That is correct.

Mr. FORT. And the deflation between October 2 and October 30 resulted only in a decrease in the loan account for the account of others and an increase in the loan account for the account of the banks themselves?

Governor YOUNG. Not dollar for dollar.

Mr. FORT. Not exactly?

Governor YOUNG. No.

Mr. FORT. But a correlative one, in part.

Governor YOUNG. I think, if you figured that out, that there was a real liquidation, exchange of securities.

Doctor GOLDENWEISER. That was after October 30.

Mr. FORT. There was some before, obviously.

Governor YOUNG. Yes.

Mr. FORT. You have a decrease in loans to brokers between October 2 and October 30 for all accounts, a net decrease of about $900,000,000 in brokers' loans?

Governor YOUNG. For what dates?

Mr. FORT. October 2 to October 30.

Governor YOUNG. $1,262,000,000, I would say. That is, all brokers' loans went from $6,800,000,000 down to $5,538,000,000.

Mr. FORT. And that includes time loans?

Governor YOUNG. Yes; that is a $1,262,000,000 reduction.

Mr. FORT. But you had in that same period a deduction of $1,400,000,000 in loans for others, and a deduction of $800,000,000 in loans for out-of-town banks?

Governor YOUNG. That is correct.

Mr. FORT. Now, are you able to hazard what we might call an educated guess as to how much of that money was foreign money that was in those loans for the account of others?

Governor YOUNG. That is a very difficult figure for us to furnish, Mr. Congressman. The nearest that we can come to it is the amount of money that might have been loaned on call by New York banks or private banks for foreign banks, and that would exclude individuals and corporations and others, and that figure is only $150,000,000.

Generally speaking, foreign banks of issue and other foreign banks either leave their money on deposit here or they invest it in United States Government bonds, so that that figure would be of little benefit.

Mr. FORT. Or handle it through banking houses, which you get no record of.

Governor YOUNG. I think this does cover a record of some of the private banking houses.

The CHAIRMAN. May I ask, in connection with that, whether or not the Federal reserve keeps a record of the amount of foreign money on deposit in this country?

Governor YOUNG. We attempt to keep a record, and the Department of Commerce is attempting to do the same thing, but they are very unsatisfactory figures.

The CHAIRMAN. I should think they would be very essential figures in the exercise of the functions of the Federal reserve.

Governor YOUNG. We realize that, but they are extremely hard to get. At one time those figures were as high as $370,000,000, Mr. Congressman, just before this break, and the procedure, I think, that was followed generally by the foreign correspondents was to leave the money on deposit with the New York banks or the interior banks, and they paid them a rate of interest that bore relationship to the call-loan rate or the average rate they received.

I would rather not furnish that figure, because it does not sound right; it sounds much too small.

Mr. FORT. Very much too small. What I am after, however, is to see how much money there is available for what you call bootleg loans in this country. It seems to me quite obvious from these figures that there is a substantial volume of it.

Governor YOUNG. Well, there was approximately $4,000,000,000 on October 2.

Mr. FORT. Out of total loans of $6,800,000,000, brokers' loans.

Governor YOUNG. That is correct.

Mr. FORT. Now, that money was attracted here undoubtedly, or attracted into the loan market, by the rate, was it not—not necessarily by the individually high rate for a given date, but by the continuance of high rates over a long period?

Governor YOUNG. I would say that those funds were attracted in that market ever since the rate got to 3 per cent.

Mr. FORT. And kept increasing in volume as the rate went up?

Governor YOUNG. Yes.

Mr. FORT. The bulk of that money which was American in its origin as distinguished from foreign, must have come out of the deposits of some bank, must it not?

Governor YOUNG. Well, there are many factors to take into consideration there. If you would take the figures that we have been using, it would look as if the deposits had not gone down in any such proportion as the loans for others had gone up, so we have to go back a little bit and remember that there was a great gold movement into this country from 1921 clear through to 1924, that permitted a tremendous pyramiding of credit in this country. The momentum that that received up to 1924 continued clear through until 1928. In 1927 gold proceeded to leave this country, and as it left the country the only way that the banks of the United States—I mean collectively—could make up that shortage, was to borrow from the Federal reserve banks, with the result that their rediscounts did increase very rapidly during that period. Now, as those deposits were withdrawn from banks to lend on call, obviously somebody purchased the stock on credit and paid the owner, and the owner in turn had to redeposit in some bank somewhere.

Mr. FORT. But the original effect of the creation of the credit that was continually marking up the prices of securities and marking up the amount of chips that were exchanged for them should have been to swell the deposits, should it not?

Governor YOUNG. It did decrease the deposits throughout the United States?

Doctor GOLDENWEISER. Somewhat, but I think the point is correct. The loans for account of others did not create new deposits.

Governor YOUNG. It did not increase the deposits; it had a tendency to decrease them.

Doctor GOLDENWEISER. Just transferred them from one bank to another without increasing them.

Governor YOUNG. And if there was any tendency at all, it was downward.

Mr. FORT. Let us get at this other factor that affects the capital that was used there. What was the rediscount position of the New York banks? What were their total rediscounts on these same dates that we are talking about?

Governor YOUNG. On January 30 they were $215,000,000; August 28, $241,000,000; October 2, $152,000,000; and on October 30, $246,000,000.

Mr. FORT. And for all banks?

Governor YOUNG. For all banks, on January 30——

The CHAIRMAN. Do you mean for all banks in the United States or all banks in this——

Mr. FORT. All reporting banks.

Governor YOUNG. This would cover all member banks: $821,000,000 on January 30; $974,000,000 on August 28; $931,000,000 on October 2; and $991,000,000 on October 30.

Mr. FORT. You say that no great part of that volume of additional capital came by way of rediscounts?

Governor YOUNG. Not during that period.

Mr. FORT. Only an increase of $110,000,000 in all banks between January 30 and October 2, and an actual decrease of $61,000,000 in New York between those same dates?

Governor YOUNG. That is correct.

Mr. FORT. What were the gold imports in that same period?

Governor YOUNG. They would have a bearing on the amount of rediscounts. There was a large increase of $200,000,000 or more in gold supply.

Mr. FORT. What are the figures?

Governor YOUNG. On January 26, this figure was $4,117,000,000; on October 26, the average for that week was $4,386,000,000, an increase of $269,000,000 during that period.

Mr. FORT. How much currency was based on that increased gold?

Mr. BEEDY. Will you pardon me? Your record here tends to show that this was all imports, but you are now quoting figures on the stock of gold in the country, not just imports.

Governor YOUNG. I don't know just what the imports were during that period, but it was released from earmarks or imports or production; it came from those three sources.

Also, during that period money in circulation increased about $121,000,000.

Mr. FORT. From what to what?

Governor YOUNG. From January 26, when it was $4,677,000,000, to October 26, when it was $4,791,000,000, and an increase in currency requirements would have a tendency to increase the discounts, while the imports of gold would have a tendency to decrease the discounts of the banks.

Mr. FORT. Altogether, however, there is not enough in that to account for the inflation in the loans, is there? There is not enough in those gold figures or those rediscount figures?

Governor YOUNG. Well, that would make a difference to the extent of $100,000,000 only.

Mr. FORT. Have you the figures there, Governor, that will show what the commercial-loan picture was as of these dates?

Governor YOUNG. I am furnishing that figure with reservations.

Mr. FORT. This is for all banks?

Governor YOUNG. This is for reporting member banks.

Mr. FORT. This is the comparative figure to what you are using?

Governor YOUNG. Yes; and I do not know as I should give these figures as commercial loans. They are classified as all other loans.

Mr. FORT. Other than secured?

Governor YOUNG. Other than secured loans, presumably commercial loans, but, of course, you know and I know that many of them are not.

On January 30, $8,675,000,000; August 28, $9,434,000,000; October 2, $9,600,000,000; October 30, $9,755,000,000.

Mr. FORT. So that running hand in hand with the increase in brokers' loans of $1,300,000,000 between January and October 2, there was an increase of $925,000,000 in unsecured loans?

Governor YOUNG. Correct.

Mr. FORT. So that apparently if those unsecured loans were not for stock-market use, the business of the country got a substantial increase in funds at the same time the stock market was continuing to substantially increase?

Governor YOUNG. That is correct.

Mr. FORT. Somewhere, then, between January and October we found $925,000,000 of additional loans for general business purposes, along with $1,300,000,000 of additional loans for brokers?

Governor YOUNG. That is correct.

Mr. FORT. Now——

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

Mr. FORT. Yes.

The CHAIRMAN. Are we to infer that that money was used in industry, or did it go into the stock market?

Mr. FORT. I said I had some reservations on that subject in some of my questions. These were nonsecured loans.

Governor YOUNG. I presumed that they were used for business.

The CHAIRMAN. There is no way of telling, however, what it was used for?

Governor YOUNG. No. For instance, Mr. Chairman, a good customer of a bank comes in and asks for a loan of $10,000. They lend it to him. They do not ask any questions what he is going to do with it. It might go one way and it may go another way.

The CHAIRMAN. In that connection, a case was cited to me in New York where a man went in with United States Steel stock and asked his bank for a loan of $100,000. The bank said that they could not loan it to him if he was going to buy stocks, and he said that that was what he was going to use it for; but they did make the loan to him on his own personal note for $100,000 and he put his collateral in his pocket and walked out.

Governor YOUNG. There may be some of those cases, Mr. Congressman, but in the aggregate they would not amount to much.

I want to remind the committee that between February and July there was very active business in this country.

Mr. FORT. Which is reflected in the increase in loans; there is no question about that.

The conclusion that I personally reached on these figures, and I would like to have you check up with me, Governor, is this, that the banks as such were neither responsible for nor did they gain in any material way by the exaggerated brokers' loan position in New York City.

Governor YOUNG. I think, generally speaking, Mr. Congressman, with very few exceptions throughout the United States—and my contact was mostly with the larger banks—that they did everything within reason, everything within their power, to restrain this from expanding any further.

Does that answer your question?

Mr. FORT. It does, in part.

Governor YOUNG. There were some exceptions.

Mr. FORT. The further question in my mind is whether, with the net loss in deposits which accompanied this performance in spite of an increase in commercial loans of $925,000,000 between January 30 and October 2, the fact that there was a decrease of $100,000,000 in

deposits in that same period in the same banks indicates, as it seems to me it does, that they lost substantial deposits that they should have had?

Governor YOUNG. I think that is true.

Mr. FORT. And that therefore from the banks' own position, this money flurry in New York was harmful?

Governor YOUNG. I think it was harmful to everyone, Mr. Congressman. Perhaps I can illustrate that by following along just what did happen. For instance, when the broker got up to a point where he was charging the customer, say, 8 per cent, that prompted that customer to go to his local bank and request accommodation at 6 per cent or 5 per cent or whatever rate he could command, and he could command a pretty good rate because he had been a customer of the bank for many years, carried a very handsome deposit there and had not asked for any accommodation for years. So that, taking the city of Chicago, while they called these New York loans at the higher rates of 8, 9, or 12 per cent, they simply took that customer to another window where they lent him the money at 6 or 7 per cent. Of course, 6 or 7 per cent is a good profitable transaction for a bank, but not as profitable as the 14 or 15 per cent that they could have gotten by continuing to lend on call.

Mr. FORT. But the thing I am trying to get to is this, that if, as these figures seem to bear out, the banks, looking at them from their primary function, as banks of deposit, are not gainers by this enormous volume of loans induced by high call rates, and are losers from the subsequent disturbance of business, would they be better off if in any of these laws we make here we considered this question of call loans?

Governor YOUNG. Obviously that is a thing that should be considered. What the solution of it is, I do not know.

Mr. FORT. I do not, either.

Governor YOUNG. You have to bear in mind that the New York banks did increase their profit to a certain extent when they put a charge of one-half of 1 per cent on all of these loans they made for the account of others.

Mr. FORT. I am taking the banks of the Nation as a group. We can not consider legislation solely for the benefit or harm of a given group of banks.

The CHAIRMAN. That commission only went to the New York banks, though.

Mr. FORT. Yes.

The CHAIRMAN. That is right, is it not?

Governor YOUNG. Generally speaking, yes. Whether some of the interior banks charged a commission on top of what New York charged, I do not know. Some of them may have.

Mr. FORT. But it is also a fact, is it not, Governor, that if we attempted to regulate this situation by drastic regulation, we would simply increase what you called bootleg loans at the expense of loans that are placed through the banks and which we at least have a record of?

Governor YOUNG. I am afraid so, and I think that the only possibility of controlling that is in the way of something that the New York banks and the stock exchange may be able to work out themselves, but I do not know that there is a possibility of that.

Mr. FORT. It is also a fact that the inception of every speculative market is in low money and not in high money, is it not?

Governor YOUNG. As to every one that I can remember, that is true.

Mr. FORT. The accumulation of holdings by pools and large borrowers is always or almost always at a time of cheap money, is it not?

Governor YOUNG. The inception of it; yes.

Mr. FORT. And the high money period follows, when they have gotten the public interested and the public is beginning to clamor and not care what they pay for money, as long as they think they are going to make 10 per cent overnight in the stock?

Governor YOUNG. I think that in the last experience, maybe some of the originators stayed a little too long.

Mr. FORT. They originated too high. So that a mere curb on the high rate would not necessarily reach the whole evil?

Governor YOUNG. I do not think so.

Mr. FORT. And there would be some excuse for a higher call rate than for an ordinary loan rate because of the absence of a covering deposit, would there not?

Governor YOUNG. In the period such as we had from 1927 on, that is what happened, but ordinarily the call loan rate, which is supposed to be for an overnight loan, commands a much lower rate.

Mr. FORT. I know it does ordinarily, but there would be some excuse for the usury laws to be fixed, for example, so as to permit the call rate at times to rise above the commercial loan rate, because there is no covering deposit?

Governor YOUNG. Yes; that would be one factor.

Mr. FORT. On the other hand, the call loan is regarded generally as the safest and most liquid loan possible, is it not?

Governor YOUNG. I would prefer to put the bankers' bills and trade bills ahead of them.

Mr. FORT. But, with a trade bill, you have to wait until its due date.

Governor YOUNG. Yes.

Mr. FORT. And call money is the most liquid, because you can get it the next day.

Governor YOUNG. You mean, an overnight transaction?

Mr. FORT. Yes.

Governor YOUNG. I think Federal funds would be a little more liquid.

Mr. FORT. But even Federal funds would have to be sold at a discount the following day—a discount below the price at which they were purchased.

Governor YOUNG. Oh, no; you get 100 cents on the dollar the next day. You discount it to-day and it calls for 100 cents on the dollar to-morrow.

Mr. FORT. I thought you meant Government bonds?

Governor YOUNG. If you are operating a bank and you have some surplus reserve with the Federal reserve bank and I am short, I will say, "I will buy your surplus from you." If the discount rate is 3½ per cent, you have to make me a rate to induce me to buy it. But you sell it at a rate probably under 3½ per cent and you get your money the next morning at 100 cents on the dollar.

Mr. FORT. But the volume of that is not like the demand for call money?

Governor YOUNG. No; but at times it runs to one hundred to one hundred and fifty million.

Mr. FORT. But in comparison with any other form than what you call Federal funds, call loans are the most liquid, in that they are callable, practically speaking, without notice and payable at par?

Governor YOUNG. No; I would put bills before call loans. I would put bills ahead of call loans on collateral because, in a real emergency, if you have a call loan on bills you can always go to a Federal reserve bank and sell at a price.

Mr. FORT. If your call loan on collateral has been intelligently made and watched, you can also.

Governor YOUNG. As long as you can borrow from Peter to pay Paul; yes. You can not take call money to the Federal reserve bank, but you can take bills.

Mr. FORT. I was not thinking in terms of liquidity in Federal reserve terms but liquidity in the sense of instant realization.

Governor YOUNG. I hesitate in putting collateral loans above the commerce and business of the country.

Mr. FORT. I do not blame you for that.

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

Mr. FORT. Certainly.

The CHAIRMAN. The suggestion has been frequently made that brokers' loans be made eligible for rediscount in the Federal reserve. What is your opinion about that?

Governor YOUNG. I am opposed to it.

Mr. FORT. There is just one other question along a different line, but it was brought out by what Mr. Luce and Mr. Beedy were questioning you about.

Generally speaking, the higher rates of legal interest are to be found in those sections where there is less capital invested in banking—is not that true?

Governor YOUNG. I should like to check that, Mr. Congressman, but I think you are right in that statement.

Mr. FORT. Generally the lower rates prevail in those States that are known as possessing more capital, like the eastern States and the more powerful mid-western States—is not that true?

Governor YOUNG. That is true, but I took the position this morning that the rates were generally lower in the East than in the West, but I did not take into consideration the compensating balances which might make quite a difference. Generally speaking, I think, in reply to your inquiry, rates are higher where there is less banking capital.

Mr. FORT. That is true internationally as well as within this Nation and has always been true, has it not, that in the nations or sections where there is the greatest amount of capital for investment, the supply side produces lower rates?

Governor YOUNG. Generally speaking; yes.

Mr. FORT. And we, as a nation, used to pay England very much higher rates for the capital that was invested over here by England than England was able to get on her own loans at home?

Governor YOUNG. That is correct.

Mr. FORT. Until we became a nation of large capital?

Governor YOUNG. That is correct.

Mr. FORT. And if that be true—and I interject here that I am somewhat like Mr. Wingo; I am not yet a convert to branch banking—if it be true, will it perhaps not have a tendency to influence country loan rates downward if banking institutions with substantial capital extend out into those sections?

Governor YOUNG. In my opinion it will.

Mr. FORT. Governor, will you put into the record at this point, the call-loan rates on the four days that we have been using?

Governor YOUNG. I shall be glad to do that.

Mr. FORT. And the Federal rediscount rates on the same day—call and time on collateral?

Governor YOUNG. We shall be glad to do that.

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

Discount rate at the Federal Reserve Bank of New York, compared with open-market rates on stock exchange collateral loans: 1929

	Call rate (renewal)	Time rate	Discount rate, Federal Reserve Bank of New York
1929:	*Per cent*	*Per cent*	*Per cent*
Jan. 30	7	7½–7¾	5
Aug. 28	9	8¾–9	6
Oct. 2	9	9	6
Oct. 30	6	6	6

The CHAIRMAN. There has been so much said about brokers' loans, I suggest, Governor, that you define a brokers' loan and tell us how it is handled.

Governor YOUNG. Why, a buyer of securities goes to his broker and orders certain stocks. He may put up a cash deposit with the broker or he may put up some listed securities. He ends up, if he can not pay for them in full, with a debit balance. In so far as he is concerned, it is an open account with the broker. No note is given.

A broker has many customers. During the course of a day he buys a certain number of shares of stock for various customers and, to settle for those the next morning at 10 o'clock, he has to borrow some money. So, he telephones to the exchange that he wants to borrow a certain amount of money. Simultaneously, some one who has some money to lend, phones to the exchange at the loan desk and offers to lend a certain amount of money. The rate, as I explained the other day, is fixed by the stock clearing committee. That means that the broker has an obligation to furnish certain collateral covering a certain loan at a certain rate promptly the next morning. The lender has an obligation to lend money, if the note is presented and satisfactory collateral is delivered.

Now, what more would you want to know about it, Mr. Congressman?

The CHAIRMAN. In that connection, the loan is made necessary because of a larger volume than the capital the broker has on hand to carry on the transaction?

Governor YOUNG. Quite right.

The CHAIRMAN. And a margin is exacted, of course, a minimum of 20 per cent and, in many instances, like last year, the margins run up even as high as 60 per cent on those loans?

Governor YOUNG. That is correct.

The CHAIRMAN. Is it not a fact that a broker's loan, when it gets into the portfolio of a bank is no different than any other collateral loan except it would be regarded as the highest type of collateral loan because of the fact that there are certain restrictions as regards the kind of collateral and the margin back of the loan?

Governor YOUNG. That is a correct statement.

The CHAIRMAN. In other words, these brokers' loans, when they are finally lodged in the portfolios of any bank, are similar to any other collateral loan?

Governor YOUNG. That is correct.

The CHAIRMAN. The stock exchange clearing house has an organization for the purpose of handling the loans of all their member brokers, have they not?

Governor YOUNG. Arranging for the loans.

The CHAIRMAN. So that any broker who finds himself in need of additional funds, to make settlements for the stocks and securities which he has handled during the day, either in buying or selling, is promptly furnished through that organization each day with whatever his requirements may be?

Governor YOUNG. At the rate.

The CHAIRMAN. And I understand each morning, at a quarter to ten, the committee in the clearing house of the stock exchange, meets and decides what the renewal rate shall be?

Governor YOUNG. I do not know what the exact time is, but it is flashed on the ticker at 10.40.

The CHAIRMAN. That is a very complete organization and it serves that purpose perfectly, so far as the brokers' requirements are concerned?

Governor YOUNG. Both borrowers and the lenders seem to be satisfied with the method of handling it.

The CHAIRMAN. It is my observation that when the brokers have had a large volume of business during the day and there has not been sufficient funds offered at the loan post to make complete settlements, it is the practice of the committee in charge to call up the banks and tell them how much money they need, either 1 million or 5 or 10 millions, in order to make these settlements.

Do you know about that? I do not mean to exact that from you, Governor. I will state that as a fact. That is the method pursued.

This loan group in the stock exchange clearing house is governed in the fixing of rates by taking into consideration the amount of demands for loans, the amount of money that is freely offered by banks and I suppose undoubtedly they keep in touch with the Federal reserve bank as to conditions there; in other words, they take into consideration all the elements that enter into the money situation in arriving at a proper renewal rate for the day. Whether they consult with the Federal reserve bank or not, I do not know.

Governor YOUNG. They do not.

The CHAIRMAN. But they do take into consideration the published reports of the Federal reserve banks?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. Did the stenographer get that answer?

The CHAIRMAN. I mention that to show, in connection with what you said to-day, that there does exist perfect machinery for handling these brokers' loans and that machinery serves to make readily accessible all the money that is sent there to finance the stock-exchange operations.

Now, in that connection, it seems perfectly plain that the cooperation by the banks in New York, particularly in furnishing these funds for these stock-exchange operations, adds to that easy accessibility of these funds for stock-market operations.

If that machinery and that cooperation by the big banks of New York—I am not saying it is not necessary or nonessential; it is probably necessary in the present method of doing business—but if those operations were not synchronized into a perfectly working machine, and the stock brokers had to secure their money in the same method as commerce has to secure it, by going to individual banks throughout the country, it would not be so readily accessible for large stock operations. So, to that extent, it is perfectly plain to me that the organization between the stock-exchange brokers and the clearing-house association which negotiates those loans and the cooperation of the big banks to meet the demands for settlement each day, are furnishing almost a perfect machine to facilitate the carrying on of stock-market operations.

Uuder the plan which has been operating, the New York banks solicit funds, not only from the country banks, but from industrial and commercial institutions throughout the country who have sent surplus funds into that market; that they are also encouraging the use of money from the country in that market and greatly facilitating the opportunity for financing stock-exchange transactions.

I would ask you, Governor, whether I have correctly stated that possibility.

Governor YOUNG. I think that the machinery has been set up to handle that class of business in the best way that they can devise; yes. As I have said earlier in the day, I have never had any actual experience, but I have been informed that New York banks have solicited accounts and offered that service originally gratuitously and within the last year making a charge for it.

The CHAIRMAN. You suggested that perhaps some protection might come about in a change in the rules that the stock exchange could adopt. Do you care to make any suggestion as to what that rule might be?

Governor YOUNG. I do not. I have not anything to offer on that, Mr. Chairman.

The CHAIRMAN. You referred in the questioning by Mr. Fort I think it was as of October 2, to $4,000,000,000 of brokers' loans. Was that the date?

Governor YOUNG. For the account of others?

The CHAIRMAN. Yes.

Governor YOUNG. $3,907,000,000.

The CHAIRMAN. Mr. Fort asked you from what source that money came. Would you think any of that money was made available through the use of Federal Reserve credit?

Governor YOUNG. Indirectly; yes.

The CHAIRMAN. Now, another question that was raised here——

Governor YOUNG. I want to amplify that a little further, Mr. Chairman, by saying that it is extremely difficult for the Federal

reserve system to earmark the credit it releases. The initial transaction may be a commercial one that is paid to some one else and paid again to another party——

The CHAIRMAN. But finally gets into the brokers——

Governor YOUNG. What finallly becomes of it one can not tell. It can move in almost any direction.

The CHAIRMAN. You were stating that some of this increase was made possible by the influx into this country of a large volume of gold. I think you said from 1920 to 1925.

Governor YOUNG. 1924.

The CHAIRMAN. I have the impression—it is rather hazy in my mind—that during this period of time the Federal reserve or some of the officers of some of the Federal reserve banks made an explanation as to the use to which that gold was being put and I gained the impression that the country was told that that gold was being impounded and was not being used or permitted to be used in increasing credit facilities here, but that it was looked upon rather as a trust fund and was held intact and, therefore, could not tend to create an excess amount of credit in this country.

I also gained the impression two years ago when I was in London that that had been the policy of the Federal reserve, but apparently it had not worked out that way.

Do you recall whether the Federal reserve did explain, or some of the officers of the banks explained, that that money was being sterilized or not used?

Governor YOUNG. I have no knowledge of that, Mr. Chairman. I have no recollection of any statement. What happened between 1920 and 1922 was that the gold that came to this country was used largely by member banks to enable them to retire their rediscounts with the Federal reserve system.

I shall have to carry that up to 1924, Mr. Chairman. All that gold that came in between 1920 and 1924, generally speaking, was used to retired rediscounts of the Federal reserve banks, the rediscounts going down to about $400,000,000 in 1922 and later, in 1924, going down to about $225,000,000.

The CHAIRMAN. What was the effect of that? Did that have the effect of increasing credit?

Governor YOUNG. Yes; to a certain extent. We have observed in the Federal reserve system (not only in the New York district, but in the entire system) that when rediscounts of member banks get above $500,000,000 there is a tendency to tighten credit through the country; conversely when rediscounts get below $500,000,000 it has a tendency to ease credits and when it gets down to $200,000,000, where it is to-day, you get real easy credit in short-time credits.

Now, that comes about because, traditionally, our banks do not like to show obligations for borrowed money. When it is under $500,000,000 it works from bank to bank, so that no particular bank is in debt any great length of time. When it is above $500,000,000, it is harder to pass it around the circle and a bank stays in debt longer and to get out of debt it naturally puts pressure on the borrower and that has a tendency to tighten credit.

The CHAIRMAN. So that really, as a matter of fact, when that gold came in, it was put to use; it was not sterilized or stored, but used by member banks to reduce their borrowings from the Federal Reserve banks?

Governor YOUNG. That is correct.

The CHAIRMAN. Now, referring to the February 5, statement of 1929 and the subsequent months in connection with the questions of Mr. Fort, and the borrowings by the New York banks from the Federal reserve, and the other 700 banks that he was referring to in his questioning, did the Federal Reserve Board or the Federal reserve bank of New York admonish member banks to reduce their borrowings during the period from February to October 1, 1929?

Governor YOUNG. The Federal Reserve Board's public statement clearly asked for their cooperation to prevent a continuation of rapid expansion.

The CHAIRMAN. I am led to ask that question because it is a matter of record that the New York banks, during that period were not borrowing to any great extent from the Federal reserve bank of New York, as I recall.

Governor YOUNG. Well, on February 6, the date that statement was issued, the rediscounts in the New York bank were $195,000,000.

The CHAIRMAN. They are reported weekly?

Governor YOUNG. This report covers weekly.

The CHAIRMAN. I am going to suggest that you place in the record at this point the borrowings of the New York banks from the Federal reserve bank from the period February 6, up until November 1, 1929.

Governor YOUNG. That includes the New York City banks or New York district?

The CHAIRMAN. The New York district, including the New York City banks.

Governor YOUNG. I have the figures right here, but I can furnish that to go into the record. You do not want me to read them all now?

The CHAIRMAN. No; just put them in.

Governor YOUNG. I can give the maximum and minimum during that period.

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

Total discounts of the Federal Reserve Bank of New York

[In millions of dollars]

1929—Jan. 30	213	1929—June 26	318
Feb. 6	195	July 3	425
Feb. 13	253	July 10	439
Feb. 20	182	July 17	423
Feb. 27	222	July 24	398
Mar. 6	271	July 31	386
Mar. 13	225	Aug. 7	384
Mar. 20	208	Aug. 14	284
Mar. 27	299	Aug. 21	233
Apr. 3	236	Aug. 28	241
Apr. 10	247	Sept. 4	303
Apr. 17	260	Sept. 11	240
Apr. 24	263	Sept. 18	220
May 1	248	Sept. 25	233
May 8	277	Oct. 2	152
May 15	254	Oct. 9	131
May 22	197	Oct. 16	130
May 29	194	Oct. 23	107
June 5	210	Oct. 30	246
June 12	226	Nov. 6	221
June 19	252		

The CHAIRMAN. There is an indication that New York banks realized the danger of the situation of having an increasing amount of brokers' loans outstanding and they realized that if there was a readjustment they would be called upon to meet that emergency and there was an indication, from my own observation, that they were preparing very carefully to meet any emergency, which emergency arose in October. I think the New York banks were particularly farsighted and I was trying to ascertain, for the record here, whether they arrived at that conclusion on their own account, or whether they were admonished by the Federal Reserve Board or the Federal reserve bank at New York to get their house in order and keep the borrowings down and keep in as liquid a condition as possible. If you can give us any information on this subject, it will be helpful in these studies.

Governor YOUNG. I think the Federal Reserve Board realized that situation as evidenced by the February 6 statement. I know that the officials of the New York banks were thoroughly familiar with the situation, and while I can not speak for all of the New York banks, those that I talked with, I think, thoroughly realized the situation, and I have some publications of New York banks that appeared during that period clearly indicating that they had concern about the situation.

Now, the board's contact, of course, is not with the New York banks. Our contact is with the Federal reserve bank. Its contact, in turn, is with the New York banks. I could not make it as a positive statement, but I assume all those situations were discussed between the New York banks and the Federal Reserve Bank of New York.

Mr. BEEDY. Since there have been so many references to this February 6 statement of the Federal Reserve Board, may we have it in the record?

Governor YOUNG. It is in the record now, Congressman.

The CHAIRMAN. I think it is fair and should be said in this record, in connection with this discussion—and I think it will be shown by the records probably—that the Federal Reserve Bank of New York, through the assistance of New York banks, met this crisis in a far better manner than anyone, even though he had been a close observer, could have expected.

Governor YOUNG. I will be glad to make that statement for the record, Mr. Chairman.

The CHAIRMAN. I think myself the Federal Reserve Bank of New York functioned 100 per cent during the crisis, and had it not been for the very active cooperation of the Federal reserve bank in New York, in aiding the big banks of New York who had the responsibility on their shoulders of liquidating those brokers' loans in this stock-market crash, very serious consequences would have resulted.

Governor YOUNG. I should be very glad to make that statement for the record and I take your words in making it, Mr. Chairman.

The CHAIRMAN. I do not know that I have any further questions.

Mr. SEIBERLING. I was going to suggest that you cover the point of who constitutes this committee that handles that call rate situation. I should like to know that.

The CHAIRMAN. That is a rather voluntary committee. It is made up a great deal to do the job that is before them.

Mr. SEIBERLING. To whom are they responsible?

The CHAIRMAN. They are really not responsible to any one. They are a group of men who are chosen to do this job and have done it for many years. My own thought is that those men who are fixing that rate are doing a good job. I have the highest regard for the integrity of the men who meet each morning to fix the renewal rate.

Taking into consideration the various elements that enter into the money situation and so far as they are capable of doing the job, I believe they are doing an honest and consistent job.

Mr. SEIBERLING. I am not attacking their integrity. I am only attacking the results.

The CHAIRMAN. I would not want to express a thought as regards that, but as to the integrity of the men who comprise that renewal committee, with the information they have, I think they are honestly doing their job.

Mr. BUSBY. I have come to the place in the record, as I revise this transcript, where Governor Young told us he would insert the figures in regard to foreign loans made by the American banks. I understand that he has that prepared. I wonder if he will file that?

The CHAIRMAN. Are you ready to put that in, Governor Young?

Governor YOUNG. I want to furnish what I have, but this information comes from the Department of Commerce and is for the close of the year 1928. Those are the latest figures we can get.

The CHAIRMAN. The meeting is now adjourned until Friday morning at 10.30.

(Whereupon, at 4 o'clock p. m., the committee adjourned to meet at 10.30 o'clock, a. m., on Friday, April 11, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

FRIDAY, APRIL 11, 1930

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

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

The CHAIRMAN. The committee will come to order.

STATEMENT OF GOV. ROY A. YOUNG—Resumed

The CHAIRMAN. Governor Young, you have something that you would like to insert in the record.

Governor YOUNG. This was something that was requested by the committee the other day, which shows the number and deposits of all banks in the United States located in places having a population of less than 25,000. The figures are given by geographical divisions.

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

(There was no objection, and the statement referred to is as follows:)

In accordance with the committee's request, I have had compiled for insertion in the record figures showing the number and deposits of all banks in the United States located in places having a population of less than 25,000. These figures, by geographical divisions, are as follows:

	Number of banks	Deposits
New England States	750	$1,787,204,000
Middle Atlantic States	2,375	3,700,915,000
East North Central States	4,726	2,971,194,000
West North Central States	5,955	2,268,406,000
South Atlantic States	2,093	1,308,348,000
East South Central States	1,598	777,414,000
West South Central States	2,513	1,142,693,000
Mountain States	881	618,853,000
Pacific States	851	653,810,000
Total	21,742	15,228,837,000

NOTE.—Above figures were compiled from the January, 1930, Rand McNally Bankers Directory. Population figures were based on latest Census Bureau estimates.

The CHAIRMAN. Now, Mr. Strong.

Mr. STRONG. Governor Young, would you favor nation-wide branch banking?

Governor YOUNG. Not at the moment.

Mr. STRONG. Why?

Governor YOUNG. I do not think that we are ready for nation-wide branch banking. I do not think we have the men trained technically at the present time, although, as I stated before the committee the other day, I believe that eventually there will be a demand for nation-wide branch banking. It may be 50 years from now.

Mr. STRONG. You think that when you get the men trained to handle it, it will come?

Governor YOUNG. I do. That is an opinion, Mr. Congressman.

Mr. STRONG. Do you think it will be a good thing for the Nation?

Governor YOUNG. Well, if I did not, I would not want to see it come.

Mr. STRONG. If we have nation-wide branch banking, that will be practically a monopoly of the money and credits of the Nation, will it not?

Governor YOUNG. I do not believe so.

Mr. STRONG. Why not?

Governor YOUNG. Because I believe there will be many nation-wide set-ups, rather than one.

Mr. STRONG. You mean that there will be competition?

Governor YOUNG. Strong competition, keen competition, between larger groups.

Mr. STRONG. How many groups do you suppose that there will be at the end of 50 years if we have nation-wide branch banking?

Governor YOUNG. Well, that would be making a guess that might embarrass me 25 years from now.

Mr. STRONG. I made it 50 so that it would not embarrass either one of us.

Governor YOUNG. I would put 50 as a minimum.

Mr. STRONG. Now, with the whole trend of Government and of business operations throughout the country toward centralization and consolidations, what would tend to hold back a monopoly of money and credit through having 25 or 50 separate units? What influence do you think would continue the competition so that we would have 25 or 50 independent units?

Governor YOUNG. I explained to the committee the other day that the deposits are really owned by the public, and if these monopolies which you anticipate should develop, they would be profitable and that would induce other people to go into the banking business.

Mr. STRONG. While I think it is true that a reasonably substantial independent unit may carry on against a large monopolistic organization, nevertheless a large organization generally controls policies and prices. Take the Standard Oil Co.; we have a lot of independent oil companies, perhaps as many as or more than the Standard Oil, yet the Standard Oil Co. and its kindred organizations set the price. When they say oil is 17.7 cents, everybody says oil is 17.7 cents. Would not the same rule apply to banking? If a great organization with 1,000 or 2,000 branches should set up certain policies, could any small organization oppose them? Would not all organizations fall in line with their policies?

Governor YOUNG. Would it not be their object to encourage the smaller organization?

Mr. STRONG. Why? They would be their competitors.

Governor YOUNG. I do not mean a small banker; I mean a small industry or any industry that is profitable. Is that not what has happened in countries that have the branch-banking system?

Mr. STRONG. I do not know. I did not get that kind of information from Canada when I visited there. I did ge it from a big banker when I talked to him, but the business men out in the small towns, not wanting to be quoted, seemed to be very much opposed to it and they thought that they were in a very serious situation. For instance, one of them pointed out to me that if his competitor should become interested in the parent bank or had associates interested in it, he might be in a very dangerous position.

Governor YOUNG. I have been informed, Mr. Congressman, that the Canadian banks lend small amounts to farmers, jobbers, wholesalers, and others in the agricultural territory of Canada. They have no objection to the small loan.

Mr. STRONG. Let us take a nation-wide organization, with headquarters in New York. The men who are largely interested in that organization, the head bank, would also be largely interested in the railroads of the country. Suppose that their organization of railroads wanted to acquire a competing line; do you suppose that they would permit the extending of credit to that railroad which that railroad would get if such a combination of wealth did not exist? I just mention that as one of many things that might happen.

Governor YOUNG. That is, a railroad wanted to purchase a competing line?

Mr. STRONG. Suppose that a great group of railroads that was owned by the same group that owned the parent bank, or controlled it, wanted to get a certain railroad; could they not withhold credit and get it practically at their own price?

Governor YOUNG. Then, could not that other group go to the public with a bond issue and raise the money?

Mr. STRONG. It would be pretty hard to sell bonds against that kind of an influence, I should think.

Governor YOUNG. It has been done for 50 years.

Mr. STRONG. But we have not had a great monopoly of banking for 50 years. We have had practically only independent banking.

You know that we changed the form of bond of the farm loan banks and made it a consolidation bond because we found that here in the East, north of the Ohio and east of the Alleghenies, they were discriminating against the Federal land western banks; they would buy the bonds of the eastern banks, whereas the western banks was having trouble selling their bonds, and so we consolidated the bonds to be issued by the 12 Federal land banks to get rid of that danger that we saw confronting us.

Governor YOUNG. Well, no monopoly developed.

Mr. STRONG. It was not a monopoly; perhaps it had not developed to that point, but it was getting to the point where we could see that we were going to have trouble selling our bonds of our western banks.

Governor YOUNG. It has all been consolidated to a certain extent, Mr. Congressman, in an organization that bears many of the earmarks of a branch organization; and I believe, for the benefit of our western people that you and I are interested in——

Mr. STRONG. Yes, governmental control; but you are going to put this monopoly in private interests, privately controlled.

Governor YOUNG. I am old-fashioned enough to believe that this country can not continue indefinitely with only one section of it prospering. I believe it all has to prosper.

Mr. STRONG. I agree with you.

Governor YOUNG. And I can not believe that any such concentration of wealth as you anticipate—even though it should develop to the point that you are inclined to believe it will develop to, that is, a monopoly—will ever be so short-sighted as to neglect the requirements of the balance of the country that makes that center possible.

Mr. STRONG. Well, human nature is rather selfish. Through the generations,—the centuries,—we finally arrived at the conclusion that we could not put governmental power in the hands of individuals without having autocratic rule, so we built a republic in this country so that the government might be in the hands of the people, that the people might be sovereigns, and in order that they could change the form of government in any way they wanted to. We did that because we realized that men were selfish and, when given power, would take advantage of it.

Now, you propose to have nation-wide branch banking, and, as I get your viewpoint, you hope that men will be unselfish enough so that they will not combine to control the money and credits of the United States, or that through competition they will avoid combinations of capital that will practically effect a monopoly of the money and credits of the country.

Governor YOUNG. Let me answer it this way, Mr. Congressman: If those monopolies which you anticipate should develop, to the detriment of the interior of the country, particularly the agricultural and livestock sections and the interior manufacturing sections and mining sections, I agree with you that that would be bad; but I can not bring myself to believe that that will happen.

Mr. STRONG. Well, of course, the great handicap in my mind to the agricultural regions of the country has been a lack of capital at reasonable rates. When I went to Kansas they were loaning money at 12 per cent, and sometimes 18 per cent and 24 per cent. Then laws were passed against usury and finally got the rate down to 10 per cent, and the ruling rate out there now is 8 per cent, which is a pretty heavy tax upon capital to be used for agricultural purposes. Then we created the farm loan banks and the intermediate credit banks in trying to relieve that situation, and, with the intermediate credit banks, we tried to set up a plan whereby farmers could go to their banks and put up their paper to be discounted by the bank at the intermediate credit banks, so that they could borrow money at 7 per cent, but none of the banks do it; they maintain an 8 per cent rate and they do not use that system that we set up because it reduces their rate of interest. Now, we still have that handicap in the West.

Now, if you give men the right to set up and control a monopoly of banking, will they not continue that system?

Governor YOUNG. Mr. Congressman, under a unit system in the State of Kansas, the unit bankers had quite an influence in the legislature in reference to rates; but, even with his influence, as you point out, the rate has come down from 24 per cent to 8 per cent, the prevailing rate, and to 10 per cent, the contract rate. The probabilities are that in the State of Kansas to-day an agricultural loan bearing an 8 per cent rate is much more profitable than the 24 per cent rate that existed 30 years ago.

Now, obviously, the unit banker has a certain influence in a legislative way; and, although your 10 per cent rate still prevails in

Kansas, your unit banker charges 8 per cent on a average. If these other organizations that you speak about existing outside of the State of Kansas should become so strong that they could put a 10 per cent rate in, the people of your State would fix a contract rate of 8 per cent, or 7 per cent, or 6 per cent, to outside sources much quicker than it would to your local people. So I think the possibilities of any large corporation charging unreasonable rates are very far removed.

Mr. STRONG. But fixing the rate so low might not get the money.

Governor YOUNG. Then the rate is wrong and you have to put it up; that is all.

Mr. STRONG. That is what happened. We paid those big rates when you were paying 6 per cent down here, and now we are paying 8 per cent when you are getting money for 4 per cent and 5 per cent.

Now, here is a combination of banking, through branch banking or group banking, that gets together only for one purpose, and that is to increase its income and protect future income and to build up a business that will be more profitable. Do you suppose that, given that power, they are going to be so magnanimous as to reduce the rate in the West?

Governor YOUNG. I think their profits will come through simplification of organization and operation rather than an increase in rates charged to borrowers.

Let me illustrate what I have in mind. You take a small bank in Montana, locally owned. It can, and probably does, charge the legal rate in that State of 10 per cent on a good chattel loan. It would be extremely difficult for a large set-up in Minneapolis to charge that same rate in my opinion. Public sentiment will put that rate down.

Mr. STRONG. But when one group of banks controls the credit and the money, how can public sentiment put the rate down? If you want the money, you have to pay for it.

Governor YOUNG. Because they have two groups there at the moment, and the strongest kind of competition, very keen competition. When they can only get 3 or 3½ or 4 per cent on call money in New York and they have surplus funds, they will go into the interior and make some of these chattel loans at less than 10 per cent.

Mr. STRONG. But if a pinch came and they wanted money in New York, they would put up that rate to 4, 5, or 6 per cent?

Governor YOUNG. They would.

Mr. STRONG. And they would bring the money of the country to New York?

Governor YOUNG. But still your State law prohibits them from going above 10 per cent in Montana.

Mr. STRONG. Well, as I get your idea, Governor, it is that if we permit branch banking in restricted trade areas, that eventually it is going to be nation wide?

Governor YOUNG. In my opinion, Mr. Congressman.

Mr. STRONG. Now, suppose that we had nation-wide branch banking in 50 groups or trade areas each dominating and controlling such trade area; do you not think that would be pretty dangerous to the Federal reserve system?

Governor YOUNG. No, sir.

Mr. STRONG. Would they have to go to the Federal reserve system? Could they not go to each other? Could they not have a trade agreement or a gentlemen's agreement with each other without going to the Federal reserve system?

Governor YOUNG. They could if they had sufficient funds, and probably would; but there would always be a time in America when there would not be sufficient credit for those groups to trade between themselves, and the Federal reserve will have to release credit and will have to release currency to take care of seasonal requirements and to take care of seasonal emergencies. I am firmly convinced that the larger those set-ups are the more necessary will they find membership in the Federal reserve system.

Mr. STRONG. I think that is true if they are not large enough to control the money and credits of the United States, but here are 50 groups controlling the banking of the United States. Now, you have pointed out that little bankers out in the West had influence enough in the legislature to at least influence the laws of their States, and if that is true—and I think it is—and you have 50 great groups in the United States controlling all the banks, would they not have power enough to influence the Federal reserve system?

Governor YOUNG. Not with 119,000,000 people left that you say would be harmed, or that might be harmed.

Mr. STRONG. But the 119,000,000 are going to allow the banking industry of the United States that handles their money and credit to form consolidations so that they will be reduced to about 50 groups. If they would work together, I do not see how the influence that they would have could be kept from dominating and controlling the Government and the Federal reserve system, too.

Governor YOUNG. Those 50 banks?

Mr. STRONG. Yes.

Governor YOUNG. I do not think so.

Mr. STRONG. I meant, those 50 groups.

Governor YOUNG. You have six large banks in England, and I do not think they control the Bank of England and dominate its policies in any particular.

Mr. STRONG. But the Government has a lot of influence in the Bank of England, more than we would have in these 50 groups that we have been talking about.

Governor YOUNG. Well, the Government, through the Federal Reserve Board, has some influence with the Federal reserve banks.

Mr. STRONG. But here are 50 groups bigger than the Federal reserve system, controlling more money and credits than the Federal reserve system.

Governor YOUNG. Under the present law, they could go as far as the Federal Reserve Board and they could go no further. Is that not correct?

Mr. STRONG. Yes; but my idea is that they would dominate and control the Federal reserve banks and the Federal Reserve Board. You will remember that the Second National Bank, with its branches and the monopoly given it by its Federal charter, was so strong in this country that it dominated and controlled Congress, loaning money to Members of Congress and the great newspapers of the country until, although a national election campaign decided to the contrary, were able to force through Congress a renewal of their charter.

Nothing but the backbone of Andrew Jackson stopped by a veto the extension of that charter.

Governor YOUNG. I should regret it, of course, Mr. Congressman, if the Federal Reserve Board should ever get to a position of that kind, or the Congress of the United States. When the Second Bank of the United States did get to that position, of course, the bank was terminated.

Mr. STRONG. The present Comptroller of the Currency, having espoused branch banking, advocates as a restriction that it be limited to trade areas? I am unable to tell just what he thinks their territory should be, but he uses the term of "trade areas." Now, your belief is that regardless of such limitation, eventually we will have nation-wide branch banking.

Governor YOUNG. I may be entirely wrong, Mr. Congressman, and he may be entirely right, and we hope that these investigations will bring out what is best. I agree with the comptroller entirely in so far as the present situation is concerned that if a trade area can be described, as I think it can be, it would be better to confine branch banking to that trade area in an attempt to permit branch banking to build up in a systematic way and not build up in a way that is too rapid for us to operate at the moment. Now, if he feels that that is as far as it should ever go, and I feel that eventually it will become nation wide, that is a difference of opinion; that is all.

Mr. STRONG. Well, as I understand it, then you both are agreed on this proposition, that for the present it would be better to limit it to trade areas?

Governor YOUNG. I do.

Mr. STRONG. Is it your idea, then, that men are going to be less selfish and more patriotic 50 years from now so that they can be trusted with nation-wide branch banking?

Governor YOUNG. I do not like to put it that way, Mr. Congressman.

Mr. STRONG. I know, but there is a difference; you and the comptroller agree that we ought not to have nation-wide branch banking now, that first of all we should build up trade area branch banking, but you believe that eventually they will break down those trade areas and we will have nation-wide branch banking?

Governor YOUNG. I think so; yes.

Mr. STRONG. Why do you think so?

Governor YOUNG. My position to-day, at the moment, Mr. Congressman, is that technically we are not prepared to operate a system of that kind.

Mr. STRONG. Do you think that the men are not experienced enough so that at the present time it would not be safe to trust them with nation-wide branch banking, so that you propose to build up with trade area branch banking?

Governor YOUNG. I would prefer to see it approached through trade areas.

Mr. STRONG. That is what I am afraid of, that it is going to be approached in that way.

Governor YOUNG. I think, Mr. Congressman, that it is now being approached through the group banker.

Mr. STRONG. Yes; I know there is a very decided effort on the part of capital—and everybody knows it—to break down the independent

bank and finally come to nation-wide branch banking. I can see that coming and, of course, this group banking is helping their cause.

Governor YOUNG. I think it is a little more than that, Mr. Congressman. I do not think this demand comes entirely from the cities. I think it comes from the country to a certain extent, so much so that the commissioner of banking of the State of Minnesota in a public statement yesterday advocated branch banking. He stated that there are 154 communities in the State of Minnesota to-day without banking facilities, many of which do not need banking facilities and many of them that do. He advocated the extension of branches into those communities rather than a revival of the $10,000-unit banks. I can not help but agree with him, that he is right.

Mr. STRONG. And I can agree with you that more and more our officials are seeking banking through a branch-banking class. For instance, in recent years we had the Comptroller of the Currency come before this committee and make a very eloquent and splendid statement against branch banking, but he thought that we could limit it to the city where the parent bank was located, and we passed a law agreeing with such position. Now comes the present Comptroller of the Currency and says it ought to be extended to trade areas, and following him, you, as the Governor of the Federal reserve system say that eventually, within 50 years, we will have nation-wide branch banking. That is what I am worrying about.

Governor YOUNG. Mr. Congressman, the probabilities are that 10 years ago or 6 years ago I probably would have said the same thing that the Comptroller of the Currency Dawes said at that time, but conditions are changed.

Mr. STRONG. Then the influence in favor of branch banking is gradually having an effect.

Governor YOUNG. Conditions are having their influence on their position, as they are on mine, yes.

Mr. STRONG. Do you not think that they are controlling the conditions?

Governor YOUNG. The Comptroller of the Currency?

Mr. STRONG. Oh, no; the men who control and dominate the money of the country, and that it is their influence that is bringing about the conditions which are causing the officials to change their position?

Governor YOUNG. Well, if they are bringing those about for the betterment of the country, obviously I can agree with them—I mean, in my opinion.

Mr. STRONG. I will agree with you that if they are doing it for that purpose and those men should always continue in that mind, it might be a good thing, just like I think a monarchy would be more economical and a good kind of a government if the monarch were always just and unselfish and had the interests of the people at heart, but we found through the generations that that does not result, and consequently we have come to a people's government, which is much more expensive and inefficient, in order to keep selfish interests from dominating and controlling.

Now you propose to gradually increase a system that you admit within 50 years will bring about nation-wide branch banking, controlled by perhaps 50 groups. To say that those 50 groups will be unselfish and have only the interests of the people at heart seems to

me to be kind of going against the rules of human nature as we have known them in the past.

Governor YOUNG. Well, I just would like to correct that: I said it would probably take 50 years and that the minimum would be fifty groups.

Mr. STRONG. Well, if within three or four years the officials of our banking system of the United States have changed from a belief that branch banking ought to be limited to the city where the parent bank is located to a position where it is believed that there ought to be branch banking limited to trade areas, is it not reasonable to suppose that nation-wide branch banking will come in less than 50 years?

Governor YOUNG. You have had an expression from two officials, from the Comptroller of the Currency and myself. What my colleagues may say to you or what others may say to you in the official life of the Government or in the State governments I do not know. I have had a feeling for some time that I have been almost alone in my opinion.

Mr. STRONG. But this committee, and I think the country generally, has a good deal of confidence in your opinion.

Governor YOUNG. I hope so.

Mr. STRONG. I think they do, and your opinion is that within 50 years we will have nation-wide branch banking?

Governor YOUNG. Probably.

Mr. STRONG. I am only pointing out that if some influence or some conditions or whatever you may call it have changed the views of the officials within three or four years from believing that branch banking should be confined to the city where the parent bank is located to believing that it should now be confined to trade areas, it does seem to me that perhaps nation-wide branch banking will come in much less than 50 years.

Governor YOUNG. Well, that is a frank opinion, Mr. Congressman, and I will have to confess that it is not a very popular one.

Mr. STRONG. Well, it is not popular with me.

Now, I would like to get to this present situation. The Comptroller of the Currency evidently thinks, and you seem to think, that branch banking should be restricted now to trade areas.

Governor YOUNG. That is correct.

Mr. STRONG. And Congress is to be asked to set up a definition of those trade areas. What is your suggestion to this committee as to what those trade areas should be?

Governor YOUNG. I have stated before the committee several times, Mr. Congressman, that I can not at the moment define a trade area. It would be very easy in certain Federal reserve districts and hard in others. I think it would be very easy to define a trade area in the first Federal reserve district, the New England district, while in your district in Kansas it would be extremely hard to define it, and there would be much overlapping at Omaha, Wichita, Kansas City, Tulsa, and Oklahoma City.

Mr. STRONG. And when we reached Chicago and St. Louis, especially Chicago——

Governor YOUNG. It would be difficult there.

Mr. STRONG. What would be the situation in the East? Would Boston and Philadelphia have separate trade areas, or would they be in the trade area of New York?

Governor YOUNG. These are impulsive thoughts, Mr. Congressman.

Mr. STRONG. I appreciate it.

Governor YOUNG. You would have to sit down at the map and consult with the local people and attempt to work out something, but I would say that the three of them would be separate trade areas.

Mr. STRONG. You would not think that New York would finally dominate and control the three?

Governor YOUNG. I do not think so; not at this time.

Mr. STRONG. How many trade areas do you think there would be in the United States if we would agree with the comptroller's idea, and yours?

Governor YOUNG. As near as the Federal reserve system has been able to define those trade areas through its branch districts, it would be 25, and then, of course, there is much overlapping in that, and there is a larger trade area covering those trade areas. That is represented pretty well by the 12 Federal reserve districts.

Mr. STRONG. And we would have perhaps Boston, Philadelphia, and New York, the three of them, out of the 25?

Governor YOUNG. There would be 37, Mr. Congressman, if you include the territories of the head offices of the Federal reserve banks.

Mr. STRONG. Would or would not that necessitate the changing of the districts of the Federal reserve system?

Governor YOUNG. It might. We have changed the district lines on two or three occasions.

Mr. STRONG. Would you increase the number of Federal reserve banks?

Governor YOUNG. You can not.

Mr. STRONG. Well, Congress can.

Governor YOUNG. Yes.

Mr. STRONG. Would you recommend to the Congress that they do that, or do you think that would finally follow?

Governor YOUNG. Mr. Congressman, you are pressing me on a question that I really have not made up my mind on yet.

Mr. STRONG. I do not want to do that.

Governor YOUNG. I am afraid that——

Mr. STRONG. I do not want to embarrass you at all. I am just intensely alarmed about the extension that you propose. I just want to get all the information I can, and I would rather have your opinion on it than my own.

Governor YOUNG. It is a bit embarrassing to say to you that I can not give you that information yet. I expect some day to be able to recommend something.

Mr. STRONG. Then if we had 35 or 37 trade areas in the United States, or any set number, the growth and improvement of the country would finally, in your opinion, demand more trade areas—an increase in the number of trade areas?

Governor YOUNG. It probably would.

Mr. STRONG. In these trade areas group banking, unless restricted, would finally dominate and control the banking in those trade areas, would it not?

Governor YOUNG. Group banking has a possibility of proceeding too rapidly, in my opinion.

Mr. STRONG. Do you think it ought to be checked?

Governor YOUNG. Not unless you offer something in substitution.

Mr. STRONG. You offer branch banking—that is the idea?

Governor YOUNG. That is my idea.

Mr. STRONG. Are you going to restrict those banks so that there can be no consolidation of interests by group banking?

Governor YOUNG. I would; yes.

Mr. STRONG. You would absolutely fix those branches and those trade areas so that they could not extend by any combination of interests, out beyond those trade areas?

Governor YOUNG. That would be my solution of the difficulty at the present time, if such a thing is possible.

Mr. STRONG. Why do you think that eventually the adoption of that system would spread into nation-wide branch banking?

Governor YOUNG. Because as men became trained in the operation of these smaller groups, they would be in position to expand further.

Mr. STRONG. And they would want to do so?

Governor YOUNG. I believe so.

Mr. STRONG. Then, whether we will have trade area branch banking or nation-wide branch banking simply depends on the time when we will have men trained in nation-wide branch banking?

Governor YOUNG. I believe so.

Mr. STRONG. Now, do you think there will ever be men created on this earth who, after they become efficient in nation-wide branch banking and achieve it, will not be selfish enough to look after their interests as against the interests of the country?

Governor YOUNG. They will have plenty of competition, Mr. Congressman, so I do not believe that is possible.

Mr. STRONG. Just let me go into this a little. Suppose that we set up 37 trade areas, that by law we restrict them absolutely. Yet your opinion is—and I respect it—that eventually out of those 37 trade areas will grow nation-wide branch banking, when the men are trained and desire nation-wide branch banking?

Governor YOUNG. I do.

Mr. STRONG. And the only thing that will cause those men to break down our law, to change our law of trade area branch banking, will be the ability to handle nation-wide branch banking and their influence to change the law, will it not?

Governor YOUNG. Well, the public influence to change the law.

Mr. STRONG. You explained that the bankers in the States have had that influence in their legislatures to change the law. Now you are going to have trade area branch banking, and then you are going to build up men of such experience that they will have nation-wide branch banking ability and eventually achieve it. It will not be by the influence of the people; it will be by the same influence of the National Legislature that has been exercised and used on the State legislatures. It will not be the demand of the people.

Governor YOUNG. Mr. Congressman, a banker has two classes of customers, depositors and borrowers, and the number of depositors always exceeds the number of borrowers. If a branch system is created in this country, even in a small trade area, and the depositor gets the protection that he has not been given for the last 10 years, and that extends to a larger trade area and those depositors get the protection that they have not been given previously (and that I

believe they can get it under a branch system), their influence is going to be very far-reaching as to whether or not that extends to a nation-wide branch banking system.

Mr. STRONG. Yes; but you do not think that the depositors are ever going to control these groups, do you?

Governor YOUNG. The depositor is the man that makes it possible.

Mr. STRONG. He is the man that has the money to deposit, but he has to put it in these banks. These banks are already in this country, although they have not yet achieved their objective, of trade area branch banking; they already have such an agreement when you go in and deposit the money in the bank whereby they say, "If you do not deposit a certain amount, we will have to charge you a fee, and if you want to borrow money, you must leave a part of it in the bank." So the depositor will have no choice but to put it in one of those banks. He can not exercise any influence; he does not now.

Governor YOUNG. If the depositor is not satisfied with the solidity or the policy of the bank, obviously he does not deposit there at all. If he is a depositor and these groups or branch banking organizations are unreasonable with him, obviously he has an investment market that extends all over the world, so that he can do what he wants to do with his money. They are compelled, through the depositor and his power in the whole situation, to make things attractive to him. They have got to compete, and if they do not make things attractive to him, they lose the depositor.

Mr. STRONG. Yes; the depositor goes to his bank and says, "I do not like that new rule you have; I will take my money to some other place," and the banker says, "All right." The depositor goes over to the other bank and he is confronted with the same rule. He can not dominate and control and dictate to that bank as to what their rules shall be; they are going to dictate to him.

Governor YOUNG. From what we hear from the bankers and from what we have heard from the bankers in the last 10 years, the competition that they had through Government bonds and the competition that they had through bond houses, as well as the competition that they had, if you will, with the call loan money, leads me to believe that the depositor has become a very important factor in this entire situation.

Mr. STRONG. But unless he organizes into groups himself, he will exert no influence.

Governor YOUNG. There has been no organization for the last 10 years; there was no organization in so far as call loans were concerned.

Mr. STRONG. But when he withdraws his deposit and goes to the next bank and he meets the same condition, what can he do?

Governor YOUNG. He withdraws his deposit and he has the entire investment world to take his money to.

Mr. STRONG. Yes, but perhaps he is not a judge of what those investments mean; perhaps he does not want to bury his money in those investments, but he just wants to leave it in the bank. It may be $5,000, $10,000, $50,000, or $100,000. Maybe he wants to leave it there against the seasonal requirements of his business, and if he does not like the terms offered him by the bank and he goes to the next bank he will probably meet the same terms.

Governor YOUNG. I will again repeat that if conditions ever get so bad as that in this country, I will agree with you on that; but I do not think they will.

Mr. STRONG. I hope that your thought is right, but my fear is that they might, and I think that the Congress of the United States ought to so regulate the financial policies of the country and make such laws that the men who handle the money and credit of the United States will never dominate and control it, because I fear that they will not be unselfish when they get that power.

Governor YOUNG. Well, I think, Mr. Congressman, that one of the great steps in that direction is the Federal reserve system, and that is still with us.

Mr. STRONG. I agree with you, if we do not build up organizations of banking that overpower and dominate the Federal reserve system.

Now, in your opening remarks to the committee, you referred to our changing bank structure. By that do you mean the tendency toward group and chain and branch banking?

Governor YOUNG. Yes, sir.

Mr. STRONG. Who should control those changing conditions, the banks or the Congress?

Governor YOUNG. I believe the Congress, but it has gone so far, Mr. Congressman, that it is going to develop many complications in attempting to control it.

Mr. STRONG. I agree that the banks are bringing about those changes.

Governor YOUNG. They have under State laws; yes.

Mr. STRONG. Now, if the Congress does not take some drastic action, under your thought, we are going to proceed with branch banking and eventually we will have nation-wide branch banking?

Governor YOUNG. Well, group banking; nation-wide group banking; yes. Under the present law we now have——

Mr. STRONG. And if we control the group banking, we are going to have nation-wide branch banking?

Governor YOUNG. If you control the group banking, I think it has gone to a point where you must offer something in substitution.

Mr. STRONG. That is, we have to abandon in the United States the policy and idea of unit banking?

Governor YOUNG. In my opinion; yes, sir. I do not mean by that that the unit banker will necessarily be eliminated.

Mr. STRONG. Well, the former Comptroller of the Currency came to us and said, "Unless you have branch banking in cities like New York, Detroit, New Orleans, and San Francisco, where they are permitted to have branch banking under State law, you are going to destroy the unit banker; they are going to put branch State banks all over the city of New York, and if you are to maintain the Federal reserve system and the national banking system you have got to permit the national banks to have branches in the cities where the parent banks are located," and we acceded to that.

Governor YOUNG. Has not that been for the benefit of the depositor and borrower in those districts?

Mr. STRONG. I do not know. It has been followed up with combinations of great banks. The combinations are increasing, and the unit and individual private bankers are being driven out.

Governor YOUNG. I believe that it has been a benefit.

Mr. STRONG. To whom?

Governor YOUNG. To the depositor and the borrower.

Mr. STRONG. Have interest rates to the depositor been increased or decreased?

Governor YOUNG. Well, I do not know. I would say it is about the same.

Mr. STRONG. Is it not a fact that generally throughout the country the man who deposits money in a bank is being asked to take a smaller rate of interest, and is that not the tendency?

Governor YOUNG. That happened in the Northwest in 1921 clear through until 1927, under the unit banking system.

Mr. STRONG. Yes; and that is a gradual tendency, is it not?

Governor YOUNG. In the East there seems to be a tendency on the part of the mutual savings banks to pay a higher rate.

Mr. STRONG. I do not know about that.

Governor YOUNG. But the rate 8 or 10 years ago was an average possibly of 4 per cent.

I will ask Congressman Luce to correct me if this is not true. The mutual savings banks have had a tendency to increase in the last 10 years, rather than decrease their rate to depositors.

Mr. LUCE. Absolutely.

Mr. STRONG. But the regular banks that are in these combinations, group and chain, have not increased the rate to their depositors, have they?

Governor YOUNG. Nowhere that I know of.

Mr. STRONG. Then it has not been for the benefit of the depositors to have these groups formed, because they are getting a smaller rate of interest.

Governor YOUNG. I was speaking about his protection, rather than the interest return he received.

Mr. STRONG. I know; but you might give him ever so much protection and no return.

Governor YOUNG. Mr. Congressman, I can pay 3 per cent and give a depositor security in an institution. I can pay 4 per cent and break that institution.

Mr. STRONG. But suppose that these combinations would tell the depositor that they could give him security at 2 per cent, but not at 3 per cent?

Governor YOUNG. Then the depositor can still go to the postal savings bank or to the United States Government bonds or to innumerable well-seasoned bonds throughout the United States and get a much higher rate than 2 per cent.

Mr. STRONG. But the average depositor, except the big fellow, throughout the country, does not deal in bonds.

Governor YOUNG. I believe that many of them have become security buyers.

Mr. STRONG. Yes; many of them have, possibly, but I am talking about the poor depositor in a small bank. He puts his money in there against the seasonal requirements, and does not want to put it in bonds, and he used to get 4 per cent where he is now offered 3. In some places he is not offered anything; I know of banks that say, "We have too much money; we will not pay a cent on deposits."

Governor YOUNG. My experience in the commercial banking business, Mr. Congressman, was that a man that deposited seasonally was not paid any interest. I do not think he is to-day in the unit bank, and I do not think he is in your chain or group bank.

Mr. STRONG. If he is not paid any interest on a deposit, and in addition to that he is asked to maintain a certain amount of money in the bank, if he is allowed to put his money at all, he does not have the accommodation he used to have, does he? It is getting worse all the time.

Governor YOUNG. That has developed under the unit banking system, Mr. Congressman, and one of the faults of the unit banking system was that they would take an account of any kind, even though a man only maintained a balance of $5 or $10. Experience has shown that, even in those small country banks, if there is a depositor who maintains a balance of less than $200 on a regular checking account, that account is handled at a loss. I do not think you can ask any banker to operate at a loss. The result was that many of the unit banks in the ninth Federal reserve district realized that that was a source of loss to their institutions, and they put on a charge of 50 cents or $1 a month; and in my opinion they were entirely within their rights when they did put that charge on.

Mr. STRONG. Then that is under the policy that unless the banker makes money out of the little depositor, the depositor is entitled to no service?

Governor YOUNG. But he gives him a service.

Mr. STRONG. But not unless he charges him?

Governor YOUNG. I do not think he should give it at a loss or gratuitously.

Mr. STRONG. Then through this development in banking that has been going on, we have reached the point where the banker is going to have a profit upon every item of his business?

Governor YOUNG. Why shouldn't he?

Mr. STRONG. Other businesses do not do that, do they?

Governor YOUNG. Why shouldn't they? They should.

Mr. STRONG. Simply because it is rather a hardship upon the little depositor and the little business man and the little individual. The railroads claim that they do not make any money out of their passenger service, but we compel them to run passenger trains because of the franchise that is given to them to operate railroads. Now, if we do not have any more control over them than we apparently have been having over the banks, if they can build up combinations, the time will come when they will say, "No, we must have a profit out of every service we render."

If that system is continued, it means monopoly, and combinations are going always to continue to make a greater hardship upon the people.

The CHAIRMAN. May I ask a question there?

Mr. STRONG. Yes.

The CHAIRMAN. Governor, a suggestion was made here, I think by Mr. Seiberling or some one earlier in these hearings, in regard to introducing facilities for service to these rural communities in the post offices. Now the post offices are legalized to receive savings deposits up to $2,500, and in that connection I understand there is pending here in one of the committees a proposal to increase the limit which one can deposit in the savings end of the post offices up to $5,000. Inasmuch as the post offices are also authorized to issue money orders, I am wondering, in connection with your suggestion here that we are headed for group banking and eventually nation-wide

branch banking, which would indicate the coming of larger groups and perhaps of less service in rural communities, whether you would advocate an enlargement of the facilities of post offices to enable these people in remote districts of the country to have some facility whereby they could pay their bills by checks on the post office, after having first deposited their money there.

Governor YOUNG. They have that facility now.

The CHAIRMAN. They have the facility of drawing checks against their accounts?

Governor YOUNG. No; but they have the facility of buying post-office money orders.

The CHAIRMAN. Apparently we are getting to the point where these rural communities are going to be deprived of banking facilities, and I am wondering whether you would advocate the enlargement of the facilities of the post-office system so that a farmer could draw his own check against the post office in his locality and in that way facilitate the settlement of his necessary transactions? I am prompted to ask that because of the questions which have been asked you by Mr. Strong as to the attitude of the banks in refusing to take small accounts without paying a service charge.

Governor YOUNG. I would not.

The CHAIRMAN. You would be against that?

Governor YOUNG. It would be a tremendous cost to the United States Government on which it would get no profit. It costs the Federal reserve system in the neighborhood of $10,000,000 a year to handle checks gratuitously.

Mr. STRONG. And that has been saddled by the banks onto the Government.

Governor YOUNG. The banks say it is the other way.

Mr. STRONG. But the banks in the cities where the Federal reserve or its branches are located are escaping their former costs in the way of collection charges.

Governor YOUNG. Not at all.

Mr. STRONG. Why, the national banks do not charge for collections now, do they?

Governor YOUNG. Many of them do.

Mr. STRONG. But those exchanges are made by the Federal reserve system now; those clearing-house exchanges?

Governor YOUNG. Yes.

Mr. STRONG. At the expense of the Treasury?

Governor YOUNG. At the expense of the Federal reserve banks.

Mr. STRONG. But if that money remained in the Federal reserve system and if they collected the charges and were charging the banks for that service that the banks used to have to pay for, then the excise tax to the Government would be increased, would it not?

Governor YOUNG. That is correct.

Mr. STRONG. Then the Government is paying it.

Governor YOUNG. We maintain that that is one of the services that we give to the banks.

Mr. STRONG. Yes; at the cost of the Government.

Governor YOUNG. At the cost of the banks. The banks furnish the reserve balances that permit the handling of these checks.

Mr. STRONG. But if a profit is made by these Federal reserve banks after the 6 per cent is paid and if you do not take the cost of making

those collections out of the Federal reserve balances, there is that much more left that goes to the Government.

Governor YOUNG. I know, but if one-third of the banks of the United States join the Federal reserve system in contributing the capital and the reserve, they are entitled to some service.

Mr. STRONG. They get it, do they not?

Governor YOUNG. That is what I say; they get it; they furnish the funds that make these profits possible. The Government does not furnish the money.

Mr. STRONG. Together with the fact that they can offer eligible paper and get money without interest?

Governor YOUNG. Yes. Now, there is a strong desire that the member banks get a larger return of the profits of the Federal reserve system, and I am in agreement with that.

Mr. STRONG. I know, but at the present time the banks in the cities where there are Federal reserve banks or branches get that service free that used to cost them thousands of dollars.

Governor YOUNG. It did not cost them anything in the past; they passed that cost back to the depositor in a great majority of cases. This has been a relief to the public of America at the expense of the banks.

Mr. STRONG. Well, in my own city competition brought about no charge for the collection of checks long before that, so that our people did not get any relief. The banks used to take our checks and pay at their own expense the cost of collection, and now the banks in the cities where there is a Federal reserve bank or branch save that expense; they have their checks cleared without cost.

Governor YOUNG. In your home community, Mr. Congressman, you are speaking about the foreign checks that you deposit with your local bank?

Mr. STRONG. Yes.

Governor YOUNG. How about the checks that foreign banks got on your local bank previous to the passage of the Federal reserve act; did they charge to collect and remit on those checks?

Mr. STRONG. It depended on how strong the competition was. Sometimes they did and sometimes they did not.

Governor YOUNG. Now that it has been eliminated, your little local banker is the loser. There is no difference as far as the city bank is concerned, and the public has gained an advantage.

Mr. STRONG. Yes; he is the loser and he is deprived of a large part of his earnings.

Governor YOUNG. And he is a member bank. So I still maintain that if $10,000,000 is paid by the banks of the United States, they are the losers, the public is the gainer, and the Government does not enter into it at all.

Mr. STRONG. Well, I have to disagree with you on that, because if that was paid it would eventually go into the Treasury of the United States, but if it is not paid it is paid out of the profits of the Federal reserve system, which simply holds back that much of those profits that ordinarily would go to the Federal Treasury under the excise tax.

Governor YOUNG. That is true. The Federal reserve system could put a charge on every check it handled and charge that back to its member bank, and if the member bank would not stand it it would pass the charge back to its depositor.

Mr. STRONG. They did not in the past do that in a great many cases.

Mr. WINGO. May I interrupt you gentlemen right now? Investigating another question, within the last few weeks, I find another time they charged their depositors for the deposit of a foreign check. They charged them not only interest on the check for the period between the time they are credited with it and the time the amount actually comes in, but they also charged them a nominal exchange fee.

Governor YOUNG. Correct.

Mr. WINGO. In other words, it used to be that the country bank charged for remitting the exchange on the bank—he is required to perform that service free now and not even allowed postage; that is, he is not allowed to make expenses to say nothing of profits—and whereas he is compelled to lose that, the bankers in the cities where are located the jobbers and wholesalers, are still collecting exchange unless the question of competition forces or compels them to forego it. I am prepared to introduce documentary evidence to that effect if this is doubted.

Governor YOUNG. I will confirm the statement.

Mr. WINGO. So, instead of the business of America being relieved of this burden of exchange, it is just shifted and instead of the country banker getting it, the bankers in the centers where the jobbers and the shippers are located, are getting it. The country bankers used not to get it where there was perhaps competition that compelled him to forego it, but now he is compelled to render all of that service free, but, on the other hand, the jobber and the wholesaler and others, in a great many instances, have to pay their own bank for collecting the foreign checks.

Governor YOUNG. They always did, Mr. Congressman. There is just this difference. Heretofore the country banker charged for cashing his own checks, and to-day the city banker and the banker in the larger centers charge for advancing credit on a check that is drawn on some one else that it may take 5 or 10 days or two weeks to collect.

Mr. WINGO. The country banker did not charge for cashing his own checks. He agreed to do that when presented across the counter, but he charged for remitting exchange—where he had to send it to another point. That is what you had in mind?

Governor YOUNG. Yes.

Mr. WINGO. He charged for the remittances and not for his check. It was not permitted under the law. If he had undertaken to discount his own check, under the laws of many States, he would have been put into the hands of a receiver.

Mr. STEVENSON. Will the gentleman from Kansas permit me to follow that with one suggestion?

Mr. STRONG. Go ahead.

Mr. STEVENSON. That very suggestion appeals to me more strongly than any other feature of the suggested change by the Comptroller of the Currency, and that is the whole trade area of the National Bank of Philadelphia should have the right to put branches in the whole trade area. Then a man who has one of these checks and has his money deposited in a branch of Bank A, and the head of the branch A or another branch is in a town where he is paying his bills, he deposits in one bank in one town and sends a check to another town

to another bank and, being all one system, there is not this charge. He should be able to deposit his checks in any one of those banks constituting that system.

Mr. WINGO. I think there is one concern where the bank has branches—either a branch or chain, I forget which—and still charges its customers an arbitrary interest rate on the clearance period and, in addition to that, it charges 25 cents on up; 25 cents is the minimum fee for each check.

Mr. STEVENSON. Just to illustrate my suggestion——

Mr. WINGO. I do not object to showing the gentleman my file on that—on the collection of exchange on remittances on foreign checks.

Mr. STEVENSON. If you say the National Bank of Philadelphia—if there is such an institution—has a branch in Wilkes-Barre, Pa., and a merchant in Wilkes-Barre has an account in the branch of that bank there and he wants to pay a bill in Philadelphia, he draws a check on the First National Bank of Wilkes-Barre, the branch, and sends it to the merchant in Philadelphia, and he can go to the First National Bank of Philadelphia and say, "Here is a check that I want credit for."

Mr. WINGO. He does not get credit for it now.

Mr. STEVENSON. I think if the system is established, he would.

Mr. WINGO. If he draws a check on a certain branch, he does not get credit if that is presented in the home office in the city. He sends it to his hat merchant, to use an illustration I have in mind—he sends it to the hat merchant, the wholesaler, and that hat merchant takes it to the central bank. That is not cleared immediately and he pays an estimated interest on that.

Mr. STEVENSON. Well, that is not right. It is the same institution and it has got his money, whether in Wilkes-Barre or in Philadelphia.

Mr. WINGO. Of course they all do not do that, where competition is fierce; in other words, here is a good strong hat house or wholesaler or a groceryman and the banks are competing for his business. The bank will take and carry the float for that wholesale house, but unless there is very strong competition—and I have found in one or two cities where there is apparently competition—they must have some gentlemen's agreement where everybody is carrying that float and charges something for the remittances.

Mr. STEVENSON. The unit bank at Wilkes-Barre is a different institution from the Philadelphia bank, but if it is the Philadelphia National Bank, located in Philadelphia with a branch in Wilkes-Barre, it is not right to charge exchange on the money that institution has in Wilkes-Barre.

Governor YOUNG. I should like to correct the record, for a moment. The discussion has been in Philadelphia. Philadelphia does not charge that exchange.

Mr. WINGO. When did Philadelphia stop charging on foreign checks? I had that statement made to me by Mr. Norris once before and I took occasion in Philadelphia on one occasion to test that out. Certainly my check bore an exchange charge, and they said my bank would charge on it. Of course, before I left town, my 25 cents was returned to me. They did not know at the time they made the charge that I was a member of the Committee on Banking and Currency. They returned the 25 cents.

Mr. STRONG. I should like to put into the record a letter sent to the Banking and Currency Committee through the chairman, by Hon. Hatton W. Sumners, from Dallas, Tex.

This is dated Dallas, Tex., April 1, 1930:

Hon. HATTON W. SUMNERS:

I am inclosing a clipping from a local paper. This action in effect denies to the small depositor banking facilities, as wage earners seldom have that much to leave in the banks for their use over and above their own needs. Since they operate mostly under Federal charters I think it about time some regulatory measures were considered by Congress and Senate. They regulate service of railroads, post offices, and several other public service institutions, and I think they need it as much so as any of these other concerns.

Mr. WINGO. Is that the letter that inspired the chairman to advocate these checking accounts in post offices?

Mr. STRONG. He incloses a newspaper clipping headed, "Banks to hike service rates—To double 50-cents charge and raise $50 to $100."

He also incloses a slip evidently being sent out to depositors by the Dallas National Bank, which reads as follows:

MARCH 31, 1930.

Notice to our depositors:

Beginning with the month of April, we will make a service charge of $1 per month on all checking accounts averaging less than $100. We have been handling accounts of this size at a loss.

We believe that every citizen is entitled to banking facilities, but feel that each person should pay the actual cost of handling her or his account.

We sincerely hope that all of our customers can keep their balances above $100. This does not apply to savings accounts—no charge will be made on them.

DALLAS NATIONAL BANK.

That is in line with your thought, Governor, that banks should rightfully make those charges to their depositors, so that they will not operate at a loss?

Governor YOUNG. It is. I think that.

Mr. STRONG. Is not that a very strong reason why the suggestion of the chairman might be considered, that if the banks are going to refuse to small depositors and the laboring men whose semimonthly payments probably will not be much over $100—they are going to charge them $1 a month—might it not be a good thing for the Government to liberalize their postal-savings banks so that the small depositor in rural communitities may be served without that kind of charge?

Governor YOUNG. I think I know enough about the commercial banking business to realize that the Dallas National Bank is not making a profit on that transaction. They may be breaking even.

As a citizen of the United States, I would be bitterly opposed to the United States Government assuming a cost of $12 per person for cashing their checks in payment of bills.

Mr. SEIBERLING. In this connection, I should like to ask a question or two.

Mr. STRONG. Go ahead and ask them, but make it just one or two questions as I should like to go on with my thought.

Mr. SEIBERLING. It is in connection with this particular subject.

Since you have made the statement you have about the charge on accounts below $100, what balance do you think makes an account a paying account?

Governor YOUNG. It would depend on different sections of the country.

Mr. SEIBERLING. Just an average, in a general way—$100 or $200?

Governor YOUNG. As I figured it out at one time in the bank I was with, I think it was in the neighborhood of $200.

Mr. SEIBERLING. If you believe they should charge them when they have a losing account, do you not think they should pay interest on daily balances above $200, on checking account? Do you not think they should pay some interest because that becomes a profitable account?

Mr. BRAND. Governor, you had better be careful about answering that question. The whole country will read about that when these hearings are published.

Mr. STRONG. Are you a banker?

Mr. BRAND. A small one. We do not charge anything for the service nor do we pay an interest on deposits.

Governor YOUNG. I think competition, Mr. Congressman, would force him to pay interest on deposits over and above a certain amount. I can not fix the amount because it is different all over the country. But you know and I know that there are national banks that do not pay interest.

Mr. SEIBERLING. I am not asking you what competition would do, but you have stated that where an account is below $100 or $150, it becomes a loss to the bank and the depositors should pay for the service. I am asking you theoretically if you believe that, that the depositor should pay because it is a loss to the bank, should not the bank pay the depositors something when the account's average daily balances reaches an amount where the bank makes a profit on it?

Governor YOUNG. In actual practice, Mr. Congressman, it is done.

Mr. SEIBERLING. What do you think about that yourself? Is not that right both ways? If your theory is correct, should not the other theory also apply?

Governor YOUNG. Well, I have done that very thing in commercial banking—not with all accounts.

I have to correct that a little bit, because when I was in the commercial banking business, they had not gotten up to the point of analyzing their accounts sufficiently well to realize they should put a charge on unprofitable accounts. I never put a charge on an unprofitable account, but if I was in the commercial banking business to-day, I would do it.

On certain open checking accounts that I had and I felt they were profitable and knew they would go elsewhere if I did not meet competition, I have paid an interest on the average daily balances. Having done that and believing it, my reply to your inquiry, actually and theoretically, is yes.

Mr. SEIBERLING. I think that is all. I should like to ask another question, but I do not want to take up any more time from Mr. Strong.

Mr. STRONG. Well, go on.

Mr. SEIBERLING. There are many banks in the country that charge this $1 a month service that do not pay a cent to any one on checking accounts, is not that true? That is true, is it not, no matter what the amount of the balance is?

Governor YOUNG. No; I think that practically every banker in the United States has announced that it will pay interest on some accounts.

Mr. SEIBERLING. Oh, a $100,000 or $200,000—big commercial companies—but I am talking about the ordinary commercial accounts.

Governor YOUNG. Yes, there would be many of those.

Mr. SEIBERLING. And there are banks that will make a man's wife pay if the account goes below $100, $1 a month, when the husband has an account of five or ten thousand dollars balance and gets nothing on it.

Governor YOUNG. Well, I do not know about that, Mr. Congressman.

Mr. SEIBERLING. That is all, Mr. Strong, and I thank you very much.

Governor YOUNG. It seems to me that could be avoided by a joint account.

Mr. SEIBERLING. I want to say I am opposed to the $1 a month charge and I agree with Mr. Strong that that is a service the banker should render just as the groceryman has to deliver a small order of groceries at a loss or a merchant deliver thread to a house.

As long as the bank makes a large profit for the stockholders, I think they owe some duty to the public, especially to these young people who are starting out in life, and ought to be educated in the banking business and should not be shut out of the banks.

Governor YOUNG. This has been developed in the ninth Federal reserve district in the small country banks. Obviously when the banker saw his bank go down and did not have any profits himself and he began to analyze his own situation and discovered where he could cut down where business was not profitable, and he felt compelled to do so.

He learned that he had a large number of small accounts that were not profitable and he was distributing calendars and pocketbooks, and in an effort to put his institution on a paying basis, he put on the service charge.

Mr. SEIBERLING. He finds one part of his business unprofitable and he charges for the service and finds another part extremely profitable and pays no reward for those accounts. At the end of the year the stockholder has received a fine dividend and the depositors have been penalized and others not rewarded who held big accounts.

Governor YOUNG. That is not true in many of the small banks I am speaking about in Minnesota and the Dakotas.

Mr. STRONG. It is also true, Governor, is it not, that a few years ago the little bank was deriving a great deal of income through charging for the cashing of checks, and largely through the influence of the Federal Reserve System checks were taken up and collected at par and no charge made, and that revenue was taken away from them?

Governor YOUNG. That is correct.

Mr. WINGO. Is this true or not, may I ask——

Mr. STRONG. Certainly.

Mr. WINGO. It has been contended that a great many of the small grocerymen and small bankers have been forced out of business because they have rendered so much free service they could not make a profit and no business, grocery or banking, can exist in a community and serve a community unless it can make enough profit to live?

Governor YOUNG. Correct.

Mr. WINGO. Is not that one of the major reasons why the smaller banks are dropping out, because they find the business unprofitable and they have started to analyze their losses and finding where they could charge for a service and exist and serve the community?

Governor YOUNG. That is correct.

Mr. STRONG. In my question I wanted simply to draw a comparison where formerly the little bank was charging a fee for the collection of checks, which was a considerable part of its income, through the action of the Federal reserve system and its par collection of checks, that revenue was taken away from them?

Governor YOUNG. I would rather say it was the action of the Congress of the United States.

Mr. STRONG. Well, the idea being developed and encouraged by the Federal reserve system?

Governor YOUNG. The law is specific, I think, Mr. Congressman.

Mr. WINGO. But the law specifically says they may charge not to exceed one-tenth of 1 per cent. But there was a little joker put in there. Congress was told that it would not destroy that revenue but would only prevent excessive charges, but in actual operation, it did, Governor. That is the trouble with that. The little joker is that they provided that a charge shall not be made against a Federal reserve bank and then you compelled them to go through the Federal reserve banks.

Mr. STRONG. We had that in our hearings once.

Mr. WINGO. The effect was the same as repealing that one-tenth of 1 per cent permissible charge.

Mr. STRONG. Now, I am not going to yield any more until I develop my own line of thought.

Mr. WINGO. Very well; you use the rest of your 10 minutes, and what you do not use, yield to Mr. Luce. (Laughter.)

Mr. STRONG. I am going to decline to yield any more.

This privilege of charging this fee on checks, having been taken away from the banks, went largely to the profit of the big banks in the float, has it not—in carrying that float—and passing it on to the Government?

Governor YOUNG. I do not think so. The larger banks in the larger centers, if they were to charge their country correspondents they, in turn, pass the charge back to their depositors. That was the general practice, with the exception of one or two points in the United States, where they figured they could absorb that charge and the business they would get would compensate for the charge.

The CHAIRMAN. May I suggest, Governor, that Philadelphia, at the time of the passage of this particular provision here, was one of the cities that was doing an extensive collection of checks for country banks and was requiring compensating balances. They took practically all checks that came to them and credited them on sight and made no charge for collection, but absorbed whatever charges there might be in the collection of those checks, themselves.

It was made known at the time of the discussion here that the Philadelphia National Bank, as I recall it now, was one of the largest institutions in Philadelphia and was doing the largest collection business of probably any of the banks there. By this change, and not being forced to pay anything for the collection of those checks which they took from the country banks, they made a saving of approximately $500,000 a year.

Under the working of the plan, those checks were cleared through the Philadelphia Reserve Bank and that did relieve the big city banks of that charge which they had heretofore been absorbing.

Governor YOUNG. In those two or three specific cases where they were collecting nation-wide; yes.

Mr. STRONG. In this case of the Dallas bank don't you think it fair to assume that this notice by the Dallas National Bank was not sent out until all the banks of that city had agreed to this proposition?

Governor YOUNG. I do not think so, but I assume it was a clearing house agreement.

Mr. STRONG. Then, the more closely banks in the cities become connected with each other, the more it is going to cost the public to do business with them.

Governor YOUNG. They were just as close 20 years ago as they are to-day, under a unit system. This is not a group system.

Mr. STRONG. If they are proceeding to do that now, saying, "We are not going to do business with the public unless the workingman leaves $100 in our bank or pays $1 a month"—if they continue that, they will deprive the public of a banking privilege they have had?

Governor YOUNG. No; they are going to charge them for it.

Mr. STRONG. Yes, at a profit. Now, if the Government can forego several millions of dollars in its revenue it would get from the Federal Reserve System because of this system that they have of standing the expense of the clearing house in the various cities and the banks are going to put that obligation upon the people who have small accounts, do you not think the Government would be justified in providing a system of banking through its Post Office Department or otherwise, whereby the people could enjoy those privileges without paying the price they are asked to pay for them?

Governor YOUNG. I do not.

Mr. STRONG. You think the banks should be allowed to insist on a profit in every line of their business?

Governor YOUNG. I do, if they elect to take it.

Mr. STRONG. Following up my thought that I have in my mind, the thought I have is this: When we have trade area branch banking, which will be dominated and controlled by a few groups in the trade area, the rules and agreements between the banks will very likely be more stringent and more demanding of a profit than they are now. Along that line, let me say in my district I know of a new bank that started out and had pretty hard sledding. It adopted a policy of accepting a checking account as low as $1. It admitted it was unprofitable, but they built up a clientele of a great many thousand boys and girls who never had had a bank account before.

In the course of six or eight years, those boys and girls and young men got into business. They still keep their accounts in that bank. Gradually that bank became the dominant bank of the town through the fact of doing a little business for less than cost and accommodating the small depositor who finally became a business man with a large account.

There was no agreement among the banks and that was possible. But to-day the banks have gotten together and say, "Let us all charge the small depositors. They must have $50 or $100 or we will charge them for carrying those accounts and we will not pay interest on deposits except over so many dollars and we will agree to pay only 3 per cent."

That is by reason of agreements, and gradually those have grown up among the banks. The thought comes to me that when those banks that have had to spend years reaching these agreements—when they are all under one or two or three heads in the trade areas—whether or not it will not be very easy for the officers of those branch banks existing in those trade areas to get together and do about anything they want to the public, to say nothing of the fact of dominating business through the contraction of credits in the trade area.

I am just trying to develop my opposition to branch banking.

Governor YOUNG. They could do those things that were within reason and permitted them to make a profit, but they could not charge that man $100 a month for the account or $80——

Mr. STRONG. No.

Governor YOUNG. Or $50.

Mr. STRONG. No; but they might charge him $5.

Governor YOUNG. They might charge him $5 a month for the account, but he would not have to pay it. He still could go to the post office and buy postal money orders to pay his bills at a much more reasonable rate than that.

Mr. STRONG. But would have to carry his money in his pocket. He could not deposit the money and check against it. He would have to carry it in his pocket.

Now, I want to ask you in regard to the matter of examination of these groups. Do you think where a bank has 100 branches that it is a safe examination to send examiners out to examine one of those branches and the next day another and the next day still another? Do you think that is a safe way to guard the public?

Governor YOUNG. I do not think that is what is done, Mr. Congressman. In these large branch set-ups, they usually center on the parent office and several of the larger branches and, in my opinion, that is a fairly safe examination.

Now, there may be some little discrepancy or something wrong out in a small branch. There might be a defalcation, but it would be so small in comparison with the total that it would not affect the solvency of the bank.

Mr. STRONG. If the bank was in bad condition, could not they kite their funds around among the hundred branches unless they were all investigated, including the parent, on the same day?

Governor YOUNG. I do not think so. I think that by getting in the parent office and some of the larger branches, which the Comptroller now can do, that he can uncover anything that would be seriously wrong.

Mr. STRONG. Of course the Banking and Currency Committee was told, a few years ago, by the Comptroller of the Currency, that that was not a safe examination and that a branch or a bank with 100 or 200 branches, could not be examined unless they had a force to put one at each branch at practically the same time. That is where I got the idea.

Governor YOUNG. Did he say it was not safe or not thorough?

Mr. STRONG. My recollection is that it was practically impossible to make a proper examination of the bank.

Governor YOUNG. Mr. Congressman, I am not a bank examiner and not trained along those lines. Those questions came before the

Federal Reserve Board some time ago when we had insisted on a simultaneous entry and we called the Comptroller of the Currency at that time and discussed the situation with him and also consulted our chief examiner. The conclusions of those men were that, with a large set-up, where they could get into the key places—the parent office and at an occasional outlying branch—that they were fairly safe in so far as the solvency of that institution was concerned.

Mr. STRONG. If there was danger in the bank and it was unsound, do you suppose they could tell where the key places were?

Governor YOUNG. Yes.

Mr. STRONG. The banker who realizes he is insolvent would not be likely to cover up the small places and leave the key places open?

Governor YOUNG. Well, the examiner would get quickly to the place where he suspected trouble.

Mr. STRONG. Only a few years ago this committee was told by the Comptroller of the Currency that that was not a safe and proper examination. Now the committee is told that it is. Undoubtedly the heads of the department get their information, as you say, from the examiners, and I am wondering whether or not the influence of these groups which are headed toward branch banking, has not worked on those examiners, when they come forward and say it is not a safe examination and then, two or three years afterwards, they say they think it is.

Governor YOUNG. Would the experience of the Federal reserve system be anything to go by? We have 12 Federal reserve banks. We do not attempt to examine them simultaneously.

Mr. STRONG. But they are separate and distinct institutions.

Governor YOUNG. They are coupled up with one general gold settlement fund in Washington. A thorough examination would cover all those banks simultaneously.

Mr. STRONG. But the Federal Reserve Board has a very able governor looking after them.

Governor YOUNG. Still defalcations could occur and irregularities could occur, but we feel we are fairly safe in examining the banks individually.

Mr. STRONG. But here is a bank dominated and controlled by one group, with a thousand branches and it is getting in bad shape and the examiner comes in and he proceeds to go from one bank to another or to take the key positions. It seems to me the former information given us by the Comptroller of the Currency that that was a dangerous kind of examination, may be considered to be better.

Governor YOUNG. Well, I would not have that feeling, Mr. Congressman.

The CHAIRMAN. Governor, the present Comptoller of the Currency is advocating a change in our system of unit banking to trade area branch banking. He is emphasizing the fact that our present unit system can not continue as at present.

Now, he is the chief advocate of branch banking to be confined to trade areas. What is the effect on the unit banking system by having it supervised by an announced trade area branch bank examiner? Do you think under that system unit banking could proceed when the man who is supervising it is against it and advocating another system and says it is unsafe to continue in that manner?

Governor YOUNG. I do not think the Comptroller of the Currency takes that position, Mr. Chairman.

The CHAIRMAN. What do you understand his position to be?

Governor YOUNG. I think he advocates the extension of the branch banking area to the so-called trade area. I do not think that he has ever said or ever recommended or suggested that the unit banker should be put out of business.

The CHAIRMAN. He has stated in his annual report they were leaving, even under the McFadden Act of 1927; that national banks were gradually leaving the system and he advocated, as a method of saving the system, branch banking confined to trade areas.

It naturally occurs to me that when the unit banking system is supervised by the people who are against unit banking and in favor of branch banking, it would naturally follow that unit banking would be rather the sufferer in that respect.

In that connection also I would like to ask you whether or not, under those circumstances, it would not be natural for the Comptroller of the Currency to refuse to grant charters to unit banks and whether or not, under your observation, preference is not being given to these larger banks in the big cities to open branches, over the establistment of unit national banks?

Governor YOUNG. I could not answer for the Comptroller of the Currency, Mr. Chairman.

The CHAIRMAN. I am speaking particularly of the situation in New York City which, of course, is one of the tense branch banking cities and where I understand last year there were applications for something over 100 national banks and approximately 10 charters were granted and where there were branches authorized for existing institutions in many of the localities where unit banks were applied for but charters refused. They may have been properly refused, but I was just wondering how much such a situation would be affected by the supervision of a man who was a branch-banking advocate as against the unit banking system.

Of course these applications, I know Governor, are under the joint supervision of the Federal Reserve Board which power is delegated, I understand, to the Federal Reserve banks.

Governor YOUNG. That is correct—not as a matter of law, but as a matter of procedure.

You must bear in mind, Mr. Chairman, that there is always a check on the Comptroller of the Currency. If there is an application for a national charter, he must be reasonable as to whether he grants that charter or does not grant the charter, for the simple fact if he does not grant the charter, they can always go to the State banking department and use the same arguments and either get the charter or do not get the charter; in other words, he always has to take into consideration this: "If I refuse this charter will the State grant it and will I thereby weaken the national system to that extent?"

The CHAIRMAN. In the close working arrangements between the Federal Reserve and the Comptroller's office and the Superintendent of Banks, there is a matter of reference of all these applications back and forth, is there not?

Governor YOUNG. There is.

The CHAIRMAN. And they do not go contrary to each other's views on that?

Governor YOUNG. Not as a general rule.

The CHAIRMAN. In other words, if the comptroller refuses a charter, the State superintendent knows that, and he is reluctant to grant the charter.

I was wondering what effect that had on the decrease in the number of national bank charters issued and if, in the circumstances, it might not be working to the detriment of the building of the unit system?

Governor YOUNG. From what I have observed, I do not believe so.

Mrs. PRATT. I happen to know of two instances that might bear on what you say in regard to the refusal of charters to unit banks and the granting of permission to establish branches in New York.

In the instances where people apply for charters, they should have proper financial backing. There is no question about that, and in the instances I have in mind where charters were refused for the establishment of unit national banks it would seem, and I think we will all agree, that it was not a matter of prejudice on the part of the comptroller that resulted in that refusal.

However, the fact that permission to establish a branch bank was granted in almost the same area to an existing bank with sound financial backing and which seemed to be in the interest of the public, might give rise to the suspicion that there was some favoritism displayed.

I mention this because it is quite conceivable there might be many instances of that character which might lend color to the suspicion.

The CHAIRMAN. I was not suggesting a situation like that, Mrs. Pratt.

Mrs. PRATT. I think it will be found that in most cases the refusal is sound.

The CHAIRMAN. What I was illustrating is this, that the Comptroller, being a branch banking advocate, his leanings might unconsciously influence him in granting charters to branch banks as against unit banks.

Mrs. PRATT. My point is that it might look like favoritism where, when all the circumstances are known, it would not be. I know of two instances, which I have mentioned.

The CHAIRMAN. But in some instances, the comptroller being in favor of branch banking, might not favor the unit system as against the branch institutions.

Mr. WINGO. I think what the Chairman has in mind is this, that the comptroller, assuming that he is using or exercising good judgment in the matter, yet, because he believes in branch banking, might be swayed to grant or refuse a charter because of his convictions with respect to branch banking. I do not think you mean to imply he would arbitrarily refuse or grant a charter because of his bias for or against any particular system, as against the interests of the public.

The CHAIRMAN. I am not attempting to criticise the comptroller in that respect. We are all human, but if applications come along for unit banks and branch banks, he will follow the dictates of his conscience.

Mr. WINGO. What you mean is that if there is an application from a branch bank and an application from a unit bank, your theory is that the comptroller, being in favor of branch banking, would naturally give preference to the branch bank?

The CHAIRMAN. I think he would be more favorably inclined to the branch bank; yes.

Mr. WINGO. I knew you did not intend to charge the comptroller arbitrarily, without regard to the public welfare, with doing that. The thought you have been trying to get over is that a man in favor of a particular system will naturally give that system preferred consideration?

The CHAIRMAN. Yes.

Mr. STRONG. What the chairman is trying, in his modest and quiet way, is to point out whether or not it is a fair thing for the government, in this contest between unit and branch banking, to have a man who has power to grant charters, that is a branch banker.

Just one more thing and I am through, Governor. This board that has been discussed in New York that fixes the rate on call money and the renewal rate on money, has a great deal of effect and influence—it has a nation-wide effect, has it not?

Governor YOUNG. At times; yes.

Mr. STRONG. That being the case, do you think the Government ought to exercise any control over that board as to who it shall be and how it shall be regulated?

Governor YOUNG. I do not.

Mr. STRONG. Here is a board that may attract the savings of the nation to the stock market by a higher rate, and did do it and has done it in the last few years, which is generally admitted to be a rather dangerous procedure, and put them into speculative buying of stocks on the New York Stock Exchange.

Governor YOUNG. They can not do that, Mr. Congressman, even under very unusual conditions. It is the conditions that bring about that rate and not any arbitrary action of those three men. Their rate has to be right. In other words, the rate has to bring the money; and, if they make it too high, too much money comes and, if they make it too low, not enough money comes.

Mr. STRONG. I appreciate that, but we have got to the point where the money in New York for stock-market operations, by increasing the rate, they draw it from the savings of the Nation, perhaps to the detriment of other business.

Governor YOUNG. They did do that.

Mr. STRONG. I was wondering whether or not the Government should take some supervision of aboard that had that power.

Governor YOUNG. I have answered repeatedly before the committee that question, and given my reasons.

The CHAIRMAN. Are there any further questions? I may say at this point that I am hoping we can finish with the governor to-day, because, under the program as previously announced, Mr. E. W. Decker, of the Northwest Banking Corporation, of Minneapolis, Minn., will appear before the committee on April 15, and, on the following day, Mr. L. E. Wakefield, of the First Bank Stock Corporation, of Minneapolis, will appear.

Are there any further questions of Governor Young at this time?

Mr. WINGO. You favor the extension of branch banking, as I understand, personally?

Governor YOUNG. I do.

Mr. WINGO. You covered, in your statement here, the extent to which you favor its being granted?

Governor YOUNG. I have not.

Mr. WINGO. Do you mind giving the committee the benefit of your judgment as to whether it should be state-wide, district-wide, or trade area, or what you have in mind?

Governor YOUNG. I made the statement in the committee that I favored the trade area, the same as the Comptroller of the Currency. I can not define that at this time. I am hoping some day I will be able to do that.

Mr. WINGO. I do recall you said that. You took the position, necessarily, there would have to be some flexibility in defining the trade area.

Speaking a while ago about the question of profit for banking, I asked you if it was not true, from your observation, that one of the major reasons why the small bank has fallen and is passing out of the picture, is the same reason that a lot of small merchants are passing out of the picture—that they can not make money out of it?

Governor YOUNG. That is true and they have been trying to con ert some of their gratuitous services into profitable services.

Mr. WINGO. In the last analysis, Governor, someone has to pay for that service?

Governor YOUNG. Certainly.

Mr. WINGO. Take the groceryman, when he delivers a small package, or if he gives unlimited free delivery service, he has to cover that in the profits that he makes out of all of his customers, and those who carry their own goods from the store, have to contribute their part of the expense of carrying the purchases to other customers in their apartments or their homes. That is true, is it not?

Governor YOUNG. That is true.

Mr. WINGO. A bank that renders free service, by keeping an unprofitable checking account for me, unless I pay for that service charge, you and others who have profitable accounts, must show that bank enough profits to cover the deficit or the loss in handling my account?

Governor YOUNG. Some where some one has to pay that.

Mr. WINGO. And if that free service and the limitation by reason of the interest rate and the limitation on the charge for remittances—all of these different limitations and losses make it impossible to pay a dividend to the stockholders, it means that sooner or later that bank will be liquidated?

Governor YOUNG. That is right.

Mr. WINGO. If it does not fail it will be liquidated, as being an unprofitable investment for the stockholders?

Governor YOUNG. Usually local pride carries that bank along.

Mr. WINGO. That local pride has been one of the incentives, though, that has led them to put their heads together and bring about a consolidation in these small towns, where they have had banking facilities. One of those consolidations occurred in one of my county seats, in the town of Nashville last week. Two banks there have consolidated, and in their advertisement they directed attention to the fact they could operate at less expense and render better service.

That is taking place in the different smaller communities over the United States where they have more banking facilities than the business men in that town feel they can maintain and make pay for themselves—they are consolidating.

Governor YOUNG. Up to 1920 the number of banks was increasing and since 1920 they have been decreasing through consolidations, mergers, and failures.

Mr. WINGO. That decrease in the number does not mean, necessarily, that in every instance some community has been robbed of proper banking service, but it means in a great many instances a sounder, larger and better banking service is afforded that community by reason of the consolidation of in some instances two unprofitable institutions into one that can exist and make a profit and have a larger opportunity to serve the community.

Governor YOUNG. Generally speaking, that would be true, Mr. Congressman; but I referred, in the record this morning, to the statement of the superintendent of banks of Minnesota, in which he said that there are 154 communities in the State of Minnesota that had banking facilities that now have no banking facilities. Many of them are entitled to banking facilities.

He recommends under their State law that they be permitted to establish branches in those smaller communities.

Mr. WINGO. In other words, the point you are making is that notwithstanding the efforts of people in these localities to preserve their institutions, inability to maintain them at a profit has caused 154 communities to lose the service and the banking superintendent says that, in order to enable them to have it, the State law should be changed to enable them to have branches in those communities?

Governor YOUNG. In a percentage of them.

Mr. WINGO. In which they could be operated profitably?

Governor YOUNG. Yes.

Mr. WINGO. Now, there is another reason for the decline in the number of banks, which is this, is it not—I think it is true in my part of the country but I do not know whether it is true all over—but with the system of improved highways that have been established, improved transportation and improved communications, distances have been shortened so that a man who formerly lived a in small town that was 15 or 20 miles away from the metropolis of his county, we will say, that man now can go to the metropolis of his county about as easily as he used to go to the village, and the family are going to the metropolis for their purchases and the merchants in the small locality are passing out of the picture because of their inability to meet the competition of the larger merchant or banker that attracts the larger business to them.

Governor YOUNG. There is a great deal to that.

Mr. STEVENSON. My conception of the problem that is before us, Governor, is twofold: We want to make the system such that a man who goes to bed tonight will realize that his money is in a bank that is of such a type that it will be there the next morning. Then we have to guarantee to every business community proper credits for legitimate business in that community.

Now, those are the two main reasons why we need to do something with this banking system.

As I understand, you believe that the suggestion of the comptroller would help that situation?

Governor YOUNG. It would help it.

Mr. STEVENSON. In removing all trouble?

Governor YOUNG. No.

Mr. STEVENSON. There is no trouble-proof proposition to be put over here?

Governor YOUNG. No.

Mr. STEVENSON. But we certainly need to do something to insure the confidence of the depositors and justly insure the commercial interests proper credits. If we can do that with branch banking, we have done something.

Governor YOUNG. The name, branch banking, chain or group banking, is not a cure-all. Obviously all of those systems will have to go through a period of experiment.

Mr. STEVENSON. I believe the branch banking system is superior to all of those. You have one big institution responsible for all of them, and with group banks and chain banks it is not so.

Mr. STRONG. Governor, this may not be in the record, but as I am the chairman of another committee, I often have to be absent from this committee and probably was not present when it was discussed, and that is the matter of the division of profits in the Federal reserve system. Several propositions have been made and several bills are pending before this committee regarding that.

Several years ago, when we were, as a committee, going over the Nation investigating why smaller banks did not join the Federal reserve system, it was suggested that a proper division would be to take the profits of the Federal reserve system and divide them proportionately between the banks that furnished the reserves, to the amount of money furnished by the Government in currency.

Governor YOUNG. My reply is all in the record, Mr. Congressman, and it is substantially this: That the Federal Reserve Board, in its annual report, has recommended that the member banks participate to a larger extent than they are now participating in the earnings of the system, if earned. We have not been able to work out the exact procedure, but expect to do so and present it to the committee.

Mr. Chairman, I have been here for three weeks. I have attempted to be of some benefit to you. I hope that I have. I have received very courteous treatment for which I am most grateful.

The CHAIRMAN. We are deeply appreciative, Governor, of the frank manner in which you have responded to questions of members of this committee. You have been very generous of your time, and I know you have given us information that will assist us very much and will be of great advantage to us in our survey of this great problem.

The probability is, however, that before we complete our study, we may want you back again.

Mr. DUNBAR. Is Governor Young to appear this afternoon?

The CHAIRMAN. No.

Mr. DUNBAR. My thoughts are along the lines discussed the other day by Mr. Beedy and Mr. Fort, and one of the questions you propounded, Mr. Chairman, was that if, in the panic which resulted last fall, a great many banks did not impound their gold and did not use it for cerdit purposes. As I understand it that was one of your questions.

I want to observe and ask Governor Young if it is not true practically every dollar of gold and bullion that is in this country is the basis for all our credit to-day?

Governor YOUNG. It is.

Mr. DUNBAR. It is the basis of all our credit?

Governor YOUNG. Yes, sir.

Mr. DUNBAR. We have gold and bullion to the amount of $4,300,000,000. We have deposits amounting to $58,000,000,000 in the banks of our country. It seems to me if any of that gold in the banks had been impounded and had escaped being used as a sort of credit, it must necessarily be very small.

Governor YOUNG. You are making the inquiry as to whether any gold was sterilized, as many of the economists refer to it?

Mr. DUNBAR. Yes.

Governor YOUNG. I do not think it was.

The CHAIRMAN. The committee will stand adjourned until Tuesday next, at 10.30 o'clock a. m.

(Whereupon, at 1 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m. on Tuesday, April 15, 1930.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

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

APRIL 15, 16, AND 17, 1930

VOLUME 1

Part 8

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1930

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, APRIL 15, 1930

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

The committee met at 10.30 o'clock a. m., Hon. James G. Strong, presiding.

Mr. STRONG. The committee will come to order.

Mr. GOLDSBOROUGH. Mr. Chairman, before we begin the regular business, it has been called to my attention that April 22 is an open date in this committee. I am going to suggest that the Eastern Shore Trust Co. be invited to send a representative here for that day.

Mr. STRONG. Very well. The clerk will take care of that.

I understand we are to meet this morning for the purpose of hearing Mr. E. W. Decker, of Minneapolis, Minn., from the Northwest Bancorporation. Mr. Decker is present. We shall be glad to hear Mr. Decker at this time.

STATEMENT OF E. W. DECKER, REPRESENTING THE NORTHWEST BANCORPORATION, MINNEAPOLIS, MINN.

Mr. DECKER. Mr. Chairman, I asked the chairman for the privilege of telling my story, which is not prepared in writing, without interruption, which permission he has granted. Following that I will be very glad to answer any questions that I can.

Mr. STRONG. That will be the procedure of the committee, Mr. Decker.

Mr. DECKER. Let me say first, Mr. Chairman, that in my opinion this committee is now approaching a subject which is the most important and far reaching, so far as banking is concerned, of any which has engaged the attention of the country since the days of Andrew Jackson. That being true, at least in my judgment, I think the committee is very wise in proceeding with the plan of an exhaustive study of the entire subject before attempting any hasty legislation. Mr. Wakefield, who is to appear, I believe, to-morrow, and I, certainly appreciate the courtesy of the invitation to appear before you, to tell you of the conditions in our part of the United States.

One reason that I think you are very wise in your procedure is this. Congress attempted some sixty-odd years ago to establish a national banking system in this country, and very wisely so. They invited the people to deposit their money in these banks and to apply to these banks for proper banking facilities.

Undoubtedly there followed with that procedure the responsibility on the part of the Government which I have no doubt your committee

fully recognize. One of the responsibilities in connection with that system, in my judgment, is to allow the banks in that system to be prosperous.

It is fundametal, gentlemen, that no single bank, no group of banks, nor all the banks in the United States together, can be safe for the depositor, give adequate facilities to the legitimate borrower, year in and year out, unless they are prosperous.

All of the commercial banking capital of this country to-day is private capital. Private capital always seeks for investment lines which are profitable. That is also fundamental. If banking is not prosperous, private capital will not go into it.

We have been operating in this country for 150 years under a system of unit banks. I believe that system has been the best that we could have had for the development of a country that is so vast in area; 3,000 miles long and nearly 1,500 miles wide; and also considering the diversity of our resources and the various problems which confront different parts of the country, I believe that the unit system was the best system we could have operated under.

With 27,000 to 30,000 individual banks in the United States to-day, it has become perfectly apparent to students of the situation that that system has now become antiquated and absolutely inadequate. No better evidence is needed than the tremendous failures of banks which are taking place. I am going to endeavor to show you a way in which the advantages of that system will be retained, not disturbed, but will be supplemented by a development which will meet the changing conditions.

The building of our highways and the incoming of the closed car, the automobile, the telephone, the radio, and various other modern appliances, has brought us very closely together.

Anoka, a small town 25 miles outside of Minneapolis was as far from Minneapolis 30 years ago as Minot, N. Dak. is to-day, a distance of 600 or 700 miles, so far as business and banking are concerned.

The crossroads bank has had its farm-loan business taken away from it, largely by the United States Government. There is very little dealing in land, which formerly was profitable. In North Dakota, the State has taken the hail insurance away from the small banks. Their profit on exchange has been disturbed somewhat. They have been unable to resort to other forms of making money, as the city bank has, in these changing conditions, and therefore they find it very difficult to exist.

In the city, whether you like it or not, the commercial banker of to-day must be an investment banker. He can not escape it.

I might say that I was born in Minnesota, on a farm. I lived there 18 years. I used to milk 12 cows and walk 2 miles to school, so I know something about hard work on a farm.

I have been in the banking business in Minneapolis 43 years in a bank which has correspondents all the way to the Pacific coast, so with ordinary observation, I ought to be able to give some idea of the conditions there in banking.

Notwithstanding these conditions, business in our section of the country is in my judgment on a sounder basis to-day than it has ever been in my experience.

We have been operating as business men under a tremendous handicap of an antiquated system of banking, as I will attempt to show you.

I assume you will want to hear from me more particularly regarding conditions in the section where we operate. I might say that the bank with which I have the honor to be connected in Minneapolis was organized in 1872 and has never missed a dividend. I do not speak of that to brag about my bank, but to show you that under proper management, banking has been continually prosperous in our part of the country.

Now, when you come to the country districts, you have an entirely different situation. We fully recognize that we can not operate a bank in the country on the same basis on which you operate a bank in the city. A city bank is, as I said a moment ago, becoming partially at least an investment bank. Customers of ours in Minneapolis who used to borrow money are not applying for loans any more, except very occasionally. They have financed themselves by bond issues, note issues, stock issues, and instead of coming to the bank to borrow $500,000 for their business, they have in many instances been loaners of money.

Therefore, whereas 30 years ago when Mr. Forgan came to our bank, great sums of money were loaned there in the fall to move the crop by Canadian banks, and our bank was always a heavy borrower in the fall for the purpose of moving crops, in many seasons in the last 10 years our bank has been loaning money on the Street in New York at the time when crops were moving, because of a surplus of funds.

Mr. Wakefield's bank and my own are large owners of bonds; Government bonds, municipal bonds, various investment bonds, commercial paper, because our customers have not absorbed all of our funds.

That is true, notwithstanding the fact that in the deflation period of 1920 and 1921 our two banks alone loaned $60,000,000 to country banks who were our customers, to tide them over that crisis, and in many instances accepted collateral which, to say the least, was doubtful.

The city banks in Minneapolis and St. Paul have charged to profit and loss in the last 10 years at least $6,000,000, a very large proportion of which was lost indirectly in loans to bankers throughout that section of the country.

Our loans direct to the banks themselves on collateral as a rule were paid. But indirectly we furnished capital for these banks by loaning money to country bankers and those losses have been very heavy. So we can not be charged with not using our own resources to tide over the situation in banking in our section.

The reason we were able to do that and continue paying dividends and remain as strong as the Rock of Gibraltar, as we have in season and out, is because the banks naturally were prosperous. No bank in the world can live by loaning money to people who can not pay it back. A commercial bank is expected to take reasonable chances in its loans. That we did so is evidenced by the statement I have made regarding losses.

Those losses must be taken care of by profit, or the result is disastrous. In the last 10 years the banking situation in our country has been deplorable. In my judgment it is a national disgrace. In a country as rich and as intelligent as the United States is, to be permitting a condition of banking which has existed there for 10 years is nothing less than tragedy.

I believe it is the duty of the banker, as well as those in charge of banks, to furnish the same protection and the same facilities to the farmer in North Dakota, so far as banking is concerned, as the broker who does business with the National City Bank in New York City.

Our trouble with agriculture, about which there has been so much talk, in my judgment is largely due to the banking situation. It is not true, in my judgment, that these banks have failed due to agricultural distress, but that agriculture has been in trouble because of our banking distress, as I will show you.

Have in mind, gentlemen, that banking is the heart of business. It is utterly impossible permanently to have prosperous business and weak banks. Had not the large banks of the United States been absolutely and fundamentally strong during the recent stock collapse, the whole business of the United States would have fallen flat. It could not have been otherwise.

I will give you a few instances—and I am only going to attempt, Mr. Chairman, to hit the high spots in my talk—of what that situation in banking has been. Take Cavalier County, N. Dak., a county, gentlemen, with good soil and generally speaking, a good class of farmers. In 1919 there were 26 banks in Cavalier County. I will not read off the names, although I have them here, because I do not care to burden you with that. Twenty-one banks out of the 26 have closed and are closed to-day. The total deposits in 1919 of those 26 banks was $5,665,000. The deposits in the remaining five banks are $717,000.

What do you think happened to the farmers of Cavalier County? Was this agricultural distress? Supposing thay had gotten 10 or 15 cents more a bushel for their wheat? You might about as well have allowed a cyclone to go across Cavalier County as to have allowed that condition of banking to exist.

Now have in mind that a similar condition, but not as bad, of course, in all sections which during that 10-year period closed 1,500 banks in our district, with between three and four hundred millions of deposits, created a loss to those depositors, a class of people who could less afford to lose it, and that is undoubtedly true, generally speaking, throughout the whole United States in the loss or at least the tie-up of a billion and a half in deposits in closed banks. The burden has fallen upon the people who could least afford to stand it. Have in mind also that the depositor not only lost his money but the borrower in those banks was approached by the receiver and informed he would have to pay up.

What happened to him? What resources he had he had to attempt, at least, to turn into money to meet his note.

Do you wonder we have had some so-called Bolshevists in our country when such a condition exists?

In Cavalier County, to which I referred, I will give just one instance of a woman who came in with $3,400 in dirty money, in a shoe box, to pay her mortgage. I know of one other instance—I could give you innumerable ones—of a very prosperous farmer in North Dakota who had a sizeable deposit in a number of banks. Three of those banks failed. He went to the balance of them where he had his money on deposit, drew it out, took it home, hid it in his bed ticking, bought a sawed-off shotgun, and said, "From now on this is my bank." Do you blame him?

I know of a great many instances where farmers have had money in banks accumulated to pay off their mortgages and before the mortgage matured, the bank failed.

I know of one instance at least where a farmer had sufficient money in two different banks to pay his mortgage and both banks failed.

In Moorhead, Minn., the only bank there closed December 22, 1928, with $2,200,000 deposits. They appealed to the Northwest Bancorporations to put in a bank. We responded. We organized a national bank, opened it in Moorhead and March 5, 1925, three months later, immediately made available to the depositors of the closed bank, $1,000,000 cash, $750,000 of which they immediately brought back and deposited in the new bank.

Gentlemen, that country is not broke by any manner of means. But it is pretty hard for a man to swim when you tie a millstone around his neck.

In Two Harbors, Minn., the president of a bank belonging to our group a few months ago committed suicide. He had a daughter who was mentally defective and it had grown on him mentally until he finally killed his daughter and committed suicide. That was on a Sunday. The next morning, naturally, there was a run on the bank. Two Harbors is 22 miles north of Duluth. We telephoned to our bank in Duluth to send them $100,000 in currency and as much more as they wanted. Before noon the run had subsided; no trouble. I do not know what would have happened to that bank, had they been independent entirely.

Now, what did we do for Cavalier County, the one I just mentioned? Across the line is the city of Grafton. The Grafton National Bank has been a customer of ours for over 40 years. They came down to us and actually cried for help. We took over that bank, put in some new capital just recently. Money is now coming into the bank. They were absolutely helpless—absolutely helpless.

The Northwest Bancorporation has put into banks in its group, of which there are 98 banks and trust companies, in the last 12 months, in cash, over $4,000,000 and taken out of those banks undesirable if not bad paper, and to secure us against this advance which was made through the medium of loaning to a separate corporation organized for that purpose, we took over the assets charged off and in addition held out a sufficient amount of stock in the Northwest Bancorporation which is the holding company, to secure us, as that stock was to be given and will be eventually given to the shareholders of the old bank when their loan is paid, which is evidence that we have been willing to put in money to clean up the situation. Mr. Wakefield will be able to tell you a similar story.

In order to make my story as short as possible, about two years ago my young men came to me in the bank and said that they were absolutely convinced that a concentration of banking capital was going on in the country and that I should direct my attention to it; and that they thought that we should in some way or other assist in stabilizing the banking business in our part of the world.

I said, in my judgment, it is the business of the banker to stabilize banking conditions here because if he does not, either the politician or the business man who has become thoroughly disgusted, will step in some day and change it for us, perhaps in a way that does not suit us.

So I proceeded with my directors to devise a plan first of stabilizing banking in our part of the country; second, in attempting to provide facilities for our people, of which there was an apparent dearth, and to prevent, if you please, eastern or foreign interests obtaining control through purchase of stock of the banks in our district.

Now, you may think we are trying to set up a monopoly. I am going to endeavor to show you that we are trying to prevent a monopoly. It is idle for any one to say to-day that we do not like big business. It is here. It is here to stay and it is never going to go. It is utterly impossible, if desired, to drive it out. We are the richest nation in the world. We are a world banker if not the world banker.

Big business is going to grow and you can not take care of big business without big banks and big banking capital. It makes no difference whether you like it or not.

I consider it our job to see that we accomplish that with the least possible harm, if it is harmful.

I found in three or four instances definite cases where eastern capital had approached our banks in our territory—sound banks—to buy control. The people had been asked to set a price on their banks. I said to our directors, "if these banks are going to pass into other hands, the control should be kept in this district."

When we approached those men with our plan, they said, "We do not want to sell out. We do not want the money, but we do want to have a partner. We are sick and tired of sitting up here on the prairie with the lack of confidence, as we have for many, many years, without a partner."

So we have attempted to set up in our district what is actually a cooperative system of banking. It is not a monopoly. It is the only way that I know of to prevent a monopoly.

During the 43 years that I have been in the banking business, I have seen my customers and my own directors go to New York and Chicago—such as Pillsbury, General Mills, Archer Daniels, Minneapolis Honeywell, Cream of Wheat, Munsingwear. New York banking houses have underwirtten their securities, taken off 10 or 15 points, sent the security back at the higher price. Our customers draw the money out of our bank to buy it, not by hundreds of dollars or thousands of dollars, but millions of dollars.

I said to our people, "Why should not that profit be kept at home—at least, some of it"? We are not foolish enough to think we can become independent. But we are sufficiently satisfied with out own capital and ability to believe we can become more independent.

How could that be prevented? No one bank nor no two banks in our district were large enough to handle transactions of that sort, no matter how sound they might be.

We felt that a group of banks all in our country, largely with the same problems, sympathetic with each other, each cooperating, coordinating, not consolidating, can and will do it. So we organized the Northwest Bancorporation under the laws of Delaware. We went to four of the best banks—not the poorest, the best banks—presented our plan. They said immediately, "That is the most constructive thing that has ever been offered here in this part of the country. We will gladly join you. We will not sell our banks."

Take the First American National Bank, Duluth, a consolidation of the two largest banks there, a bank of $36,000,000 deposits to-day.

They said, "We would not sell control of this bank outside of Duluth at any price." They have 30 directors, half of whom are millionaires. "We will join you in this group, leaving this bank still a Duluth bank but assisted by the cooperation of these other banks."

Now, the Northwest Bancorporation, with its ninety-odd banks all in that part of the world, is attempting to retain to our country the unit bank, but adding to it all the strength and influence of the group. It is not a monopoly. It is not dominated in Minneapolis, although that is the headquarters, because there are on the board of directors of the Bancorporation 126 men, practically every one of whom is a successful business man, in numberless lines of business, and less than 30 of them reside in the city of Minneapolis. They are running that corporation. They attend the meetings regularly and enthusiastically.

There are so many things which this banking corporation can and is doing for our part of the country that it is almost impossible to enumerate them. First, it has unquestionably, together with Mr. Wakefield's corporation, stabilized our banking conditions at least at the points where there are banks which have joined our group.

It is enabling us to finance our people at home, as I explained to you. It is enabling us to secure trusts in these various points where our banks are located, which is a field hardly touched.

In Fargo, N. Dak., alone, our bank has already written in the last year a dozen trusts from people who were unwilling to create a trust in a local bank, not being assured of its perpetuity. A man has $100,000 that he wants left to protect his wife and girls. He wants to know that his trustee is going to be there 25 years after he is gone. It was utterly impossible to convince him that he should create that trust and leave it in the local bank. He knew nothing of what the management of that bank would be in five years or whether it would be in existence.

We satisfied him that the Northwest Bancorporation with $75,000,000 of capital and nearly $500,000,000 of resources was going to be there, that it was large enough and strong enough and presided over by a sufficient number of capable, successful business men, that the perpetuity would be guaranteed; that they would hire good management and would always see that the institution was properly managed and not dependent on any one man or two men or any set of men.

That trust business in itself is not only a tremendous service, but it is profitable business which belongs in our own district.

We are entitled to retain in our district as much of the wealth which we take out of the soil as is possible and in my judgment we are entitled to the support of the United States Government in so doing. We were not smart enough to find any better way of doing it.

In the matter of young men, from time immemorial our smartest young men have been leaving us for New York and Chicago. Why? Greater opportunity. Mrs. Pratt here may know that some years ago a Westerner was bragging in New York that all the smart men that they had down there came from the West.

"Yes," the New Yorker said, "and the smarter they were the sooner they came."

I can tell you of one instance of a young man who was receiving $25,000 a year, connected with our organization who within four

months was offered $75,000 a year to go to Chicago, not with a bank. He declined. Why? Northwest Bancorporation offered opportunities to him which were good enough for him and had it not been for that company, he said he would have gone.

Another young man who handles our publicity work in Minneapolis was offered $35,000 a year to go to New York City. He came back and told me he declined it purely because of this banking group; that he saw opportunities enough for us at home.

That is a much larger question than appears on the surface. Why? In banks as in everything else, management is nine-tenths of the story. Pass all the laws in the world about banking. Without management your institutions would fail.

How are you going to secure management if your best and most capable young men and women leave you to go to larger fields? The keeping in our own district of young developing men is in my judgment a very important consideration in the organization of these groups.

Our section of the country was in disrepute. Large international and national concerns would not even open offices there 8 or 10 years ago. An agricultural credit corporation was organized with the assistance of Secretary Mellon and Clarence Wooley and one or two others and eastern interests subscribed $10,000,000 in cash, immediately available, to correct the distress there, so-called, in agriculture and banking, but largely in banking.

We wanted capital to come in. We want to develop our country. Yet it was all going the other way, so far as banking was concerned.

In the meantime we are on a sounder foundation, as I said at the outset. We have diversified our farming. We are a very wealthy country and if we had had in operation in the last 15 years, gentlemen and Mrs. Pratt, a sound banking system, it is my judgment that 50 per cent of all the so-called agricultural distress would not have been heard of—absolutely.

Another percentage was due to poor farming and of course another percentage to conditions over which no one had control.

Now, what is the remedy? That is what you people want to know. I think we have found the solution, so far as our country is concerned in the banking line, and it is the result of a great deal of thought and considerable experience.

We have the temperament of the people to deal with. You will ask me, "Will branch banking cure it?" My answer is, "Emphatically no."

The banks throughout our district who are members of the Northwest Bancorporation, regardless of what my personal opinion might be, and their competititors which are still independent banks, are unalterably opposed to branch banking. Why? I will give you a concrete illustration.

Take the city of Minot, N. Dak. It has a little less than 25,000 people. The First National Bank is a member of our group. It has been there a great many years. They have a fine board of directors; it is a fine bank; small capital and large deposits. I said to them, "Supposing you are asked to become a branch of the Northwestern National Bank of Minneapolis, instead of a member of our group?"

They said, "We would not have it. Our bank has been here a great many years. We have our local pride; local board of directors, local management."

They are now members of the group, mind you; the same local authority, and the same local responsibility which they had before they joined our group. We have taken not one iota of a thing away from them in any manner, shape, or form. They have got everything they had before plus the strength, the influence and power of a cooperative system or group system, as we call it, of banks at their back.

You say, "Well, you would supplant them if the management did not suit you, at headquarters."

My answer is it would be against our interests to supplant them unless the bank was mismanaged. If the bank was mismanaged grossly it would not make any difference who owned the stock. It is our business to put them out and put some one in who could manage it. We have a large investment in that town, in that territory. It would be against our selfish interests to supplant the management.

That feeling exists throughout our entire district and in my judgment to attempt to force branch banking at this time on those people, in lieu of group banking would stir up the biggest hornet's nest that you have seen for some time, because that is a big country and there are a lot of people there and a great many banks, and they are unalterably opposed to branch banking.

Their training and their traditions are all along other lines. They believe in group banking, because they see that they have retained all that they had before and added all the advantages, or practically all the advantages that branch banking would give them.

In the small towns, the so-called crossroads towns, I will admit that we have a real problem. A town which is so small that it can not support a unit bank, regardless of whether it is independent or in a group, but which is large enough to be entitled to some banking facilities, will probably need some kind of a branch or teller's window. I know of no other solution.

But in a town of sufficient size to warrant a unit bank, which has existed in most cases for 50, 60 years, many of them, with its local pride, its local directors, its local interests, its local management—to force that bank to become a branch bank will run counter to public opinion and in my judgment create a great deal of unnecessary trouble if you can accomplish the same things in other ways.

It is true branch banking can be operated more economically probably than group banking. I think the difference in cost to-day is a great deal more than made up by the advantages of the independence of the locality which has been the basis of our Government since it started; and to destroy which would be exceedingly unfortunate.

It is idle for me to attempt to say what we should have in 15 years or 25 years. I do not know. I only know that, as I see it, our duty is to meet the situation as it is to-day and correct the evils with the least possible disturbance to the machinery which has been operating for many years. That is more true in banking than in any other business in the world, because banking is based on the confidence of the people, and as I stated before, is the heart of business. Unless it is sound, business can hardly possibly prosper.

Millions of dollars in our part of the country have been and still are, in my judgment, to-day in hiding. We have many evidences of

it. One town in Minnesota had five banks. They are all closed. A friend of mine owns some mortgages out there. Recently he went out to collect them and every one of them was paid—brought in cash in tin boxes and in socks—in Minnesota, one of the richest States in the Union; producing more butter than any other State in the Union. It is not a wheat State at all. We get more money for our eggs than we do for our wheat.

You ask me, "What about stockholders' liability, if this stock is owned by a corporation?" My answer is that in a well-managed corporation, that question will never arise. If one of the banks in our group has a misfortune, it will be taken care of and the public will never hear from it. But if it should develop, the chance of collecting liability or taking care of the deposits of the bank belonging to a group in my judgment are greater, better than the likelihood of collecting money on stockholders' liability in country districts, because in most cases when the bank is gone, the shareholders are also gone.

In that connection, I advocate the requirement if possible, in some legal way, of a percentage of assets of a holding company being in liquid securities other than bank stocks. Mr. Wakefield's company and out own each has 10 per cent to-day in liquid securities that can be turned into money immediately to clean up the bank, if it requires it.

The comptroller says it is difficult to audit holding companies. Very true. We not only welcome, but solicit visitorial powers by the Comptroller of the Currency in not only our national banks but our State banks, the security companies belonging to our institution and the parent company itself. Nothing would suit us better than to have him in control of every feature of our group banks. Whether that is legal or not, I can not say.

Mr. WINGO. You would include the holding corporation, too, would you?

Mr. DECKER. Absolutely. You say, "We will have some bad holding companies. We will have some organized for stock-jobbing purposes. That makes the comptroller's job difficult." Yes; but the fact remains that if you furnish the Comptroller of the Currency with sufficient money, with sufficient organization, he can quickly determine whether national banks joining groups are being used for illegitimate purposes. It is not a difficult matter to determine whether our group and Mr. Wakefield's is founded for the purpose of of anything except the good of the banks of the country and for their solidarity, or whether there is evidence of stock jobbing or manipulation. It is not a difficult matter. After all, the comptroller has to use his judgment in judging human nature as well as in examining figures, which do not amount to much, because they are not always correct.

There are so many ways in which the Northwest Bancorporation is assisting the banks in its group, it is hard to enumerate them. For instance, they have been buyers of bonds, some of them, for years. They have no experts. Some of them have no bond department. They have bought bonds with very slight knowledge of their merit. They immediately said to us, "For goodness sake, help us to buy bonds and tell us whether what we have we had better get rid of."

They solicit our assistance. We are not cramming it down their throats. It is cooperative in every sense of the word. But if one member misbehaves, he is going to be called and he will be called so much more promptly in a good group of banks than he would as a unit bank, that the saving to depositor and borrower will be tremendous; there is no question about it in my mind.

To-day there are hundreds of banks in our section of the country who want to join these two groups. There is no trouble in getting banks in. The trouble is in keeping them out. Why do they want to come in? Simply because, as I say, they realize they can retain everything they now have, with all these advantages. We are not urging them to come in.

We are making great plans for development of our country in financial lines aside from ordinary commercial banking.

It is obvious to any of you that the average farmer can not come to a local bank and borrow money for 90 days with any expectation of paying it. Unless he is shipping wheat to market or cattle or sheep, he must have a longer time for credit.

The independent bank during these years would say to that borrower, "Yes, we have some money to loan. You are good. You will eventually pay. I have not the money to spare now and therefore I can not accommodate you." Or, if he had the money to spare he would say, "I am afraid I will need it before you can pay it and I do not dare let you have it."

To-day, every legitimate borrower in every bank in these two groups is taken care of in every bank in the group, without exception.

We are also interested in this long-time credit. Northwest Bancorporation recently acquired the Montana Cattle Loan Co., which now has over a million dollars in cattle loans in Western Montana; necessarily long-time loans. The loans are not properly acceptable to a commercial bank. So we are carrying them in this outside corporation.

We have under discussion right now, Mr. Wakefield's institution and ours, a question of such business as the agricultural credit corporation has been handling, and they have done a wonderful job up there in getting sheep and cattle into North Dakota, which was only a few years ago an exclusive wheat State.

Why, I could keep you here all day giving you figures of the way North Dakota is diversified. It takes capital. Who is going to furnish it? Those little individual banks certainly could not. They could not even take care, many of them, of their good customers.

That is one of the many things being planned to-day. Now, you say, "Why does the Northwest Bancorporation go into Iowa and Nebraska? They are not in your Federal reserve district?"

My answer is threefold. In the first place, they asked us to come in and they gave as their reason, this: "We are satisfied group banking is coming. We believe in it. We want to get in it. Obviously, we can not join New York or Chicago because they are not forming groups, and we would not if we could. We won't go to Kansas City. We want to join Minneapolis, because we believe that you understand our problems and are sympathetic with them and by joining you, we believe the best can be accomplished for our company."

That was their reason and I believe it was a good one. Another reason why we went into that territory was that we believed that in

order to make a unit sound and at least partially self-sufficient, you must have a very great diversity of resources. We have in the Northwest Bancorporation to-day mining interests and water power interests of the Rocky Mountains, the grain growing, the tremendous dairy interests of Minnesota, the iron mining of Minnesota, the corn and the hogs of Iowa, the manufacturing business of Iowa, which is much greater than those people realize—tremendous manufacturing business there now, and in Nebraska the winter wheat and cattle as an offset to our spring wheat.

This territory furnishes a diversity of resourses which in our judgment makes a unit justifiable.

Obviously, a unit in North Dakota or a system of branch banking in North Dakota alone would be fatal. They would be worse off than they are to-day, because the same conditions would embarrass them all at the same time.

So, in order to have a unit sufficiently large in diversity of resources to make it reasonably self-sufficient, we include those States.

And another reason we included them was this: We realized that to have a bank group able to function in a way that I have indicated, it must be large enough to be effective. Whether you like it or not, size is fundamental in many lines of business to-day. It certainly is in banking. It is impossible for the banks in our district to do the things which I have enumerated, financing our industries at home, and so on, without large units. Those large units, in my judgment, will build up the country more and keep more of its wealth at home than any other one thing that has been done since that country started.

We are tired, as we say, of having the cow fed in Minnesota and milked in New York. We have paid tribute to the East from time immemorial and you would be amazed if you knew the percentage of our wealth that passes out of that State every day to other hands; in financing, in insurance, in interest and in 40 ways.

Is there any reason why we should be forbidden to keep that business at home? Is there any reason why we should not expect to be assisted in keeping it home?

It is not monopoly. It is an attempt to prevent monopoly. But I do not know of any way under the sun, of 40 little fellows preventing monopoly unless they get together and cooperate. We have not discovered any way, at least, in our country.

Those are the three reasons that we cover a large territory. In many instances Mr. Pole will tell you where we have taken over banks that were not in beautiful shape. The national bank examiner sat in, has approved of the whole deal, exchange of stock, and been delighted. We have taken out of those banks assets that were not desirable.

Now, have in mind, we did not buy these banks. We exchanged stock in practically every instance where we have a bank to-day, and notably in the leading towns. There are twice as many shareholders to-day, in Minot, for instance, in the Northwest Bancorporation as there is in the bank at Minot. And there is more than twice as much money invested in Northwest Bancorporation stock in Minot these was in the First National Bank of Minot.

Based upon the books of the corporation as of December 31, 1929, the Northwest Bancorporation had 11,469 stockholders, 90 per cent

of whom resided in the territory served by affiliated banks. The following table shows the number of stockholders of the Northwest Bancorporation by States:

Minnesota	7,719	Iowa	400
North Dakota	640	Nebraska	250
South Dakota	730	Washington	260
Montana	250	Miscellaneous	750
Wisconsin	420		
Michigan	50	Total	11,469

It is the policy of the corporation to encourage the distribution of stock among customers and employees of the affiliated banks as well as among other persons in the States of the Northwest. We believe that a wide distribution of stock in the territory which the corporation serves is an element of strength and will be an important factor in building up the business of affiliated banks.

Comparison between the number of stockholders of various banks before affiliation with the number of Bancorporation stockholders after affiliation in the same city are given below.

It should be remembered that in giving the number of shareholders of the bank, this includes all shareholders regardless of whether or not they live in the city where the bank is located, while all Bancorporation shareholders given are residents of that city.

Before banks became affiliated

	Bank shareholders	Bancorporation shareholders
National Citizens Bank, Mankato, Minn	71	110
First National Bank, Winona, Minn	62	112
First National Bank & Trust Co., Fargo, N. Dak	100	177
First National Bank & Trust Co., Minot, N. Dak	20	39
National Bank of Huron, S. Dak	44	61
Security National Bank, Sioux Falls, S. Dak	59	143
National Bank of LaCrosse, Wis	72	220

Now, is not that cooperation? We have made available the stock in the corporation. If it is a good thing, if it is prosperous, our people can participate in it. They would not buy stock in the local bank, many of them, and if it was a bank that they wanted to buy stock in, they could not get it. It was closely held.

We have attempted to put that on a democratic basis. So that the interest in the localities is greater in the cooperative group than it was in the local institution.

Take the matter of taxes. Our banks in North Dakota say, "If you ask us to become branches, where are we going to collect taxes?"

They are taxing these local bank stocks. They are getting a large amount of money annually from them. They say, "If we are a branch of the Northwestern National Bank of Minneapolis, Minnesota will collect all the tax, because the stock will be issued there, and we will have to resort to other forms of taxation to run our government."

I hold no brief either for or against branch banking. I have no prescribed theory on which this whole question can be soundly settled. I only know that the people, in my judgment, in banking and in business, including farmers, in our section of the country believe that we have at least, for the time being, found the solution of our banking problem, and as I say it is hard to say what we will need in 15 or 20 years. I do not know, Mr. Chairman.

I could go on and talk here for four hours, but I have just tried to touch the high spots, and I think I will stop and give the members a chance to ask questions, if they want to, and make further explanation.

Mr. LUCE. Mr. Decker, your very instructive statement might be supplemented, it seems to me, by a little more description of the machinery and the operation.

Mr. DECKER. Yes. You asked certain questions—your chairman did—in a memorandum sent to me. Would you like me to read those?

The first question asked is—

Copy of the charter, date of organization, and by-laws.

We will furnish that. Is that satisfactory?

Mr. LUCE. Yes.

Mr. DECKER. Second:

Furnish list of the directors of your holding company showing the principal business occupation of each.

(The list referred to is as follows:)

NORTHWEST BANCORPORATION

OFFICERS

E. W. Decker, president; J. C. Thomson, vice president and general manager; Robert E. Macgregor, vice president and treasurer; H. D. Thrall, vice president and assistant treasurer; Alex. Highland, vice president and assistant general manager; E. J. Weiser, vice president; Theo. Wold, vice president; Hanford MacNider, vice president. David Williams, vice president; Isaac S. Moore, vice president; Clyde E. Brenton, vice president; Gardner B. Perry, vice president; R. O. Kaufman, vice president; D. R. West, secretary; H. Hallenberg, chief examiner; W. E. Brockman, director, advertising, and publicity; Robert F. Mactavish, assistant treasurer; William N. Johnson, assistant secretary; Grant W. Anderson, assistant secretary; Willis D. Wyard, assistant secretary; J. W. Groves, assistant secretary; John DeJong, assistant secretary; W. Gordon Hegardt, assistant secretary; M. E. Ryan, comptroller.

EXECUTIVE COMMITTEE

E. W. Decker, chairman. W. G. C. Bagley; Clyde E. Brenton; G. W. Burton; W. A. Durst; Alex. Highland; Ford E. Hovey; F. A. Irish; R. E. Macgregor; Hanford MacNider, Isaac S. Moore; W. Z. Sharp; David C. Shepard; J. C. Thomson; H. D. Thrall; George P. Tweed; E. J. Weiser; David Williams; Theodore Wold; G. H. Yates. D. R. West, secretary.

DIRECTORS

Flour and grain interests:
Ward Ames, jr., vice president, Barnes-Ames Co., Duluth Minn.
Julius H. Barnes, grain exporter, Duluth, Minn.
James F. Bell, president, General Mills (Inc.), Minneapolis, Minn.
John Crosby, director, General Mills, (Inc.), Minneapolis, Minn.
Frank T. Heffelfinger, president, F. H. Peavey & Co., Minneapolis, Minn.
John S. Pillsbury, vice president, Pillsbury Flour Mills Co., Minneapolis, Minn.
Henry F. Salyards, president, Ely, Salyards & Co., Duluth, Minn.
A. L. Searle, president, Searle Grain Co., (Ltd.), Minneapolis, Minn.
Adam G. Thomson, president, A. D. Thomson & Co., Duluth, Minn.
Linseed oil products:
Shreve M. Archer, president, Archer-Daniels-Midland Co., Minneapolis, Minn.
Mining interests:
W. B. Castle, vice president, Interlake Iron Corporation, Duluth, Minn.
W. P. Chinn, general manager, mining division, Picklands, Mather & Co., Duluth, Minn.
T. F. Cole, mining, Duluth, Minn.
Edward C. Congdon, mining, Duluth, Minn.
Carl A. Luster, president, Clyde Iron Works, Duluth, Minn.
George P. Tweed, iron ore, Duluth, Minn.
Livestock and packing:
H. G. Black, assistant treasurer, Armour & Co., Chicago, Ill.
John E. Wagner, treasurer, Cudahy Packing Co., Chicago, Ill.
Public utilities:
W. B. T. Belt, president, Northwestern Bell Telephone Co., Omaha, Nebr.
J. E. Davidson, president, Nebraska Power Co., Omaha, Nebr.
A. M. Robertson, vice president, Minneapolis Street Ry. Co., Minneapolis, Minn.
Railroad interests:
Ralph Budd, president, Great Northern Ry. Co., St. Paul, Minn.
Chas. Donnelly, president, Northern Pacific Railroad, St. Paul, Minn.
Carl Gray, jr., vice president, C. St. P. M. & O. Railroad Co., St. Paul, Minn.
H. A. Scandrett, president, C. M. St. P. & P. Railroad Co., Chicago, Ill.
Lawyers:
Howard J. Clark, attorney, Des Moines, Iowa.
Albert C. Cobb, Cobb, Hoke, Benson, Krause & Faegre, Minneapolis, Minn.
Chambers Kellar, attorney, Lead, S. Dak.
J. F. D. Meighen, Meighen, Knudson & Sturtz, Albert Lee, Minn.
Oscar Mitchell, Mitchell, Gillette & Carmichael, attorneys, Duluth, Minn.
Edgar M. Morsman, jr., attorney, Omaha, Nebr.
Arthur E. Nelson, Kerr, Nelson, Burns & Mohan, attorneys, St. Paul, Minn.
S. B. Wilson, chief justice Supreme Court of Minnesota, Mankato, Minn.
Investments and insurance:
Marshall W. Alworth, capitalist, Duluth, Minn.
Fred R. Bigelow, president, St. Paul Fire & Marine Insurance Co., St. Paul, Minn.
Marcus Daly, capitalist, New York, N. Y.
Henry Gund, capitalist, La Crosse, Wis.
F. C. Hubbell, president, F. M. Hubbell Son & Co., Des Moines, Iowa.
Frederick E. Kenaston, president, Stanstead Corporation, Minneapolis, Minn.
S. L. Prentiss, president, The Northern Corporation, Winona, Minn.
Philip L. Ray, J. & W. Seligman & Co., New York, N. Y.
Carl T. Schuneman, president Shuneman Bayliss & Co., St. Paul, Minn.
Oliver P. Thompson, trustee, The Thompson Trust, Des Moines, Iowa.
A. C. Weiss, investments, Duluth, Minn.

Lumber and building materials:
E. W. Backus, president, Backus-Brooks Co., Minneapolis, Minn.
E. C. Finkbine, president, Finkbine Lumber Co., Des Moines, Iowa.
F. E. Keeler, president, Mason City Brick & Tile Co., Mason City, Iowa.
W. E. Magner, president, Cutler-Magner Co., Duluth, Minn.
Arthur R. Rogers, president, Rogers Lumber Co., Minneapolis, Minn.
H. B. Waite, president, H. B. Waite Lumber Co., Minneapolis, Minn.

General business:
Norman B. Black, publisher, Fargo Forum, Fargo, N. Dak.
Fred Bohen, president, Meredith Publishing Co., Des Moines, Iowa.
Joseph Chapman, president, Donaldson Realty Co., Minneapolis, Minn.
Gardner Cowles, president, Register & Tribune Co., Des Moines, Iowa.
J. H. Cownie, president, J. H. Cownie Co., Des Moines, Iowa.
Frederic Crosby, vice president, American Hoist & Derrick Co., St. Paul, Minn.
George D. Dayton, president, The Dayton Co., Minneapolis, Minn.
John P. Feuling, president, Central Warehouse Co., St. Paul, Minn.
J. B. Forrest, vice president and treasurer, Bannons (Inc.), St. Paul, Minn.
G. L. Heegaard, president, Mandan Mercantile Co., Minneapolis, Minn.
H. J. McConnon, McConnon & Co., Winona, Minn.
C. F. Michel, president, La Crosse Refining Co., La Crosse, Wis.
H. A. Patterson, president Mercantile Co., Mankato, Minn.
John A. Seeger, president, Seeger Refrigerator Co., St. Paul, Minn.
C. W. Stott, president Stott Briquet Co., St. Paul, Minn.
W. A. Tilden, president, Tilden Produce Co., St. Paul, Minn.

Wholesale interests:
C. O. Follett, president, Smith, Follett & Crowl, Fargo, N. Dak.
Seth Marshall, president, Marshall-Wells Co., Duluth, Minn.
J. G. Ordway, manager and assistant treasurer, Crane Co. of Minnesota, St. Paul, Minn.
N. F. Russell, president, Bridgeman-Russell Co., Duluth, Minn.
George W. Welles, president, Kelley-How-Thomson Co., Duluth, Minn.

Bankers:
Theo. Albrecht, president, Union Investment Co., Minneapolis, Minn.
W. G. C. Bagley, president, First National Bank, Mason City, Iowa.
R. E. Barron, president, First National Bank & Trust Co., Minot, N. Dak.
J. W. Barton, vice president, Metropolitan National Bank, Minneapolis, Minn.
E. J. Bowman, president, Daly Bank & Trust Co., Anaconda, Mont.
Clyde E. Brenton, president, Iowa-Des Moines National Bank & Trust Co., Des Moines, Iowa.
W. H. Brenton, vice president, Iowa-Des Moines National Bank & Trust Co., Des Moines, Iowa.
George W. Burton, president, National Bank of La Crosse, La Crosse, Wis.
H. M. Bushnell, vice president and trust officer, United States National Bank, Omaha, Nebr.
Alfred Christopherson, president, First National Bank, Albert Lea, Minn.
Edward W. Decker, president, Northwestern National Bank, Minneapolis, Minn.
R. E. Driscoll, vice president and cashier, First National Bank, Lead, S. Dak.
W. A. Durst, president, the Minnesota Loan & Trust Co., Minneapolis, Minn.
Paul H. Evans, president, Security Bank & Trust Co., Owatonna, Minn.
H. J. Fahnestock, president, First National Bank & Trust Co., Watertown, S. Dak.
Lee M. Ford, president, Great Falls National Bank, Great Falls, Mont.
S. S. Ford, vice president, Great Falls National Bank, Great Falls, Mont.
G. C. Fullinweider, president, National Bank of Huron, Huron, S. Dak.
F. H. Gannon, president, First National Bank, Aberdeen, S. Dak.
J. H. Gilbert, president, First National Bank, Dillon, Mont.
Alex. Highland, vice president, and assistant general manager, Northwest Bancorporation, Minneapolis, Minn.
Frank Horton, president, First National Bank, Winona, Minn.
Ford E. Hovey, president, Stock Yards National Bank, Omaha, Nebr.

Bankers—Continued.

F. A. Irish, vice president, First National Bank & Trust Co., Fargo, N. Dak.
C. E. Johnson, vice president, Empire National Bank, St. Paul, Minn.
Louis C. Kurtz, chairman of board, Iowa-Des Moines National Bank & Trust Co., Des Moines, Iowa
O. A. Leach, president, Citizens National Bank, Wahpeton, N. Dak.
S. McKennan, president, Union Bank & Trust Co., Helena, Mont.
R. E. Macgregor, vice president, Northwestern National Bank, Minneapolis, Minn.
Hanford MacNider, chairman of board, First National Bank, Mason City, Iowa
W. A. Mahl, vice president, First National Bank, Winona, Minn.
E. L. Mattson, vice president and trust officer, Midland National Bank & Trust Co., Minneapolis, Minn.
Charles B. Mills, president, Midland National Bank & Trust Co., Minneapolis, Minn.
Isaac S. Moore, president, First and American National Bank, Duluth, Minn.
L. T. Morris, president, Citizens National Bank & Trust Co., Watertown S. Dak.
Robert P. Morsman, president, United States National Bank, Omaha, Nebr.
George B. Norris, president, Metropolitan National Bank, Minneapolis, Minn.
C. A. Parker, vice president, First National Bank, Mason City, Iowa
Lynn Peavey, president, Security National Bank & Trust Co., Fairbault, Minn.
Camden Rayburn, vice president, National Bank of Huron, Huron, S. Dak.
Albert J. Robertson, vice president, Iowa-Des Moines, National Bank & Trust Co., Des Moines, Iowa.
R. L. Rutter, president, Spokane & Eastern Trust Co., Spokane, Wash.
A. G. Sam, president, Live Stock National Bank, Sioux City, Iowa.
W. Z. Sharp, president, Security National Bank & Trust Co., Sioux Falls, S. Dak.
David C. Shepard, president, Empire National Bank, St. Paul, Minn.
C. V. Smith, vice president and trust officer, the Minnesota Loan & Trust Co., Minneapolis, Minn.
George W. Sugden, president, National Citizens Bank, Mankato, Minn.
J. C. Thomson, vice president and general manager, Northwest Bancorporation, Minneapolis, Minn.
H. D. Thrall, president, BancNorthwest Co., vice president and treasurer, the Minnesota Loan & Trust Co., Minneapolis, Minn.
Edwin N. Van Horne, president, Continental National Bank, Lincoln, Nebr.
E. J. Weiser, president, First National Bank & Trust Co., Fargo, N. Dak.
D. R. West, vice president and treasurer, BancNorthwest Co., vice president, the Minnesota Loan & Trust Co., Minneapolis, Minn.
David Williams, chairman of board, First & American National Bank, Duluth, Minn.
Theodore Wold, vice president, Northwestern National Bank, Minneapolis, Minn.
G. H. Yates, vice president, United States National Bank, Omaha, Nebr.

There are 126 various lines of business.

Third:

Number, name, location, capital, surplus, deposits and resources of each bank acquired, showing which are national, which State members of the Federal Reserve system, and which are nonmembers.

Mr. LUCE. They will be put in the record.

(The list referred to is as follows:)

Northwest Bancorporation member banks

["N" denotes National banks. "SMB" denotes State bank members of Federal Reserve System. Figures as of February 28, 1930]

	Capital	Surplus	Deposits	Resources
First National Bank, Aberdeen, S. Dak. (N)	$100,000.00	$100,000.00	$2,904,279.50	$3,244,518.64
First National Bank, Albert Lea, Minn. (N)	100,000.00	60,000.00	2,425,421.70	2,745,353.03
Daly Bank & Trust Co., Anaconda, Mont. (SMB)	100,000.00	150,000.00	4,843,520.77	5,195,487.37
First National Bank, Appleton, Minn. (N)	25,000.00	12,500.00	436,769.48	481,322.65
Austin State Bank, Austin, Minn	60,000.00	12,000.00	351,236.77	433,518.85
Dakota National Bank & Trust Co., Bismarck, N. Dak. (N)	100,000.00	50,000.00	479,227.58	657,701.32
Brookings County Bank, Brookings, S. Dak	50,000.00	5,000.00	282,979.53	339,539.29
Security National Bank, Cheney, Wash. (N)	50,000.00	15,000.00	695,613.18	859,756.99
First National Bank, Deadwood, S. Dak. (N)	150,000.00	50,000.00	1,969,756.48	2,165,026.39
Iowa-Des Moines National Bank & Trust Co., Des Moines, Iowa (N)	2,000,000.00	1,000,000.00	32,326,192.68	36,812,085.93
First National Bank, Dillon, Mont. (N)	200,000.00	200,000.00	3,547,517.15	4,140,607.91
First & American National Bank, Duluth, Minn. (N)	3,000,000.00	2,000,000.00	29,307,080.49	36,612,693.94
First National Bank & Trust Co., Fargo, N. Dak. (N)	300,000.00	200,000.00	7,495,959.13	8,179,626.13
First National Bank, Fairbury, Nebr. (N)	100,000.00	50,000.00	2,088,912.10	2,308,945.04
Harbine Bank, Fairbury, Nebr	100,000.00	35,000.00	1,912,545.72	2,168,410.80
Second National Bank & Trust Co., Faribault, Minn. (N)	200,000.00	40,000.00	2,094,508.66	2,450,110.67
Fergus Falls National Bank, Fergus Falls, Minn. (N)	100,000.00	50,000.00	1,865,971.47	2,223,119.78
Grafton National Bank, Grafton, N. Dak. (N)	100,000.00	20,000.00	866,690.81	1,124,004.33
Great Falls National Bank, Great Falls, Mont. (N)	250,000.00	75,000.00	2,331,469.65	2,847,747.34
Continental National Bank, Harlowton, Mont. (N)	50,000.00	50,000.00	606,391.75	760,575.61
Hill County State Bank, Havre, Mont	100,000.00	35,000.00	800,177.70	977,815.57
Union Bank and Trust Co., Helena, Mont. (SMB)	250,000.00	150,000.00	2,832,047.11	3,349,240.05
National Bank of Huron, Huron, S. Dak. (N)	225,000.00	55,000.00	3,622,392.55	4,037,719.57
James River National Bank & Trust Co., Jamestown, N. Dak. (N)	100,000.00	50,000.00	1,633,449.19	1,825,980.80
National Bank of LaCrosse, LaCrosse, Wis. (N)	500,000.00	250,000.00	5,185,867.22	6,769,050.27
Scanlan-Habberstad Bank & Trust Co., Lanesboro, Minn. (SMB)	100,000.00	50,000.00	1,831,493.36	2,021,484.63
First National Bank, Lead, S. Dak. (N)	100,000.00	100,000.00	2,795,047.59	3,136,863.13
Northwest Bank & Trust Co., Lewistown, Mont	100,000.00	50,000.00	647,292.78	814,215.16
Continental National Bank, Lincoln, Nebr. (N)	200,000.00	200,000.00	5,117,450.16	5,601,945.91
First State Bank, Malta, Mont	50,000.00	25,000.00	1,084,195.42	1,200,116.50
First National Bank, Mandan, N. Dak. (N)	120,000.00	50,000.00	2,546,009.57	2,795,140.49
National Citizen Bank, Mankato, Minn. (N)	300,000.00	100,000.00	5,088,458.47	5,983,812.77
First National Bank, Mason City, Iowa (N)	500,000.00	250,000.00	8,187,772.06	9,292,995.96
Northwest Savings Bank, Mason City Iowa	100,000.00	50,000.00	339,806.96	491,877.91
Farmers & Merchants National Bank, Milbank, S. Dak. (N)	50,000.00	25,000.00	453,761.24	539,706.81
Bank of Miles City, Miles City, Mont.	50,000.00	25,000.00	571,893.23	677,107.40
Northwest National Bank, Minneapolis, Minn. (N)	5,000,000.00	2,000,000.00	81,227,225.54	94,705,086.72
Minneapolis Loan & Trust Co., Minneapolis, Minn. (SMB)	1,000,000.00	1,500,000.00	16,799,296.47	20,288,982.00
Second Northwest State Bank, Minneapolis, Minn	50,000.00	25,000.00	1,247,498.76	1,354,731.87
Third Northwest National Bank, Minneapolis, Minn. (N)	200,000.00	20,000.00	1,060,461.53	1,298,640.83
Fourth Northwest National Bank, Minneapolis, Minn. (N)	100,000.00	100,000.00	3,317,087.07	3,596,864.79

Northwest Bancorporation member banks—Continued

	Capital	Surplus	Deposits	Resources
Fifth Northwest National Bank, Minneapolis, Minn. (N)	$100,000.00	$10,000.00	$619,648.08	$741,385.37
Central National Bank, Minneapolis, Minn. (N)	100,000.00	50,000.00	1,712,083.85	1,999,600.91
Metropolitan National Bank, Minneapolis, Minn. (N)	500,000.00	250,000.00	10,093,208.66	11,377,124.48
Midland National Bank & Trust Co., Minneapolis, Minn. (N)	1,000,000.00	500,000.00	18,967,530.91	22,408,823.00
First National Bank & Trust Co., Minot, N. Dak. (N)	100,000.00	50,000.00	4,106,668.35	4,471,862.95
First National Bank, Moorhead, Minn. (N)	100,000.00	50,000.00	880,626.76	1,050,754.87
First National Bank, Napoleon, N. Dak. (N)	250,00.00	8,000.00	204,186.73	244,142.06
State Bank of Northfield, Minn.	50,000.00	50,000.00	1,057,724.44	1,170,176.20
Farmers State Bank, Osseo, Minn.	25,000.00	15,000.90	713,402.76	802,274.32
Stock Yards National Bank, South Omaha, Nebr. (N)	750,000.00	250,000.00	10,046,495.60	11,549,890.92
South Omaha Savings Bank, South Omaha, Nebr.	25,000.00	25,000.00	942,902.97	1,048,424.68
United States National Bank, Omaha, Nebr. (N)	1,100,000.00	700,000.00	20,921,693.44	23,491,925.77
Security Bank & Trust Co., Owatonna, Minn. (SMB)	100,000.00	100,000.00	2,118,590.54	2,382,819.96
First National Bank, Rapid City, S. Dak. (N)	100,000.00	80,000.00	2,049,055.28	2,350,910.50
Live Stock National Bank, Sioux City, Iowa (N)	200,000.00	150,000.00	6,133,734.55	6,765,044.01
Security National Bank, Sioux Falls, S. Dak. (N)	250,000.00	250,000.00	5,454,514.97	6,147,261.33
Empire National Bank, St. Paul, Minn. (N)	350,000.00	150,000.00	5,198,964.82	5,814,830.52
Murray County State Bank, Slayton, Minn.	50,000.00	15,000.00	545,596.83	621,389.38
Stock Yards National Bank, South St. Paul, Minn. (N)	350,000.00	100,000.00	4,189,582.56	4,862,945.66
Spokane & Eastern Trust Co., Spokane, Wash. (SMB)	1,000,000.00	250,000.00	11,680,417.59	13,356,147.53
Commercial National Bank, Sturgis, S. Dak. (N)	50,000.00	50,000.00	893,106.88	1,072,491.57
American National Bank & Trust Co., Valley City, N. Dak. (N)	100,000.00	25,000.00	885,274.91	1,033,465.10
Citizens National Bank, Wahpeton, N. Dak. (N)	75,000.00	75,000.00	1,218,084.19	1,480,421.91
Citizens National Bank & Trust Co., Watertown, S. Dak. (N)	100,000.00	50,000.00	1,516,278.59	1,808,704.70
First National Bank & Trust Co., Watertown, S. Dak. (N)	100,000.00	100,000.00	2,238,069.31	2,584,657.22
First National Bank, Winona, Minn. (N)	300,000.00	300,000.00	7,103,684.43	8,041,098.60
Total	23,330,000.00	12,937,500.00	366,911,856.58	425,278,107.67
Union Investment Co. banks	967,000.00	371,500.00	13,923,429.74	16,047,548.19
Total	24,297,000.00	13,309,000.00	380,835,286.32	441,325,655.86

Federal reserve system members	National	State	Non-members	Total
Northwest Bancorporation	48	6	13	67
Union Investment Co.	16		15	31
Total	64	6	28	98

Union Investment Co. banks

[N denotes national banks. No State banks are members Federal reserve system]

	Capital	Surplus	Deposits	Liabilities
MINNESOTA				
First National Bank, Belle Plaine (N)	$25,000.00	$6,000.00	$363,528.04	$427,893.39
Morrison County State Bank, Bowlus	12,000.00	3,000.00	162,443.61	179,489.60
Union State Bank, Browns Valley	25,000.00	5,000.00	385,549.66	421,795.99
Dodge Center State Bank, Dodge Center	25,000.00	5,000.00	363,209.59	403,503.29
Bank of Elk River	20,000.00	15,000.00	401,629.29	451,923.23
First National Bank, Farmington (N)	25,000.00	16,000.00	546,078.50	595,359.90
State Bank of Greenwald	25,000.00	5,000.00	271,222.06	307,400.81
Hastings National Bank, Hastings (N)	50,000.00	10,000.00	802,638.07	878,527.83
First National Bank, Hawley (N)	25,000.00	5,000.00	245,275.27	290,245.34
Security National Bank, Hopkins (N)	50,000.00	10,000.00	628,713.16	759,722.53
First National Bank, Jordan (N)	25,000.00	5,000.00	344,712.03	407,002.09
State Bank of Lake Park	25,000.00	5,000.00	264,040.35	297,809.92
Rock County Bank, Luverne	50,000.00	10,000.00	368,064.09	444,862.18
First National Bank, Montgomery (N)	25,000.00	5,000.00	441,711.72	507,535.41
First National Bank, New Prague (N)	50,000.00	25,000.00	627,438.00	766,895.41
First National Bank, Red Wing (N)	100,000.00	25,000.00	1,348,979.79	1,608,304.86
American State Bank, Richmond	15,000.00	7,500.00	264,286.76	294,203.50
State Bank of Rockville	10,000.00	5,000.00	227,053.92	248,013.55
Union State Bank, Sauk Rapids	30,000.00	6,000.00	175,836.12	214,661.21
First National Bank, Two Harbors (N)	50,000.00	20,000.00	764,273.93	891,811.70
State Bank of Virginia	50,000.00	50,000.00	928,230.15	1,044,568.23
Peoples State Bank, Warren	25,000.00	5,000.00	220,584.07	253,353.47
First National Bank, Waterville (N)	25,000.00	25,000.00	723,101.44	816,805.93
NORTH DAKOTA				
Farmers State Bank, Fairdale	15,000.00	0	61,018.51	78,078.85
State Bank of Starkweather	15,000.00	5,000.00	111,043.67	134,217.41
WISCONSIN				
First National Bank, Baldwin (N)	25,000.00	20,000.00	448,661.03	530,492.74
Berlin State Bank, Berlin	50,000.00	25,000.00	929,116.34	1,031,535.19
First National Bank, Grantsburg (N)	25,000.00	25,000.00	597,084.12	687,217.71
First National Bank, Knapp (N)	25,000.00	5,000.00	191,408.32	226,720.64
First National Bank, New Richmond (N)	25,000.00	5,000.00	230,504.17	289,208.56
First National Bank, Prescott (N)	25,000.00	13,000.00	485,993.96	558,387.71
	967,000.00	371,500.00	13,923,429.74	16,047,548.19

Mr. DECKER. Fourth:

Give a list by name and capital structure of each corporation other than banks, the majority of the stock of which is owned by your holding company.

That will be furnished. It consists largely of securities companies, like the Northwest Bancorporation, and such companies.

Mr. LUCE. That may be handed to the stenographer.

(The list referred to is as follows:)

Affiliated companies

	Capital	Surplus and undivided profits
BaneNorthwest Co., Minneapolis, Minn. (securities):		
Common	$200,000.00	$200,456.01
Preferred	1,000,000.00	
Union Investment Co., Minneapolis, Minn. (holding and managing)	500,000.00	369,250.00
Central Co., Minneapolis, Minn. (loans and insurance)	10,000.00	12,516.21
First National Duluth Co., Duluth, Minn. (securities)	750,000.00	7,854.74
Stock Yards Mortgage Co., South St. Paul, Minn. (loans and insurance)	50,000.00	6,786.69
Iowa-Des Moines Co., Des Moines, Iowa (securities)	50,000.00	50,000.00
Montana Livestock Loan Co., Helena, Mont. (loans)	100,000.00	50,000.00
Continental Co., Lincoln, Nebr. (securities)	25,000.00	
U. S. National Co., Omaha, Nebr. (securities)	325,500.00	141,180.44
Cattle Feeders Loan Co., Omaha, Nebr. (loans)	100,000.00	202,625.56
Spokane Eastern Corporation, Spokane, Wash. (owner of Spokane & Eastern Tr. Co. & Spokane Eastern Co.)	2,295,653.00	249,527.50
Spokane Eastern Co., Spokane, Wash. (securities) (owned by Spokane Eastern Corporation)	100,000.00	27,490.57
	5,506,153.00	1,317,687.72

Mr. DECKER. Fifth:

State fully the method of acquiring a bank, whether by cash, purchase of stock, or by exchange of stock, and the method of negotiation.

That can be briefly answered, although I think I have covered it. In nearly every instance banks are acquired by an exchange of stock, although when the corporation was first organized we offered them part cash if they preferred it.

In each acquisition, consideration is given to the territory served by the bank and the need and provision for a more stabilized local banking condition and a broader, more uniform and complete service as well as continuous banking facilities which will not be affected by temporary and local depressions.

Negotiations are generally initiated by those desiring to affiliate, but in some instances the corporation, through its representatives, invites affiliation.

Stock of the corporation is exchanged for stock of the bank, except in cases where it is necessary to recapitalize the bank, and in those instances the old capital structure is wiped out by losses or reserves set up for possible losses, and it is then necessary for the corporation to provide new capital. All exchanges are made on as uniform a basis as is possible, taking into consideration the capital, surplus and undivided profits, resources in use as capital and net accruals; the foregoing constituting the bank's total invested capital. The total invested capital, the volume of deposits, and the average earnings over a 5-year period to a great extent determine the ratio of exchange. Of course, management and future prospects for growth and strategic location are also taken into consideration.

When an agreement has been reached on the exchange ratio, the bank is examined by our own examiners who make the examination without having in mind the terms of the contract and ultimate consummation of the deal. The examination is unbiased with the end in view of obtaining all information possible regarding the prospective affiliate. Before affiliation is finally brought about, the undesirable assets are eliminated and the bank comes into the group on a clean basis and thereafter is maintained in a sound and healthy condition.

Mr. LUCE. How large a proportion of the stock?

Mr. DECKER. Well, out of a total of stock issued to-day——

Mr. LUCE. I mean by any individual bank—in the case of any one bank.

Mr. DECKER. What percentage was cash?

Mr. LUCE. Was all of the stock of the bank exchanged?

Mr. DECKER. About 98 per cent—practically all, with the exception of the director's qualifying shares. The greater part of the stock has been exchanged. You may say that the Northwest Bancorporation owns practically 98 per cent. To be exact, it is 96.2 per cent of all the stock as of December 31, 1929. Some of the rest has been turned in since, which will bring the percentage up.

Now, the basis of exchange of stock, where stock was exchanged, was, of course, a matter of mutual agreement. We took into consideration profits, book value, earnings, prospects, and everything, and agreed upon what would be a fair exchange for their giving up their stock in the local bank and taking for it stock in the holding company, and we retained the stock in the local bank.

Mr. GOODWIN. Were the stockholders practically unanimous in the transfer?

Mr. DECKER. Yes. About 97 per cent of the stock has been exchanged, so I think that answers that. Of course, a part of the remaining 3 per cent is accounted for by the directors' qualifying shares. So there is very little left. There is no trouble in exchanging stock. They were delighted to get a stock that had a market and that was based on diversified resources in place of a local bank subject to local business vicissitudes and changing management, the perpetuity of which was not assured.

Sixth:

Describe the capital structure of your holding company, showing the classes of stock and the extent and method of the stock distribution.

There is only one kind of stock. There are 1,600,000 out at $50 a share par value. To be exact, there are 1,641,364 shares and of the total amount outstanding, 342,869 were sold at public offering and the balance was used in the exchange of stock with the affiliated banks. So about four-fifths have been issued to member banks and one-fifth to the public.

Mr. LUCE. How much was pooled?

Mr. DECKER. None at all.

Mr. LUCE. All subject to be marketed?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. What par has the stock?

Mr. DECKER. $50. I think you were about to ask me how we would prevent Wall Street from buying control.

Mr. LUCE. Yes, sir; that was what I wanted to know. Do you care to answer it now?

Mr. BUSBY. We can not hear a thing at this end of the table.

Mr. LUCE. The point I am driving at is whether this stock, being on the market, can be concentrated by purchase on the part of New York interests or any other interests?

Mr. DECKER. My answer is this: One of the leading purposes in the organization of the Northwest Bancorporation was to prevent outside interests obtaining control of our banks. My contention is that it would be much easier for an outside institution to acquire these one hundred-odd different banks, one at a time, and buy from the individual's control, if they wanted to sell, than it would be if they wanted to buy control of the Northwest Bancorporation for the reason that the Northwest Bancorporation is presided over by 126 directors, practically all of whom are wealthy, independent business men. Not one would sell control of that institution knowingly at any price. It would make no difference whatever what the price was. Also, they have that same local pride and local interest which has been in existence for 60 years, which dominates these small banks.

Now, if there is no loyalty anywhere; if money is the only thing in the world, I do not know how you can pass any law toprevent a man selling out to some one else. You may know of a way; I do not.

But my judgment is that what we have done has made it much more difficult, if not impossible, for outside interests to acquire control than would have been the case before the corporation was organized.

We do not want to be dominated by New York or Chicago; it is not sound; it is not good for New York or Chicago, and it is not good for us, and I do not know of a commercial banker—and I know them all personally—in either New York or Chicago that has the slightest desire to acquire control in the Northwest Bancorporation. Every one says they have enough trouble of their own and the only thing that would tempt them to do it would be they felt some one else was going to do it ahead of them. There is always that fear, I suppose.

I think we have reduced that danger to the minimum, because we have set back of it the best brains, the best minds, and the most loyal people who live in our country. If you can not trust them, whom will you trust? They do not want to sell out; they want to buy more stock.

I should be entirely sympathetic with any move on the part of this Congress to pass a law which would make it impossible for people outside of our district to acquire control of our holding company and banks. "Then," perhaps you ask, "why are you not willing to have some law to make it impossible for you to acquire, say, the Minot Bank?"

My answer is that at some place along the line you must build a unit strong enough to stand on its own feet. Minot can not do it alone. Minneapolis and St. Paul, in that district, can.

Our banks are managed by experts, people born and bred in that country. They know the problems and their solutions. Our problems are different from the Atlantic seaboard. For instance, take the freight rates, water rates, tariff, and so forth. We have a pride in our affairs, and we are going to look after our own interests, and that is what we are doing here. We would solicit any assistance from the Government to make it impossible for people outside of our district to acquire control of our banks or holding company. Is that an answer?

Seventh:

Explain fully what control or influence the holding company, or a central bank controlled by the holding company, exercises over the group of banks acquired. That is to say, what sort of central management or central advisory board or committee is set up and exactly how contacts are maintained between the member banks of the group and the central bank or holding company. How is the group policy initiated and applied or enforced?

Well, we have set up a staff of examiners who examine every bank in the group at least once a year, and those examinations will be very thorough, believe me, from a business standpoint, pure and simple. They will review the examinations twice a year, by the national bank examiner, or State bank examiner, as the case may be.

We will have a report from these banks sufficiently often to know what their operations are, but with no desire whatever to dominate a local bank or other local interests who find it wise to follow a certain policy.

Practically every bank in the group, except some of the very small ones, are represented on our board of directors.

By the way, I forgot to say that there is a provision that is either in our constitution or by-laws—I forget which—which makes it mandatory that every bank in our group must have 75 per cent of its directors local men. As a matter of fact, to-day, they are all

local men. We have not put a Minneapolis man on the board of directors of any bank that is in our group.

You will say, though, "Well, you can fire them at the annual election and put in another set of directors." Yes, but would it be to our interest to do it if they were not pretty bad? We have a large investment, for instance, at Minot and naturally we want the cooperation of the people, or they will go to some other bank.

Eighth:

Upon what principle are you working in determining the geographical area into which your group of banks will be extended? In other words, what do you consider to be the territorial limits of your group and what determines the limits of the area?

I think I have answered that and I do not think you want me to repeat it.

Affiliated banks of the Northwest Bancorporation are located, generally, through the ninth Federal reserve district and in portions of the seventh, tenth, and twelfth. In the acquisition of banks, Federal reserve district lines have not governed the territory which we have entered. The purpose in the organization of this corporation was to assist in stabilizing the banking conditions in the Northwest States and adjoining natural trade territories. The corporation's activities now cover eight States.

Assurance that continuity and stability of earnings will be maintained is found in the wide diversification of business activity in the territory served by affiliates in Northwest Bancorporation group. Basic sources of wealth in many principal lines are found in the extensive territory from eastern Wisconsin to eastern Washington, from North Dakota to Nebraska, and in the intermediate States, Montana, Minnesota, South Dakota, and Iowa. In some areas business comes primarily from the production of corn, wheat and other grains, dairy products, sugar beets, vegetables and fruit, while livestock production predominates elsewhere. In other areas, banks in the group are concerned primarily with business from the great iron, copper, gold, and silver mining, and oil industries. In the larger cities particularly, manufacturing, in itself widely diversified, contributes a large volume, and other important business comes from insurance, transportation, public service and general wholesale and retail merchandising.

Along with this diversification of outside sources from which business is derived, the organizations in Northwest Bancorporation group diversify within themselves in commercial banking, savings, trust functions, financing of industries, making of mortgage loans, investments, safe deposits, foreign exchange, and all other banking functions.

Ninth:

Give method of central audit and examination of the members of the group of banks owned by your holding company.

I have covered that.

Mr. LUCE. Will you tell us a little more about the mechanical process? You told us, for example, that there was no borrower in your field who could get up the securities, who would fail to get a loan. How is that accomplished?

Mr. DECKER. It is accomplished by the fact that the local bank naturally wants to take care of its good customers.

Mr. LUCE. But if that bank has not the money, how does it get it and where does it get it?

Mr. DECKER. If the bank has the money it feels free to lend it, knowing if the deposits go off, or there is a crop shortage, he has some one to call on. If he has not the money in that bank, he can easily borrow it from some other bank in the group—say, for example, the Northwestern National Bank, as it was formerly, before the members joined the group—or, in the case of Minot, if Minot has a customer that is good, and that customer wants $50,000 and the local bank can only legally lend $25,000, we will take the additional loan—not a permanent line of credit, but an additional loan to tide over the period, if it is a loan for a period. If he needs additional lines permanently, he will have to secure it from the local banks, as he would if there was not this group. It is not our policy to overload local banks if it is possible to avoid it.

If the local borrower is entitled to that loan and there is good reason to believe that some day he will pay it back, and you can do the country some good up there by lending the money, we will provide means for doing it, that could not be done before.

Mr. LUCE. It is the mechanics of the thing that I am interested in. Do you maintain a central office under the name of the Northwest Bancorporation?

Mr. DECKER. Oh, yes.

Mr. LUCE. You have funds there to loan?

Mr. DECKER. Not as a corporation. It is a holding corporation.

Mr. LUCE. Suppose the First National Bank of Minot desires to get money to lend and it does not turn to some other bank, as it might, but turns to you, what do you do?

Mr. DECKER. If they convince us that that is a section where the legitimate borrowing capacity is larger than the depositing capacity, which is not likely to exist except in cases such as those I mentioned, where there are cattle loans or sheep or livestock loans—and those we are providing for in the side corporations—aside from that, there would be very few cases, in my judgment, where deposits in that section will not be sufficient to take care of the legitimate borrowings there. That is the fact. We are not such a poor country that you have to bring in a mass of outside money to take care of the district from the banking standpoint.

Mr. LUCE. I appreciate that.

Mr. DECKER. You mean if John Smith, for example, comes in and borrows $100,000 and puts in a note?

Mr. LUCE. Yes.

Mr. DECKER. We will take that note into our portfolio. The holding company, of course, makes not loans. They will send it, probably in our instance, to the Northwestern National Bank, which is the largest unit in the Northwest Bancorporation.

Mr. LUCE. Suppose the bank in question has not the money that you are referring to?

Mr. DECKER. The Minot bank?

Mr. LUCE. The National Bank of Minot.

Mr. DECKER. Well, supposing the National City Bank has not the money to lend, they will find a place to get it.

Mr. LUCE. I think you are drawing a contrast between the operations of the group system and the branch system.

Mr. DECKER. Yes; on this theory——

Mr. LUCE. Let me bring out what I am trying to understand.

Mr. DECKER. Go ahead.

Mr. LUCE. A branch bank is a branch of a parent bank, which conducts a large banking business with deposits and resources of all kinds, so that it can direct its funds to this or to that locality where there may be a greater need or greater profit.

Mr. DECKER. Right.

Mr. LUCE. Now is there any corresponding machinery under your system to do the same thing?

Mr. DECKER. No.

Mr. LUCE. If more money is necessary in North Dakota at a given time than is necessary in Minnesota, have you any method for diverting funds from one part of your area to another part of your area, as a branch bank can?

Mr. DECKER. Plenty of means of doing it, if our best judgment indicates that it should be done.

Mr. LUCE. What would be the means?

Mr. DECKER. The bank at Minot, for instance, if that was the point where loans were larger in proportion than deposits, would rediscount. First, they will undoubtedly rediscount with the Northwestern National Bank at Minneapolis, which had been their correspondent many years before they joined the group.

If it became apparent that the Minot bank was permanently and constantly overloaning, we would go up there and see if it was necessary and whether the management was lax in putting out too much money in slow loans and discover whether there was no evidence that we would get it back in a particular time. We would review that situation and determine what was the fair and right thing to do and, having in mind our large investment in the Minot bank, our selfish interest would demand that the interests there be protected.

To answer your question, a group bank, as we operate it, would not operate quite as quickly nor would it be as well oiled, in shifting money from one section to another, as a branch bank; and that is one of the things that our people object to. They do not want all their money taken out of one section and loaned to another unless they can be assured they can have it at a time when needed.

Mr. BEEDY. Are you referring to the officers of the Northwestern National Bank of Minneapolis?

Mr. DECKER. Yes.

Mr. BEEDY. You do not refer to the set-up of your holding corporation?

Mr. DECKER. I would not say that. We have a president, general manager and corps of officers. Unquestionably the officers will supervise the operation of these banks, and the Minot Bank will have practically the same scrutiny under the Northwest Bancorporation management as it would have if it was a branch of the Northwestern National Bank. We have our money invested there and we will see that it is properly loaned, but we will leave it to the local management of the Minot Bank and the management of these local institutions, as long as we are satisfied they are running them right, and when we are satisfied they are not, we are going to correct that situation.

Mr. LUCE. Let me ask some questions about this matter of local management. You have given us to understand that the stock, which was once owned by the people in that locality, is now owned by what is virtually a cooperative association; however, that the directors are still elected locally. The common experience of mankind is that office without power sooner or later degenerates into something of a traversty. We find it here in Congress, as illustrated, for example, by the fact that the Committee on Appropriations holds the purse strings and, therefore, in many directions controls, and that other committees have been shorn of much of their responsibility and power.

Why do you assume that, through a period of years, a local board of directors, that has no final responsibility, will meet the needs of a community as a unit bank would meet it? For instance, a board of directors, confronted by some difficult situation, will be led to feel, "Well, we have no authority here; we have no responsibility; no final authority or responsibility. The men down in Minneapolis will have to carry this load."

Do you not apprehend that, in time, there may develop in this or that locality, a situation that might have been avoided if the men who run the bank, own, and control the bank, and were responsible for it?

Mr. DECKER. I think there is a danger, yes; but so long as those men are the best men in the community; so long as they have a large financial interest in the Northwest Bancorporation, a larger financial interest than they had before in the local bank, and so long as they have the power, which we do not take away from them, the management of the bank, we believe, and we have sufficient faith in humanity to believe, that that is a workable plan.

Now, if I am wrong; if you can not trust these men and they will say, "Let George do it now; he is responsible; why should I worry; I have my stock in the company and can sell it and go to California and quit"—if that is what the whole country does, there is just one result and there will be branch banking.

But to-day, if you choose to call ours an experiment, I believe it is the best experiment that could be tried to retain all we have now, and yet meet the changing situation, without necessarily running counter to a very strong local feeling in our section against branch banking.

I believe that the psychology of the situation has to be taken into full consideration, particularly in banking, because you must have the confidence of the community in order to draw out the money from hiding.

We think we have found a way so that the local depositors and borrowers—the fellows on the street—are going to have greater safety and better service than they had before, or that they would get to-day under branch banking and, therefore, we believe that it is a better plan.

Now, I can not guarantee that, as you suggest, some day in this particular case, if this group of directors fall down on the job—well, we would see that coming in advance and we would provide men there that will take the responsibility—but if I am a director in the Standard Oil Co. of New Jersey, or some big corporation, or

even the National City Bank of New York, I do not think it is fair to assume that, because it is a big institution and a long ways off, I would not be a good director, if responsibility is placed on me. We place that responsibility absolutely on them. We do not take any authority away from them. Naturally, they will not assume responsibility without authority, and we would not let them assume authority without responsibility.

Mr. LUCE. There is this difference between group and branch banking, that when a doubtful loan is in question, I understand in the case of your group banks, you learn of it only once a year from your examiners when they go around and examine your banks. The central office of a branch-bank system learns of it within 20 minutes.

Mr. DECKER. There will be no loans of any size or unusual character made without submitting them to the head office. But there is exactly where the local board of directors assume their authority. If, in their judgment, there is a safe loan to be made, they will go ahead and make it. We will say it is a new one and has not been passed on before, or comes up since our men examined that bank. We expect those local directors to assume the responsibility of that loan. I believe it is safe to assume that they will, because they have been there for years, and know the local situation. These are not new men. They have been operating successful banks. Mind you, the banks we have taken in are not banks, with a few exceptions, where we felt we had to lend assistance. As a rule the banks are 50 or 60 years old and successful banks. We have not picked up a lot of cripples. We are picking up nothing but good banks, because we felt that the only way to make a banking institution there that would survive would be to have a cooperative banking group of good banks, and not poor ones.

So, we put that responsibility on the local board. If we discover that they have not good judgment, why, they will be told so.

Mr. LUCE. But then you will be locking the stable door after the horse has been stolen.

Mr. DECKER. They are not going to make a lot of bad loans before we know it. We get reports every 30 days. We also get the State Bank and National Bank Examiners' reports.

Mr. LUCE. I think perhaps you misunderstand, from the burden of my questions——

Mr. DECKER. If I speak earnestly, you will understand that I mean nothing personal.

Mr. LUCE. These hearings began with the statement by the Comptroller to the effect that the overwhelming occasion for an investigation was the fact that thousands—I think it was 9,000 banks—have failed in the past decade; that the safety of the funds of the people is our chief concern.

Mr. DECKER. Right; absolutely right.

Mr. LUCE. And in order to have you throw further light upon this question as to how increased safety is going to be accomplished by your system, I will further inform you that this committee has now, through 8 or 10 years, watched the failure of the cooperative idea to function as was hoped in the farm-loan system, and some of us are not very hopeful about the possibility of the cooperative idea sufficing to meet the banking situation.

Mr. DECKER. Neither am I.

Mr. LUCE. Now, you present to us a system that is based purely upon the cooperative theory, but as yet, to be frank, it does not disclose a great addition of safety to depositors of the various banks.

Mr. DECKER. My answer to that is this, the depositor in the local bank has everything he had before in the way of safety. He has the knowledge that the management of that bank is going to be checked and watched as it was not before. He has the knowledge that the Northwest Bancorporation is back of it, with its large resources, and they are able to take out of that bank the securities which may get into it that are not desirable.

After all, management is nine-tenths of the law. Heretofore his bank had a manager and the only one who was watching him was his directors. They were all local men. Now he has all that, and he has the Northwest Bancorporation's organization watching him in addition to that, checking him and advising him and assisting him.

So I think that the depositors in any one of the banks in our group have double security, at least, to-day, over what they had before. They have lost nothing and have gained a lot.

Mr. LUCE. One further question and then I have to be excused, to go on the floor by reason of a matter in which I am vitally concerned. Is any uniformity in discount rates secured or encouraged?

Mr. DECKER. I did not get that.

Mr. LUCE. Is any uniformity in the discount rate obtained or encouraged?

Mr. DECKER. Between the banks in the group?

Mr. LUCE. Yes.

Mr. DECKER. No, sir.

Mr. STRONG. I was called away and I do not know whether or not you have advised the committee regarding the plan of your group organization.

Mr. DECKER. Yes.

Mr. STRONG. Let me ask you this: Suppose a bank get in trouble——

Mr. DECKER. One of our banks?

Mr. STRONG. Yes; one of your banks.

Mr. DECKER. It is not going to get in trouble.

Mr. STRONG. But suppose it does.

Mr. DECKER. All right.

Mr. STRONG. And you send your committee down there and take out $100,000 worth of paper and replace it with the funds of the bank and there is a loss on that paper. Who stands that loss?

Mr. DECKER. The Northwest Bancorporation. We would put new capital into the bank immediately.

Mr. STRONG. The other members of the cooperative organization—are they not liable to resent the fact that you took the profits or capital of the cooperative group to repair an injury to a single member of the organization?

Mr. DECKER. Not if they believe in the principle of the group.

Mr. STRONG. Well, supposing I am the president of a large bank in a city called A, and a bank in a city named B gets into trouble. It may be not very far from my bank. How long will I be satisfied with taking the profits or the capital of the group to which I belong, to help out this bank at B?

Mr. DECKER. The answer to that is this, that, as president of the bank of A, you are a director of the Northwest Bancorporation and you helped get up the organization and know its policies and methods. You went into that banking corporation and exchanged your stock in the local bank for the stock in the Northwest Bancorporation because you thought it was better for yourself and your bank. You must have believed in the principle involved, or you would not have gone in. You must believe that the directors of the Northwest Bancorporation will see that proper officers, at all times, look after these banks and do not allow them to make excessive loans. Of course there may be some losses, but the minute a bank gives evidence, through its management, of making excessive loans, that management will be supplanted.

I do not want to give the impression that the Northwest Bancorporation will not have any control or supervision of these banks so they will not at all times know what is going on, because I would not have put our money into it; we would not have given up a record of 60 years without missing a dividend, if we did not believe we had set up an organization which we proposed to watch and follow and manage, to make our investment there good.

Mr. STRONG. When a bank goes into your group, it does bury itself individually and the owners place their stock in the Northwest Bancorporation. If that is true, I do not see how any individuality of management and local control can prevail.

Mr. DECKER. That local control is only exercised in case of emergency.

Mr. STRONG. You mean that central control?

Mr. DECKER. Yes, sir; absolutely. If we have a group of fellows up in Minot who do not know how to run the bank, we will find it out and put some one in that does.

Mr. STRONG. The local institution continues to elect its board of directors?

Mr. DECKER. Well, the election of the board has to be made by the shareholders, of course.

Mr. STRONG. Then, in case of mismanagement, your group organization steps in and supplants that authority?

Mr. DECKER. Yes, sir.

Mr. STRONG. And has the right to vote those directors out and take charge?

Mr. DECKER. Absolutely.

Mr. STRONG. Then, there is a domination by the central group?

Mr. DECKER. To that extent, absolutely.

Mr. STRONG. You have formed a group organization of big, strong banks. What becomes of the little banks in the small communities?

Mr. DECKER. We have some small banks, through the Union Investment Co.—about 31 banks. I do not know how small some are, but they are very small.

Mr. STRONG. Are those banks branches of the Union Investment Co.?

Mr. DECKER. No; the Union Investment Co. is a small holding company which has been in existence for a great many years which you may refer to as approximating what we call chain banking. We bought or exchanged stock with the shareholders of the Union

Investment Co. just as we have with the various banks, because we wanted those large banks to look after small banks that wanted to come into the organization, so that local institution, which is better qualified to handle the small local banks, than the Northwest Bancorporation, has charge of them.

Mr. STRONG. Then, your small banks are handled by chain banking institutions within your group?

Mr. DECKER. There is just that one institution and there will be no more. That is a matter of convenience. There is an instance of taking in 31 small banks that wanted to come in. We took them in through that organization, instead of directly through the corporation, because that special organization is organized to look after little banks and they require different supervision than such a bank as is located at Minot, where you have a strong board of directors.

Mr. STRONG. Within the territory of your group corporation, there are a great many other small banks?

Mr. DECKER. Yes, sir.

Mr. STRONG. What do you propose for their protection?

Mr. DECKER. You mean banks that are not in our group?

Mr. STRONG. Yes. Come into your group?

Mr. DECKER. That depends.

Mr. STRONG. What?

Mr. DECKER. That depends on a great many things.

Mr. STRONG. You would not take them in if they were not strong banks?

Mr. DECKER. I would not take them in if we did not think we could make money at that point by operating a branch there, nor would any one else.

Mr. STRONG. Would you ever put in a competing bank; would your group ever install or create another bank in competition with a bank outside your group?

Mr. DECKER. No, sir; no such instance has ever been brought up. We have plenty of places to go in without competing with other banks.

Mr. STRONG. Then, your plan of cooperative banks or group banks will not remedy the need of proper banking facilities in the small towns?

Mr. DECKER. No, sir.

Mr. STRONG. How do you propose to take care of those?

Mr. DECKER. I think I mentioned that while you were out of the room.

Mr. STRONG. I beg your pardon.

Mr. DECKER. That, in my judgment, under the present terms and conditions, is the place where branch banking could and should function. There are small towns where either a county seat bank, or a larger bank in the State, could afford to operate a branch economically for the purpose of receiving deposits, and perhaps making small loans, if there was a demand, where we could not afford, nor could anyone else afford, to invest the money to operate a unit bank. In those instances, I believe branch banking is the only answer.

Mr. STRONG. But a branch banking group could hardly be organized and continued successfully that would only control little banks. They would want to go into the larger towns.

Mr. DECKER. Yes, sir; that is the reason I say branch banking should supplement group banking and not be fastened onto it; otherwise, in the end, the situation will be worse than in the beginning.

Mr. STRONG. You want the branch bank established to be a branch of some bank in your group?

Mr. DECKER. No; that would be a freeze-out game.

But, for illustration, here is a good county seat, with two banks. One bank is in our group and the other bank is in Mr. Wakefield's organization. I assume any law passed will enable a bank to establish branches only with the approval of the comptroller. That will be for him to answer whether the bank is strong enough and sufficiently capitalized to operate branches in its immediate territory.

Mr. STRONG. I do not see how your plan will work in conjunction with the branch-banking scheme unless you dominate and control the branch banks in your territory.

Mr. DECKER. Well, whether we dominate or control them, I think, is a question whether we render better service and the people prefer to do business with us than with some one else.

Mr. STRONG. Then it comes to this: Cooperative group banking in larger places for the larger places, and branch banking for the small towns?

Mr. DECKER. Yes, sir; but that branch banking limited to those small towns, without the support of the other, in my judgment, would be fatal—particularly in the rural districts, where they would be.

Mr. STRONG. Do you think there would be any danger in competition of that kind, of the people living in the smaller communities of the United States, of which there are, of course, thousands, not getting proper banking service?

Mr. DECKER. I did not get that.

Mr. STRONG. Do you think there is any danger, if your system is adopted, that the people living in the thousands of small towns will not get the proper banking service?

Mr. DECKER. I think there is less danger of their not receiving it under our system than any other system proposed in this country, or any other country. In Canada, half a dozen banks control the whole business.

We are not proposing to go that far. We propose to adopt the features of their system which we have been forced to adopt under the changing conditions, but retain all local pride and responsibility that is possible under our system.

Mr. STRONG. Now, the Comptroller of the Currency and the Governor of the Federal Reserve System has approved branch banking over the United States confined to trade areas.

Mr. DECKER. Yes.

Mr. STRONG. In your case, Minneapolis would be a trade area.

Mr. DECKER. You mean it would be a center of a trade area?

Mr. STRONG. Yes.

Mr. DECKER. Yes.

Mr. STRONG. Then branch banking, under the proposition proposed by the comptroller, and approved by the Governor of the Federal reserve system, would be established in your community or trade area?

Mr. DECKER. It would be authorized.

Mr. STRONG. That would set up competition between some large branch bank and your group?

Mr. DECKER. Yes, sir—right.

Mr. STRONG. Well, your idea is that also a law, if one were passed, would have to legalize or authorize or permit the continuance of your form of cooperative group bank?

Mr. DECKER. Exactly.

Mr. STRONG. And let the two systems operate in competition?

Mr. DECKER. If they do naturally, yes, sir; but not to destroy what has been set up in a natural, evolutionary way by forcing another system at a time when public sentiment is against that in the country.

I do not fear the competition of branch banking, provided you keep Mr. Chase National and Mr. National City Bank of New York out of our district. Anyone who chooses to come into our district and organize a large bank in Minneapolis or a small bank in Podunk and put their money in competition with us, we are willing. If we can not stand up against legitimate competition, we are not worthy to be there.

Mr. STRONG. Then, you do not propose a monopoly of banking by group banking or chain banking in trade areas?

Mr. DECKER. I will answer that—I think I have already answered it, though—the so-called group banking, set up in an area sufficiently large to include resources of sufficient diversity to establish a sound unit—that system asks no assistance of Congress, or of anyone else to-day. We are not asking for any assistance.

Now, if Congress chooses to set up a branch banking system, limited to a somewhat similar area, we will say, in competition with us, we have no objection whatever, and if that system is better, we will be the first ones to adopt it. We are not wedded to our system. We have developed what we believe to be the best under all the existing circumstances in our district, and if anyone can show us a better, we will be delighted.

Mr. STRONG. How long has your system been in effect?

Mr. DECKER. About a year, last January.

Mr. STRONG. Is it growing?

Mr. DECKER. In number of banks?

Mr. STRONG. Yes.

Mr. DECKER. Well, we are not taking in banks very fast, for a couple of reasons: First, we want to have time in which to digest what we have swallowed. That is not the proper word, but you have used the word "monopoly" and so I will use the word "swallow."

Mr. STRONG. I think that is very apt.

Mr. DECKER. And, secondly, the Secretary of the Treasury, in his annual message, stated that he hoped while Congress was making an exhaustive study of group and branch banking, that group banking would proceed very moderately. We respected his suggestion, as Mr. Wakefield, at least, will agree, and immediately changed our policy out of respect for his suggestion. Now we have banks camping on our doorstep by the hundreds demanding not that we keep out of their country, but that we get in their country. That comes from the country, from the little fellow on the street, who thinks he is entitled to protection and service.

Mr. STRONG. And is he not?

Mr. DECKER. Absolutely; and we have found no better way of furnishing it.

Mr. STRONG. And it will be your intention, later, to expand and take in all worthy banks in that territory?

Mr. DECKER. I would not say that; but when the Lord has given us a garden to hoe I think we had better hoe the whole garden and get all the weeds out.

Mr. STRONG. And if branch banking wants to come in and wants to do some hoeing, what will be your attitude?

Mr. DECKER. We will furnish him with a hoe, because every time he hoes out a weed he helps us.

Mr. STRONG. Providing he does not attack your weeds?

Mr. DECKER. We will take care of our weeds.

Mr. STRONG. But do you honestly think there will be continued, throughout a great many years, real competition between two such systems as that in a trade area? Would not either they swallow you, or you swallow them?

Mr. DECKER. You mean small banks?

Mr. STRONG. You say you eventually expect to take in the little banks that are knocking at your door.

Mr. DECKER. Oh, no.

Mr. STRONG. I mean the desirable ones. You will not take in banks that are not making money.

Now, if we follow the suggestion of the comptroller and set up a branch bank in a trade area, I want to ask you if it is your real, honest opinion, as the result of your experience in life, that those two systems will continue in competition with each other, or will not the natural result be that one will absorb the other?

Mr. DECKER. My answer is that the banking business of this country is absolutely under the control of either the Government of the United States or one of the 48 States. They grant charters. Money is the most difficult thing in the world to monopolize, notwithstanding the general feeling to the contrary. It flows like water. To-day we make our loans in Minneapolis in competition with London absolutely, and we have to meet that competition. It would certainly be against our interests to have, we will say, just one group in our whole trade area with no competition. Competition, unless it is destructive, is the life of trade. If it is destructive, it is the death of trade; absolutely.

Mr. STRONG. Absolutely.

Mr. DECKER. There is less danger of monopoly, in my judgment, in banking than in almost any line, for this reason: We have no patent on it; we do not own the mine from which it is taken. The Government grants the charters, and if, however, we can see greater security to the depositor and better service to the borrower by a system which we have set up, then the fellow on the street will take care of that business himself, because he will go where he chooses to go.

Mr. STRONG. All you say is true; and yet any competitor coming into your territory now would have a pretty hard row to hoe, would he not?

Mr. DECKER. I think, as a compliment——

Mr. STRONG. That is the way I intend it.

Mr. DECKER. As a compliment to the present organizations, he would have to be a pretty good banker and have some capital to run it right. If he has, we will welcome him.

Mr. STRONG. The fact you have seen fit to gain strength through the uniting of your banking institutions, would not that same incentive, if you had a great competitor up there in branch banking or any other competition—would not that same incentive lead you to a combination of those groups?

Mr. DECKER. I do not think so. I think it would be the worst thing that could happen to the development of the country and the worst thing that could happen to the banking situation. Competition keeps my boys on their toes.

Mr. STRONG. You have created a monopoly of the best banks in that territory and you do not want New York to come in.

Mr. DECKER. I would not say we have created a monopoly.

Mr. STRONG. You have created a combination so strong that all the rest want to get in.

Mr. DECKER. You are speaking about Mr. Wakefield and ourselves, also?

Mr. STRONG. Oh, no.

Mr. DECKER. If you think we have no competitor, come up and listen to some of the cussing and discussing that is going on up there.

Mr. STRONG. Does Mr. Wakefield join you in the wish that New York shall not come in?

Mr. WAKEFIELD. Absolutely.

Mr. DECKER. Of course. That is exactly what we are trying to avoid. When you talk about monopoly, do not lose sight of the fact that in order to protect yourself you have to be of sufficient size.

Mr. STRONG. I will avoid the use of the word "monopoly." Let us say we will have controlling groups—and I speak of groups of banks like yourself and the gentleman behind you, Mr. Wakefield—in that trade area. Evidently you do not want anyone else to come in.

Mr. DECKER. I have not said so.

Mr. STRONG. You do not want New York or Chicago to come in?

Mr. DECKER. No, sir; because I do not think it is a good thing for our territory or for them.

Mr. STRONG. Then, it is your idea that it would be a pretty good thing to set up a system by which we would have great groups dominating or controlling the banking business in trade areas, but not in the United States as a whole?

Mr. DECKER. Do not misunderstand me. We have no objection to New York or Chicago coming in with capital and starting banks. What we object to is for them to be able to establish branches of their existing banks. If the people connected with the Chase National Bank of New York choose to come into Minneapolis and organize a $5,000,000 bank, they have the same right as anyone. We do not object to that. We do object, however, to a domination in New York of our loan resources, and the reason we do not object to the same domination, if you choose to call it that, on our part as against Minot—which would be a perfectly legitimate question for you to ask me—is that unless you set up a unit of sufficient size and strength you can not protect your country, and the answer is that

Minot wants to come in. When we want to go into New York that will be a different story, but it will not be in my day.

Mr. STRONG. I can see how you set up a strong system of banks in your territory, but I can not see what will come of the small banks in the small community.

Mr. DECKER. What do you care about the small bank in the small community? You are concerned about the man in the small community.

Mr. STRONG. If I was a man in a small community, I would care.

Mr. DECKER. I came from Chicago over the Baltimore & Ohio Railroad. I do not care who owns that railroad. All I am interested in is whether it has a good roadbed and furnishes good transportation service. Banking is a vehicle for the convenience of business, and you must have strong banks.

Mr. STRONG. That is the argument of the Comptroller for branch banking.

Mr. DECKER. Well, if our system is not better, as we think it is, for our section of the country and for the little fellow and the big fellow, you need not worry about what will work out, because nature will take its course.

Mr. STRONG. What I can not see is that if branch banking, group banking, and chain banking are proper kinds of banking in trade areas, irrespective of the fact they may not take in some smaller fish, why is it objectionable as a nation-wide banking system?

Mr. DECKER. I will tell you.

Mr. STRONG. You are willing to absorb, in Minneapolis, the other towns, the larger towns, where you have group banking—you are willing to absorb the interests and life and necessities of the banks in the little towns. Why should you object to New York absorbing the interests and growth and development of your organization?

Mr. DECKER. I will tell you why. If you go to the leading bankers of London and Berlin and Paris, they will tell you, "For God's sake, do not set up in your country such a system as we have got." Why? Because they do not care for that great responsibility.

When you come to the United States, you have an entirely different problem. You have an empire 3,000 miles long and 1,500 miles wide, with a republican form of government, which, as the Irishman told his friend as he landed in New York and asked what kind of a democracy we had—"Why," he said, "each man here is as good as any other man, and most of them are a damn sight better."

That is the independent American spirit which we do not want to crush.

Mr. STRONG. But how——

Mr. DECKER. Now, wait a minute. Our territory is so large, and the interests so diverse that, in my judgment, a nation-wide system of branch banking would be fundamentally unsound, undesirable, and not even courted by New York or Chicago banks that know their business to-day.

Mr. STRONG. The governor of the Federal Reserve Board told us the other day that he thought nation-wide branch banking would come; perhaps within 50 years.

Mr. GOLDSBOROUGH. Governor Young said that.

Mr. STRONG. Yes; Governor Young—that nation-wide branch banking would come within perhaps 50 years. He was opposed to

it now, because we did not have the men trained to handle it; consequently, he is willing to limit it to trade areas, but he gave the implication very plainly that as soon as men are trained for nation-wide branch banking, he would have no objection.

The suggestion that the responsibility would prevent men that might handle nation-wide branch banking from desiring it, would be entirely overcome by the profits. Objection to responsibility is generally overcome by profits. No man likes the responsibility of any work, but he assumes it and carries it for the profits that is in it.

Mr. DECKER. My answer is that I am not smart enough to say what will come in 50 years, or 25 years, or even 15 years. My training has been to meet the situation as it is, in a practical way, handle it the best I know how, in the interests of the people, and take care of to-morrow's problems when they come.

Mr. STRONG. I appreciate that and it may be that no one in Congress is smart enough to work it out and yet we will be asked to do it. What is your suggestion and your proposition? Should we permit branch banking in your trade area?

Mr. DECKER. I have no objection to it whatsoever.

Mr. STRONG. And you are perfectly willing to approve the comptroller's proposition?

Mr. DECKER. Perfectly willing and personally I have no objection to it whatsoever. Outside of some cities I have in mind, I believe that the rank and file of the people are unalterably opposed to it. I respect their wishes. I believe it is good business to respect their wishes. Therefore I would suggest, if you want my suggestion, that I certainly would not advise Congress to hurry into branch banking. I would not hurry into anything until I was pretty sure I was right.

Mr. STRONG. I do not think we shall.

Mr. DECKER. Because in the meantime, and in the moving of natural forces and natural developments, that situation will be taken care of. There are forces at work to-day which may make your problem, Mr. Strong, very much simpler three or four years from to-day. None of us see very clearly to-day.

The members of this particular committee are facing a responsibility in banking which has not been equaled since the day of Andrew Jackson. Therefore I would suggest that you make a very exhaustive study. This country is rich. We have gone through the worst of it, I hope, and I would not hurry into anything until I was sure of a solution.

Mr. STRONG. We are doing that. In the meantime we are advised that banks are organizing groups to do what the law contemplates they shall not do.

Mr. DECKER. I do not follow you there. I do not see anything in the law that prohibits——

Mr. STRONG. We tried to prevent national banks from engaging in branch banking, and then we provided a limitation whereby they should only engage in it in States permitting branch banking by State banks, and then only in the cities where the parent bank was located.

Mr. DECKER. Yes.

Mr. STRONG. Then the group and chain bank were developed, under which they can go outside of those lines, and they are doing

now what, by the McFadden Act, we sought to prevent the national banks from doing.

Now, this development is going on all over the country. How long shall we sit down and let this development go on? The time finally will come when we can not control it. I realize, and this committee realizes, that we have to go slow, and, I think, that is our intention, but if we go too slowly we may meet a condition where you gentlemen have built up something that we can not overcome without a catastrophe.

Mr. DECKER. You will do ten times as much damage to the business in the United States in a hurried and ill-advised action than you will to allow the bankers to take care of the banking business in the United States.

Mr. STRONG. We do not act hurriedly or ill advisedly, but you have taken care of the big banking interests in your territory and others are doing so in other territories, and then when we start in and try to provide some law by which there will be some control, then, you think, the catastrophe will come. You think we ought to allow the bankers to take care of the banking business of the United States. Our fear is that the longer we delay it the greater the catastrophe will be.

Mr. DECKER. Please differentiate between looking after small banks and little people. You are not interested in protecting little or big banks; you are interested in the people of the United States. The little fellow, I maintain, is entitled to the same protection and safety and the same service in borrowing or anything else as the big fellow.

Mr. STRONG. But we have to look after the little fellow. The big fellow will look after himself.

Mr. DECKER. That is true. That is a fundamental truth. But there is a chance for the little fellow to become a big fellow.

Mr. STRONG. And there is a big chance of the big fellow gobbling up the little fellow.

Mr. DECKER. That has existed from time immemorial. But there is no country in the world, either now or at any time in history, when the little fellow with industry and ability and application stands one-tenth the show he does to-day in the United States. It is all bunk saying that the little fellow does not have a chance. He has the most excellent chance he ever had, and the banks are not holding him back.

Mr. STRONG. He has a chance unless he is an individual business man or an individual banker against the chain stores and department stores, and various groups and chain banking combinations.

Mr. STRONG. It is about 1 o'clock. I have no further questions. Do you want to adjourn now, or do you want to continue?

Mr. FENN. I have only a question or two. I should like to ask them before we adjourn.

Mr. STRONG. Very well, proceed.

Mr. FENN. As I understand, there are two of these associations represented here—the Northwest Bancorporation and the First Bank Stock?

Mr. DECKER. Yes.

Mr. FENN. Now, which of them are in the cooperative system?

Mr. DECKER. We call it group banking. It is practically and identically the same.

Mr. FENN. In your membership, if I can use that term, of these two organizations, are there State and National banks, too?

Mr. DECKER. Yes, sir.

Mr. FENN. Irrespective of charters?

Mr. DECKER. Absolutely.

Mr. FENN. Now, is there any considerable group of banks there, State, or National, in your area that do not belong to one or the other of these associations?

Mr. DECKER. Not of any considerable size.

Mr. FENN. Mostly small banks that you have described?

Mr. DECKER. Yes, sir.

Mr. FENN. And I understood you to say there was another association?

Mr. DECKER. The Union Investment.

Mr. FENN. I think you said it was somewhat connected with your association?

Mr. DECKER. Yes, sir.

Mr. FENN. And takes care of those—I use the term "takes care of"—takes supervision of those small country banks?

Mr. DECKER. Let me answer your question this way: There are a number of small so-called groups. Take the John W. Black Co. They have about 18 or 20 banks operating entirely independently and then Bremer, of St. Paul. He is personally a shareholder of a hundred banks in our territory, and there are a number of other smaller ones, like Hazlett, with 8 or 10 banks, and has been operating for many years.

Mr. FENN. Are all the banks in the Minneapolis area connected with an association?

Mr. DECKER. Not at all. There are about 2,300 banks left in the ninth district. Out of that 2,300 there certainly are not in excess of 300 in the groups, large and small.

Mr. FENN. Now, the important thing—important in reference to capital and surplus—are there important banks not connected with any one of these groups?

Mr. DECKER. Yes; indeed.

Mr. FENN. What is their impression of group banking?

Mr. DECKER. I would say, generally speaking, they are watchfully waiting.

Mr. FENN. You do not know whether their sentiment is in favor of branch or group banking?

Mr. DECKER. Take the First National of Butte and the Bremer Bank in St. Paul have sixteen or eighteen millions of deposits, entirely independent, and there are other banks with three, six, or eight millions in deposits, not in any group and not being disturbed, but the great majority, in number of banks, of course, in the whole district, either in or out of groups, are small banks.

Mr. FENN. Now, how many banks in your group—the national banks are, of necessity, members of the Federal reserve system—in other words, how many of your banks are member banks of the Federal reserve system?

Mr. DECKER. Seventy.

Mr. FENN. Seventy out of ninety-eight?

Mr. DECKER. Yes, sir.

Mr. FENN. A large proportion?

Mr. DECKER. Naturally, we have up to date taken the larger banks and beter banks, either State or National.

Mr. FENN. I wanted to know if there were other banks that were important in that region, not in the groups.

Mr. STRONG. We will adjourn now until 2.30, at which time Mr. Campbell will be allowed to question the witness. If he is not here, Mr. Beedy will question the witness.

(Thereupon, at 1 o'clock, p. m., a recess was taken until 2.30 o'clock, p. m.)

AFTER RECESS

Pursuant to the taking of a recess, the committee resumed its hearing, Hon. James G. Strong presiding.

Mr. STRONG. The committee will come to order.

Mr. Decker, you may resume.

Mr. Campbell does not care to cross-examine and so, Mr. Beedy, you are next.

STATEMENT OF E. W. DECKER—Resumed

Mr. BEEDY. Mr. Decker, Mr. Luce brought up a matter that has seemed to be of quite general interest. There seems to be a fear here or a doubt as to whether we are on the way to a monopoly of credit in this country, and he asked you the question as to whether you thought it would be easier for Wall Street or New York interests to buy up your group, once you had it organized, than it would have been before, and your answer was that you thought it would be very much easier for New York interests or Chicago interests to go to 100 different banks separately and buy them than it would be to get control of the organized group.

You will remember that question and answer.

Mr. DECKER. Yes, sir.

Mr. BEEDY. And yet you have more than once said, unless my memory is at fault, that the group system was the natural evolution of the banking business, that it was possible to form such a system because individual banks would not sell out, that they wanted to hold their individuality or retain it, that they would join in a group where they would not sell.

How do you reconcile those two statements?

Mr. DECKER. Because they do not consider joining our group by an exchange of stock selling out.

Mr. BEEDY. You do not get the pertinence of my question. In reply to Mr. Luce's question, you said it would be easier for big interests in New York or Chicago to buy up individual banks than it would to get control of your group through a purchase of your holding company stock, and yet you say that group banking is preferable to branch banking as a matter of evolution because individual banks will not sell out, that public sentiment is against the branch-banking proposition and they will come into a group where they will not sell; yet your answer to his question was that it would be easier to buy individual banks than to take over the group.

Your two answers would seem to be somewhat inconsistent, and I wondered what your explanation is.

Mr. DECKER. I get your point. The explanation is this, that had there been no prospect of the formation of such a group as we have formed, those individual banks would have been tempted to sell out because they were discouraged; they could see no future in staying up there all alone, with no partners, and now that a plan has been devised whereby they can join the group which they believe is largely self sufficient and strong, they would not be so much inclined to sell their stock in the Northwest Bancorporation. When I said that they would not sell out to us for cash, I meant that, because they saw what it would mean; neither did we want them to sell for cash, but had they sold for cash, then they would not have been a part of the group in which that bank was going because we made no secret about our plans at all. Therefore they said to us:

As partners, yes, delighted to join; we do not want to ever sell our stock; we would rather own the stock than to own the cash.

Of course, they could turn around with the cash and buy stock if it were publicly offered.

Mr. BEEDY. In other words, your judgment, based on your experience of some 40 years as a banker, is that there is less danger of a big organized interest in a great financial center such as New York or Chicago taking over a group which has already been bought up and organized, necessitating but one transaction, than there would be of its going to work and picking up individual banks and attempting to build up a structure which would approximate a control or the ability to control credit in a given locality?

Mr. DECKER. Absolutely. In the first place, they realize now that what they have is worth more than they thought it was by that union. Their stock in the Northwest Bancorporation is going to be worth more than their stock in the local bank ever would have been worth, and therefore they are less willing to sell it. Second, the Northwest Bancorporation, with 126 directors of the best men in that part of the world, the most loyal men, is placing your fortunes in the hands of the most reliable, those who are able to keep it, who do not have to sell, and those who have at stake the greatest interest in that part of the country and therefore less apt to sell.

Mr. BEEDY. Now, with respect to this stock of the holding company, this $50 par-value stock, as bearing upon your financial structure, did you make the exchange or did these individual owners of bank stocks make their exchanges with the holding company on any basis which would result in a uniform return on their investment?

Mr. DECKER. Not entirely.

Mr. BEEDY. So that one bank stock which went into your group might have represented such a return on the investment that when it was exchanged for the holding company stock it might return 15 or 20 per cent, and again it might to another bank represent 8 per cent on their original investment?

Mr. DECKER. On their original investment?

Mr. BEEDY. Yes.

Mr. DECKER. On the stock in the local bank?

Mr. BEEDY. Let me make myself clear. They turned over what stock they had in their local bank. That stock might have been

returning them 15 or 20 per cent on their original investment, and they turned it over for the stock in the holding company in such a way that, as against another bank, they are getting 25 per cent return while the other bank is only getting 8 per cent.

Mr. DECKER. As a matter of fact, most of them were not getting any return; they had used all of their profits to clean up the poor stuff, and a good many of those banks were not paying any dividends.

Mr. BEEDY. I understand that you have taken on very few weak banks, that all of your banks were strong banks.

Mr. DECKER. No. I beg your pardon.

Mr. BEEDY. The majority of them.

Mr. DECKER. Yes, but I gave you a number of instances where we cleaned up situations.

Mr. BEEDY. You said except in a few exceptional instances you had taken over strong banks.

Mr. DECKER. The larger number were strong banks.

Mr. BEEDY. You made it a point to take over strong banks that were money-makers?

Mr. DECKER. Yes, sir; but many of those strong banks had been using their profits to clean up their banks, and they had been declaring no dividends at all and there was no market for their stock, you might say.

Mr. BEEDY. But the majority of them had, and now have, surplus funds for loaning purposes?

Mr. DECKER. Yes, sir; they have great potential value for the future, if properly managed, in this group.

Mr. BEEDY. In fact, a great number had so much of a surplus of loanable funds that they have been investing them in good bonds because they could not find safe loans in other directions?

Mr. DECKER. Quite true.

Mr. BEEDY. On what basis or value was this holding company stock, reckoned in the transfer?

Mr. DECKER. We took into consideration the book or so-called liquidated value of the holding company stock, which was determined, of course, by the total book or liquidated value of the bank stocks which they had up to that time acquired, as against the book or liquidating value of the stock in the bank which was joining. We considered the earnings of the two as nearly as you could estimate them over three, four, and five years, the amount of capital invested, of course, in good paper, and the prospects, and if it was a bank that had excellent prospects, we considered its good will of more value.

Mr. BEEDY. My question went more directly to the point of the value reckoned for the holding company stock. Was it computed at $50 per share?

Mr. DECKER. When we sold stock to the public, we offered it, the first issue, at $50, but when we made the exchange we figured the par value at $50, but the book value of the holding company stock was determined by the book value of the stocks in banks which it owned.

Mr. BEEDY. And that largely paralleled the market quotations of the stock from time to time?

Mr. DECKER. No, we did not pay very much attention to the market value. They ran the stock up higher on the market than it should have gone, we thought.

Mr. BEEDY. It went up at one time to 90.

Mr. DECKER. Yes.

Mr. BEEDY. Did you ever trade in any of that at that value?

Mr. DECKER. No, sir. It really did not make any difference what price we put our stock at until you also determined the price of the other, because it was an exchange. We endeavored to make an exchange which was fair to the shareholders of the holding company who had already come in and to the shareholders of the bank under consideration.

Mr. BEEDY. Is the stock of the holding company on sale to the public to-day?

Mr. DECKER. Yes, sir.

Mr. BEEDY. What is the price of it to-day?

Mr. DECKER. Fifty-four.

Mr. BEEDY. Is any of the stock of the Northwest Bancorporation owned or controlled by New York or Chicago interests?

Mr. DECKER. So far as we know, not a dollar. There may be some scattering shares in the hands of investors.

Mr. BEEDY. But, as to the majority of it, you know where it is and you local men control it?

Mr. DECKER. Wait a minute—I must qualify that.

We offered last September to our shareholders a new issue of approximately 144,000 shares, which was 1 share for each 10 which they owned, at $72.50 per share. Before that stock was offered to the shareholders, I had it underwritten at $70 a share, because I thought it was good business.

Mr. BEEDY. Do I understand that you have increased your capitalization of your holding corporation?

Mr. DECKER. Three times.

Mr. BEEDY. Within a year and——

Mr. DECKER. And three months. That stock I had underwritten by, I think, 75 different houses who were invited to join in the underwriting at $70 a share.

Mr. BEEDY. Locally?

Mr. DECKER. No; scattered all over the country.

Mr. BEEDY. You did not have to go to New York for the underwriting?

Mr. DECKER. There were New York houses, Chicago houses—all bond and security houses had an opportunity to join, and I think that the most that any one house had was something like 3,000 shares. That was an underwriting, you understand.

Now, before the time arrived for our shareholders to take this stock and pay for it—and if they had done so, the underwriter would have received no stock——

Mr. BEEDY. Is the underwriter a Minneapolis concern?

Mr. DECKER. No; 75 different houses.

Mr. BEEDY. So that the purpose for which you organized this group, namely, to finance your own locality with your own capital, has failed in respect to your own organization?

Mr. DECKER. No, sir.

Mr. BEEDY. Why did you have to go to bond houses in New York or go outside of your own trade area?

Mr. DECKER. We did not have to.

Mr. BEEDY. Why did you?

Mr. DECKER. Well, I thought it was good business.

Mr. BEEDY. Then, it is not good business to organize for the purpose of financing your own business in your own locality with your own capital?

Mr. DECKER. Certainly, but we can not do it all.

Mr. BEEDY. Ah!

Mr. DECKER. We do not attempt for one minute to say that we are able to finance everything in our district.

Mr. BEEDY. I thought it was rather peculiar that you would not finance your own business in your own community, if that was one of the essential purposes of your organization.

Mr. DECKER. Please understand that this stock was put over and was offered to the shareholders at that time. I thought I saw trouble ahead in stock prices, so I had that stock underwritten, and we invited any bond house—whoever they were, whether in San Francisco or New York—to join in that underwriting, but none of them had more than 3,000 shares of the 75 houses.

Before the time arrived for our shareholders to buy that stock at 72½, and at the time it was offered it was selling on the market at 85, the collapse came on the stock market and our stock gradually went back to $50 a share, and in the meantime I called on the underwriters to pay for it at $70.

Mr. BEEDY. Now, the original capitalization of your holding company was what?

Mr. DECKER. Do you mean authorized?

Mr. BEEDY. Yes.

Mr. DECKER. Authorized capital stock was $75,000,000.

Mr. BEEDY. And that was all issued in stock?

Mr. DECKER. No; it was issued, you see, a little at a time, as we acquired——

Mr. BEEDY. What I mean is, there were no bonds involved in that set-up?

Mr. DECKER. No; only one kind of stock; no other securities of any description.

Mr. BEEDY. Of that original authorization of $75,000,000, you issued how many shares of the capital stock at $50 par value before you began to——

Mr. DECKER. Acquire banks?

Mr. BEEDY. No; before you began to change your set-up. You said that you had changed it three times?

Mr. DECKER. Our first issue of stock to the public for cash was $5,000,000 at $50 a share. That was greatly oversubscribed, and that was on the 1st of March, 1929. In August we sold 100,000 shares, or $5,000,000 worth more to the public for cash.

Mr. BEEDY. That was in August?

Mr. DECKER. In August. Then, as I saw the crisis coming pretty fast, and requiring some cash, as I thought, or at least as needing a large surplus in cash always on hand, I insisted on selling out 150,000 shares more.

Mr. BEEDY. For $7,500,000?

Mr. DECKER. At $72 per share. That was offered to the shareholders first. The original offer, by the way, was the only offering not made to the shareholders. That was foreclosed after the first offer, and the constitution of the company provides that all further issues of stock must be made to the shareholders, thereby preserving their rights.

Mr. BEEDY. Then the result of your first sale of stock was approximately $7,500,000?

Mr. DECKER. No; 150,000 shares at $70 was between $10,000,000 and $11,000,000.

Mr. BEEDY. And those are the three stock issues that you referred to in your original testimony?

Mr. DECKER. Yes.

Mr. BEEDY. So that as a result of your stock sales, you have about $21,000,000 worth of stock issued and outstanding?

Mr. DECKER. That is correct.

Mr. BEEDY. Now, how much of this stock, if any, went to the underwriters?

Mr. DECKER. Well, a very large per cent, practically all, you might say, of the last issue, because in the meantime the collapse had come and our stock among others had moved back to $50 a share.

Mr. BEEDY. So the underwriters themselves took these 150,000 shares?

Mr. DECKER. Right; at $70 a share.

Mr. BEEDY. And that stock is theoretically on the market at the present time?

Mr. DECKER. Yes. However, since then I have organized a private syndicate of individuals in our own town who have been willing to take over that stock from these underwriters at $50 a share. They have said that they did not care to sell it at that price, so a great deal of it they still have, but they will market it whenever, in their judgment, the market price warrants it, I suppose.

Mr. BEEDY. Now, in the course of your testimony, I notice that you admitted that branch banks can be run more economically than the individual banks under the group system.

Mr. DECKER. Yes.

Mr. BEEDY. I suppose that is generally conceded, and you further stated, if I remember correctly, that the majority of your banks were what you termed the larger banks that you had taken into the group, that one local syndicate, the name of which I forget——

Mr. DECKER. Union Investment Co.

Mr. BEEDY (continuing). Had organized and taken under its control some 25 small banks, that you took over the stock of the Union Investment Co. as such, and therefore those 25 small banks were in your system but subject to the immediate supervision of the existing investment trust company?

Mr. DECKER. Right.

Mr. BEEDY. And is it true as a matter of principle that you do not care to take in any more small banks at the present time?

Mr. DECKER. No; I would not say that.

Mr. BEEDY. You are not out seeking them?

Mr. DECKER. We do not care whether a bank is large or small. It is a question of whether it is needed in the community where it exists and whether it can be made profitable.

Mr. BEEDY. Your criterion would be rather the soundness of the institution and the local need for its maintenance?

Mr. DECKER. Yes, sir; and its ability to make money under our management or with our system.

Mr. BEEDY. Now, having no objection to the branch-banking system in your trade area as a competitor with the group-banking idea, in your opinion, would a branch-banking system, since it can be more economically administered, perhaps prove to be somewhat more advantageous to the small banker than the group system?

Mr. DECKER. More advantageous for the small banker?

Mr. BEEDY. For the small bank.

Mr. DECKER. If it was a branch, it would not be a bank.

Mr. BEEDY. Of course; if a central branch bank were organized and it took over 100 small banks, we will say, and operated them as branches——

Mr. DECKER. I get you.

Mr. BEEDY (continuing). They could probably be better operated in that kind of a system than they could under a group?

Mr. DECKER. Well, I think that would be the easiest competition we could have.

Mr. BEEDY. Somebody has got to take care of these small banks.

Mr. DECKER. Yes. Therefore my judgment is that the way to take care of the small banks would be this: Let us take the county seat, for argument's sake, which has a national bank or two or three of them; the best way would be to allow them to have branches in their own county or immediate terirtory, but in my judgment the natural evolution would be that the county bank with these branches will want to join a group; it will not want to stand alone.

Mr. BEEDY. Just as your investment trust is now in your group?

Mr. DECKER. That is it exactly.

Mr. BEEDY. While you do not pretend to predict what the next 10 or 15 years is going to bring about, you think that the natural tendency will be perhaps for the county bank or a bank within some limited area to take over and operate a few branches?

Mr. DECKER. Yes.

Mr. BEEDY. And that county bank, in turn, will be inclined to come into your group?

Mr. DECKER. Yes, sir.

Mr. BEEDY. That is the trend, as you see it?

Mr. DECKER. Yes, sir; that as against a bank in, say, Minneapolis, with branches in all these little towns. In my opinion the branch bank in Minneapolis would be a very poor competitor of ours, because in the larger towns, in these centers, we do not operate a branch but an independent bank, one that is popular at home and in which the local business men have an interest. For instance, if the people who own the National City Bank came into Minneapolis, after you passed a branch banking bill with your trade areas, and started branches over the same country where our member banks are located, they would immediately run counter to public opinion and get very little business.

Mr. BEEDY. That is an interesting feature of your testimony. You counselled us against rushing into any action, which is perhaps wise; but you say that if we should now attempt to force upon the country a branch banking system, general in its application, that we would run counter to public sentiment.

What is public sentiment; what is your definition of it? What did you mean when you said that?

Mr. DECKER. I perhaps can best explain it by taking an individual case. I think I referred this morning to the First National Bank of Minot, a bank with $4,000,000 or $5,000,000 in deposits. They would be unalterably opposed to becoming a branch of the Northwest National Bank at Minneapolis, which is a large unit in our bank corporation, because, they say, "Our bank has been here 30 or 40 years; we have our own board of directors, our own pride, and if we are to become a branch you will send a hired man up here to run it, and after he has been here 2 years you will send him off some other place, and we do not want it."

Mr. BEEDY. Then, I understand you to refer to the public banking sentiment as represented by the banks.

Mr. DECKER. Yes; but still further, the business sentiment is also exactly the same. One of my friends within the last two weeks attended a meeting of lumbermen from all over our part of the country, and he took the pains to ask them what their feeling was toward this group-banking movement as against branch banking, and they said that without any question they did not want the branch banks, they did not want the Canadian system, that they want their local banks. So I think the feeling is general among business men that way.

Mr. BEEDY. Beyond the popular conception that you referred to, simply to the effect that certain communities do not want an outside fellow sent down to run a local bank, it is doubtful, is it not, whether the public as such understands the difference between branch banking and group banking, or the difference between branch banking and chain banking?

Mr. DECKER. I think you would be surprised how well they do understand it around in our country.

Mr. BEEDY. Members of this committee did not understand the difference until Mr. Pole had explained it to us.

Mr. DECKER. You ask the farmer around Minot whether he would rather go into the Minot bank and do business with it as organized to-day or take his chances with a branch bank there operated by a hired man, and I warrant that nine times out of ten he will say, "Leave it as it is, because the manager of the branch will have to submit to headquarters practically all loans," and they know that the Minot bank still functions under the authority of its board of directors.

Do I make myself clear on that?

Mr. BEEDY. Yes. Would you not be willing to make the statement that probably none of us yet know what the public sentiment, in the broad sense of that term, is as yet as to the advisability of having either a branch banking or a group banking system?

Mr. DECKER. In sections where group banking has not been tried, probably yes, but in our section, where it has been in effect for over a year, I would say no. I think that is pretty clear.

Mr. BEEDY. Of course, Mr. Decker, we are trying to keep in mind the little depositors, the individual depositors, and the man that sometimes want to buy an inexpensive home, and borrow $1,000 or $2,000. When we consider that class of people as opposed to the business interests and the banking interests, it is difficult for us here, from the testimony we have yet had, to find out what the sentiment of that class of people is, and I was wondering if you have anything along that line. Your statement is very interesting about the lumbermen, but have you taken any steps to find out what the small depositor is thinking about this trend toward concentration in the banking business?

Mr. DECKER. It is a matter of education, and I have failed as yet to hear of one case of an individual who was a doubting Thomas or even an objector who had not changed his mind when he understood what group banking meant as against branch banking.

Now, naturally the man on the street does not know what he wants except that he wants to borrow $1,000. My experience as a banker there shows me that his chances of getting that $1,000, if he is worthy of it, are better, infinitely better, under our group system than it was before, because many of the unit banks were unable to accommodate him, and in my judgment his chances are infinitely better than under the branch-banking system, because I think that man's individual case will receive more attention and sympathy with the local bank and its local man than he would from a manager of a branch.

Mr. BEEDY. What dividends does the stock of the holding company pay now?

Mr. DECKER. $1.80 a share a year, or 45 cents a quarter.

Mr. BEEDY. What is your theory of the increased capacity to pay dividends on this increased capitalization of the banks that you have grouped? You have no more banks than existed before, yet they are paying dividends on a vastly increased capitalization.

Mr. DECKER. No, they are not paying any more dividends than a fair dividend.

Mr. BEEDY. Let me make myself clear. When you took over some of these individual banks, you took into consideration their standing and reputation, and their good will, as we sometimes say, and those banks were not paying any dividends on good will; yet you in your holding company issued stock representing that good will, and the syndicate or group is now paying dividends on that stock which was paid for good will. I think it would be interesting for you to explain to us what your theory is, and there is a legitimate explanation, of course, as to the ability to pay dividends on that increased capitalization where you have no more banks than in the first place and no more money in the aggregate than was originally in your community.

Mr. DECKER. Well, the answer to that is that the book or liquidating value of the Northwest Bancorporation stock to-day is $40 per share, independent of all good will. There are sufficient assets under any sort of reasonable management to earn at least double the present dividend requirements; in fact, our earnings last year were considerable more than double the dividend rate. The dividends are very small, and we are going to keep them small.

Mr. BEEDY. In other words, reckoning your stock in the holding company at $40 per share, you want the committee to understand that that is the parallel value of the existing banks just as you took them over, with assets?

Mr. DECKER. Yes, without any account of good will.

Mr. BEEDY. Now, irrespective of what this committee might do to meet the situation, the developments in the formation of groups and chains have come upon us so rapidly that unless we do lay ourselves wide open to the charge of precipitate action, it is probably true that whatever was going to be accomplished will have been accomplished. Would you think it advisable, if the evidence that we have had presented to us should convince the majority of us that there is a limit to the advantages of a concentration in the control of credit as there is in the concentration of capital for purely industrial purposes, for us to pass a law which would impose such burdens upon these groups and chains as they are now set up as to discourage further action along that line?

Mr. DECKER. No. I think you could better afford to let nature take its course until you are pretty clear in your mind what is best to be done, because it is perfectly apparent to me that banking is going to concentrate very much along the same lines as the public utilities have, and I doubt very much if any law can be passed that will work that will prevent it, because I think it is fundamental to-day by reason of the concentration of capital in business, in large companies, requiring large banking accommodations, that a large number of small banks in the United States can never again accommodate the business of the United States.

Mr. BEEDY. But you will agree that we do arrive at a point when in the concentration of banking facilities we have attained the highest economic efficiency?

Mr. DECKER. Yes, sir.

Mr. BEEDY. Then, of course, what that point is is what we are trying to find out. After we have gotten so far, it then becomes disadvantageous to go further with the group system or the branch banking system, does it not?

Mr. DECKER. Yes.

Mr. BEEDY. You have no suggestion, if any, as to what limitations should be imposed upon the concentration of banking capital, have you?

Mr. DECKER. I would be delighted if a way could be found to prevent the concentration of banking capital further than liberally prescribed trade areas, of which there might be a number—I do not know how many, but in our section, so sparsely settled, with relatively few diversified interests, that trade area would have to be very large in order to make it a workable unit as to size and influence in competing, if you please, with other large combination of capital in New York and Chicago. It if could be prevented and not go beyond certain districts, so far as we are concerned, it would suit us fine, but when you come to talk about Pittsburgh, Cleveland, Detroit, Boston, Philadelphia, New York, or Chicago, I confess that I would not undertake to say whether a man in New York should be prohibited from owning stock in a bank in Pittsburgh, or a holding company, even, but I am very clear that in our section a man on the

street, a business man or a farmer, will be best served in a banking way by prescribing something like the trade area which I had mentioned, to be managed, supervised, controlled, and owned by people who live in that district and who make the wealth which goes into the banks. I confess that I do not know just how you are going to do that, however.

Mr. BEEDY. It is a difficult problem.

Mr. DECKER. Very.

Mr. BEEDY. Of course, it is fully as essential that we see to it that healthy competition in the banking business obtains.

Mr. DECKER. Absolutely. I think that is fundamental, but it is difficult.

Mr. BEEDY. You twice have used the phrase here that you want to let nature take its course, and I am not sure that you want to let that stand. Of course, the set-up of credit and the manipulation of credit come about by purely artificial methods; nature does not have anything to do with it, in the broad sense?

Mr. DECKER. What I meant by that was that the bankers are working out a solution of our present difficulties, and doing it cautiously, because the investor in bank stock is watching them closely, so that they do not go so far that they will become top-heavy.

Mr. BEEDY. But in dealing with banking we must make a very fundamental distinction between it and agriculture, over which the forces of nature have such a tremendous control.

Mr. DECKER. Very true.

Mr. BEEDY. While the banking business is a man-made business controlled by arbitrary rules which men imposed and which law-making bodies set up.

Mr. DECKER. Right.

Mr. BEEDY. That is the distinction that we are agreed upon. I understand, then, in a few words, that your testimony might be summed up as follows, that group banking within reasonable trade areas is the natural evolutionary development of the banking business to satisfy the needs of commerce and industry in general,

Mr. DECKER. Right.

Mr. BEEDY. And that, as a matter of fact, branch banking as such is the more economical system in administration, and that so far as you are concerned you are perfectly willing that this committee should pass some law authorizing branch banking within trade areas, that you do not want the committee to take any arbitrary steps to hurt you and the group which you have set up, that you are willing to take your chances in competition as a group banker with legally authorized branch banks?

Mr. DECKER. Yes, sir; provided it is confined to these trade areas.

Mr. BEEDY. Exactly. You are not advocating nation-wide branch banking?

Mr. DECKER. No, sir.

Mr. BEEDY. I think that is all.

Mr. DECKER. Having in mind all the time that my testimony refers more particularly to the conditions in the district in which we operate, rather than attempting a solution for the problem in any other sections with which I am not familiar.

Mr. BEEDY. Yes, indeed.

Mr. STRONG. Mr. Fort is next.

(Mr. Fort was not then present.)

Mr. STRONG. Mr. Goodwin.

Mr. GOODWIN. I just have a question or two, Mr. Decker, to ask you.

Speaking on the subject of the public mind in reference to branch banking, several States—yours and mine included—have passed laws prohibiting branch banking. Does that not give us a very fair picture of the public sentiment at least in those States that have passed laws prohibiting branch banking?

Mr. DECKER. I think the sentiment, Mr. Goodwin, is changing very rapidly. Two or three years ago that sentiment was general, but to-day, to say the least, they are in doubt, but if you refer to branch banking alone, I would say that the sentiment, outside of the centers, the cities, was still, so far as I have been able to learn, almost unanimously against branch banking, but the sentiment in those same rural districts regarding group banking is very different indeed.

Mr. GOODWIN. In your experience in the building up of the Northwest Bancorporation, have you found the people in the localities where you are now operating friendly to the suggestion of group banking?

Mr. DECKER. Very; exceedingly so, so much so that a great number of them want to buy stock in both Mr. Wakefield's group and our own. They feel it is sort of their own baby there in the northwest, but the baby is growing up, and they are proud of it.

Mr. GOODWIN. Is there any industry with proper security or collateral, or any individual, that can not now, within reasonable limits, be financed in the Twin Cities or in the area in which you operate?

Mr. DECKER. If you refer to long-time financing, I would not want to say that we would be able to finance all enterprises originating in our district. Take water power in the Rocky Mountains, natural gas developments, large industries—I would not want to say that we could unassisted finance, for a long time, all of the industries originating in our district, but if you refer to commercial banking——

Mr. GOODWIN. I mean the ordinary business interests that are local to the community within which your group operates.

Mr. DECKER. No trouble whatever for him to get all the money he is entitled to. In fact, my experience of 40 years in banking leads me to believe that there have been nine failures due to too much credit to one failure due to too tight credit, and a great majority of the people in the United States would go broke if you loaned them enough money.

Mr. GOODWIN. You just made the statement that the third issue of stock, the issue that was underwritten, is partially held by the underwriters now.

Mr. DECKER. Yes.

Mr. GOODWIN. Can you tell the committee approximately how much of that stock is so held?

Mr. DECKER. Oh, I should say possibly 100,000 shares out of 1,600,000.

Mr. GOODWIN. There will be no danger, then, that the owners of that stock would in any way control the operations of the company or dictate its management or in any way interfere with its operations?

Mr. DECKER. My judgment is there is no way in the world that any individual or set of individuals or holding company or corporation could obtain control of the Northwest Bancorporation without

coming to headquarters and selling the idea to its directors and leading shareholders, which would mean that the whole district was willing to sell out. That is why I am so sure that they would never be willing to do it, which leads me to believe that we are now in a safer position in that respect that ever before.

Mr. GOODWIN. I think that is all.

Mr. STRONG. Mr. Letts.

Mr. LETTS. Mr. Decker, did you place in the record the names of the various banks in your group?

Mr. DECKER. Yes.

Mr. LETTS. That has been done.

Mr. DECKER. That will be done.

Mr. LETTS. And that contains a statement of the capital and surplus of each bank?

Mr. DECKER. Yes.

Mr. LETTS. You are a Delaware corporation, I understand?

Mr. DECKER. Yes, sir.

Mr. LETTS. What is the authorized capital?

Mr. DECKER. $300,000,000.

Mr. LETTS. Has any part of that capital been issued out of the treasury of the company for anything other than cash or the stocks of banks that you have taken into your group?

Mr. DECKER. Yes. In addition to the issuance of our stock for cash in its sale, or in exchange for bank stocks, there has been some stock issued for a cattle-loan company in western Montana, of which I spoke this morning, and two or three security companies which are capitalized independently in Minneapolis and, I think, Des Moines, Omaha, and Duluth.

Mr. LETTS. Has any part of this stock been issued for organization or promotion purposes?

Mr. DECKER. Not a dollar.

Mr. LETTS. What are the powers authorized by your corporate charter?

Mr. DECKER. They are very general.

Mr. LETTS. Are you authorized to issue insurance?

Mr. DECKER. I doubt it. I would have to examine the articles to be sure.

Mr. LETTS. Have you those articles of incorporation here?

Mr. DECKER. Yes.

Mr. LETTS. I think it would be a good thing to have them in the record.

(The articles of incorporation referred to are reproduced below.)

ARTICLES OF INCORPORATION AND BY-LAWS OF NORTHWEST BANCORPORATION, MINNEAPOLIS, MINN.

STATE OF MINNESOTA,
County of Hennepin, ss:

I, Grant W. Anderson, do hereby certify:

That I am the duly elected, qualified, and acting assistant secretary of Northwest Bancorporation, a corporation.

That the following is a true, complete, and correct copy of the Articles of Incorporation and By-laws of said corporation together with all amendments thereto; that the same was spread on the minute books of said corporation and now forms a part of the minutes and records of this corporation.

In witness whereof I have hereunto set my hand and the seal of this corporation this 11th day of April, 1930.

[SEAL.] GRANT W. ANDERSON.

First. The name of this corporation is Northwest Bancorporation.

Second. Its principal office in the State of Delaware is located at No. 7 West Tenth Street, in the city of Wilmington, county of New Castle. The name and address of its resident agent is the Corporation Trust Co. of America, No. 7 West Tenth Street, Wilmington, Del.

Third. The nature of the business, or objects or purposes to be transacted, promoted, or carried on, are:

To acquire by purchase, subscription, or otherwise, and to own and hold, for investment purposes, the capital stock, scrip or any voting trust certificates in respect of the shares of capital stock issued or created by any moneyed, financial, or investment corporation or association created and organized, or to be created and organized, under the laws of the United States of America or of any State or Territory thereof; and to issue in exchange therefor shares of the capital stock of this corporation; and while the holder or owner of any such shares of capital stock, scrip or voting trust certificates, to possess and exercise in respect thereof any and all rights, powers, and privileges of ownership, including the right to vote thereon;

To loan money to any aforesaid corporation or association, any of whose shares of capital stock, scrip, or voting trust certificates aforesaid shall be owned at the time of such loan by this corporation, and to do any and all lawful things designed to protect, preserve, improve, or enhance the value of any such shares, scrip, or voting trust certificates;

In addition to and not in limitation of any of the aforesaid powers, to invest temporarily any of its capital or surplus funds in bonds, mortgages, or evidences of indebtedness, and any other securities issued or created by any individual, copartnership or other corporation, joint-stock company or association, public or private, or of the Government of the United States of America, or of any foreign government, or of any State, Territory, municipality, or other political subdivision, or of any governmental agency;

To acquire, hold, sell, reissue, or cancel any shares of its own capital stock: *Provided, however,* That this corporation may not use any of its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of the capital of this corporation: *And provided further,* That the shares of its own capital stock belonging to this corporation shall not be voted, directly or indirectly;

To organize, incorporate, and reorganize subsidiary corporations for all lawful purposes;

To conduct all or any part of its operations and business without restriction or limit as to amount in the State of Delaware or in any or all other States, Territories, districts, colonies, and dependencies of the United States of America;

To have and to exercise any and all powers and privileges now or hereafter conferred by the laws of the State of Delaware upon corporations formed under the acts hereinafter referred to, or under any act amendatory thereof or supplemental thereto or substituted therefor;

The foregoing clauses shall be construed both as objects and powers; and it is hereby expressly provided that the foregoing enumeration of specific powers shall not be held to limit or restrict in any manner the powers of this corporation.

Fourth. The total authorized capital stock of this corporation is $75,000,000, divided into 1,500,000 shares, of the par value of $50 each.

If it seems desirable so to do, the board of directors may from time to time issue scrip for fractional shares of stock; such scrip shall not confer upon the holder any voting or other rights of a stockholder of the corporation but the corporation shall, from time to time, within such time as the board of directors may determine, issue one whole share of stock upon the surrender of scrip for fractional shares aggregating one whole share, properly indorsed, if in registered form. Amended October 10, 1929. (See in back.)

The holders of common stock of this corporation shall have their respective preemptive rights to subscribe for other shares of common stock, except as by law limited and except that, free of such preemptive right, the board of directors may (1) from time to time exchange unissued stock of the corporation or any stock of the corporation to be issued by reason of any increase of the authorized capital stock of the corporation for stock of financial, moneyed, or investment corporations and associations, and (2), prior to January 1, 1930, at such time or times and in such amount or amounts as said board of directors deems advisable, sell common capital stock not exceeding in the aggregate $5,000,000 par value.

Fifth. The amount of capital with which this corporation will commence business is $1,000, being 20 shares of the par value of $50 each.

Sixth. The names and places of residence of the subscribers to the capital stock and the number of shares subscribed for by each are as follows:

	Number of shares
A. V. Lane, Wilmington, Del	18
C. S. Peabbles, Wilmington, Del	1
L. E. Gray, Wilmington, Del	1

Seventh. This corporation is to have perpetual existence.

Eighth. The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

Ninth. The number of directors of the corporation shall be as specified in the by-laws, and such number may from time to time be increased or decreased in such manner as may be prescribed in the by-laws, provided the number of directors of the corporation shall not be less than three. In case of any increase in the number of directors, the additional directors may be elected by the board of directors to hold office until the next annual meeting of the stockholders and until their successors are elected and qualified. In case of a vacancy in the board of directors, a majority of the remaining members of the board may elect directors to fill such vacancy.

Directors shall be stockholders.

Tenth. In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the board of directors is expressly authorized:

To make, alter, amend, or repeal the by-laws of the corporation, except as otherwise provided in said by-laws.

To determine from time to time whether and to what extent and at what times and places and under what conditions and regulations the accounts and books of the corporation, or any of them, shall be open to the inspection of the stockholders; and no stockholder shall have any right to inspect any account or book or document of the corporation except as conferred by the laws of the State of Delaware, unless and until authorized so to do by resolution of the board of directors, or of the stockholders.

To set apart out of any funds of the corporation available for dividends a reserve or reserves for working capital or for any other lawful purpose, and also to abolish any such reserve in the same manner in which it was created.

If the by-laws so provide, to designate two or more of its number to constitute an executive committee, which committee shall for the time being, as provided in said resolution or in the by-laws of this corporation, have and exercise any or all of the powers of the board of directors in the management of the business and affairs of this corporation and have power to authorize the seal of this corporation to be affixed to all papers which may require it.

This corporation may in its by-laws confer powers upon its directors in addition to the foregoing and in addition to the powers and authorities expressly conferred upon them by the statute.

Both stockholders and directors shall have power, if the by-laws so provide, to hold their meetings and to have one or more offices within or without the State of Delaware and to keep the books of this corporation (subject to the provisions of the statutes) outside of the State of Delaware at such places as may be from time to time designated by the board of directors.

Eleventh. In the absence of fraud, no contract or transaction between this corporation and any other association or corporation shall be affected by the fact that any of the directors or officers of this corporation are interested in or are directors or officers of such other association or corporation, and any director or officer of this corporation individually may be a party to or may be interested in any such contract or transaction of this corporation; and no such contract or transaction of this corporation with any person or persons, firm, association, or corporation shall be affected by the fact that any director or officer of this corporation is a party to or interested in such contract or transaction or in any way connected with such person or persons, firm, association, or corporation; provided that such contract or other transaction shall be authorized or ratified by the vote of a majority of the directors of this corporation not so interested; and each and every person who may become a director or officer of this corporation is hereby relieved from any liability that might otherwise exist from thus contracting with this corporation for the benefit of himself or any person, firm, association, or corporation in which he may be in anywise interested.

Twelfth. This corporation reserves the right to amend, alter, change, or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

We, the undersigned, being each of the original subscribers to the capital stock hereinbefore named, for the purpose of forming a corporation to do business both within and without the State of Delaware, and in pursuance of the general corporation law of the State of Delaware, being chapter 65 of the Revised Code of Delaware, and the acts amendatory thereof and supplemental thereto, do make and file this certificate, hereby declaring and certifying that the facts herein stated are true, and do respectively agree to take the number of shares of stock hereinbefore set forth, and accordingly have hereunto set our hands and seals this 24th day of January, A. D. 1929.

In presence of:

ALBERT L. MILLER.

A. V. LANE.
C. S. PEABBLES.
L. E. GRAY.

STATE OF DELAWARE,
County of New Castle, ss:

Be it remembered, that on this 24th day of January, A. D. 1929, personally came before me, Albert L. Miller, a notary public for the State of Delaware, A. V. Lane, C. S. Peabbles, and L. E. Gray, parties to the foregoing certificate of incorporation, known to me personally to be such, and severally acknowledged the said certificate to be the act and deed of the signers respectively and that the facts therein stated are truly set forth.

Given under my hand and seal of office the day and year aforesaid.

ALBERT L. MILLER, *Notary Public.*

Recorded in the recorder's office at Wilmington in Certificate of Incorporation Record H, vol. 30, page 516, etc., the 24th day of January, A. D. 1929.

OFFICES

1. The principal office shall be in the city of Wilmington, county of New Castle, State of Delaware, and the name of the resident agent in charge thereof is the Corporation Trust Co. of America.

The corporation may also have an office in the city of Minneapolis, State of Minnesota, and also offices at such other places as the board of directors may from time to time appoint or the business of the corporation may require.

SEAL

2. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization, and the words "Corporate seal, Delaware." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

STOCKHOLDERS MEETINGS

3. All meetings of the stockholders shall be held at the office of the corporation in Minneapolis, Minn., or at such other office of the corporation as shall from time to time be designated by the board of directors.

4. An annual meeting of stockholders, after the year 1930, shall be held on the first Tuesday of January in each year, if not a legal holiday, and if a legal holiday, then on the next secular day following, at 11 o'clock a. m., when they shall elect by a plurality vote, by ballot, a board of directors, and transact such other business as may properly be brought before the meeting.

5. The holders of a majority of the stock issued and outstanding, and entitled to vote thereat, present in person, or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by law, by the certificate of incorporation or by these by-laws. If, however, such majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person, or by proxy, shall have power to

adjourn the meeting from time to time, with notice other than announcement at the meeting, until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

6. At each meeting of the stockholders, every stockholder having the right to vote shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder and bearing a date not more than three years prior to said meeting, unless said instrument provides for a longer period. Each stockholder shall have one vote for each share of stock having voting power, registered in his name on the books of the corporation, except that no share of stock shall be voted on at any election for directors which has been transferred on the books of the corporation within 20 days next preceding such election. The vote for directors, and, upon the demand of any stockholder, the vote upon any question before the meeting shall be by ballot. All elections shall be had and all questions decided by a plurality vote.

7. Written notice of the annual meeting shall be mailed to each stockho'der entitled to vote thereat, at such address as appears on the stock book of the corporation, at least 30 days prior to the meeting.

8. A complete list of the stockholders entitled to vote at the ensuing election, arranged in alphabetical order, with the residence of each, and the number of voting shares held by each, shall be prepared by the secretary and filed in the office where the election is to be held, at least 10 days before every election, and shall at all times during the usual hours for business, and during the whole time of said election, be open to the examination of any stockholder.

9. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the president, and shall be called by the president or secretary, at the request in writing of a majority of the board of directors, or at the request in writing of stockholders owning a majority in amount of the entire capital stock of the corporation issued and outstanding, and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

10. Business transacted at all special meetings shall be confined to the objects stated in the call.

11. Written notice of a special meeting of stockholders, stating the time and place and object thereof, shall be mailed, postage prepaid, at least 10 days before such meeting, to each stockholder entitled to vote thereat at such address as appears on the books of the corporation.

DIRECTORS

12. The property and business of this corporation shall be managed by its board of directors, not less than 3 nor more than 45 in number. The number to constitute the first board shall be three. Directors must be stockholders. They shall be elected at the annual meeting of the stockholders, and each director shall be elected to serve until his successor shall be elected and shall qualify. The number to constitute the board of directors shall be determined by resolution from time to time increasing or decreasing such number, provided that the number of said directors shall not at any time be reduced to less than 3 nor increased to more than a total of 45. In case of any increase in the number of directors, the additional directors may be elected by the board of directors to hold office until the next annual meeting of the stockholders and until their successors are elected and qualified. In case of any vacancy or vacancies in the board of directors, a majority of the remaining members of the board may elect a director or directors to complete the board.

(As amended February 19, 1929)

13. The directors may hold their meetings and have one or more offices, and keep the books of the corporation, except the original or duplicate stock ledger, outside of Delaware, at the office of the corporation in the city of Minneapolis, Minn., or at such other places as they may from time to time determine.

14. In addition to the powers and authorities by these by-laws expressly conferred upon them, the board may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

COMMITTEES

15. The board of directors may, by resolution or resolutions passed by a majority of the whole board, designate one or more committees, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in said resolution or resolutions or in these by-laws, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in these by-laws or as may be determined from time to time by resolution adopted by the board of directors.

16. The committees shall keep regular minutes of their proceedings and report the same to the board when required.

COMPENSATION OF DIRECTORS

17. Directors, as such, shall not receive any stated salary for their services; but by resolution of the board a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the board, provided that nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

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

MEETINGS OF THE BOARD

19. The newly elected board may meet at such place and time as shall be fixed by the vote of the stockholders at the annual meeting for the purpose of organization or otherwise, and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a majority of the whole board shall be present; or they may meet at such place and time as shall be fixed by the consent in writing of all the directors.

20. Regular meetings of the board may be held without notice at such time and place as shall from time to time be determined by the board.

21. Special meetings of the board may be called by the president on two days' notice to each director, either personally or by mail or by telegram; special meetings shall be called by the president or secretary in like manner and on like notice on the written request of two directors.

22. At all meetings of the board one-third of the total board of directors, but not less than two directors, if the board shall at such time have a total membership of less than six, shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation or by these by-laws.

OFFICERS

23. The officers of the corporation shall be chosen by the directors and shall be a president, such vice presidents as the board of directors may from time to time determine, and a secretary and a treasurer. The board of directors may also choose assistant secretaries and assistant treasurers. The secretary and treasurer may be the same person and any vice president may hold at the same time the office of secretary or treasurer.

24. The board of directors, at its first meeting after each annual meeting of stockholders, shall choose a president and such vice presidents as it may determine from its own members, and a secretary and a treasurer, who need not be members of the board.

25. The board may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

26. The salaries of all officers and agents of the corporation shall be fixed by the board of directors.

27. The officers of the corporation shall hold office until their successors are chosen and qualify in their stead. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the whole board of directors. If the office of any officer or officers becomes vacant for any reason, the vacancy shall be filled by the affirmative vote of a majority of the whole board of directors.

THE PRESIDENT

28. (*a*) The president shall be the chief executive officer of the corporation; he shall preside at all meetings of the stockholders and directors; he shall have general and active management of the business of the corporation, and shall see that all orders and resolutions of the board are carried into effect.

(*b*) He shall execute contracts requiring a seal under the seal of the corporation.

(*c*) He shall be ex officio a member of all standing committees, and shall have the general powers and duties of supervision and management usually vested in the office of president of a corporation.

VICE PRESIDENTS

29. Any vice president shall, in the absence or disability of the president, perform the duties and exercise the powers of the president, and shall perform such other duties as the board of directors shall prescribe.

THE SECRETARY AND ASSISTANT SECRETARIES

30. (*a*) The secretary shall attend all sessions of the board and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors, and shall perform such other duties as may be prescribed by the board of directors or president, under whose supervision he shall be. He shall keep in safe custody the seal of the corporation, and when authorized by the board, affix the same to any instrument requiring it, and when so affixed it shall be attested by his signature or by the signature of the treasurer. He shall be sworn to the faithful discharge of his duty.

(*b*) The assistant secretaries in the order of their seniority shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board of directors shall prescribe.

THE TREASURER AND ASSISTANT TREASURERS

31. (*a*) The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys, and other valuable effects, in the name and to the credit of the corporation in such depositories as may be designated by the board of directors.

(*b*) He shall disburse the funds of the corporation as may be ordered by the board, taking proper vouchers for such disbursements, and shall render to the president and directors, at the regular meetings of the board, or whenever they may require it, an account of all his transactions as treasurer and of the financial condition of the corporation.

(*c*) He shall give the corporation a bond if required by the board of directors, in a sum and with one or more sureties satisfactory to the board, for the faithful performance of the duties of his office, and for the restoration to the corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in his possession or under his control belonging to the corporation.

(*d*) The assistant treasurers in the order of their seniority shall, in the absence or disability of the treasurer, perform the duties and exercise the powers of the treasurer, and shall perform such other duties as the board of directors shall prescribe.

VACANCIES

32. If the office of any director or directors becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, or otherwise, the remaining directors, though less than a quorum, shall choose a successor or successors, who shall hold office until the next annual election and until a successor or successors have been duly elected, unless sooner displaced.

DUTIES OF OFFICERS MAY BE DELEGATED

33. In case of the absence of any officer of the corporation, or for any other reason that the board may deem sufficient, the board may delegate, for the time being, the powers or duties, or any of them, of such officer, to any other officer, or to any director, provided a majority of the entire board concur therein.

CERTIFICATES OF STOCK

34. The certificates of stock of the corporation shall be numbered and shall be entered in the books of the corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed by the president or a vice president and the treasurer or an assistant treasurer, or the secretary or an assistant secretary.

CONTRACTS

35. SECTION 1. Except as may be otherwise expressly provided in these by-laws, no written instrument usually under seal, made by any person or persons in behalf of the company, or in its name, shall be binding upon it, unless the same, in each instance, shall have been made under authority of said board of directors or shall have been duly ratified by said board or shall have been made pursuant to power by it especially delegated.

SEC. 2. Except as may be otherwise expressly provided in these by-laws, all contracts or other written instruments made in the company's name shall be signed by the president and attested by the secretary, or shall be executed by such other persons and in such other manner as shall from time to time be directed by the board of directors by appropriate resolutions.

TRANSFERS OF STOCK

36. Transfers of stock shall be made on the books of the corporation only by the person named in the certificate or by attorney lawfully constituted in writing, and upon surrender of the certificate therefor.

CLOSING OF TRANSFER BOOKS

37. The board of directors shall have power to close the stock transfer books of the corporation for a period not exceeding 40 days preceding the date of any meeting of stockholders or the date for payment of any dividend or the date for the allotment of right or the date when any change or conversion or exchange of capital stock shall go into effect: *Provided, however*, That in lieu of closing the stock transfer books as aforesaid, the board of directors may fix in advance a date not exceeding 40 days preceding the date of any meeting of stockholders or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights or to exercise the rights in respect of any such change, conversion or exchange of capital stock, and in such case only such stockholders as shall be stockholders, of record on the date so fixed shall be entitled to such notice of, and to vote at such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.

REGISTERED STOCKHOLDERS

38. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of Delaware.

LOST CERTIFICATE

39. Any person claiming a certificate of stock to be lost or destroyed, shall make an affidavit or affirmation of that fact and advertise the same in such manner as the board of directors may require, and the board of directors may, in their discretion, require the owner of the lost or destroyed certificate, or his legal representative, to give the corporation a bond, in such sum as they may direct, not exceeding double the value of the stock, to indemnify the corporation against any claim that may be made against it on account of the alleged loss of any such certificate; a new certificate of the same tenor and for the same number of shares as the one alleged to be lost or destroyed, may be issued without requiring any bond when, in the judgment of the directors, it is proper so to do.

STOCK HELD IN OTHER CORPORATIONS

40. All capital stocks in other corporations owned by this corporation, except as hereinafter provided, shall be voted at the meetings, regular and/or special, of the stockholders of said other corporations by the president of this corporation, or, in his absence, by any vice president, and in the event, during such absence, of the presence of more than one vice president of this corporation, then by a majority of said vice presidents present at such stockholders' meeting, unless there shall have been executed and delivered, pursuant to a resolution of the board of directors of this corporation, to some other attorney specifically named in a proxy a power of attorney to represent this corporation at such stockholders' meeting for the purposes in said power of attorney specified, and in the event that no such proxy shall have been authorized by the board of directors with reference to any stock owned by this corporation, and as often as such may be the case, the president and secretary of this corporation are hereby authorized to execute in the name and under the seal of this corporation proxies in such form as may be required by the corporation whose stock is to be voted thereunder, naming as the attorney authorized to act by said proxy such individual or individuals as to said president and secretary shall seem advisable, and the attorney or attorneys so named in said proxy shall, until the revocation or expiration thereof, vote said stock at such stockholders meetings only in the event that neither the president nor any vice president of this corporation shall be present thereat.

41. In the event that this corporation shall own in excess of 50 per cent of the capital stock of any financial or money corporation or association and if, in the acquisition of such stock this corporation shall have agreed that as to the voting of such stock for the election of directors this by-law or an agreement substantially in accord therewith shall be binding on the corporation, then and in each such event the stock so acquired shall, at all meetings for the election of a board of directors of any such association or corporation, be voted in favor of the election to such board of a sufficient number of residents of the city where the principal office of such corporation or association is located so that, if the candidates so voted for shall be elected, at least 75 per cent of the members of said board of directors shall be residents of said city. This section 41 of these by-laws shall be amended only upon the affirmative vote of 80 per cent in amount of the common stock of this corporation outstanding at the time of such amendment or by the board of directors after receipt of the written consent of the holders of at least 80 per cent of the common stock of this corporation.

INSPECTION OF BOOKS

42. The directors shall determine from time to time whether, and, if allowed, when and under what conditions and regulations the accounts and books of the corporation (except such as may by statute be specifically open to inspection) or any of them shall be open to the inspection of the stock-

holders, and the stockholders' rights in this respect are and shall be restricted and limited accordingly.

CHECKS

43. All checks or demands for money and notes of the corporation shall be signed by such officer or officers as the board of directors may from time to time designate.

FISCAL YEAR

44. The fiscal year shall begin the 1st day of January in each year.

DIVIDENDS

45. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of the capital stock.

Before payment of any dividends there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interests of the corporation.

DIRECTORS' ANNUAL STATEMENT

46. The board of directors shall pesent at each annual meeting, and when called for by vote of the stockholders at any special meeting of the stockholders, a full and clear statement of the business and condition of the corporation.

NOTICES

47. Whenever under the provisions of these by-laws notice is required to be given to any director, officer or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, by depositing the same in the post office or letter box, in a post-paid sealed wrapper, addressed to such stockholder, officer or director at such address as appears on the books of the corporation, or, in default of other address, to such director, officer, or stockholder at the general post office in the city of Wilmington, Del., and such notice shall be deemed to be given at the time when the same shall be thus mailed.

Any stockholder, director, or officer may waive any notice required to be given under these by-laws.

AMENDMENTS

48. These by-laws, except as hereinabove otherwise provided, may be altered or amended by the affirmative vote of a majority of the stock issued and outstanding and entitled to vote thereat, at any regular or special meeting of the stockholders if notice of the proposed alteration or amendment be contained in the notice of the meeting, or, except as hereinbefore and in the certificate of incorporation of this corporation otherwise provided, by the affirmative vote of a majority of the board of directors: *Provided, however*, That no change of the time or place for the election of directors shall be made within 60 days next before the day on which such election is to be held, and that in case of any change of such time or place notice thereof shall be given to each stockholder in person or by letter mailed to his last known post-office address, at least 20 days before the election is held.

Article 4 of the articles of association of Northwest Bancorporation as amended October 10, 1929:

"4. The total authorized capital stock of this corporation is $300,000,000. divided into 6,000,000 shares of the par value of $50 each.

"If it seems desirable so to do, the board of directors may from time to time issue scrip for fractional shares of stock, such scrip shall not confer upon the holder any voting or other rights of a stockholder of the corporation but the corporation shall from time to time, within such time as the board of directors may determine, issue one whole share of stock upon the surrender of scrip

for fractional shares aggregating one whole share, properly indorsed if in registered form.

"The holders of common stock of this corporation shall have their respective preemptive rights to subscribe for other shares of common stock, except as by law limited and except that, free of such preemptive right, the board of directors may (1) from time to time exchange unissued stock of the corporation or any stock of the corporation to be issued by reason of any increase of the authorized capital stock of the corporation for stock of financial, moneyed, or investment corporations and associations, and (2) prior to January 1, 1930, at such time or times and in such amount or amounts as said board of directors deems advisable, sell common capital stock not exceeding in the aggregate $5,000,000 par value, and (3) where individual persons for the purpose of enabling them to qualify as directors of any bank, in which this corporation shall have acquired shares of stock in such bank, as and when the stockholders in this corporation may become entitled to subscribe for additional shares of stock in this corporation, at the same time there may be sold, by the issuance of subscription rights or otherwise, to each of said persons so owning and holding shares of stock in any such bank such number of shares of stock of this corporation and at such prices as the board of directors of this corporation shall determine to be adequate to compensate such person or persons for any loss of subscription rights by such person or persons by reason of the fact that he has retained or acquired shares of stock in such bank."

Section 12 of the by-laws of Northwest Bancorporation as amended January 7, 1930:

"SEC. 12. The property and business of this corporation shall be managed by its board of directors, not less than three in number. Directors shall be elected at the annual meeting of the stockholders, except as hereinafter provided, and each director shall be elected to serve until his successor shall be elected and shall qualify. The number to constitute the board of directors shall be determined from time to time by resolution of the stockholders or of the board itself, increasing or decreasing such number, provided that the number of said directors shall not at any time be reduced to less than three. In case of any increase in the number of directors, occurring between the dates of the annual meetings of the stockholders, the additional directors may be elected by a majority vote of a quorum of the board of directors to hold office until the next annual meeting of the stockholders and until their successors are elected and qualify. In case of any vacancy or vacancies in the board of directors, a director or directors may be elected to complete the board by a majority vote of a quorum of the board of directors, or in the event that the remaining directors are less than a quorum, then by a majority of the remaining directors."

Mr. LETTS. Have you engaged in any business up to this time other than the banking business and the handling of securities?

Mr. DECKER. No; and its allied industries, like this cattle loan company.

Mr. LETTS. This morning you said something about a large amount of money getting away from your district, and as illustrating that you said something about insurance. Is it a part of your plan that you will finance an insurance company, for instance?

Mr. DECKER. No, sir.

Mr. LETTS. Life, accident, fire, or otherwise?

Mr. DECKER. No, sir. We buy our insurance, and we have no idea of writing it ourselves or financing other insurance companies. My impression is that our articles do not permit us to go into the insurance business.

Mr. LETTS. That was the purpose of my first question.

Mr. DECKER. I am quite positive about that.

Mr. LETTS. The reason I asked that question is that in considering another group we found that they claimed to be able to divert a large amount of insurance to their own company through their banking policies and facilities.

Mr. DECKER. We buy our insurance on the open market.

Mr. LETTS. Is it your intention to handle real-estate mortgages?
Mr. DECKER. The holding company?
Mr. LETTS. Yes.
Mr. DECKER. No, sir.
Mr. LETTS. Is it your intention to operate real-estate agencies for the sale of lands?
Mr. DECKER. No, sir.
Mr. LETTS. Then I take it it is your purpose to stick to the banking business, other than the handling of securities?
Mr. DECKER. Yes, sir.
Mr. LETTS. And the handling of securities is done by security companies organized for that purpose?
Mr. DECKER. Right.
Mr. LETTS. This morning you made some mention of the matter of taxation, and I assumed you were about to tell us how under your plan the banks here and there bore their proper proportion of the tax burden of the various States, but you did not develop that. Can you tell us a little further just what you were then about to say?
Mr. DECKER. Yes. We have in our bank corporation a certain number of banks in North Dakota, we will say, both State and national. Those banks pay a personal-property tax on every share of stock in existence into the treasury of the State of North Dakota. If those banks were dissolved and we established branches in their place, the State of North Dakota would receive no tax; the tax would be paid entirely in the State of Minnesota where all the stock was in the parent bank.
Mr. LETTS. In other words, you say that under your plan the present method of taxing in the various States will continue to prevail, whereas it would not under the branch system?
Mr. DECKER. That is right.
Mr. LETTS. What is the par value of your stock?
Mr. DECKER. $50 a share.
Mr. LETTS. Has any of that stock been issued from the treasury for less than that?
Mr. DECKER. No, sir.
Mr. LETTS. I think that is all.
Mr. BEEDY. There was one misconception or misunderstanding in figures that I want to clear up.
When Judge Letts just now asked you what your capitalization was, you said "$300,000,000."
Mr. DECKER. Authorized.
Mr. BEEDY. What was the figure of $750,000,000 that you gave me?
Mr. DECKER. $75,000,000?
Mr. BEEDY. I guess that is it.
Mr. DECKER. $75,000,000 was the first authorization. That was later increased.
Mr. STRONG. Mr. Seiberling.
Mr. SEIBERLING. This organization, the holding company was promoted by a large bank, I take it, with which you were originally connected in Minneapolis?
Mr. DECKER. They were the prime movers; yes, sir.
Mr. SEIBERLING. What was the name of that bank?
Mr. DECKER. Northwestern National Bank.

Mr. SEIBERLING. And that was the first unit taken over, I take it, the stock in that bank?

Mr. DECKER. No; there were three or four banks taken over simultaneously.

Mr. SEIBERLING. And who fixed the value of the stock of the banks you took over in the first instance or first transaction?

Mr. DECKER. By mutual agreement between the four banks who joined simultaneously.

Mr. SEIBERLING. These banks were also interested in the holding company?

Mr. DECKER. They became interested.

Mr. SEIBERLING. They promoted the holding company?

Mr. DECKER. Yes; just as much as we did.

Mr. SEIBERLING. So that in the first instance when you took over these banks, you had the same parties in interest on both sides of the transaction?

Mr. DECKER. Mutual agreement.

Mr. SEIBERLING. And how did you arrive at the value of the stocks in the banks you first took over?

Mr. DECKER. Well, largely in three ways. First, book or liquidated value—in other words, invested capital; average earnings over a period of years; and prospects for future earnings.

Mr. SEIBERLING. And how did you fix the value of the holding company stock which you issued? Was that fixed at $50.

Mr. DECKER. That was fixed at $50.

Mr. SEIBERLING. And you arrived at the value of the banks you first took over and issued stock in accordance with that valuation?

Mr. DECKER. That is right.

Mr. SEIBERLING. Then you went out and acquired other banks?

Mr. DECKER. Yes.

Mr. SEIBERLING. How did you determine the value of those banks when you took them over?

Mr. DECKER. Well, we attempted to be perfectly fair with both parties to the transaction.

Mr. SEIBERLING. I do not question that.

Mr. DECKER. Along the same lines; the book value, earnings, and prospects, and volume of deposits, of course, which entered into the question of earnings.

Mr. SEIBERLING. Then you figured the book value of your holding company stock when you issued it to them?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. So that the cheaper you could buy these other bank stocks, the higher, of course, your book value of your holding company would go?

Mr. DECKER. Yes; if we acquired them for cash.

Mr. SEIBERLING. Have you written up any of these stocks on your holding company's books?

Mr. DECKER. No, sir; we wrote some of them down.

Mr. SEIBERLING. I see that under your charter you have the right to organize, incorporate, and reorganize subsidiary corporations for all lawful purposes, so that you could authorize an insurance company, an abstract company or, in fact, any kind of a company or subsidiary you would find to your advantage.

Mr. DECKER. I did not know it; it has never been suggested or discussed.

Mr. SEIBERLING. Why did you not take over these small banks that you put into the subsidiary of your holding company?

Mr. DECKER. Why didn't we take them direct?

Mr. SEIBERLING. Yes.

Mr. DECKER. Because we were satisfied they could be better looked after by the Union Investment Co., because those small banks owned by the Union Investment Co. are not organized locally with directors and managers in quite the same manner as the other banks are, and we thought the Union Investment Co., which had built up an organization for 25 or 30 years that they have been in existence, had built up an organization better fitted to handle those small banks.

Mr. SEIBERLING. Are you sure that that is the only reason for adopting that plan?

Mr. DECKER. You mean, of taking those in through the Union Investment Co.?

Mr. SEIBERLING. Yes. Your overhead would have been much less if you had taken them into your holding company, would it not?

Mr. DECKER. No; because we would have to increase the overhead expense of the holding company in order to take care of these little banks.

Mr. SEIBERLING. When you approach a bank, who determines whether it shall go into your subsidiary or holding company?

Mr. DECKER. We have never taken any in in any other way. We did not buy these small banks; we traded our stock for the stock in the Union Investment Co.

Mr. SEIBERLING. And some other person organized that company?

Mr. DECKER. Oh, yes.

Mr. SEIBERLING. And you had nothing to do with it in the beginning?

Mr. DECKER. Not at all. It had been in existence 25 years.

Mr. SEIBERLING. You just bought that; I did not understand that. I was somewhat interested in what you said about——

Mr. DECKER. If you will pardon me, I might add that we have not taken in any more independent banks and put them into that corporation, if that answers your question.

Mr. SIBERLING. You have not taken in any additional banks?

Mr. DECKER. No.

Mr. SEIBERLING. If I understand your testimony correctly, you think that chain banking is preferable to branch banking because of the local——

Mr. DECKER. Group banking; don't call it chain banking. [Laughter.]

Mr. SEIBERLING (continuing). Because of the local interest which you maintain in connection with the unit bank?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. And you think the customer likes that plan of banking better than branch banking?

Mr. DECKER. Yes, sir.

Mr. SIBERLING. And what is your reason for that?

Mr. DECKER. Well, I thought I had covered that.

The customer likes it better because, he thinks, he will get a better hearing, a more sympathetic hearing, in the local bank with its

local board of directors and local manager and local pride than he would from the manager of a branch.

Mr. SEIBERLING. But the manager would be in the main branch, in the large city.

Mr. DECKER. There would be a local manager in that city.

Mr. SEIBERLING. Yes, but the real manager would be in the large center.

Mr. DECKER. Yes, the situation would be much less favorable than it would be under group banking.

Mr. SEIBERLING. Do you think the customer might also be afraid that he might not get the same terms in connection with the rate of interest for his loans?

Mr. DECKER. Yes, I think he would, because the man who determines the rate of interest in a group bank is the local man, who lives there. He has his home there, and his directors all live there, and they all pay taxes there. Probably everything that they own in the world is there.

Mr. SEIBERLING. But you did not give that reason a while ago and I wanted to bring that out, that where you deal with your home people, you have the human interest.

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. And you get consideration that you do not get when you are dealing with somebody a long distance away.

So you think you overcome that by your plan here?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. And it does not make much difference if they do shift the money in your district, because the stockholders of your holding company are scattered all over your district and they are interested in maintaining every unit bank they own?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. And so you do have that local interest?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. Just the same as though they owned the bank.

Mr. DECKER. Even larger than it was before.

Mr. SEIBERLING. More stockholders?

Mr. DECKER. Yes, in number and the amount.

Mr. SEIBERLING. How do you figure you are going to increase your rate of dividend in the holding company?

Mr. DECKER. You mean over what we are paying now?

Mr. SEIBERLING. You said you were going to increase it greatly.

Mr. DECKER. I said we were not likely to increase it.

Mr. SEIBERLING. No; you said you were going to double your earnings.

Mr. DECKER. No; I said the earnings were now double the amount of the dividends which we are paying.

Mr. SEIBERLING. But you are going to greatly increase those earnings?

Mr. DECKER. Well, we hope to.

Mr. SEIBERLING. How are you going to do that?

Mr. DECKER. In the first place, by economy. We will save $75,000 a year on surety bonds alone and get a better coverage, in some instances ten times over what it has been. We will save considerable money in buying adding machines and standard equipment which are not made locally. We always say to our local bank, "Patronize

home industries." Then we say to them, "If you are buying machines not made at home, we do not ask you to buy them from us, but if you wish to join the rest of the crowd and save money, you are permitted to," and without exception they are delighted to have that opportunity.

Mr. SEIBERLING. Do all of your banks pay the same interest on deposits?

Mr. DECKER. No, sir.

Mr. SEIBERLING. Do you have banks that pay no interest on deposits?

Mr. DECKER. There are plenty of banks that pay no interest on an open checking account.

Mr. SEIBERLING. Or on savings accounts?

Mr. DECKER. We have no banks that pay no interest on savings accounts.

Mr. SEIBERLING. But you have banks that pay different rates?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. And you charge different rates for loans also?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. Why is it that you do not pay the same rate on savings deposits in one bank as you do in another?

Mr. DECKER. For a number of reasons.

Mr. SEIBERLING. Give us some.

Mr. DECKER. Conditions of the locality, competition of other banks in the locality, custom—we would hesitate to disturb a policy which a bank had been operating successfully under.

Mr. SEIBERLING. You would not hesitate to increase the rate of interest, would you? If a bank had been paying 3 per cent on deposits, you would not hesitate to increase it to 4 per cent, would you?

Mr. DECKER. Yes; certainly we would.

Mr. SEIBERLING. Why?

Mr. DECKER. Because it would be a question whether we could afford to do it.

Mr. SEIBERLING. But you do pay it in some sections?

Mr. DECKER. But these banks, please remember, are still unit banks, and the local management is responsible for the results, which include the earnings, and why should Fargo be willing to advance their rate to 4 per cent because La Crosse was paying 4, if their earnings did not warrant it?

Mr. SEIBERLING. What is the difference in the various banks? What is the lowest rate that you pay, and the highest?

Mr. DECKER. I think I would say that, in a general way, 3 per cent is about the lowest and 4 per cent is about the highest.

Mr. SEIBERLING. Where do you pay the 3 per cent?

Mr. DECKER. Minneapolis.

Mr. SEIBERLING. And where do you pay the 4 per cent?

Mr. DECKER. In the smaller towns.

Mr. BEEDY. You are talking about savings accounts?

Mr. SEIBERLING. Savings accounts; yes.

Mr. DECKER. Or certificates of deposit.

Mr. SEIBERLING. And does the same rate obtain in all country districts?

Mr. DECKER. No.

Mr. SEIBERLING. What is the difference in the country districts?

Mr. DECKER. Well, there may be a case in which for years they have been paying 4 per cent, and that is because they could not agree among themselves, even though they knew it was too high.

Then, here is another district where the banks have been cooperating and working together better, and they have reduced the rate, and for years the State departments of banking have urged that they reduce the interest that they are paying on deposits, for they had been getting to the point where the banks were not earning money on savings, and Mr. Wakefield says that there is now a law in the State of Minnesota prohibiting the payment of over 4 per cent on savings.

Mr. SEIBERLING. Is there a law fixing the amount you can charge for loans, too?

Mr. DECKER. No, sir; except usury. The usury law is 8 per cent.

Mr. SEIBERLING. Well, the chief interest that the citizen who does not own bank stock has is to get as much for his deposits as he can, and to borrow his money as cleaply as he can.

Mr. DECKER. Right.

Mr. SEIBERLING. And then, in addition to that, there is also the safety of the deposit. Those are really the three only interests that the public in general have, that part of the public who are not stock owners of banks. Is that not correct?

Mr. DECKER. Yes; perhaps so, but remember that we are in competition with the Government on savings; we are in competition with the bond man on the sale of securities; we have plenty of competition when we attempt to induce Jim Smith to put his money in the bank at 3 or 4 per cent.

Mr. SEIBERLING. But if you can eliminate that competition, you could lower the rate you pay on savings deposits, could you not?

Mr. DECKER. Not as long as the Government savings banks are there and the public can buy Government and other bonds; no. We have got to meet the open market; they do not have to deposit their money in the local bank. They have learned a lot better than that, that they can buy Government bonds, or buy stocks, and they have learned that they can put their money in the postal savings banks.

Mr. SEIBERLING. I have heard that stated here a good many times, but are there not millions of people in the United States that do not know anything about the things you are talking about? Is it not true that the only thing they know is the bank?

Mr. DECKER. Oh, I think they are wiser than you realize, Mr. Seiberling.

Mr. SEIBERLING. I do not think so.

Mr. DECKER. They have got radios and newspapers, and they know a lot more than they did a few years ago.

Mr. SEIBERLING. But when it comes to money, the only person they have dealt with is the banker.

Mr. DECKER. That has been the inclination in years past, but now they have learned so much that they are seeking other avenues of investment for their funds.

Mr. SEIBERLING. Now, you stated awhile ago that a great deal of the money was carried in stockings, and so forth. Why does not the postal savings draw that money out?

Mr. DECKER. It has. In the State of Montana, in 1919, the per capita investment in postal savings banks was $2.66. Ten years later it was $11.26; and Montana moved into first place of all the States in the Union in investments in postal savings.

That is the answer; that money has gone out of circulation so far as Montana is concerned, whereas it should be in deposits in Montana for the benefit of her own industries, and those industries are deprived of that because they did not believe that they had a sound banking system which made it safe for them to leave their money in the bank.

Wyoming moved into second place.

Take South Dakota; that is a flagrant case. In 1919 the per capita investment of the inhabitants of South Dakota was 7 cents in postal savings. Ten years later it is $6.25. So, what good do postal savings do to the State of South Dakota?

Mr. SEIBERLING. Is not the money deposited in the Federal reserve centers of the State?

Mr. DECKER. You have to buy Government bonds and put them up as collateral.

I have here a whole list of all the States in the Union and the increases in postal savings. It has been a tremendous competitor, and you could not blame the people.

Mr. WINGO. I think it would be well to have that statement go in the record at this point.

Mr. STRONG. Without objection, it is so ordered.

(There was no objection, and the statement referred to is printed below.)

Per capita postal savings

	1929		1919	
	Amount	Position	Amount	Position
Montana	$11.26	1	$2.66	7
Wyoming	7.67	2	1.90	14
South Dakota	6.25	3	.07	40
Florida	5.59	4	.76	25
Nevada	5.04	5	6.57	1
Idaho	4.78	6	1.03	22
Washington	4.31	7	3.81	3
Oregon	4.21	8	3.41	4
New Mexico	3.88	9	.29	31
Colorado	3.53	10	2.06	12
Iowa	3.39	11	.21	35a
North Dakota	3.36	12	.04	43
Minnesota	3.02	13	1.16	20a
Arizona	2.89	14	1.40	19
New York	2.43	15	5.62	2
Oklahoma	2.31	16	.14	37
Kansas	1.94	17	.43	27
Missouri	1.49	18	.85	23
Massachusetts	1.44	19	1.66	17
Alabama	1.27	20	.21	35b
Utah	1.16	21	2.92	6
Nebraska	.95	22	.36	30
Illinois	.89	23	1.70	16
Pennsylvania	.86	24	2.37	8
South Carolina	.81	25	.03	44
Texas	.77	26	.17	36
California	.68	27	1.13	21a
Connecticut	.67	28	3.17	5
District of Columbia	.66	29	1.16	20b
New Hampshire	.65	30	1.48	18
Georgia	.62	31	.06	41
Rhode Island	.59	32	2.29	9

Per capita postal savings—Continued

	1920		1919	
	Amount	Position	Amount	Position
New Jersey	.55	33	2.27	16
Wisconsin	.49	34	1.13	21b
West Virginia	.49	35	.41	28
Indiana	.47	36	.84	24
Michigan	.45	37	2.09	11
Ohio	.43	38	1.72	15
Delaware	.40	39	1.95	13
Arkansas	.34	40	.09	39
Tennessee	.24	41	.11	38
Louisiana	.18	42	.21	35c
North Carolina	.18	43	.01	45
Vermont	.15	44	.25	34
Maine	.14	45	.53	26
Kentucky	.09	46	.26	33
Virginia	.09	47	.39	29
Maryland	.07	48	.28	32
Mississippi	.06	49	.05	42

Mr. SEIBERLING. Do you mean to tell me that in controlling this large group of banks your unit managers do not constantly confer with you as to rates of interest to charge on loans and things of that kind?

Mr. DECKER. Never have we discussed it. It would be true on large loans; if you had a concern in Des Moines, where we have a bank, that was a large borrower, or in Duluth, where they have large grain and elevator accounts, we would and have conferred on rates for the last 25 or 30 years, but on the local loans of these banks we pay no attention to the rate they charge. What we are interested in are two things, the development of the country around that bank where we have a large financial interest and the showing on the part of the bank of reasonable profits above losses.

Mr. SEIBERLING. Do you think the same institution which acts as trustee should also engage in the business of underwriting securities?

Mr. DECKER. No, sir; absolutely not.

Mr. SEIBERLING. Should the holding company?

Mr. DECKER. No, sir; absolutely not.

Mr. SEIBERLING. How many subsidiaries have you in this holding company?

Mr. DECKER. One hundred and ten.

Mr. SEIBERLING. What are these investment companies?

Mr. DECKER. They are companies in four or five centers who handle securities, underwriting sales of securities, bonds, and, in some instances, stock.

Mr. SEIBERLING. And they own stocks, do they?

Mr. DECKER. Own them?

Mr. SEIBERLING. Yes.

Mr. DECKER. No, sir.

Mr. SEIBERLING. Have you any subsidiaries that own stocks?

Mr. DECKER. They might take up a stock they had underwritten until they had sold it, but they would be more cautious of the stocks. Of course, there is no halo around bonds. Many people would rather have stock in some company than bonds in others.

Mr. SEIBERLING. Then, you have, counting all of your subsidiaries, one hundred and some corporations?

Mr. DECKER. Right.

Mr. SEIBERLING. I think that is all.

Mr. LETTS. I intended to ask one question I overlooked.

Mr. STRONG. All right.

Mr. LETTS. I wanted to inquire whether or not you have been approached by any other large interest, such as the Transamerica Corporation or this new one, the Manhattan Corporation, or whatever its name is, to sell out?

Mr. DECKER. Not directly. We have been approached, not knowing whom the parties represented, and we told them that we were not interested.

Mr. LETTS. I asked that because I have an idea that there will be a tendency to spread across the country.

Mr. DECKER. Very naturally. It indicates we have something worth having.

Mr. STRONG. Mrs. Pratt, you are next.

Mrs. PRATT. Most of the questions that I had in mind have been covered by others.

I would like to ask Mr. Decker a question, and perhaps I will be excused if I make a statement first.

I judge from your testimony here that you feel, from the way it has worked out in your district, that the solution to the banking troubles of this country is in group banking?

Mr. DECKER. Yes.

Mrs. PRATT. It has been stated here that the purpose of any proposed legislation would be to give to the smaller districts, where there have been bank failures due to frozen credits, and so on, a more fundamentally sound banking system. I think you said that you felt that those districts would be perhaps better taken care of by a branch banking system.

Mr. DECKER. The very small ones. I would draw the line here in a town so small or inconsequential that it could not support a unit bank, no matter who owned the stock, whether it was in our group or out, and make it profitable, and yet a town large enough so that it was entitled to banking facilities. In such a town I see no other solution than what you might call a branch or a teller's window.

I can illustrate that possibly by what took place in Jamestown, N. Dak. There were four or five banks in Jamestown, and all of them were in more or less trouble. They had within a radius of 15 or 20 miles, 15 or 20 small banks, many of which were owned by the same people who owned the bank in Jamestown. The whole situation was bad, and my honest opinion is that the whole thing would have collapsed without any doubt.

The First Bank Stock Corporation, of which Mr. Wakefield is president, and ourselves, at earnest solicitation, went out there and consolidated the Jamestown banks into two good banks and cleaned them up, and then these banks within a radius of 15 or 20 miles which they had owned and which they said never could make any money, of their own accord dissolved and told their customers to ride into Jamestown to do their banking.

Now, that could not be done in every case, but it was done in that case. If there was a town out from Jamestown so far that it would really be a great inconvenience to force them to go into Jamestown every time they wanted to make a deposit or do any banking busi-

ness, one of these banks in Jamestown, if permitted to do so legally, could establish a branch or even have a teller's window.

We have had them come to us and ask us to let them make deposits in the drug stores, which they were willing to do if they could only get their money into our bank, because they felt that our bank was safe.

Now, I say that if a branch banking law were to be legalized in this country, I would suggest starting on a very small scale—possibly, for argument's sake, say county-seat branch banking, and then allow it to develop and see whether it is a better system than the other.

Mrs. PRATT. Would you feel that under the group system you could eventually take care of the whole situation without branch banking?

Mr. DECKER. It would be more difficult and more expensive.

Mrs. PRATT. And you would not advocate branch banking from your group system? You would advocate a separate branch system?

Mr. DECKER. I am not advocating one or the other. I would have no objection and I see no objection to a branch banking system in trade areas, provided that you do not undertake to upset the group banking system which is now in existence, but if the one were to be forced at the exclusion or termination of the other, in my judgment it would be disastrous.

Mrs. PRATT. And you feel that really the only way to take care of these small communities at the present time is through a branch banking system?

Mr. DECKER. Except as they are willing to come to the centers or if the town is large enough to support a unit bank.

Now, let me qualify that to this extent. You can go into certain sections of Iowa where the country is very thickly settled and very prosperous, and, notwithstanding some reports to the contrary, there are many small banks that are very prosperous. I happen to know of one group of small banks there where the profits are so much larger than our own that it makes us look like 30 cents. But, when you get to the sparsely settled regions of the Dakotas and Montana, it is quite different; it just is not in the cards for a small unit bank to make a living; it is not there. So many of their prerogatives have been taken away. They no longer loan money on mortgages at a profit; they no longer have land, their insurance has been taken away from them, and they can not handle securities because there is little demand for them, and their overhead is so great and their taxes so high that they can not make money enough to take care of their losses, to say nothing of their operating expenses.

Mrs. PRATT. But you have, through your group system, practically cleaned up the area through which you operate, have you not?

Mr. DECKER. No; we have hardly started. Generally speaking, we have taken banks in key towns.

Mrs. PRATT. What I meant was that you have taken care of those communities where there have been failures.

Mr. DECKER. Not in every instance, no. We have taken banks largely in key points, as we call them, feeling that if we had in North Dakota, for instance, 15 important points where there were

sound banks, the State would not suffer very greatly, at least in comparison with the condition that they had been in.

Now, we have soft-pedalled, so to speak, on reaching out further and taking more banks, partly out of respect, as I stated this morning, to the Secretary of the Treasury, who said he hoped that group banking would proceed moderately until this whole question has been considered. We do not want to go ahead, Mr. Wakefield's group and ours; we could go out and in 12 months take in 500 banks without any question whatever, and they would be delighted to come in on almost any kind of a basis. If this committee wants to assume the responsibility of saying, "Go ahead and do it," we will get busy, but while the question is being agitated nationally we felt it was no more than decent for us to slow up a little until we saw what action Congress was going to take, and we knew better ourselves how far we could find it profitable to go because we are not a philanthropic institution, and neither is any other banker or group of bankers, because you can not get away from the fundamental principle that banks have got to make money or go broke. We have had it demonstrated many times.

Mrs. PRATT. You feel that the group system, or banks operating under a group system, gives a greater stimulus and initiative to local industries, do you not, than, say, a branch banking system?

Mr. DECKER. Very greatly, Mrs. Pratt. I can not help but feel that a system of branch banking in this country such as exists in England, with five banks, we will say, controlling the banking interests of the United States, will be almost a death-knell to the initiative of the American people. Their whole training and traditions are contrary to it; they rebel against it, and I share that feeling with them.

Mrs. PRATT. The Comptroller of the Currency, and I do not know whether Governor Young made the statement, but it was made here several times, said that it was desirable to decentralize credit and to have a greater number of credit centers throughout the country. Would you subscribe to that?

Mr. DECKER. Absolutely, but those centers must be large enough and strong enough to be of some consequence, or you accomplish nothing. We, therefore, have set up a unit which in diversification and size we believe is large enough.

I want to make this perfectly clear, that we are in a very much more independent position of New York financially to-day than we ever were in the history of that country. There is no comparison. When Mr. Wakefield and I go down to New York to-day, they sit up and take notice. Why? We do not represent just one little bank that they can do what they please with; we represent an aggregation of capital and an aggregation of men and an aggregation of brains in different lines of business, so that they have a wholesale respect for us, and any deals we have with them are entered into to-day on a very much different basis than they were formerly.

Do I make that clear?

Mrs. PRATT. Yes; perfectly clear.

I think that is all.

Mr. STRONG. Mr. Wingo.

Mr. WINGO. Do you know of any incentive that leads men to invest their money or keep it invested in the banking business when it is no longer profitable?

Mr. DECKER. No, sir.

Mr. WINGO. That is sometimes done in a local community to protect a local bank, it is not, but that is an exception?

Mr. DECKER. Yes, and that time has gone, Mr. Wingo.

Mr. WINGO. As I gathered from your statement, in your opinion the day of the independent unit bank has passed?

Mr. DECKER. No, I would not say that. I would say that in the very small town, yes.

Mr. WINGO. Except in the larger communities?

Mr. DECKER. Yes.

Mr. WINGO. What would you call a small town? What would be the limit, under your theory? If nothing is done and the natural trend of things is not interfered with, in what towns or in what size towns would the individual bank survive, in a State where branch banking is permitted statewide?

Mr. DECKER. Well, for instance, like California?

Mr. WINGO. Take any illustration that you care to give.

Mr. DECKER. We have not had any experience, Mr. Wingo, so it would be difficult for me to answer that.

Mr. WINGO. I was just trying to get your opinion. You said that in your opinion the independent unit bank had passed in the smaller towns. What did you have in mind there?

Mr. DECKER. It is not entirely the size of the town. It is the amount of business which they can acquire. A town might be very small and still have quite a rich farming community around it, and it might have considerable deposits, much larger than the size of the town itself would indicate.

Mr. WINGO. But that is an exception. Just take the general run of towns in your country, in which you are doing business. What do you have in mind as to the size of the town from which the unit bank will probably pass and which will have to be served either by group banking or by branch banking?

Mr. DECKER. Perhaps I can best answer with these statistics: The statistics show that during the last 8-year period, between 1921 and 1928, inclusive, 63 per cent of the bank suspensions were in banks with capital stock of $25,000 or less; 40 per cent were in towns with less than 500 population; 20 per cent were in towns of less than 1,000 population, and 19 per cent in towns of less than 2,500.

Mr. WINGO. That is interesting, and we have had those statistics and I have been studying them for months, but that does not answer my question. You stated in response to my question, that the day of the independent unit bank was passing, and you said that was only true of small towns. What size town did you have in your mind when you made that statement?

Mr. DECKER. I did not have any particular size in mind. I had in mind the town which was not large enough to enable a bank to make a profit.

Mr. WINGO. What, in your mind, in your territory is the size of that town?

Mr. DECKER. I would not want to say. I have not had enough experience to tell.

Mr. WINGO. Do you think, having in mind the natural trend of banking, that the independent unit bank is going to survive in communities of less than 5,000 or 10,000 population?

Mr. DECKER. I think it can easily survive in towns of 5,000.

Mr. WINGO. Do you think that the independent unit bank can survive in a town in competition either with a unit of a group banking or of a chain banking system or branch of a branch banking system?

Mr. DECKER. I do not know. I think only time will tell.

Mr. WINGO. You have not studied that question?

Mr. DECKER. The competition will be not of size, but of service.

Mr. WINGO. That is the point I am getting at.

Mr. DECKER. I think it will be increasingly difficult for the independent unit.

Mr. WINGO. Is there any reason why competition in banking service will affect the maintenance of the different units of banking any differently than in the case of grocers or hardware stores, or anything else?

Mr. DECKER. Yes; because banking is based on confidence. A man will go into a grocery store and buy a dozen oranges, and he does not care who he is dealing with, but when he goes in a bank there is the personal equation brought in, and there is the safety of the bank and the friendliness indicated in loaning money, and it is very different from getting on a street car and paying 10 cents for a ride.

Mr. WINGO. What is the total outstanding capital at the present time of your holding corporations?

Mr. DECKER. Approximately 1,600,000 shares, at $50 a share, par value, about $80,000,000.

Mr. WINGO. And how much of that is invested in the capital of the banks or subsidiary corporations?

Mr. DECKER. All of it except about, say, $12,000,000, which is in cash or its equivalent.

Mr. WINGO. And that sum represents what you called the liquid assets that you set apart?

Mr. DECKER. Yes, sir.

Mr. WINGO. You are keeping over 10 per cent of the liquid assets as reserve?

Mr. DECKER. Right.

Mr. WINGO. Your experience has shown you that that is ample in the group banking system?

Mr. DECKER. As far as we have gone so far. That is not in the banking system; that has nothing whatever to do with the individual banks. We do not take $1 out of any of the banks in our group, except the usual dividends paid. All the rest of the earnings remain in the individual bank, not a nickel in the holding company.

Mr. WINGO. You stated that you felt like keeping a certain amount of the liquid assets in the holding corporation to meet emergencies that might arise in some of these banks.

Mr. DECKER. That is right.

Mr. WINGO. I was wondering whether or not you had operated to the extent where probably you had established in your mind what would be a fair reserve—we will call it a reserve; it is comparable to the reserve for deposits in the bank.

Mr. DECKER. I would say that our experience up to date would indicate about 10 per cent or 15 per cent.

Mr. WINGO. In response to one or two questions by Mr. Beedy, you said something about its being better for Congress to proceed slowly and to "let nature take its course." I suspect that that expression has a different meaning in Maine than in your country?

Mr. DECKER. The gentleman here corrected me on that.

Mr. WINGO. As I understand, you mean that the credit necessities of the changing economic structure naturally will follow these economic changes?

Mr. DECKER. Right.

Mr. WINGO. And you think it is better to wait until you see what is going to be the final trend of this economic structure before you undertake to fix the final set-up of your credit structure to serve that economic structure; is that your thought?

Mr. DECKER. Will you repeat that, please?

Mr. WINGO. I got this thought when you first answered that, in view of something that you had said earlier in the day. Of course, we all agree that the credit machinery has to bend and to conform to the economic machinery—the structure which it serves.

Mr. DECKER. Right.

Mr. WINGO. And that with the change that is rapidly going on in the economic structure and industrial organization of America there is a tendency toward larger units?

Mr. DECKER. Yes.

Mr. WINGO. With mass production and resulting economies and all that talk that we are all familiar with, I took it that your thought was, when you said we ought to let nature take its course, that it would be better for the legislative body to wait until we had a settled economic structure that you thought was going to represent the general trend for some time, before we undertook to finally shape the credit machinery that would serve that economic structure?

Mr. DECKER. That was not exactly correct. What I meant was this: That there are forces at work, naturally, to-day correcting this situation, through group banking and otherwise, so that there is not the same necessity for haste on the part of Congress as there would be if those forces were not correcting the situation; and that the reason I thought it was wise for Congress to take its time was not so much to await developments but to make an exhaustive study of what the needs would be. If this committee of Congress, for instance, had sufficiently studied this question so that they were satisfied they had its solution, I would not wait for any development; but I do not believe that any one person in the United States to-day knows just what form this legislation should take, and that being the case, I see nothing in the present situation which calls for precipitant action without due and exhaustive study.

Mr. WINGO. The natural trend, you think, beyond all question, is toward group and chain and branch banking?

Mr. DECKER. Undoubtedly.

Mr. WINGO. Undoubtedly, you think?

Mr. DECKER. Undoubtedly.

Mr. WINGO. What distinction do you make between group banking and chain banking?

Mr. DECKER. There is a very decided difference. Chain banking is largely small banks, or, perhaps, a little larger bank, operated more nearly like branches and owned and operated by a holding company, which is in turn owned and dominated by 2, 3, 4, or 5 men.

Mr. WINGO. There is a difference, then, only in the spirit and domination of management?

Mr. DECKER. No. Group banking consists in the joining of strong bank, large or small, goods banks that can make money, each one of which is presided over by a local board of directors and local management and not dominated in the same way that a bank in a chain is, and the parent company in group banking like ours is presided over by 126 directors, all of whom are successful men, so that you have not the domination of 1, 2, 3, or 4 men, for no matter how good they might be, they might be tempted to do some things which should not be done. In other words, it is utterly impossible with 126 directors in our corporation to join in any movement that would weaken or undermine our banking structure.

Mr. WINGO. You said that there were 500 banks that were anxious to come into your system——

Mr. DECKER. I think that is about right.

Mr. WINGO. If you had not decided to go slow on account of the suggestion of the Secretary of the Treasury.

Mr. DECKER. Yes, sir.

Mr. WINGO. Naturally the inquiry in my mind was why there had not been another group formed to take over these 500, if they are so enamored of the group-banking system.

Mr. DECKER. Well, it makes no difference how much they are enamored of it; the fact is that these so-called 500 banks that wished to join our group have evidently not interested some one with sufficient capital and brains and organization to take them and form a group.

Mr. WINGO. And they are attracted by the brains and the success in the operation of your corporation—that is the reason they come to it?

Mr. DECKER. Let me make clear another thing. In my judgment it would be impossible to successfully form a group system of banking unless it was centered around one or two, at least, very strong, successful banks in an important center. It would have to head up in one or two very strong banks or it would not be a success.

Mr. WINGO. And I believe you stated earlier in the day that, after all, the success or failure of a bank largely depended upon its management?

Mr. DECKER. Yes; and its location in a place where it is possible to make money.

Mr. WINGO. Yes. The success or failure of the average bank will depend largely, like the success or failure of the average industrial plant, automobile corporation, or any other, upon the ability and the efficiency of the managing brains?

Mr. DECKER. Right.

Mr. WINGO. Management is three-fourths of it?

Mr. DECKER. Well, I would say nearer seven-eighths.

Mr. WINGO. All right. In these groups that you have just spoken of there is danger of deterioration when they lose these few choice

executives which attract these banks now. Take these 500 banks, for instance; if you and these other executives who have proven their ability were to pass out, do you think they would be less inclined to get into your group?

Mr. DECKER. I think you would always find in our organization young men coming along who are smarter and abler than we are.

Mr. WINGO. The perpetuity and continual growth of the strength of your corporation depends upon your ability to train additional executives to take the place of your men as they drop out?

Mr. DECKER. Absolutely; and we have a school for that purpose.

Mr. WINGO. Do you think there is any unhappiness in the business world in the fear that possibly we will not be able to get enough trained executives to handle these larger units?

Mr. DECKER. In banks?

Mr. WINGO. Banks and everything else. I have been led to believe, in my conversation with men, that there was this fear. They believe in these economies of mass production, and so on, but their chief fear was that they would not be able to find men with the executive ability and training that can make a success of the operation.

Mr. DECKER. I think that is answered by the greater opportunity for the development of young men at large salaries and profit-sharing plans which make these young men independent, and a great deal more independent, Mr. Wingo, in my judgment, in most cases than they would be if in business for themselves.

Mr. WINGO. As I understood, your suggestion was that you went out of your trade area, or your Federal reserve district, down into Iowa and Nebraska in order to get diversification?

Mr. DECKER. Yes.

Mr. WINGO. Or, rather, you cited that as one of the benefits that flowed from your going down there; that that gave your corporation a diversity of investments or banking operations which added to the strength and security as well as the profits of your institution?

Mr. DECKER. Right.

Mr. WINGO. You suggested that you would limit branch banking to, say, a county seat or a small area; that possibly the set-up you thought would be available would be a group system, and, say, here in a large town—we will take a county seat for an arbitrary illustration—will be one of your sound and capable group banks, a unit of your group. Then your theory will be that that unit of your group will be permitted to have tellers' windows or branches in these smaller towns in that county or immediate area that would not be able to maintain profitably a separate independent unit bank?

Mr. DECKER. Right.

Mr. WINGO. If it is necessary, in order to give strength to a group system, to have a wide diversity of business and of area, why is it not also true of the branch? Would you not have a failure of diversity of business if you had that branch confined to that one county?

Mr. DECKER. I have no objection whatever, Mr. Wingo, to the branch privilege being extended over that entire trade area so long as you do not disturb the group bank which is in existence to-day. If you will allow the two to compete with each other, you can make the trade area in branch banking just as large as you please, and

if that proves to be the better plan and people like it better, Mr. Wakefield and I will be delighted to take that.

Mr. WINGO. You put your finger on the real situation, and that is this, that in spite of the efforts to restrict concentration of capital, both in industry and banking, as represented by laws of Congress and as represented by banking laws and other laws of the different States, the combination of the leaders of industry and banking, of necessity, finding these other concentrations of capital, have found a way to develop those larger concentrations, and you think, I gathered, that even if we changed these laws, these same men will through these combinations find a way to meet the changing necessities of the day?

Mr. DECKER. Yes; if you do not interfere with existing conditions; but my judgment is that if branch banking were authorized over our entire so-called trade area, or the area which the Northwest Bancorporation is operating to-day, and group banking were in some way legally forbidden that it would result in disaster.

Mr. WINGO. But if we left the situation as it is now, the determination whether group banking or branch banking would prevail, or whether you would have a combination of each, would depend entirely upon the determination or judgment of the men who were putting their capital in the banking business?

Mr. DECKER. Absolutely.

Mr. WINGO. Do you know of any reason why we should suspect that those who are engaged in the banking business would have less difficulty in getting around restraining laws than do the industrial leaders in getting around the restraining laws with regard to industrial combinations?

Mr. DECKER. Well, I think banking is much more dangerous to tinker with than any other business in the world, because it is the heart of all business.

Mr. WINGO. I agree with you, but you do not catch my question. Is there any reason why we, as legislators, could hope that a restrictive law restricting the combination and concentration of capital in banking can be any more effectively enforced than the present laws restricting the combination of capital in industry?

Mr. DECKER. Well, I do not know.

Mr. WINGO. It is the same problem, is it not?

Mr. DECKER. Very largely. Bankers are human; there are good, bad, and indifferent ones, but the poor ones do not survive.

Mr. WINGO. In other words, if a majority of the men engaged in the banking business—men whose character and achievements and ability, as well as their control of funds, command the respect of the investment and the banking world—make up their minds that a given form of banking shall be used, they will find a method, do you not think, to use that form, just like the same type of men in the industrial world are finding a way to get around the antitrust law?

Mr. DECKER. I have no doubt that they would attempt to find a way.

Mr. WINGO. Yes; we know that, but I am not quarreling with you. The thought I had was this, that I sometimes wonder if there is not such a thing as the futility of attempting to enforce certain laws, unsupported by public sentiment.

Mr. DECKER. Against economic laws, absolutely.

Mr. WINGO. There are certain economic forces that are represented by the conclusions that are registered by leaders of industry in this country, and those economic forces have in the past frequently proven superior to either the wisdom or stupidity of legislative bodies, have they not?

Mr. DECKER. Absolutely, and the sooner Congress can determine what those economic laws are and we go with them instead of against them, the sooner you will get effective legislation.

Mr. WINGO. You said that branch banks could be operated on a more economical basis than units of a group. What economies of operation did you have in mind when you said that?

Mr. DECKER. Less taxes; you could operate on a much smaller capital. I have the figures here to show that our deposits in proportion to the total capital investment in our group are much smaller than in Canada, Great Britain, or any other country that operates entirely on branch banking. If we were to change all of our banks into branches and make them all branches of the Northwestern National Bank of Minneapolis, that bank would not require as much capital as the combined capital of all of these banks, and there would be a great saving there. There would be a saving in the cost of operation of a branch bank, because it would be run by these so-called hired men at a great deal less expense; but I am equally certain that the difference in cost is more than offset by the advantage of our plan, at least so long as public opinion in that district is as it is to-day.

Mr. WINGO. Public opinion is changed by propaganda overnight; you are aware of that.

Mr. DECKER. Well, it is changing, but it is not merely public opinion; it is local pride, a very desirable thing to have, to maintain, and not to destroy, I think.

Mr. WINGO. Are you an attorney?

Mr. DECKER. Not yet.

Mr. WINGO. You made the statement that if your system were turned into a branch banking system, then the local branches in the States other than the States where the parent corporation is located would not pay any taxes.

Mr. DECKER. Personal property taxes.

Mr. WINGO. What attorney gave you that opinion?

Mr. DECKER. No attorney did. All I know is that the banks in North Dakota are paying in about $150,000 a year in personal property taxes, on the capital stock of those banks.

Mr. WINGO. Do you mean to say that if a bank in Minneapolis had a branch in South Dakota, the branch would not pay any personal property tax in South Dakota?

Mr. DECKER. Not unless they enact a new law.

Mr. WINGO. Have they not a personal property tax out there?

Mr. DECKER. I understand so.

Mr. WINGO. How can they escape it?

Mr. DECKER. Mr. Washburn here is a lawyer.

Mr. WINGO. They would tax you on real estate and on the capital out there.

Mr. DECKER. There would be no capital there.

Mr. WINGO. No capital?

Mr. DECKER. No, sir.

Mr. WINGO. They might do like some of the States, require these foreign corporations to estimate the amount of capital used in the State and then that would be the basis of a contest in the courts.

Mr. WASHBURN. Perhaps so, but they would have to pass a new law.

Mr. WINGO. Do you think Congress would permit a corporation to escape taxes like that?

Mr. WASHBURN. Section 5219 now covers that.

Mr. WINGO. Your corporation is a Delaware corporation, is it?

Mr. DECKER. Yes, the holding company.

Mr. WINGO. Suppose that you had a corporation with branches in other States; if it is a State corporation, section 5219 would not apply to it, and you gentlemen might say that they would escape local taxes.

Mr. DECKER. No, the corporation which would have branches would be the Northwestern National Bank of Minneapolis. The Northwest Bancorporation would be dissolved.

Mr. WINGO. You say that under a branch banking system that the branches would not pay any taxes because the situs of the branch was in a different State than the situs of the home bank?

Mr. DECKER. I assume that. Perhaps I may be wrong.

Mr. WINGO. I think you are in error, but you may be right. I am not much of a lawyer, and I am mistaken frequently, but I think you are now.

Mr. DECKER. Very likely.

Mr. WINGO. Mr. Chairman, I believe I will forego the other questions so as to give these gentlemen an equal opportunity with mine.

Mr. STRONG. Mr. Fort.

Mr. FORT. Mr. Decker, you have said that your banks, with the exception of three or four, do not deal in securities—is that correct?

Mr. DECKER. Well, the banks themselves in no case deal in securities.

Mr. FORT. Either as underwriters or otherwise?

Mr. DECKER. No, sir; except as they buy them for their own investment.

Mr. FORT. They do not enter into underwriting?

Mr. DECKER. No, sir.

Mr. FORT. But they have affiliates in some cases?

Mr. DECKER. Yes, sir; corporations capitalized for that purpose.

Mr. FORT. With the same officers as the officers of the bank?

Mr. DECKER. Not entirely. They are expert men in that particular line.

Mr. FORT. Do you feel in these modern days, when so many of the loans of banks are upon collateral, that it is wise for the same men to act both as officers of an affiliate underwriting securities and as officers of the bank making loans on those identical securities?

Mr. DECKER. I think it is an element of safety, because the securities company affiliated either directly or indirectly with a strong bank will be more conservative than a securities company which is not affiliated with a strong bank.

Mr. FORT. You think that there would be no feeling of obligation on the part of the bank to grant greater loans on securities sold to its customers by its affiliate than it would grant on securities sold to its customers by others?

Mr. DECKER. Not the slightest obligation. In fact, in our own bank, we do not even know what securities the securities company is handling, unless it is a special one that has been brought to our attention. We pay no attention to that whatever.

Mr. FORT. Some of your banks are incorporated under Federal law, under the national bank law, and some under State laws, are they not?

Mr. DECKER. That is correct.

Mr. FORT. Do you see any advantage or any disadvantage to be had by having uniformity of both State and national laws?

Mr. DECKER. Very great.

Mr. FORT. Which way should it be—uniform or not?

Mr. DECKER. Uniform.

Mr. FORT. Would it be your judgment that the national code, as it now stands, is a better banking code than the State codes?

Mr. DECKER. I think, as a rule, yes. Many of the State codes, however, are modeled after the national. Our own is in Minnesota.

Mr. FORT. How many banks are there in your own group?

Mr. DECKER. Ninety-eight.

Mr. FORT. And how many in Mr. Wakefield's group?

Mr. DECKER. About 93.

Mr. FORT. How many member banks are there in the Ninth Federal Reserve District?

Mr. DECKER. Members of the Federal reserve system, you want?

Mr. FORT. Yes; the total number.

Mr. WAKEFIELD. There are over 300 and some odd banks which are members.

Mr. FORT. The story has been told to some of us that your two corporations combined own sufficient banks to give you, acting jointly, the power to elect the directors of the Federal Reserve Bank of Minneapolis. Is that true or not?

Mr. DECKER. I do not know. I have not taken the trouble to even look it up. I have absolutely no interest in it, because I do not know what in the world we would do with the Federal Reserve Bank if we did control it.

Mr. FORT. Do you feel that it is a desirable situation that an instrumentality of the Government, such as the Federal reserve bank, should be subject to control as to its directorate by any single group?

Mr. DECKER. No, absolutely not.

Mr. FORT. Or any combination of a couple of groups, working together?

Mr. DECKER. Well, it would be just a question of which would secure the better management of the Federal reserve bank.

Mr. FORT. But, the distinction being that the Federal reserve bank is a Federal instrumentality, do you think it ought to be allowed to be controlled by a relatively small number of men in a district?

Mr. DECKER. I should think it would be better if it were not, and certainly we have not the slightest desire to control it.

Mr. FORT. You have said, and quite wisely, that we should be very slow to legislate in this question, and I think you have shown a very fine spirit in your view that you should be slow to proceed to scramble anything that we might feel ought to be unscrambled.

Mr. DECKER. Right.

Mr. FORT. Do you think that it would be wise for us to request the banks of the United States generally to withhold group and merger action until we can reach a decision?

Mr. DECKER. Well, I should doubt it.

Mr. FORT. Your own procedure has indicated that you feel that is what should be done.

Mr. DECKER. Well, in the meantime there might be delay in operations which are distinctly of service to the business of the country. I never had the thought presented to me before of Congress suggesting to the public that some day it is going to pass a law and they had better hold off until Congress decides what the law shall be.

Mr. FORT. Of course, a great deal of this has to meet the approval of Federal officers.

Mr. DECKER. I think it would be very proper for the Comptroller of the Currency to keep very close supervision of what is going on in the country in the way of group banking, to see that nothing is done which would indicate a stock-jobbing plan or a manipulation of banks, and if he saw the slightest evidence of it, I think it would be very proper for this committee to charge him with keeping a closer watch to see that no damage was done.

Mr. FORT. A merger of a national bank has to be with the consent of the Comptroller of the Currency?

Mr. DECKER. Right.

Mr. FORT. That he could control absolutely.

Mr. DECKER. Yes, sir. I would have no objection whatever to the Comptroller of the Currency being informed of every acquisition we propose to make, and I think we could satisfy him or at least he would agree with us or we would agree with him as to whether it was wise to go ahead, if it were a national bank.

Mr. FORT. You were asked a question or two about the operation of the fiduciary powers of banks in connection with the buying and selling of securities. Do you see any reason, Mr. Decker, why the same relation should not exist between a bank as trustee and its cestui que trust as the relation that exists between an individual trustee and the cestui que trust?

Mr. DECKER. Yes.

Mr. FORT. What?

Mr. DECKER. A bank is a large holder of people's money on deposit. We have felt in our own case that it was better to have the trust in an absolutely separate and distinct trust company, because under our own State laws, and therefore in the case of the Northwestern National Bank, we have no trust department. The trust company is managed by specialized men. It is a very dangerous, very complicated, and a very intricate business; it requires expert training particularly on the part of lawyers who have no knowledge whatever of commercial banking or even investment banking except as their trusts are buyers of securities.

Mr. FORT. I think you answered the previous question as though you differed with me. What I had in mind was this: That the ordinary private trustee may not, directly or indirectly, in any transaction with the trust make any profit of any sort or description other than the commission.

Mr. DECKER. Right.

Mr. FORT. In Kentucky they have a law that the bank must pay a minimum of 5 per cent interest on all funds on deposit with itself where it is the trustee and must further allow whatever it makes on other funds in its hands as interest to the depositor. That rule would apply to the individual trustee if he retained any moneys of the trust. Is there any reason for distinction in favor of a bank over an individual trustee?

Mr. DECKER. I do not think any bank or any individual trustee can afford to pay 5 per cent on trust funds and invest them in proper securities.

Mr. FORT. I said funds on deposit in those banks acting as trustees.

Mr. DECKER. Yes; but they must carry reserves against those deposits. My judgment is that they can not invest them safely and get such a rate of interest on the deposit.

Mr. FORT. The rule in Kentucky, as I understand it, is that it must pay all that it makes on its own trust funds, and that it may not deposit at 2 per cent, for instance, trust funds in its own checking department while awaiting investment.

Mr. DECKER. We are not permitted to keep our own trust funds in the trust company at all.

Mr. FORT. Do you believe in that?

Mr. DECKER. Absolutely.

Mr. FORT. Then the question of the rate of interest becomes immaterial.

Mr. DECKER. And we have to go out and compete in the open market for the interest you can get.

Mr. FORT. I think that is eminently correct.

Chain banking, as we have it to some extent in my State, has taken the form of ownership of the stock of one bank by another bank. Are your banks permitted to own stock in other banks?

Mr. DECKER. No, sir; except in foreign banking corporations, and then with the consent of the Comptroller of the Currency.

Mr. FORT. How about your State banks and trust companies?

Mr. DECKER. They are not permitted to own stock in any corporation.

Mr. FORT. Are your trust companies?

Mr. DECKER. No, sir.

Mr. FORT. So there is no cross-ownership of stock anywhere in your system?

Mr. DECKER. No, sir.

Mr. FORT. In a group system such as this, in those States that permit banks to own stock, they ought not to be permitted to own stock in the company that owns the control of them, ought they?

Mr. DECKER. Certainly not.

Mr. FORT. Or cross-stock ownership in each other?

Mr. DECKER. No, sir.

Mr. FORT. Your suggestion of teller's windows in the smaller towns which are not big enough to maintain a unit bank brings up

this question: Would you limit those teller's windows to those communities where there was no unit bank?

Mr. DECKER. Well, I think the natural result would be that if there was a unit bank in that town and it was unprofitable, they would certainly want to go out of business and would immediately go to the bank which was authorized to start a branch there or a so-called teller's window, and if they had assets that were of any value at all, the two would get together.

Mr. FORT. Yes; but let us take the towns where there is a unit bank and where it might be thought that there was also room for a teller's window; would you have the teller's window go in and compete with the unit bank?

Mr. DECKER. I would not fear that, because the bank would not start a branch there without the approval of the Comptroller of the Currency if it were a national bank, or without the approval of the State department of banking if it were a State bank, so that I think that that check would take care of it.

Mr. FORT. But we are considering here the possible adoption of branch banking through trade areas, and in formulating legislation should we permit the Northwestern National Bank of Minneapolis, as an example, to establish a branch or a teller's window in a town already possessing unit banks?

Mr. DECKER. Certainly, with the consent of the Comptroller of the Currency; otherwise they could only have a branch in some place where there was not a unit bank. The probabilities are that they could not make any money there.

Mr. FORT. I am not speaking of your organization in the Northwest, but, generally speaking, men being human, would not the power to establish a branch in competition with a unit bank have the result of forcing the unit bank to become a member of a group, if you wanted it?

Mr. DECKER. Well, I think that if that privilege were given, it could only be operated with the consent of the Comptroller, and the danger would be very greatly minimized.

Mr. FORT. Not so long, would it, as you have a duplicate system of State and national banks and you have in your group members of both?

Mr. DECKER. If the group continues, I see no objection whatever to saying that you could not put in a branch where there is a unit bank, but if you are talking about branch banking exclusively, that is, doing away with group banking and having nothing but either trade area branch banking or absolute unit banking, group banking and chain banking to be done away with entirely, then that is a different question.

Mr. FORT. I was talking on the theory of a possible extension of branch banking privileges without an effective prohibition of group or chain banking.

Mr. DECKER. Well, then, we have no objection whatever to branch banking being restricted to towns where there are no unit banks.

Mr. FORT. Would it or would it not be a sounder piece of legislation?

Mr. DECKER. Well, that is a pretty delicate question. I do not know.

Mr. FORT. The theory being whether we want to permit competition from a big bank in a metropolitan center——

Mr. DECKER. I see your point.

Mr. FORT (continuing). With a locally controlled bank which desires to remain independent.

Mr. DECKER. If you prohibited the larger bank from having a branch in that town, how are you going to serve the people?

Mr. FORT. Presumably the unit bank will not continue unless it is profitable, as you very ably pointed out.

Mr. DECKER. You would wait until they were ready to quit?

Mr. FORT. In other words, you would either have to wait until they were ready to quit the locality or else you would have to permit a big bank like yours to go in and put up a form of competition that the local bank could not stand.

Mr. DECKER. I still think I would not make that restriction so long as the larger bank could not put a branch in the town where there was a unit bank except with the consent of the Comptroller of the Currency. If you want to entirely eliminate the competition between the State and the national system—and, of course, the small bank in most cases will be the State bank—then you immediately say to the national bank, "You can not go into a town where there is a State bank," and I do not believe that that would be in the interest of the national banking system.

Mr. FORT. I see that view; I had not thought of that.

One other line of questions. You have explained, and I think entirely proper, the reasons for the different rates of interest that are paid by local banks in your group to depositors. Do those same reasons apply as to the rates of interest that should be paid to the depositors in a branch banking system, or should a branch banking system pay uniform rates to all of its depositors?

Mr. DECKER. Well——

Mr. FORT. The investment of funds is identical.

Mr. DECKER. I have had no experience in branch banking, but my first thought would be that in all probability under branch banking they would pay the same rate at all points, and I think the Canadian banks do that. I think that would be a natural development.

Mr. FORT. Of course, if we were going to allow branch banking to compete with unit banking, they could go in and pay a higher rate of interest.

Mr. DECKER. The unit bank could.

Mr. FORT. The branch in the town where it was competing?

Mr. DECKER. Yes.

Mr. FORT. And the question in my mind is, if we are going to extend branch banking, should we permit that to be done, or should we say that since all of these investments gain the same rate of interest, whether from Minneapolis or Fargo, you have to pay the same rate to your depositor?

Mr. DECKER. I think that would be fair. In other words, I think it would be unfair to let the branch go into a town to-day where there is a unit bank and try to run that bank out by putting up the rate. I think that would be grossly unfair, and should be curbed.

Mr. FORT. Or for them to get the money from the town where they had no competition and paid a minimum rate of interest there?

Mr. DECKER. I think that is unfair.

Mr. FORT. And then pay a higher rate where they had competition?

Mr. DECKER. I think that is unfair.

Mr. FORT. That is all.

Mr. STRONG. Mr. Busby.

Mr. BUSBY. I believe you stated that your authorized capitalization was $300,000,000?

Mr. DECKER. Yes, sir.

Mr. BUSBY. And you only have $80,000,000 of that subscribed and outstanding in stock?

Mr. DECKER. Right.

Mr. BUSBY. And that gives you an additional $220,000,000 to be brought into play in the operation of your Northwest Bancorporation in the event you decide that you need it?

Mr. DECKER. Yes, sir.

Mr. BUSBY. What amount of that $80,000,000 outstanding covers banking operations?

Mr. DECKER. All except about $12,000,000, which is in cash or liquid securities.

Mr. BUSBY. Now, what part covers investment trust operations or securities? Do you have separate corporations organized as investment security organizations?

Mr. DECKER. Yes, sir.

Mr. BUSBY. How much do they amount to?

Mr. DECKER. I would have to guess at it, but I would say $3,000,000 or $4,000,000.

Mr. BUSBY. Now, you have also your cattle loan financial organization. What does that amount to?

Mr. DECKER. I think the capital is $150,000, capital and surplus.

Mr. BUSBY. You told us a while ago of issuing 150,000 shares of stock of the holding company, which was taken over by a syndicate at $72 a share?

Mr. DECKER. At $70. It was offered to the shareholders at 72. The underwriters were given two points for underwriting it.

Mr. BUSBY. And, that having been taken over by the underwriters, they attempted to sell it and the stock market crash came before they disposed of it?

Mr. DECKER. No, the stock market crash came long before they acquired it. They did not pay for it until December 15, or six weeks after the crash in the stock market.

Mr. BUSBY. What type of organizations composed your underwriting syndicate?

Mr. DECKER. Banks, securities companies, bond houses like Harris-Forbes, Guaranty Trust, Halsey-Stuart, the Continental in Illinois, First Chicago, and others all over the country.

Mr. BUSBY. The greatest number of units included in that number of 75 which formed the underwriting syndicate were investment trust organizations, were they not?

Mr. DECKER. No, none of them were investment trusts. They were bond and securities houses who buy and sell securities.

Mr. BUSBY. Outright?

Mr. DECKER. Yes, sir.

Mr. BUSBY. The way things turned out, your organization made $3,000,000 on that adventure, between the price at which it proposed to repossess them and that at which it sold them?

Mr. DECKER. And we added $2,800,000 to our surplus.

Mr. BUSBY. You outguessed the other fellows?

Mr. DECKER. We thought we did a good piece of merchandising. [Laughter.]

Mr. BUSBY. That is the situation all over the country with banks that have large banking organizations and that have these subsidiaries?

Mr. DECKER. Yes, sir.

Mr. BUSBY. They are engaged largely in the merchandising or guessing game, as to which one is going to get the better of the securities operation when it finally is sold out?

Mr. DECKER. Yes, sir.

Mr. BUSBY. Do you not think that that situation has largely inflated the bond and stock markets of the country?

Mr. DECKER. Undoubtedly.

Mr. BUSBY. Do you not think that the credits required by the business of the country are much less than the amount of credits that have been extended by operations just described and by bank loans and call loans?

Mr. DECKER. At the inflated period prior to the crash, yes; to-day, no.

Mr. BUSBY. A year ago at this time, did your banks maintain a large reserve in the New York banks so as to take advantage of the high rate on the call money market?

Mr. DECKER. Many of them; not with the New York banks.

Mr. BUSBY. I mean in that locality, so as to be available for the New York Stock Exchange operations.

Mr. DECKER. Many of them loaned money on the Street on call loans and made those loans through a New York bank.

Mr. BUSBY. That is what I mean.

Mr. DECKER. Oh, yes. In our case, it happened at a time when our elevators were full of grain, and our money was all being used at home. We did not have any money loaned in Wall Street because we did not have any to spare.

Mr. BUSBY. I did not say when the crash came; I said a year ago at this time.

Mr. DECKER. Well, we do not hesitate to loan on the New York Stock Exchange, so-called brokers' loans, when the money is not required at home by our own customers.

Mr. BUSBY. Do you not think that the fact that the call loans commanded an interest rate considerably above that ordinarily realized in the commercial field that it pulled much money from all other parts of the country to New York City where those operations were under way?

Mr. DECKER. Not in our banks. We paid no attention whatever to the call-rate loan in New York.

Mr. BUSBY. You could make more money by placing it there.

Mr. DECKER. Yes, temporarily, but we would have driven our trade away. We loaned to our customers at 6 per cent millions of dollars when we could have loaned it on the Street at 10 per cent, and it did not tempt us a particle. In the first place, we were not interested in the other 4 per cent and, in the second place, we thought that it was safer to lend our money at home.

Mr. BUSBY. Subsidiaries that deal in stocks and bonds are hardly as stable as the main banking institutions in their operations, are they?

Mr. DECKER. No, sir; they are not as stable.

Mr. BUSBY. And that is the reason why you would prohibit them from holding and handling trust funds placed as you mentioned a while ago?

Mr. DECKER. Yes, sir.

Mr. BUSBY. With your banking institution.

Mr. DECKER. But I want to differentiate between the securities company affiliated with us and the one that is independent on the Street, because we have a reputation at stake, and naturally our securities company will decline many underwritings which the private banking institution takes over.

Mr. BUSBY. What would you think of a law that would prohibit banking institutions from having subsidiaries that engaged in that class of marketing?

Mr. DECKER. I think it would be disastrous, because it would leave the field absolutely over to the private operater, who could raise more cain than the banks would ever think of.

Mr. BUSBY. It would make banks safer, would it not?

Mr. DECKER. No, sir; not in my judgment.

Mr. BUSBY. Do you not know that a bank that has a subsidiary, where that subsidiary is handling an issue of bonds, is going to be more lenient toward its own institution than it would toward the general field of investment?

Mr. DECKER. No, sir; absolutely not.

Mr. BUSBY. Do you not think that those same directors in the bank as are in the subsidiary, operating for the same purpose, to secure dividends on investments, would be easier with the investments handled by the subsidiary than they would with those coming from the general field of investment?

Mr. DECKER. No, sir. If a customer came in to see me as president of the Northwestern National Bank and wanted to borrow money on a certain security, and I happened to know that that security had been handled by our own securities company, I would scrutinize it more carefully than I would if it came from some other place.

Mr. BUSBY. That is a little contrary to human nature, is it not?

Mr. DECKER. No, sir; not in banking. It is contrary to the methods of banks that have gone broke.

Mr. BUSBY. I thought you had been putting human nature into your banks, until we came to these securities companies, and there you seem to get hard on them.

Mr. DECKER. Any banker who is not hard once in a while won't be a banker very long. It is not at all impossible for a bank to be strict and severe and still be human.

Mr. BUSBY. Now, the inflation of 1921 was spread over the country generally, was it not?

Mr. DECKER. Yes. 1920, I think it was.

Mr. BUSBY. I meant 1920. And then we began to build up a new method of financing. Instead of borrowing money from a bank, business enterprises issued stocks and bonds and sold those to the public generally, and the public all over the country acquired those investments, did they not?

Mr. DECKER. Yes.

Mr. BUSBY. Those were sold largely on the New York Stock Exchange and on the other stock exchanges throughout the country to the public. Do you not believe that the public bought many of those with a view to getting a raise in the market rather than getting dividends on the stocks?

Mr. DECKER. Unquestionably.

Mr. BUSBY. And it was more of a gamble, so far as the public was concerned, than an investment?

Mr. DECKER. Yes.

Mr. BUSBY. And these inflated bank credits and the easy money for call loans increased that type of operation on the part of the people over the country, did it not?

Mr. DECKER. Yes, sir.

Mr. BUSBY. And when the crash came, although it was in another way from the way the 1921 crash happened, it just as effectively stifled business and crippled the people financially as the crash of 1921, did it not?

Mr. DECKER. No. The stock-market crash last year was not the cause; it was the result. We had been through seven or eight years of tremendously rapid expanding business; we were due for a slow-up. It was in evidence six months before the stock market collapsed, and therefore I think it would have come anyhow, a slowing up in business, and business is not slow to-day throughout the United States generally because of the stock-market collapse; it is slow because we have been going very fast, and naturally it is healthy to slow up.

Mr. BUSBY. We were overbuilt in many lines, were we not?

Mr. DECKER. In many cities.

Mr. BUSBY. I am not talking of building in the sense of brick and mortar, but we were overdeveloped?

Mr. DECKER. We were overtrading.

Mr. BUSBY. If I understand the situation aright, the demand for increased credits in 1928 was about 3 per cent, while through the different types of loans made in 1928 increased credit to something like 8 per cent, and we necessarily had to wait until we caught up with the demands for business to the extent that we had extended credit in the field of credit operations beyond a safe point compared with business needs.

Mr. DECKER. Well, when you become too much inflated and you get prices too high, you have got to slow up until your savings and your increase in wealth is able to take care of that situation, and it happened in 1893 one way, in 1897 in another way, and last year in still another way, and the next one will probably be different. It all goes back to the same thing.

Mr. BUSBY. Are your stocks listed on the Chicago Stock Exchange?

Mr. DECKER. Ours is; yes, sir.

Mr. BUSBY. I notice that last week 2,750 shares——

Mr. DECKER. In the Northwest Bancorporation.

Mr. BUSBY (continuing). Were sold on the Chicago exchange. What would prevent outside interests from acquiring a controlling interest in your holding corporation if its shares are listed in sufficient number on the Chicago exchange?

Mr. DECKER. There is no list of shares, Mr. Busy, on the exchange. They are simply offers to trade in it. It would make no difference whether they were listed or not; it is always a question of buyer and seller. When those two meet, there is a trade.

Mr. BUSBY. Suppose some one kept on buying until enough of your shares were sold to a purchaser——

Mr. DECKER. They never would get them, because the higher the price goes, the less the holder is inclined to sell.

Mr. BUSBY. You saw to it that not enough shares in the Northwest Bancorporation are available at any price to the prospective purchaser to get control of your institution?

Mr. DECKER. I would say that 90 per cent of our stock belongs to people who would not consider selling it at any price, and if they suspected, as they would a long way in advance, a desire to get control, the proposed purchaser would be checked before he had started.

Mr. BUSBY. Where did these 2,750 shares that were sold come from?

Mr. DECKER. I have no idea.

Mr. BUSBY. Just come from somebody who had shares?

Mr. DECKER. A natural trader. They may have gone into better hands than before.

Mr. BUSBY. That is all, Mr. Chairman.

Mr. DECKER. Mr. Chairman and gentlemen of the committee, you have been very kind to me.

Mr. STRONG. On the part of the committee, I want to thank you for your visit here, and the information you have given us.

Mr. DECKER. Thank you.

Mr. STRONG. Mr. Wakefiield, can you remain over to-morrow night?

Mr. WAKEFIELD. Yes.

Mr. STRONG. If you can do so, I think it would be very helpful in that it would give the members of the committee an opportunity to get from you such information as you are in position to give us.

Mr. WAKEFIELD. I can spend Wednesday and Thursday here.

Mr. STRONG. That will be very helpful.

Mr. FORT. I move we adjourn.

(The motion was duly seconded and agreed to, and the committee thereupon adjourned until Wednesday morning, April 16, 1930, at 10.30 o'clock.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, APRIL 16, 1930

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

The committee met at 10.30 o'clock a. m., in the committee room, Capitol, Hon. James G. Strong presiding.

The ACTING CHAIRMAN (Mr. Strong in the chair). The committee will come to order and the hearings will be resumed. Mr. Wakefield, of Minneapolis, is present and will address the committee. Mr. Wakefield.

STATEMENT OF L. E. WAKEFIELD, VICE PRESIDENT FIRST BANK STOCK CORPORATION, OF MINNEAPOLIS AND ST. PAUL, MINN.

Mr. WAKEFIELD. Mr. Chairman and gentlemen, I represent the First Bank Stock Corporation, of Minneapolis and St. Paul, and I have here a prepared statement with copies enough to present to the various members of the committee; but in order to get the matter before you this morning I will give you briefly some of the facts which are presented in the statement.

As I understand it, the purposes of this committee are to investigate the trends which are taking place in the banking business, attempt to discover the causes for the recent developments, and to find a proper solution of the difficulties which have arisen and enact laws which will provide for the conduct of the banking business of the future.

In order to arrive at a satisfactory conclusion concerning matters of that kind, it is perhaps essential that we have some of the facts which have developed the present situation; and in speaking of the banking business my experience has been entirely within the ninth Federal reserve district, in that territory, and the things that I speak of will be those of my own knowledge as existing within that territory, and without any pretense on my part of understanding or of knowing definitely what may be the facts in other sections of the country.

Our territory was developed and built up from nothing, and during a long period of years, largely, I think, through the influence and operation of the so-called unit bank. Small groups of persons in communities of various sizes organized banks, and during a great many years successfully operated them, always, in my opinion, with

the desire on the part of the people operating them to serve to the best possible advantage their particular community and the businesses and people who were within that community. Their undertakings were successful and commendable over a long period of years.

Up in our territory the development of the unit bank went way beyond any possible reason for the existence of banks, and in 1920 we found ourselves with a greatly excessive number of banks compared to population over any other section of the United States.

The State of North Dakota at that time had 5 banks in existence per population to 1 on the average over the country; South Dakota had 4; Montana, 3; and Minnesota twice as many as the average. Most of these were banks of small capital and small deposits.

Mr. LETTS. How was it in Iowa—can you say?

Mr. WAKEFIELD. I never made up figures on Iowa.

This development was largely encouraged by the feeling on the part of the various legislatures, the lawmaking bodies of the States, that the privilege of banking ought to be extended to the small individual—which is a perfectly natural and proper feeling—and the permitting of the establishment of banks of as small capitalization as $10,000, and in towns where the need for additional banks was not, perhaps, evident and justified. Banking was a popular business. During all that time there were certain profits to be derived in the banking business which have since been eliminated.

The business of making farm mortgages, and of selling them and transferring them to insurance companies and investors, afforded a very substantial profit to the country banker in the way of commissions on those loans. The business of selling lands, of dealing in them, during all this period, occurred when lands were increasing in value and the buying and selling of lands was of large volume and there were substantial profits to be derived by country bankers in the operation of the land business.

In addition to that, during that period, and up until recent years, each of those small country banks made it a practice to charge exchange on their checks when they were returned to those banks, and which furnished them, in many cases, with revenues sufficient practically to pay the clerical help of their banks.

Now all of those sources of revenue have disappeared. The establishment of the Federal land banks and the joint stock land banks, with their tax exempt securities, have changed completely the current of the mortgage business. The deflation and difficulties in the agricultural sections have practically eliminated farm land sales.

The establishment of the rural credit associations by the various States has been an added source of money on farm mortgages, and eliminated the natural and existing methods of handling those securities.

The Federal reserve bank, when it was established, operated upon the theory that all transfer of checks should be carried on a par basis and that eliminated, over a period of years, those exchange charges from which the small banks had derived considerable revenue in the years past. That particular feature, however, has recently been modified to some extent, and those small banks are again privileged to charge exchange and do so charge; that is, those not members of the Federal reserve system.

The general basis of loans in those banks in the ninth Federal reserve district, was upon credits largely based upon farm values and the business of agriculture. So in 1920, there was in existence in the ninth Federal reserve district, about 3,800 banks.

With the change that followed the deflation of agriculture, a large part of the basic value of the collateral upon which their loans were based, was destroyed. Over a period of many years, the increasing value of farm lands was an automatic debt satisfier on the part of the farmer and it was frequent or ordinary that the country banker would loan to his farmer customer on a second mortgage certain funds which, after a period of three to five years, could be joined onto the first mortgage on that land and liquidated to his bank.

With the deflation period coming on, that possibility or opportunity was no longer in existence and the country banks found themselves holding equity security to cover the debts of his customers to his bank and to which there was no value.

Just in order that we may understand just a little of what has taken place in connection with farm values, there have been in the ninth Federal reserve district, during a period of four years, abandonments or foreclosures in the four States of North Dakota, South Dakota, Minnesota, and Montana (this is based upon figures prepared by the Department of Agriculture), the years being 1923, 1927, 1928, and 1929, involving 25,820,000 acres and covering 67,867 farms.

During the period from 1920 to 1929, there were 1,517 banks closed in that district. There were 226 of those banks which have since reopened, leaving the remaining 1,300 closed involving deposits of over $300,000,000, which represented the savings of the thrifty people of the towns in which those banks were located, to the number of approximately 300,000.

Now, gentlemen, I do not know whether any of you have ever lived in a town where there has been a bank closing. But if you have, you have some appreciation of what it means to have the savings of the thrifty people of the community, accumulated over 15, 25, or 30 years, wiped out and destroyed in an overnight catastrophe. It means that that community has a setback that it will be the most difficult thing for them to recover from, and such things have happened in 1,517 communities in the ninth Federal reserve district, and I have a map here showing the ninth Federal reserve district and showing by black spots each point where there has been a closed bank. Some of them have several. I thought it would give you a picture, offhand, of the extent that that thing has occurred.

Of course, very many of these towns or sections were left entirely without banking facilities.

I have a statement here which is very carefully prepared. It is not an individual effort. It is the result of facts and thought given over several months, and I am going to leave enough of them so that each member may have one to read fully if he chooses to do so. I really would like to have this become a part of the record when I get through with it.

Mr. STRONG. Without objection, it is ordered that the statement prepared by Mr. Wakefield, part of which he is now discussing, shall be wholly incorporated in the record at this point.

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

STATEMENT BY LYMAN E. WAKEFIELD, VICE PRESIDENT FIRST BANK STOCK CORPORATION; PRESIDENT FIRST NATIONAL BANK IN MINNEAPOLIS; BEFORE THE BANKING AND CURRENCY COMMITTEE OF THE HOUSE OF REPRESENTATIVES

Gentlemen of the committee, group banking as it has developed in the ninth Federal reserve district is designed to meet definite conditions existing in the Northwest. I am not here as a special pleader for group banking as against any other system, but simply to explain the causes that resulted in the development of a system of banks around the First National Banks of Minneapolis and St. Paul.

Essentially group banking is the control through majority stock ownership of a number of banks through a holding company, patterned corporately after the modern investment trust, but operated as a central management institution. In our case the holding company is the First Bank Stock Corporation. With it are affiliated some 97 banks, trust companies, and financial institutions, all located within the boundaries of the ninth district, which includes the States of Minnesota, Montana, North and South Dakota, the upper peninsula of Michigan, and northwestern Wisconsin.

Banks in the group affiliate with the holding company through exchange of shares, or through outright sale of stock. Each retains its separate identity under local management of officers and directors and operates independently of the other member of the group, but subject to examination and supervision of the holding company.

Affiliation is a mutual transaction. We have maintained the position of offering opportunity to the individual banks to enter the group. Banks desiring to remain independent will continue to have our earnest support and cooperation. The First National Banks of Minneapolis and St. Paul have thousands of accounts from unit banks throughout the Northwest and Middle West, and certainly we would do nothing to jeopardize their position or attack their independence. But the independent banker appreciates the benefits to be derived from the group plan as acutely as do the metropolitan banks which fathered this practical reorganization of the banking structure in the Northwest.

The alacrity with which both the large and small banks in the district have taken advantage of the opportunity of affiliation is evidence of the fact that the northwestern banker is conscious of the benefits that the group system offers.

To understand the group banking movement requires an appreciation of conditions in the Northwest. Actually, a changed economic status has compelled a reorganization of rural banking. The group plan as we have developed it is accomplishing this reorganization and should result in greatly improved conditions, for certainly the Northwest must have strong banks in which there is absolute confidence if we are to progress commercially. The territory was and still is largely agricultural, although its resources are as diverse as any section of the United States, but the collateral that agriculture offered to substantiate its loans has always been the basis of most credit outside the largest commercial centers.

Prior to 1920 can be considered "the good old days" in rural banking. Since the Civil War, land values in the Northwest had been steadily appreciating. Agricultural banks loaning on real-estate collateral could deal almost blindly. The increase in land values over the period of three to five years always provided a volume of additional collateral and safety. Farm mortgages were as salable as Government bonds. The country banker was constantly solicited to sell mortgages to investors at distant points. If he made a mistake in putting too many eggs in the one basket, he had every reason to believe that it was about the best basket available.

Since 1920 the Northwest has been the scene of a constant struggle, political and economic, to reestablish the foundations of its basic financial structure which were rudely jarred by the sequences of the war. The years 1917 and 1918 had witnessed a magnificent effort on the part of the farmers of the Northwest to increase to a maximum the production of foodstuffs as a patriotic contribution of the Nation's war effort. Production costs increased, market values rose and land values appreciated greatly as a consequence. These in-

cidents of expansion were reflected in the operations of the rural banks of the territory. Much additional land was brought into cultivation. Machinery and stock to till this new land were purchased in large quantities at high prices. The banks cooperated fully with the agricultural population by the extension of new credits which were reflected in tremendously increased deposits. A large equity in these newly developed farms was represented in second mortgages held by the banks as collateral for note loans.

With the advent of 1920, the general price level took a sharp decline and the reaction followed throughout the entire credit structure. Country banks serving exclusively agricultural communities and often areas dependent upon one or two cereal crops found themselves confronted with drastic deflation of all values upon which their business was based. When the price deflation began loans and discounts were at a peak two and one-half times as high as the level of a normal period before the war. The late John H. Rich, chairman of the board and Federal reserve agent for the Federal reserve bank in Minneapolis, described the banking structure as it existed in 1921 in a report submitted to the Federal Reserve Board.

"Just preceding the collapse of 1920," he said, "the district contained 3,875 banks, the acreage in wheat had increased, merchandising establishments had crowded in where there was no economic necessity for them, and all lines of business activity had been overdone. Nothing could be more characteristic than the then existing banking situation. Based on the ratio of population per bank for the United States as a whole, North Dakota had five banks where one would have been sufficient, South Dakota, four, Montana three, Minnesota twice as many as the national average."

Since 1920 America has heard much of the farm problem from the territory involved; but the banking problem was equally acute. During the 10-year period from 1920 to 1929, inclusive, 1,517 banks in the ninth Federal reserve district closed their doors. Of this number, only 226 reopened. The remaining 1,300, with deposits in excess of $300,000,000, were liquidated at a heavy cost to more than 300,000 depositors. These losses fell most heavily upon our farming population and it is from the districts hardest hit by bank failures that the most insistent demands for farm relief have come. In many cases the recovery by depositors was practically nil. Some paid from 15 to 20 cents on the dollar. But it was a minority that yielded the depositors more than one-half of the funds intrusted.

The grim record of closed banks by years follows:

1920	35	1925	168
1921	73	1926	283
1922	64	1927	142
1923	279	1928	94
1924	295	1929	84

But no statistical summary can tell the whole story of the distress that followed in the communities affected. The wiping out of the capital investments of stockholders and the further levying of liability assessments consumed the savings of thousands of individuals and families. Sacrifices far beyond legal requirements often were made in vain attempts to avert closings. Many towns were left without banking facilities. In a number of instances, public-spirited groups of business men out of loyalty to their home towns guaranteed deposits and brought out frozen assets enabling the banks to continue. These patriotic assumptions of loss, however, were few as compared with the total.

The farmer customer of a closed bank suffered doubly. Not only was his cash capital tied up, but he was deprived of his source of credit and was compelled to submit to hasty and unexpected liquidation of his loans to satisfy the claims of closed bank receivers. The man who had undertaken a program of diversification was forced to sell off his foundation stock at meat prices to satisfy his loan.

The rural bank failures are a direct reflection of agricultural conditions. The Department of Agriculture recently compiled a comprehensive record of agricultural bankruptcies. Covering the States of Minnesota, North and South Dakota, and Montana, it shows that farm bankruptcies for the four States dur-

ing the five years from 1910 to 1914, inclusive, averaged 159 a year. Here is the record of such bankruptcies in the four States beginning five years later:

1919	111	1925	1,810
1920	173	1926	1,947
1921	256	1927	1,267
1922	679	1928	784
1923	1,420	1929	717
1924	1,999		

The precipitate deflation of farm land values carried prices to a point lower than had existed since the panic of 1893. The decline in some areas was much heavier than in others. Recently the Department of Agriculture surveyed the farm land situation in the States of the Northwest. Establishing the average price of lands from 1912 to 1914 at 100, it shows that the inflation carried valuations in Minnesota in 1920 to point 213, an increase of 113 per cent. The present level is 138. North Dakota went to 145 in 1920 and is now at 98, two points below the pre-war price. South Dakota went to 181 in 1920 and is now at 95. In Montana a peak of 126 was reached in 1920. In 1929, prices had fallen to a level of 72, or 28 points below the pre-war average. In 1925 the department estimated the loss in the four States in dollars at $2,754,000,000, and since 1925 this total has continued to mount.

With agriculture the basis of rural banking credit, these conditions resulted in an accumulation of "other real estate" in the banks of the territory. On June 2, 1918, "other real estate" in the banks of the four States totaled $9,271,000. Seven years later on September 28, 1925, "other real estate" was listed to a total of $45,323,000. And this does not include the great volume of such collateral that had been taken out of the banks through the organization of liquidating companies among the stockholders. Nor does it include the frozen real estate assets in the banks that had closed up to that time. Farm mortgages lost their liquidity and hundreds of banks were deprived of one of their chief sources of income.

Selling direct to the public or to large investing corporations, the rural bank was the primary farm loan agency prior to 1920, and the great traffic in such collateral was the prompting reason for the overly banked situation. To-day the remnant of this business is being conducted by new agencies such as the Federal and State farm banks, specifically chartered land banks, and employed agents of the larger mortgage purchasers such as the insurance companies. Many rural banks also conducted a general real-estate business, dealing principally in the sales of farm lands. This source of profit, too, has been practically wiped out.

Income from service charges of one form or another also has been reduced due to the constant pressure exerted by the Federal reserve banks and commercial organizations. The principle that the flow of commerce should not be hampered by exchange charges was costly to the rural banks, but in recent months there has been a tendency to restore a number of the abandoned service charges.

Looking back over this period we can see that the banking crisis had its inception in the events of the spring and summer of 1920. In 1918 a wheat crop of 277,000,000 bushels was grown in the four States of Minnesota, North and South Dakota, and Montana, and was marketed on a basis of $2.23½ per bushel for the best grade of hard spring wheat, the Government-fixed minimum price. The inflation commenced with the 1918 crop. Land values boomed; sales of farms and new lands were at record volume and price; deposits in country banks were at a peak and their loaning power was greatly expanded. Many banks established record earnings, which were distributed in dividends.

The 1919 crop, however, was short, only 140,000,000 bushels of wheat being produced, due to bad weather factors and rust damage. In the meantime the price had risen and reached as high as $3.40 a bushel during the fall of 1919. A peak of $3.50 was paid during the spring of 1920, and propaganda began to be heard in the farm areas that with the dissolution of the food commission's grain purchasing and rationing the lid would be off. "Five-dollar wheat" was the slogan and farm leaders, politicians, agencies, and seers of all kinds were actively urging the farmers to hold their 1920 wheat until after the Food Administration control expired the last of July. This propaganda was ex-

tremely effective, although world-wide distribution of foodstuffs was rapidly being restored. Had there been a normal marketing of grains during the period of fixed prices, a tremendous liquidation of farm borrowings would have ordinarily occurred. But by November best grades of spring wheat were selling as low as $1.49. The crop was being marketed in small quantities and the banks of the region were unable to collect more than a fraction of their seasonal bills receivable. The deflation set in quickly.

During the war-expansion period the country banks had been compelled to borrow heavily from their rediscount correspondents and the Federal reserve bank to carry their customers through the growing season, and it must be remembered that the war crops were produced at excessive costs for labor, machinery, seed, and materials of all kinds. The fall of 1920 found the country banker, who generally had excess funds at that period of the year, forced to borrow, further expanding his loans.

The 1921 crop was a partial failure and the banking situation began to become acute, with the country banker carrying a 2-year total of unliquidated loans.

The 1922 crop was large and prices correspondingly low. Best wheat brought from $1.06 to $1.22 during September and October. Collections somewhat improved. But the next year, 1923, the crop was again short with only 156,000,000 bushels of wheat being grown in the four States. Bank failures during the year showed a tremendous increase.

A large crop was grown in 1924 and was marketed at better prices then had been paid since 1920. Conditions were somewhat alleviated, but not permanently.

By this time confidence in country banks was badly shaken, and this lack of confidence further added to the rural banker's difficulties. He felt forced to keep his bank in sufficiently liquid condition to meet a mass withdrawal at any moment and as a consequence built up his reserves of cash on hand and on deposit with other banks, Government boards, and other easily negotiable low-rate paper. This not only reduced the bank's earning power but withdrew a large volume of capital from the support of ordinary business.

In the meantime new loaning agencies of all kinds had sprung up providing a further expansion of land credits. Federal farm banks, State land banks, joint-stock land banks, etc., were offering a margin on first mortgage real estate loans greater than the commercial banks had afforded at the peak of war expansion, thus increasing the farmer's fixed charges but not increasing his earning power. The intermediate credit banks were developed and continue to operate absorbing a considerable volume of business that should be conducted by the commercial banks. Chattel loans of a first mortgage nature on livestock and grains are agriculture's nearest parallel to the short-term notes of industry—basic banking collateral, and the intermediate credit banks absorbed much of this business.

These new agencies poured a tremendous volume of money into the country, but did little to assist in accomplishing liquidation of previous borrowings which the rural banks were carrying.

In this emergency, the first step toward group banking was taken with the organization of the Agricultural Credit Corporation of 1924. Financed by the largest industries of the Northwest with the aid of eastern interests, it set to work to meet a territorial problem. During its first year of operation, the corporation took over a large volume of livestock loans from operating and closed banks, and the following year began making livestock loans direct to the owners, taking a chattel mortgage on the animals. These loans are payable in installments and have greatly aided the general diversification program which the Northwest has undertaken. During the five years that this loan plan has been functioning, the corporation has distributed $5,892,000 on direct livestock loans to 12,169 farmers. Repayments of $3,448,000 have been made and loans now in force amount to $2,443,000. To date, losses of only $24,346 have been charged off and charge-offs are made as soon as the first delinquency arises.

Group banking is designed to meet territorial problems of the same nature. New territory must necessarily develop largely on credit, and group banking can direct this credit upon a comprehensive program basis.

The collapse of farm values was but one of several factors with which the banks of the Northwest were confronted. In former years, there had been an annual influx of new capital into the territory represented by the investment of settlers, capital expenditures for development purposes of an industrial nature,

and time deposits in the banks from outside the territory. Much money from distant points was in Northwestern banks attracted by the high rates of interest paid. This money rapidly melted away in withdrawals as interest rates declined.

As we have watched the situation develop in the Northwest, the factor of management in the rural banks has thrust itself more and more into the foreground. The well-managed bank whose officers were in a position to realize the changing conditions in the entire agricultural territory survived, where its less capably directed competitor encountered difficulties. On June 30, 1913, there were 2,928 banks in the district. Seven years after, on June 30, 1920, the total had reached 3,877.

New banks had sprung up like mushrooms after a rain. Prosperous farmers in scores of instances had moved to town and, attracted by the reported large earnings in the banking business, had enlisted the support of a few friends, applied for charters, and launched banks. But banks are more easily created than bankers. For a manager, they looked around and hired an assistant cashier or clerk from some near-by bank, prevailed upon a school-teacher to exchange professions, or brought in an ambitious son from the farm. In one instance the town bartender was made the bank manager. And everything went well as long as land was booming.

But that type of banking definitely has come to an end. No longer is the increase in land values the automatic debt satisfier that it was for generations. We are increasing our capital by working, saving, and careful investing; and banking for our territory requires able, alert, and trained intelligence.

I have cited these as the factors that brought about the banking crisis, but I do not want to leave you with the impression that our territory has suffered any permanent injury. The boom days have ended, but we are building a firmer, more stable, and better prosperity than ever before. The Northwest is on an earning and saving basis. Its bank deposits are again showing an upward trend, but this time we intend to fortify our capital and protect it with a stronger banking structure. In 1913 our banks had deposits of $755,000,000. They reached $1,855,000,000 in 1920, and a year later had declined to $1,512,000,000. On October 4, 1929, total deposits of all banks in the district were $1,678,205,000. The average deposit of the 2,350 banks in the district is greater than ever before.

Our agricultural areas are being revolutionized. Single cropping has given way to a widely diversified agriculture. Our cities are growing and prospering, and our people are looking forward confidently to material prosperity. But the rural banking situation remains as a severe handicap.

The Comptroller of the Currency in his recent report summed up the existing situation in these words, upon which I can not improve:

"Whereas a depositor in a large city bank, whether a wage earner or a business man, has had full protection, the depositor in the small country bank has suffered severely from the inability of so many banks to meet their deposit liabilities.

"It is a cause for immediate concern that the operating conditions faced by country banks show no prospect of improvement under the present system. There are many country banks now operating at a loss and many others operating upon earnings insufficient to justify their capital investment.

"Comprehensive study of the banking situation for the past nine years clearly indicates that the system of banking in rural communities has broken down through causes beyond control of the individual banker of the local community."

It was to remedy this situation that group banking developed out of the Twin Cities.

For generations the larger banks of Minneapolis and St. Paul have been territorial banks of approximately the same region now included in the reserve district. They were the depositories of the railroads, the mills, the manufacturing plants, the jobbing houses, the line elevator companies and lumber yards, drawing from and servicing the territory as a whole. They were also the reserve depositories and rediscount correspondents of the country banks in the district. In a major way the final financial responsibility for the vast section extending from the Great Lakes to the Rocky Mountains was theirs. Although their relations with the country banks of the district were primarily those of banker and customer, when the agricultural crisis arose the burden of sustaining the entire fabric was thrust upon the Twin City banks. It is more than simply circumstance that the best and most liquid paper of many of the

correspondent institutions was held by the larger banks as rediscount collateral. At once this collateral became essential to the stability of the rural units caught by the deflation, and the large depositories found the fate of many of their customer banks their responsibility. Exercising this responsibility became a matter of management—their own treasuries must be protected, their customer banks must be saved wherever possible.

This cooperation of the large commercial and reserve deposit banks undoubtedly saved many of their smaller correspondents. Aid of the War Finance Corporation was enlisted and through it much of the rediscount collateral was released and liquidated and the proceeds returned to the original holders. But in too many instances the combined efforts of all agencies could not avert failures.

In reaching our decision to embark upon the group-banking program we were prompted solely by the necessity of some form of practical reorganization of the rural banking structure, if the territory as whole was to recover from the effects of the farm deflation. The soundness and adequacy of the banking facilities of the district are vital and we who are residents of the larger cities must expect the cities to develop and prosper only as the rest of the district grows and prospers.

To correct the situation, we felt that if we could create an advisory organization, properly manned and with sufficient banking experience to offer to individual units making up the chain expert advice and assistance in the management of their local banks that there would be no question of the benefits that would accrue.

The basic change in the nature of the investments of the rural banks has been great. The rural banker has had to turn to bonds and commercial paper, collateral investments of another type, with a proportion of his assets. In buying such investments he was dependent largely upon traveling securities salesmen who visited him periodically. Investment of his surplus funds beyond the needs of his local requirements can be much better handled centrally by highly experienced buyers purchasing in substantially larger quantities, and much more closely in contact with the securities market.

As far as the general operations of the banks are concerned, our plan provides for the retention in the local community of the strongest possible control over the affairs of the unit. Management remains in the hands of resident officers and local directors, the central office exercising its supervision through periodical reports of condition, regular examinations, and the adoption of proven standards.

By the creation of a group a wider diversification of risk and resources is accomplished than is possible in a single unit. The group includes not only a great variety of agricultural depositories but also many of the commercial banks of both the metropolitan and secondary cities. Seasonal needs of various industries vary widely, but each division has a period of peak load. The diversification existing behind each individual unit will enable it to meet more adequately the seasonal needs of its customers and district.

Its association with the central banks in the group will enable it to arrange credit facilities for its larger customers whose needs at times exceed the loan limitations of a local unit. The parent corporation, also, is in a position to increase the capital structure of any of its affiliates should local conditions warrant greater credit resources.

Chain banking—that is, a number of units under the same ownership, generally a single individual—is now new. These chains of rural banks have existed for generations, but the units have seldom stressed affiliation, preferring to maintain the fiction of local independence. The group plan is a departure from the older chains in that the group is created about one or more central institutions of established reputation. For instance, the First Bank Stock Corporation group is headed by the First Nationals of Minneapolis and St. Paul, the two largest banks in the ninth Federal reserve district, each with resources in excess of $100,000,000; the Metals Bank & Trust Co., of Butte, and the First National of Great Falls, the largest banks in Montana.

In establishing the group we have had to feel our way. Originally the First National Banks of Minneapolis and St. Paul organized the First Bank Stock Investment Co., the stock of the investment company being held by allied corporations of the two banks. In other words, it was a subsidiary holding company. Our first practice was to purchase a majority interest in banks seeking affiliation. After several months' operations we came to the conclusion that

the holding company should be the parent corporation, and we amended our plan and created the First Bank Stock Corporation. The First Bank Stock Corporation now is a holding corporation for all the banks in the group, great and small. We now acquire, if possible, all the stock of the unit banks, with the exception of directors' qualifying shares, local investment interest being maintained by ownership of stock in the holding company.

This has the result that the corporation instead of individuals carry the stock liability for the member banks of the group. This, we believe, is one of our greatest contributions to the security and stability of the member banks. Legally the stockholder of a bank is subject to a double liability, but the parent corporation of a group has a factual liability for the maintenance of its units to a degree far beyond any legal requirements. If, through some disastrous happening, such as a serious conversion of a bank's funds, its structure should be impaired, the holding company must reestablish it from the central reserve of the group. It would be suicidal to permit any single unit in the group to fail, no matter what the cause.

The individual bank now is supported not only by its own capital and reserve structure but also by that of the corporation. The holding company's legal responsibility is no greater than was the individual stockholder's, but its moral liability goes to the nth power.

We are building up a double reserve, in the banks themselves, and a central reserve in the First Bank Stock Corporation. Actually, the entire capital and surplus of the corporation is a reserve of its units.

This group plan in practice affords the customer of the smallest, rural affiliate, the same degree of security that the great metropolitan banks provide their customers. It also meets the growing demand from the smaller centers that their financial agencies provide more intelligent and alert guidance in business and investment matters, and more favorable treatment as to interest rates, which have been high by comparison with the larger cities. We have established a major subsidiary which will operate through all the banks in the group and provide the residents of the smaller cities the same investment service that is maintained in connection with the banks of the Twin Cities. It is also our intention to expand the trust facilities of the smaller members, either in their own units or in cooperation with long-established trust companies which are members of the group.

Unquestionably the immediate result of the increased security that group banking affords will be the return to the local communities of considerable capital that has been sent away in recent years, to create a highly liquid reserve. The group plan, too, offers opportunity for the capable banker, no matter where situated, to demonstrate his ability, and provides a road for his advancement and progress.

We can expect that within a few years the farm mortgage will be restored as a liquid instrument. Upon what basis of valuation final stability will be reached no one can say, but once a stability is reached, agricultural areas will return to a normal credit basis. The group plan of banking should be able to speed the attainment of such stability and assist in restoring the farm mortgage to its rightful place in the credit scheme.

In adopting the group plan, we set up the only machinery that was available to us. Critics have alleged that it is but an evasion of the ban on branch banking. It is probably true branch banking might be more economical in some instances. Our operations to date have shown that there is a size and type of community which is too small to justify the maintenance of a separately capitalized and corporately staffed bank of its own and which the group can not enter with a unit bank. On the other hand, those towns want some form of banking convenience. A branch of a larger bank with perhaps a single officer in charge, could take care of them while the larger central bank would provide greater security and better service than the small, independent unit.

Banks in these small communities can not and do not earn sufficiently to justify their existence. And gentlemen, let me make this point with all the force that I command. A bank that does not make a profit is a highly dangerous institution in its community. Any commercial institution that is not endowed must earn to exist, and commercial banking is a business of small profit. It follows, therefore, that its profit must be certain.

Experience indicates that it takes exceptional management to enable a bank to earn sufficiently to justify its existence if it has deposits of less than $250,000 under a State charter, or less than $500,000 under a national charter.

In this connection it is interesting to note that 73 towns in Minnesota, with less than 100 population, have banks. In nine of these towns the total deposit is less than $50,000; 24 have deposits from $50,000 to $100,000; 19 from $100,000 to $150,000; 10 from $150,000 to $200,000; and five from $200,000 to $250,000. In communities of from 100 to 200 in population, five have deposits under $50,000; 36 from $51,000 to $100,000; 29 from $100,000 to $150,000; 19 from $150,000 to $200,000; and 12 from $200,000 to $250,000.

In towns of all sizes in Minnesota there are 55 with a total deposit less than $50,000, 71 from $51,000 to $100,000, 88 from $100,000 to $150,000, 95 from $150,000 to $200,000, and 16 from $200,000 to $250,000. This shows a total of 325 towns in the one State where the bank deposits are less than $250,000. At the same time, there are 145 towns which have no banking facilities whatsoever.

I am not prepared to suggest what areas from a standpoint of public policy should be included within a banch-banking zone. A central bank in a county seat town could conveniently have offices in the smaller centers within the county. On the other hand flow of trade is a matter of convenience and not governed by fixed county limitations. State branch banking or even reserve district limits would avoid conflict with already established routes and zones of trade.

I do believe, however, that the benefits of group banking should not be sacrificed. Group banking and branch banking could well go hand in hand, supplementing each other. The group plan offers distinct advantages at points sufficiently large to warrant the maintenance of a unit bank. It retains in the local community the benefits of local management, satisfying the very natural desire of the residents of the community that their bank be actually a home institution.

Then, too, there is a widespread public feeling that the branch bank is not as responsive to purely local needs as the home bank. This need not be true, but, the feeling is actual whether the premise is correct or not. The group plan obviates this criticism. An affiliated bank is as much a home institution after as before joining the group. The holding company is not a bank, and its success is dependent upon the growth and its success is dependent upon the growth and success of its units. Naturally it must look to the development of each affiliated bank wherever located for its own profit and assist in the development with every means at its command. To do otherwise would be contrary to its own self-interest. If the affiliated bank does not serve its community equally well or better than the independent unit we may expect competition to arise at the first opportunity. The group bank has no exclusive form of franchise, and we recognize that it must provide an improved service to exist.

The whole tendency of operation is diffusion rather than concentration around a central treasury.

We can foresee that if branch banking under certain limitations of area and boundary should be permitted that a number of the larger banks in the group could extend their service by the establishment of branches in near-by communities.

Although I can speak only for our own organization, I believe that group bankers generally would encourage the suggestion that the investigative powers of the national banking department be extended to the holding companies, and that these corporations should be subject to periodical examinations. We, in the banking business, know that searching examination is one of the real safeguards of sound practices and this would hold as true in the managing corporations as in the banks themselves.

In conclusion, may I add that the first objective of every bank must be service. This is not altruism, but simply sound business. Service means deposits and deposits mean profits. The prosperity of the community and the prosperity of its bank inevitably go hand in hand, and whatever increases the prosperity of the bank adds to the prosperity of the community which it serves.

The group system of banking is sound because it rests on these foundations:

First: Cooperation of resources.

Second. Diversification of resources.

Third. Ownership spread throughout the territory.

Fourth. Creation and management by bankers.

Grain crops of Minnesota, North Dakota, South Dakota, and Montana

Year	Wheat	Corn	Oats	Barley	Rye	Flax
1911	131, 935, 000	132, 210, 000	129, 840, 000	54, 008, 000	5, 216, 000	
1912	263, 043, 000	163, 282, 000	270, 245, 000	100, 242, 000	7, 202, 000	21, 530, 000
1913	179, 160, 000	174, 120, 000	212, 640, 000	77, 065, 000	8, 160, 000	13, 410, 000
1914	154, 192, 000	183, 000, 000	194, 189, 000	79, 519, 000	8, 505, 000	12, 302, 000
1915	322, 977, 000	168, 110, 000	336, 025, 000	112, 695, 000	10, 530, 000	13, 324, 000
1916	120, 360, 000	183, 860, 000	223, 367, 000	74, 251, 000	14, 385, 000	12, 870, 000
1917	183, 952, 000	193, 472, 000	237, 925, 000	88, 482, 000	23, 179, 000	7, 999, 000
1918	277, 459, 000	229, 494, 000	299, 714, 000	123, 895, 000	39, 712, 000	14, 196, 000
1919	140, 189, 000	228, 416, 000	196, 283, 000	46, 140, 000	28, 993, 000	6, 895, 000
1920	164, 022, 000	248, 682, 000	286, 429, 000	68, 757, 000	21, 786, 000	10, 541, 000
1921	163, 098, 000	303, 412, 000	221, 404, 000	55, 266, 000	25, 785, 000	7, 732, 000
1922	231, 876, 000	268, 335, 000	317, 070, 000	72, 229, 000	63, 374, 000	10, 089, 000
1923	156, 450, 000	337, 565, 000	310, 869, 000	68, 628, 000	27, 820, 000	16, 671, 000
1924	258, 269, 000	262, 543, 000	407, 268, 000	91, 378, 000	39, 788, 000	30, 890, 000
1925	209, 503, 000	258, 661, 000	373, 866, 000	98, 976, 000	24, 376, 000	21, 795, 000
1926	158, 247, 000	253, 113, 000	203, 449, 000	65, 183, 000	17, 150, 000	18, 690, 000
1927	276, 710, 000	293, 384, 000	260, 823, 000	128, 641, 000	35, 256, 000	25, 201, 000
1928	278, 642, 000	266, 596, 000	292, 724, 000	157, 613, 000	22, 274, 000	18, 709, 000

Farm land valuations—Minnesota, North Dakota, South Dakota, and Montana, from circular No. 101, December, 1929, Department of Agriculture

[1912 to 1914—100 per cent]

	1912 to 1914	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	
Minnesota	100	122	138	155	167	213	212	187	177	170	159	155	145	140	138	−2
North Dakota	100	112	118	124	130	145	141	136	128	114	109	105	100	99	98	−1
South Dakota	100	108	116	126	145	181	173	146	126	117	115	107	97	96	95	−1
Montana	100	94	100	106	114	126	105	96	87	81	75	72	70	71	72	+2

Sales of farms for delinquencies, Minnesota, North and South Dakota, Montana

NUMBER OF FARMS PER 1,000 CHANGING OWNERSHIP DUE TO MORTGAGE FORECLOSURES, DELINQUENT TAX SALES, BANKRUPTCIES, ETC.

	Default sales				Total sales				Per cent of default to all sales			
	1926	1927	1928	1929	1926	1927	1928	1929	1926	1927	1928	1929
United States average	21.6	23.3	22.8	19.4	61.4	68.5	66.0	57.9	35.1	34.0	34.5	33.5
Minnesota	30.6	29.2	31.9	30.1	57.9	61.4	62.4	58.5	52.8	47.9	51.1	51.4
North Dakota	59.0	61.1	55.9	37.7	91.8	97.6	98.5	80.2	64.2	62.6	56.7	47.0
South Dakota	66.1	66.1	57.9	35.0	93.0	101.7	99.6	71.8	71.0	64.9	58.1	48.7
Montana	70.9	69.0	56.4	39.2	108.5	117.6	114.0	104.1	65.3	58.6	49.4	37.6

ESTIMATED NUMBER OF FARMS AND ACREAGE SOLD UNDER DEFAULT, FOUR YEARS—1926, 1927, 1928, AND 1929

	Farms	Acreage
Minnesota	22, 898	3, 663, 680
North Dakota	16, 241	7, 341, 002
South Dakota	17, 895	7, 193, 970
Montana	10, 833	7, 621, 434
	67, 867	25, 820, 086

Range of wheat prices, Minneapolis Chamber of Commerce highest cash grade

	January	February	March	April	May	June
1917	1.82 -2.02⅞	1.73⅞-1.99	1.93⅞-2.12	2.11 -2.90	2.67½-3.54	2.32½-3.25
1918	2.23½	2.23½	2.23½	2.23½	2.23½	2.23½
1919	2.23½-2.28	2.23½-2.34	2.23½-2.53	2.50 -2.92	2.55 -2.83	2.44 -2.62
1920	2.80 -3.50	2.60 -3.10	2.65 -3.25	2.90 -3.35	2.85 -3.45	[2] 2.75 -3.25
1921	1.64¼-1.95¼	1.55¾-1.78⅞	1.53⅝-1.70⅜	1.34¼-1.64½	1.41¼-1.76½	1.34½-1.83½
1922	1.20⅞-1.41⅜	1.37 -1.63⅞	1.44⅛-1.62⅞	1.50¼-1.73⅞	1.47⅜-1.71¾	1.35¼-1.60¾
1923	1.16½-1.43⅝	1.18 -1.42¾	1.18⅝-1.41½	1.21⅞-1.51	1.16¾-1.45	1.05⅜-1.38¾
1924	1.12¾-1.30⅞	1.14¼-1.31¼	1.10¾-1.33⅛	1.11⅛-1.31½	1.12¾-1.35¾	1.11¾-1.51⅜
1925	1.71 -2.26⅜	1.70¼-2.22	1.40 -2.22	1.34 -1.86¾	1.54¼-1.90	1.40⅛-1.87¼
1926	1.67½-1.96¼	1.60⅛-1.88½	1.53¾-1.78⅞	1.54⅞-1.76⅛	1.57⅜-1.71	1.55¾-1.78
1927	1.40⅜-1.50	1.38⅞-1.49¾	1.30⅞-1.48⅞	1.33¾-1.40⅜	1.38⅛-1.65½	1.41½-1.65
1928	1.34½-1.75	1.31½-1.77⅞	1.38¾-1.81⅝	1.43½-2.13⅞	1.49¼-2.09⅝	1.43 -1.84

	July	August	September	October	November	December
1917	2.38½-3.00	2.30 -3.05	[1] 2.21	[1] 2.21	2.21	2.21
1918	2.23½-2.40	2.23½-2.26	2.23½-2.25½	2.23½-2.24½	2.23½-2.25½	2.23½-2.25
1919	2.57 -3.05	2.40 -3.00	2.45 -3.00	2.65 -2.95	2.75 -3.20	3.00 -3.40
1920	[2] 2.40 -3.10	2.30 -2.95	2.35½-2.75½	2.00½-2.36	1.49⅜-2.18	1.57 -1.85⅛
1921	1.29 -1.92	1.34¼-1.70¾	1.40½-1.60¾	1.22 -1.45⅛	1.19¼-1.40⅝	1.21 -1.36½
1922	1.32⅞-1.59⅞	1.06½-1.44½	1.06 -1.20⅜	1.06⅜-1.22⅜	1.15 -1.30½	1.16½-1.34⅞
1923	1.01⅜-1.37	1.09⅜-1.34⅜	1.13⅜-1.33¼	1.14 -1.30⅜	1.09½-1.27¼	1.07¾-1.25½
1924	1.22⅜-1.61	1.28 -1.56⅝	1.26⅞-1.58⅜	1.37⅛-1.69⅞	1.37½-1.75¾	1.53⅛-2.07
1925	1.48 -1.85⅜	1.53¼-1.84⅞	1.35⅝-1.74⅜	1.35⅝-1.78	1.47¼-1.81	1.59⅛-1.95¾
1926	1.61⅝-1.92¼	1.41⅝-1.69⅝	1.39 -1.56⅞	1.42½-1.58⅜	1.37½-1.52	1.41¼-1.50
1927	1.40⅜-1.64	1.37¾-1.65½	1.30¾-1.38½	1.23 -1.56	1.24½-1.59¾	1.28 -1.66¾
1928	1.27½-1.80	1.07½-1.52½	1.07⅛-1.44½	1.06⅞-1.35¾	1.07⅞-1.37¼	1.07½-1.36

[1] Government prices started.
[2] Fixed prices expired.

Mr. WAKEFIELD. In 1913 the total banking resources in our district were $755,000,000. In 1920 they were $1,855,000,000, and a year later had declined to $1,512,000,000.

I mention that because at the present time our banking resources are again on the increase, and because I want it distinctly understood that, in spite of all of the statements which I will make here of the difficulties and disasters which we have experienced, we still have a fairly sound and coming section of the country. Fundamentally and basically there is not any better part of the United States than the ninth Federal reserve district. Everything is there to grow and to build with, and if we can find a satisfactory method of stopping these calamities which have been with us these years, I am sure it will not take very long for us to be again on the upgrade.

There are remaining now about 2,300 banks in the ninth Federal reserve district. In making this statement I want the committee to know that the institutions around which the First Bank Stock Corporation was built are the First National Bank of St. Paul and the First National Bank of Minneapolis, each institution with approximately $100,000,000 of deposits, both old banks which have been in existence since 1868, and that those banks have had and now have as their customers a great many hundreds of small unit banks of the district, and that our desire and our efforts are and have been devoted to supporting the small unit banks in every manner possible. They to-day are our customers, and these things we are undertaking to do we would not permit to interfere with their business in any manner possible, because they are entitled to every possible help and support.

As Mr. Decker told you yesterday, during the years 1921 and 1922 the Twin Cities banks wene into the Federal reserve bank for the maximum amount practically that they could borrow and turned around and furnished that money to the small unit banks in the territory in an effort to carry them through the extreme difficulties of that time.

Now, I think that the officials of the Twin Cities banks, the Northwestern National, the First St. Paul, the First National of Minneapolis, undoubtedly saved a great many possible closings that may have taken place if they were not there ready and willing to help and assist those small banks.

In reaching our decision to go into the group banking business, it was based upon these factors:

This thing has been discussed over several years in our territory—we felt, because of the realization that, with the experience that we have had, our territory must continue to be in a depressed and unsatisfactory situation until the time came when there were banking facilities of the right character provided over the territory, and we have studied that and worked on it.

Mr. Decker and the Northwestern National people were the first to conclude to undertake a movement of this kind. We were all reluctant to do it. I do not think any of us who were engaged in the banking business in the Twin Cities were anxious to assume the responsibility and set out and become interested in the banking situation over the entire territory. So we moved rather slowly.

My own associates, at first, felt we would involve ourselves in exactly the same undertaking, but that we could do identically the same thing without forming a group tied down to the First National Banks of St. Paul and Minneapolis.

So, we undertook to handle it in a different way, and this statement will verify what Mr. Decker said yesterday about the attitude of the banks in the territory. We undertook to form a separate corporation, controlled by the First National Bank of Minneapolis and the First National Bank of St. Paul and, through it, go into the various communities and acquire a controlling interest in various banks. We undertook that operation over a period of about six months—long enough to discover that the people out in the territory absolutely were not interested in selling a control of their bank, nor were they willing to sell it entirely, but they were very anxious to have us form the same type of organization as the Northwest Banking Corporation put into effect, in an undertaking looking toward the straightening up and carrying on of the banking business of the territory.

So, a few months later, we changed our plan and adopted identically the same plan as used by the Northwest Banking Corporation and, at that time, we exchanged the capital stock of the First National Bank of St. Paul, the First National Bank of Minneapolis, and the Metals Bank & Trust Co. of Butte, Mont., and the First National of Great Falls, Mont., and the Western Montana Bank of Missoula. They formed our original group.

We got together with the different interests involved, agreed upon a basis of capitalization and incorporation, and made an exchange of stock with those particular banks and, from that time, have been adding additional banks through the exchange of stock as oppor-

tunity offers, and it seemed desirable to do so until, at the present time, we have a group, a statement of which each one of you has before you.

Now, our plan provides for retaining the local management and local directors in exactly the same manner as described yesterday.

At this point I am going to file some information, because I want to give certain information at this time and have already mentioned this list. In the questionnaire which came from Mr. McFadden he asked for certain information. First, we were asked for a copy of the charter, date of organization, and by-laws.

I have a copy of the charter which is attached here, and which I will offer at this time for the record.

Then, there is requested a list of the directors of our holding company, showing the practical business occupation of each, which is in this pamphlet which I am filing also.

Then the number, name, location, capital, surplus, deposits, and resources of each bank acquired, showing which are national, which are State members of the Federal reserve system, and which are nonmembers.

Then a list by name and capital structure of each corporation other than banks, the majority of the stock of which is owned by our holding company. That is contained in the pamphlet. [Reading:]

State fully the method of acquiring a bank, whether by cash, purchase of stock or by exchange of stock, and the method of negotiation.

Now, I have a statement here, attached to this [exhibiting], which I will file, but which I will read at this time, because it describes the method.

We have acquired controlling interest in the various banks and corporations comprising our group in the following manner:

(a) By purchase of their stock for cash.
(b) By incorporating new banks, and paying in the capital in cash.
(c) By exchanging stock of this corporation for stock of the banks.
(d) By a combination of (a) and (c).

In some cases we have solicited the affiliation, but in a large majority of cases we have been approached by the banks themselves. In every case a very thorough examination is made before the purchase is completed, and all undesirable assets are either removed from the bank or insured by adequate guaranty. In some cases where undesirable assets are removed, the accepted assets are guaranteed by deposit of a portion of our stock, given to them in exchange for theirs. We require all depositing stockholders to guarantee the validity of their stock, and also require them to sign a guaranty protecting us against any liabilities of the bank existing on the date on which the deal is closed, and now shown on the balance sheet. The number of shares of our stock given in exchange for the stock of affiliating bank or corporation is determined both by the amount of net capital assets which we require, and by the earning power of the bank or corporation over a period of years.

The methods are similar to those described by Mr. Decker yesterday.

The capital structure of the First Bank Stock Corporation is composed solely of fully paid and nonassessable shares of the par value of $25 per share of our capital stock. There was outstanding on December 31 a total of 3,016,870.57 shares of this stock with a par value of $75,421,764.39.

The stockholders are distributed geographically as follows: Minneapolis, 6,753 stockholders; St. Paul, 2,345 stockholders; Minnesota (outside of Twin Cities), 3,201 stockholders; Michigan, 383 stockholders; Montana, 987 stockholders; North Dakota, 892 stockholders; South Dakota, 516 stockholders; Wisconsin, 446 stockholders; other States, 596 stockholders or a total of 16,119 stockholders.

With the exception of 200,000 shares sold through First Minneapolis Co. and First St. Paul Co. to the general public at $47.50 per share, and 32,000 shares sold to officers and employees of the corporations affiliated with First Bank Stock Corporation at $42.50 per share, all of the stock has been issued in exchange for the stock of banks and corporations now affiliated with us, and no attempt has been made to otherwise control its distribution.

I will file that statement.

Mr. STRONG. Without objection it is received.

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

CERTIFICATE OF INCORPORATION OF FIRST BANK STOCK CORPORATION AS AMENDED, NOVEMBER 5, 1929

First. The name of this corporation is First Bank Stock Corporation.

Second. Its principal office in the State of Delaware is to be located at 900 Market Street, in the city of Wilmington, county of New Castle, and the name and address of its resident agent is Corporation Service Co., 900 Market Street, Wilmington, Del.

Third. The nature of the business and the objects and purposes to be transacted, promoted, and carried on are to do any or all of the things hereinafter mentioned as fully and to the same extent as natural persons might or could do, viz:

(*a*) To subscribe for or cause to be subscribed for, buy, own, hold, receive, acquire, sell, assign, transfer, hypothecate, pledge, or otherwise deal in, handle, or dispose of the bonds, stocks, and other securities or evidences of indebtedness created or issued by any bank or by any other corporation or corporations, partnerships, individuals, associations, whether public, private, or municipal, or any corporate body or by any government; and while the owner thereof to possess and to exercise in respect thereof all the rights, powers and privileges of ownership, including the right to vote thereon, and the right to transfer the said securities to one or more persons, firms, or corporations, subject to voting trusts or other agreements placing in them the voting power of said securities; to guarantee the payment of principal of and/or interest upon any bonds or other evidences of indebtedness; and to guarantee the payment of dividends on any of the above-mentioned securities issued by corporations or associations in which this corporation may at any time have an interest and to guarantee the performance of any contract by, or otherwise aid in any manner, any other corporation or association in which this corporation shall at any time have an interest.

(*b*) To loan money upon security or otherwise, either for itself or as agent for others.

(*c*) To organize, incorporate, reorganize, merge, consolidate, and finance banks, companies, corporations, joint-stock companies, syndicates, and associations of all kinds engaged or to engage in any lawful kind of business, and to underwrite, subscribe for, and indorse the bonds, stocks, securities, debentures, notes, or undertakings of any such companies, corporations, joint-stock companies, syndicates, and associations, and to make any guarantee in connection therewith or otherwise for the payment of money or for the performance of any obligation or undertaking, and to do any and all things necessary or convenient to carry any of such purposes into effect.

(*d*) To purchase, lease, or otherwise take, hold, sell, exchange, transfer, repair, maintain, improve, mortgage and in any other manner deal in and deal with real property, mixed and personal property, wherever situate, whether within or without the State of Delaware.

(*e*) To acquire the good will, rights, and property, and to take over the whole or part of the assets and liabilities of any person, firm, association, or corporation, and to pay for the same in cash, the stock of this corporation, bonds, or otherwise; to hold or in any manner dispose of the whole or any part of the property so acquired; and to conduct in any lawful manner the whole or any part of the business and property so acquired, and to exercise all the powers necessary or convenient in and about the conduct and management of such business.

(*f*) To purchase or otherwise acquire, hold, use, sell, and in any manner dispose of and deal in patents, inventions, improvements, processes, trademarks, trade names, rights, and licenses secured under letters patent, copyrights or otherwise, and to grant licenses or other rights therein.

(g) To enter into, make, and perform contracts of any and every kind for any lawful purpose, without limits as to amount, with any person, firm, association or corporation, municipality, county, State, Territory, or government.

(h) To borrow or raise moneys for any of the purposes of this corporation, and from time to time, without limit as to amount, draw, make, accept, indorse, execute, and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures, and other negotiable or nonnegotiable instruments and evidences of indebtedness, secure the payments thereof and of the interest thereon by mortgage upon, or pledge, or conveyance, or assignment in trust of, the whole or any part of the property of this corporation, real or personal, including contract rights, whether at the time owner or thereafter acquired, and sell, pledge, or otherwise dispose of such bonds or other obligations of this corporation for its corporate purposes.

(i) To purchase, hold, and reissue the shares of capital stock, provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital, and, further, that shares of its own capital stock belonging to it shall not be voted directly or indirectly.

(j) To carry on any and all of its operations and business and to promote its objects within the State of Delaware and elsewhere without restrictions as to place or amount.

(k) To do any or all of the things set forth to the same extent as natural persons might or could do, and in any part of the world, as principals, agents, contractors, trustees, or otherwise, alone or in company with others.

The foregoing clauses shall be construed both as objects and powers, and it is hereby expressly provided that the foregoing enumeration of specific powers is in furtherance of and in addition to, and not in limitation of, the general powers conferred by the laws of the State of Delaware.

Fourth. The total authorized capital stock of this corporation is 10,000,000 shares of the par value of $25 each. Shares of the capital stock of this corporation may be issued by the corporation from time to time for such consideration, not less than the par value thereof, as may be fixed from time to time by the board of directors.

At all meetings of the stockholders of this corporation each stockholder shall be entitled to one vote for each share of capital stock held by him.

The holders of the capital stock of this corporation shall have the preemptive right to purchase shares of the capital stock of the corporation now or hereafter authorized which may from time to time be issued and sold save and except that an aggregate of 500,000 shares of the corporation may be issued for cash without offering the same to the holders of capital stock pro rata for subscription and that any stock of the corporation may be issued and exchanged for stock of any bank, banking association, trust company or other corporation of whatsoever nature, without so offering the same to the holders of capital stock.

Fifth: The minimum amount of capital with which it will commence business, is $1,000.

Sixth: The name and place of residence of each of the incorporators are as follows: S. J. Mackey, Wilmington, Delaware; J. Skrivan, Wilmington, Delaware; H. Kennedy, Wilmington, Delaware.

Seventh: The existence of this corporation is to be perpetual.

Eighth: The private property of the stockholders of this corporation shall not be subject to the payment of corporate debts to any extent whatever.

Ninth: The number of directors of this corporation shall be fixed and may be altered from time to time as may be provided in the by-laws. In case of any increase in the number of directors, the additional directors may be elected by the board of directors to hold office until the next annual meeting of the stockholders and until their successors are elected and qualified. In case of vacancies in the board of directors, the remaining directors may elect directors to fill such vacancies. Directors of this corporation need not be stockholders therein and need not be elected by ballot.

Tenth: In furtherance and not in limitation of the power conferred by statute, the board of directors is expressly authorized:

(a) To fix, determine, and vary from time to time the amount to be maintained as surplus and the amount or amounts to be set apart as working capital.

(*b*) To adopt, amend, alter, change, add to or repeal by-laws of this corporation, without any action on the part of the stockholders. The by-laws adopted by the directors may be amended, altered, changed, added to or repealed by the stockholders.

(*c*) By resolution passed by a majority of the whole board, to designate one or more committees, each committee to consist of two (2) or more of the directors of the corporation, which committees shall have and exercise (except when the board of directors shall be in session) such powers and rights of the board of directors in the management of the business and affairs of the corporation as may be provided in the by-laws or in said resolution, and shall have power to authorize the seal of this corporation to be affixed to all papers which may require it.

(*d*) To authorize and cause to be executed mortgages and liens, without limit as to amount, upon the real and personal property of this corporation.

(*e*) From time to time to determine whether and to what extent, at what time and place, and under what conditions and regulations the accounts and books of this corporation, or any of them, shall be open to the inspection of any stockholder; and no stockholder shall have any right to inspect any account, books, or document of this corporation except as conferred by statute or by the by-laws, or as authorized by a resolution of the stockholders or board of directors.

(*f*) To sell, assign, convey, or otherwise dispose of a part of the property, assets, and effects of this corporation, less than the whole, or less than substantially the whole thereof, on such terms and conditions as they shall deem advisable, without the assent of the stockholders in writing or otherwise; and also to sell, assign, transfer, convey, and otherwise dispose of the whole or substantially the whole of the property, assets, effects, franchises, and good will of this corporation on such terms and conditions as they shall deem advisable, but only with the written consent or pursuant to the affirmative vote of the holders of a majority in amount of the stock then having voting power and at the time issued and outstanding, but in any event not less than the amount required by law.

(*g*) All of the powers of this corporation, in so far as the same lawfully may be vested by this certificate in the board of directors, are hereby conferred upon the board of directors of this corporation.

Eleventh. In the absence of fraud, no contract or transaction between this corporation and any other association or corporation shall be affected by the fact that any of the directors or officers of this corporation are interested in or are directors or officers of such other association or corporation, and any director or officer of this corporation individually may be a party to, or may be interested in, any such contract or transaction of this corporation; and no such contract or transaction of this corporation with any person or persons, firm, association, or corporation shall be affected by the fact that any director or officer of this corporation is a party to, or interested in, such contract or transaction, or in any way connected with such person or persons, firm, association, or corporation; and each and every person who may become a director or officer of this corporation is hereby relieved from any liability that might otherwise exist from thus contracting with this corporation for the benefit of himself or any person, firm, association, or corporation in which he may be in any way interested: *Provided, however,* That in any such case the fact of such interests shall be disclosed to the other directors or stockholders acting upon or in reference to such contract or transaction.

Twelfth. This corporation may in its by-laws make any other provisions or requirements for the management or conduct of the business of this corporation, provided the same be not inconsistent with the provisions of this certificate or contrary to the laws of the State of Delaware, or of the United States.

Thirteenth. This corporation reserves the right to amend, alter, change, add to, or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed by statute, and all rights conferred upon officers, directors, and stockholders herein are granted subject to this reservation.

We, the undersigned, being all of the incorporators for the purpose of forming a corporation, in pursuance of an act of the Legislature of the State of Delaware entitled "An act providing a general corporation law" (approved March 10, 1899), and the act amendatory thereof and supplemental thereto, do make and

file this certificate of incorporation, hereby declaring and certifying that the facts herein stated are true and accordingly hereunto have set our respective hands and seals this 1st day of April, A. D. 1929.

S. L. MACKEY. [SEAL.]
J. SKRIVAN. [SEAL.]
H. KENNEDY. [SEAL.]

In the presence of:
JOHN W. GAILEY.

BY-LAWS OF FIRST BANK STOCK CORPORATION AS AMENDED

ARTICLE I

SECTION 1. The principal office of the corporation in Delaware shall be in Wilmington, and the resident agent in charge thereof shall be Corporation Service Co.

The corporation may also have offices in the cities of Minneapolis and St. Paul, in the State of Minnesota, and at such other places as the board of directors may from time to time designate.

SEC. 2. The corporate seal shall be circular in form and have inscribed thereon the name of the corporation, the year of its incorporation (1929) and the words "Corporate Seal, Delaware."

ARTICLE II, STOCKHOLDERS

SECTION 1. The annual meeting of the stockholders of the corporation, beginning with the year 1930, shall be held at its office in Minneapolis or at its office in St. Paul as may be determined by the executive committee and stated in the notice of said meeting mailed to the stockholders, on the first Tuesday of January of each year at 3 o'clock p. m. (or if said day be a legal holiday, then on the next succeeding day not a holiday), at which meeting the stockholders shall elect by ballot by plurality vote a board of directors consisting of not less than 50 nor more than 150 members. Each stockholder shall be entitled to one vote in person or by proxy for each share of stock held by him.

No change of the time or place of a meeting for the election of directors, as fixed by the by-laws, shall be made within 60 days next before the day on which such election is to be held.

SEC. 2. A complete list of stockholders entitled to vote, arranged in alphabetical order, shall be prepared by the secretary and shall be open to examination by any stockholder at the place of election for 20 days prior thereto and during the whole time of election.

SEC. 3. Special meetings of stockholders may be called by the chairman of the board of directors of the president and shall be called on the request in writing of any three directors, or on the request in writing of stockholders of record owning not less than one-fourth of the capital stock outstanding which call or request shall in each case specify the purpose of the meeting so called or requested. The notice of such meeting shall in general terms state the purpose of such meeting and no business shall be transacted thereat except as stated in the notice thereof. Any such meeting may be held at such place within or without the State of Delaware as may be fixed by the board of directors, or by the executive committee, or the chairman of the board or the president, and as may be stated in the notice of such meeting.

SEC. 4. Notices of all meetings shall be mailed by the secretary to each stockholder of record at his last known post-office address as the same appears on the books of the corporation. Notices of annual meeting shall be mailed 10 days prior to the date thereof, and notices of special meetings shall be mailed 5 days prior to the date thereof.

SEC. 5. At any annual or special meeting of the stockholders, a majority of the shares of capital stock of the corporation then outstanding, represented by the owners thereof or by their proxies duly authorized in writing, shall constitute a quorum for the transaction of business.

Any meeting of the stockholders at which a majority of the capital stock then outstanding is not so represented, shall be adjourned from time to time, not exceeding 30 days in any one adjournment, until a majority of the stock is so represented, and at any adjourned meeting of the stockholders, a quorum being present, any and all business may be transacted which might have been

transacted at the original meeting and with the same force and effect, and at any such adjourned meeting, proxies intended for use at the meeting originally called shall be valid unless such proxies otherwise provide.

SEC. 6. The chairman of the board of directors or the president shall, in the order named, preside over all meetings of stockholders, and if neither of such officers be present, then the chairman of the meeting shall be elected by plurality vote of the stockholders.

SEC. 7. The board of directors may close the stock transfer books of the corporation for a period not exceeding 20 days preceding the date of any meeting of stockholders or the date for payment of any dividend or the date for the allotment of rights or the date when any change or conversion or exchange of stock shall go into effect; or, in lieu of closing the stock transfer books, the board of directors may fix in advance a date, not exceeding 20 days preceding the date of any meeting of stockholders or the date for the payment of any dividend or the date for the allotment of rights or the date when any change or conversion or exchange of stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of and to vote at any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise their rights in respect of any such change, conversion or exchange of stock, and in such case only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of and to vote at such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.

ARTICLE III

SECTION 1. The board of directors of the corporation shall consist of such number of directors as may be elected by the stockholders or board of directors from time to time, such number, however, to be not less than 50 nor more than 150. The directors shall hold office until the next annual election and until their successors are elected and qualify. The board of directors may at any time, and from time to time, elect directors to fill vacancies among their number in any manner arising and, within the limits as to numbers above set forth, may at any time, and from time to time, elect additional directors. A quorum of the board of directors shall at all times consist of the smallest number of directors permitted by law to constitute a quorum, i. e., one-third of the number of persons who shall at any given time be directors. Directors need not be stockholders.

SEC. 2. Meetings of the board of directors shall be held at such place, within or without the State of Delaware, as may from time to time be fixed by resolution of the board or as may be specified in the call of any meeting. Regular meetings of the board of directors shall be held at such times and at such places as may from time to time be fixed by resolution of the board and special meetings may be held at any time upon the call of the executive committee, the chairman of the board of directors, or the president, by oral, telegraphic, or written notice duly given, sent, or mailed to each director not less than two days before the meeting. A meeting of the board may be held without notice immediately following the annual meeting of the stockholders at the same place at which such meeting is held. Notice need not be given of regular meetings of the board held at times fixed by resolution of the board.

SEC. 3. The board of directors may, by resolution or resolutions, passed by a majority of the whole board, designate an executive committee to consist of not less than 6 nor more than 15 directors, as the board may from time to time determine. In addition to the members designated by the board, the president of the corporation shall at all time ex-officio be a member of the executive committee. The executive committee shall have and may exercise, when the board is not in session, all the powers of the board of directors in the management of the business and affairs of the corporation and shall have power to authorize the seal of the corporation to be affixed to all papers which may require it, but the executive committee shall not have power to elect members of the board of directors or to change the membership of, or to fill vacancies in the executive committee or to make or amend by-laws of the corporation. In addition to the foregoing powers and without in any manner limiting the same, the executive committee is hereby specifically granted the following powers:

(*a*) To issue shares of the capital stock of the corporation and within the limitations set forth in the certificate of incorporation to offer shares of the capital stock of the corporation for sale pro rata to the stockholders of the corporation or otherwise as the executive committee may from time to time determine, and to offer shares of the capital stock of the corporation in exchange for shares of stock of any bank, banking association, trust company, or other corporation of whatsoever nature on such basis as the executive committee may from time to time determine.

(*b*) To declare dividends upon the capital stock of the corporation and to set aside such reserves as the executive committee may determine advisable.

(*c*) To borrow money and to secure the repayment of the same by pledge or mortgage of any or all of the assets of the corporation.

(*d*) To determine the terms and conditions upon which the stockholders may examine the books of the corporation and the extent of such examination.

(*e*) To sell a part of the assets of the corporation less than the whole or less than substantially the whole thereof.

(*f*) To direct the closing of the books for the transfer of shares of the capital stock of the corporation and to fix record dates for determination of stockholders entitled to vote at meetings of the stockholders of the corporation, or to receive dividends upon the capital stock of the corporation, or to receive rights to purchase additional shares of the capital stock of the corporation, or for any other purpose.

(*g*) To purchase property of any sort or description for the use of the corporation.

(*h*) To appoint officers of the corporation, excepting only the chairman of the board of directors, the president, and the vice presidents, and to determine the salary and compensation of all of the officers of the corporation.

(*i*) To authorize the signing of checks, notes, contracts, and other instruments for and on behalf of the corporation.

(*j*) To propose and declare advisable amendments to the certificate of incorporation of the corporation and to call meetings of the stockholders to consider the same.

(*k*) To authorize the purchase by the corporation of shares of its capital stock.

(*l*) To fix the amount of or to waive a bond upon the issuance of certificates of stock in lieu of lost, destroyed, or stolen certificates.

(*m*) To change the principal office of the corporation and the resident agent in charge thereof.

(*n*) To authorize the issuance of scrip of the corporation in lieu of the fractional shares and to determine the date upon which such scrip shall be and become void.

(*o*) To make application to the New York Stock Exchange and/or the Chicago Stock Exchange for the listing thereon of the shares of the capital stock of the corporation and to execute any and all instruments, and do all acts and things necessary or proper in order to cause said shares so to be listed, including the appointment of New York and/or Chicago transfer agents and registrars.

(*p*) To appoint proxies and attorneys in fact for the corporation to vote upon shares of stock of any bank or other corporation owned by this corporation at meetings of stockholders of such bank or other corporation.

The board shall have the power at any time to change the membership of the executive committee, to fill existing vacancies in its membership, or to dissolve it. The executive committee may make rules for the conduct of its business and may appoint such committees or assistants as it shall from time to time deem necessary. Five members of the executive committee shall constitute a quorum but any less number thereof may adjourn. While the members of the executive committee shall act only as a committee and the individual members shall have no power as such, still it shall not be essential that said committee act only in meeting but any action taken with the written consent of all members of the executive committee shall be as valid and effectual as though formally taken at a meeting of said executive committee.

SEC. 4. The board of directors may also, by resolution or resolutions passed by a majority of the whole board, designate one or more other committees, each of such committees to consist of two or more of the directors of the corporation which, to the extent provided in said resolution or resolutions, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and shall have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such names or names as may be determined

from time to time by resolution adopted by the board of directors. A majority of the members of any such committee may determine its action and fix the time and place of its meetings, unless the board of directors shall otherwise provide. The board of directors shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee.

ARTICLE IV

SECTION 1. The board of directors, as soon as may be after the annual election in each year, shall choose a chairman of the board of directors, a president and two or more vice presidents, to serve until the next annual meeting of the directors and until their successors shall be elected and shall qualify. The board of directors shall also appoint a secretary and treasurer and such other officers, agents, and employees as it may deem proper, who shall serve during the pleasure of the board of directors. The office of secretary and treasurer may be held by the same person and a vice president of the corporation may also be either the secretary or treasurer. The chairman of the board of directors and the president shall be chosen from among the directors.

SEC. 2. Subject to such limitations as the board of directors or the executive committee may from time to time prescribe, the officers of the corporation shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as may from time to time be conferred by the board of directors or by the executive committee. The secretary shall be sworn to the faithful discharge of his duties. Any of the officers of the corporation may be required to give bond for the faithful discharge of their duties, in such sum and with such surety as the board of directors or the executive committee may from time to time prescribe.

SEC. 3. The salaries of the officers shall be fixed from time to time by the board of directors or the executive committee and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the corporation.

ARTICLE V

SECTION 1. The interest of each stockholder of the corporation shall be evidenced by a certificate or certificates for shares of stock in such form as the board of directors may from time to time prescribe. The shares of the stock of the corporation shall be transferable on the books of the corporation by the holder thereof in person or by his attorney upon surrender for cancellation of a certificate or certificates for the same number of shares with an assignment and power of transfer indorsed thereon or attached thereto duly executed, and with such proof of the validity of the signature as the corporation or its agents may reasonably require.

SEC. 2. The certificates of stock shall be signed by the president or a vice president and by the secretary or an assistant secretary, provided that if such certificates are signed by a transfer agent or transfer clerk and by a registrar, the signatures of such president, vice president, secretary or assistant secretary may be facsimiles, engraved, or printed.

SEC. 3. No certificate for shares of stock in the corporation shall be issued in place of any certificate alleged to have been lost, stolen, or destroyed, except upon production of such evidence of such loss, theft, or destruction, and upon delivery to the corporation of a bond of indemnity in such amount and upon such terms and secured by such surety as the board of directors or the executive committee in its discretion may require.

ARTICLE VI

SECTION 1. The books of the corporation, except the original or duplicate stock ledger, may be kept outside of the State of Delaware at such place or places as the board of directors or the executive committee may from time to time determine.

SEC. 2. The board of directors or the executive committee may authorize any officer or officers, agent or agents of the corporation, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances, and unless so authorized by the board of directors or executive committee no officer, agent, or employee shall have any power or authority to bind the corpo-

ration by any contract or engagement or to pledge its credit or to render it liable pecuniarily for any purpose or to any amount.

No loans shall be contracted on behalf of the corporation and no negotiable paper shall be issued in its name unless authorized by the board of directors or the executive committee. When so authorized, any officer or agent of the corporation may effect loans and advances at any time for the corporation from any bank, trust company, or other institution, or from any firm, corporation, or individual; and for such loans and advances may make, execute, and deliver promissory notes or other evidences of indebtedness of the corporation; and when authorized as aforesaid, as security for the payment of any and all loans and advances to, and indebtedness and liabilities of the corporation, may, subject to the provisions of the certificate of incorporation, mortgage, pledge, hypothecate, or transfer any real and personal property at any time held by the corporation, and to that end execute instruments of mortgage or pledge or otherwise transfer said property. Such authority may be general or confined to specific instances.

All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the corporation, shall be signed by such person or persons and in such manner as shall from time to time be determined by the board of directors or the executive committee.

All funds of the corporation shall be deposited from time to time to the credit of the corporation under such conditions and in such banks, trust companies, or other depositaries as the board of directors or the executive committee may designate, or as may be designated by any officer or officers, agent or agents of the corporation to whom such power may from time to time be delegated by the board of directors or the executive committee; and for the purpose of such deposit any person or persons to whom such power is so delegated may indorse, assign, and deliver checks, drafts, and other orders for the payment of money which are payable to the order of the corporation.

Unless otherwise ordered by the board of directors, or the executive committee, the chairman of the board of directors or the president shall have full power and authority in behalf of the corporation to attend and to act and to vote at any meeting of the stockholders of any corporation in which the company may hold stock, and at any such meeting shall possess and may exercise any and all the rights and powers incident to the ownership of such stock, and which, as the owner thereof, the corporation might have possessed and exercised if present. The board of directors or the executive committee by resolution, from time to time, may confer like powers upon any other person or persons.

SEC. 3. The fiscal year of the corporation shall begin on the 1st day of January in each year and shall end on the 31st day of December following.

SEC. 4. Any stockholder, officer, or director may waive in writing any notice required to be given under these by-laws whether before or after the time stated therein.

SEC. 5. The by-laws of the corporation may be amended, added to, rescinded, or repealed at any meeting of the stockholders, provided notice of the proposed change is given in the notice of the meeting. Subject to the power of the stockholders to amend, add to, rescind, or repeal any by-laws made by the board of directors, the board may make additional by-laws for the corporation and may from time to time amend, add to, rescind, or repeal any of these by-laws.

STATE OF MINNESOTA,
County of Hennepin, ss:

I, A. E. Wilson, do hereby certify that I am the duly appointed, qualified, and acting secretary of First Bank Stock Corporation, and that the foregoing is a true and correct copy of the by-laws of said corporation in effect at the date hereof.

In witness whereof I have hereunto set my hand and the seal of First Bank Stock Corporation this 5th day of November, 1929.

A. E. WILSON, *Secretary.*

FIRST BANK STOCK CORPORATION

With the adoption of the Federal reserve act, banking in the United States was established upon a definite regional basis, within areas having common economic interests and bound together by established zones of trade and avenues of transportation.

The ninth Federal reserve district, comprising the States of Minnesota, Montana, North Dakota, and South Dakota, the upper peninsula of Michigan, and northwestern Wisconsin, is centralized in the Federal Reserve Bank of Minneapolis. St. Paul and Minneapolis are the largest cities within the district, the terminal headquarters of the railroads traversing the territory, the seats of many of the larger industries and businesses serving the district as a whole, and the clearance centers of a major volume of commercial transactions originating within the territory.

For generations the First National Banks of Minneapolis and St. Paul have been territorial banks of approximately the same region now included within the reserve district. They are the largest banks in the district, and have always been closely identified with the major fiscal activities of the Northwest, serving as the depositories of the territorial industries and also as the rediscount correspondents and reserve depositories of the majority of the banks of the smaller cities and towns.

ORGANIZATION

In August, 1929, the stockholders of these two banks in association with a number of the other leading banks of the ninth district decided to unite the strength of their institutions within a group organization, which it was believed could better serve this territory by creating a medium through which the banks of the Northwest could associate for common strength, improved service, and facility.

The First Bank Stock Corporation of Minneapolis and St. Paul was organized as a central holding company, affording opportunity to the key banks of the district to affiliate through common ownership, bringing into a partnership relation the territorial banks of the metropolitan cities, the commercial banks of the industrial centers, and the agricultural banks of the rural areas.

PRESENT SCOPE

Since its organization the corporation has grouped together 93 of the leading banks, trust companies, and allied financial houses, including many of the oldest and most substantial institutions of the territory with long records of sound management, substantial earnings, and notable service to their communities. By pooling the interests of these banks greater diversification of resources and risk is accomplished; each affiliate is enabled to meet more adequately the seasonal needs of its trade area, while periodical surpluses of funds accumulated beyond local credit needs can be constantly and profitably employed supporting the general trade of the territory.

Sixty-seven cities now are served by affiliates of the corporation, as follows:

State	Cities	Units
Minnesota	24	44
Montana	13	15
North Dakota	17	17
South Dakota	10	12
Michigan	3	3
Territorial affiliates		2

OWNERSHIP

The First Bank Stock Corporation is territorially owned. Its authorized capitalization is 10,000,000 shares at $25 par, of which approximately 3,030,000 shares are outstanding, held by some 16,000 individual stockholders resident almost exclusively within the district. Thus the territory as a whole participates in the distribution of the earnings of the corporation.

INVESTMENTS AND FINANCING

Supplementing the usual banking functions of the affiliated members of the group, two major subsidiaries are maintained. The First Securities Corporation provides a general investment and securities service operating through the banks of the group and extending its facilities to the investing public throughout the Northwest.

The First Bancredit Corporation is an agency for providing credit facilities in specialized financing fields, particular in the building and construction lines, financing installation sales through manufacturers and dealers.

OPERATIONS

Operations of the First Bank Stock Corporation contemplate the retention in the hands of local boards of directors and resident officers of the management of the banking units. The central organization affords a supplementary, cooperative service functioning through several divisions and designed to maintain highly competent management in the units. Periodical examinations, central investment of secondary reserves, adoption of proven standards, exchange of information and the bringing to bear of trained judgments throughout the entire system of banks should insure their operation at a maximum constant of efficiency, providing a degree of security for depositors equal to that of the greatest banks of the nation.

MANAGEMENT

Management of the First Bank Stock Corporation is vested in a board of directors representative of the most substantial interests of the Northwest, an executive committee of commercial, agricultural, and investment bankers of many years experience in the territory served and a group of operating officers recruited from the executive staffs of the First National Banks of St. Paul and Minneapolis.

The executive committee of fifteen is composed as follows:

C. T. Jaffray, chairman of the board of First Bank Stock Corporation, and president of the Minneapolis, St. Paul & Sault Ste. Marie Railroad.

George H. Prince, president of the corporation and chairman of the First National Bank of St. Paul.

Lyman E. Wakefield, vice president of the corporation, president of the First National Bank of Minneapolis and chairman of the Board of the First Minneapolis Trust Co.

Richard C. Lilly, vice president of the corporation and president of the First National Bank of St. Paul.

P. J. Leeman, vice president and general manager of the corporation and vice president of the First National Bank in Minneapolis.

James E. Woodard, President of the Metals Bank & Trust Co. of Butte, Mont.

Sam Stephenson, president of the First National Bank of Great Falls, Mont.

T. A. Marlow, President of the National Bank of Montana, Helena.

J. C. Bassett, chairman of the board of the Aberdeen National Bank & Trust Co., and president of the First State Savings Bank, Aberdeen, S. Dak.

C. B. Little, president of the First National Bank of Bismarck, N. Dak.

R. W. Webb, president of the First Minneapolis Trust Co.

J. A. Oace, vice president of the First National Bank of St. Paul.

Julian B. Baird, president of the First Securities Corporation, St. Paul.

A. McC. Washburn, vice president and general counsel of the First Bank Stock Corporation, Minneapolis.

N. Paul Delander, vice president of the First Securities Corporation, St. Paul.

RESPONSIBILITY

The management of the First Bank Stock Corporation is conscious of the great degree of public responsibility which the nature of this organization entails. Banking is a semipublic function and banks are charged not only with the safeguarding of the accumulated capital of the areas they serve but with the maintenance of a stable financial structure through careful direction of the uses to which this capital is put. Strong banks are essential to prosperity and sound development and it is our purpose to afford the entire territory a banking service meriting the greatest degree of confidence.

It is also our intention that the development of this system shall be conducted frankly and openly and that the residents of the Northwest shall at all times be provided with comprehensive information concerning its activities. With that policy in view this booklet is published.

Group Banking

Group banking is the name that has come into common usage for this step in the evolution of the American banking system, which has developed extensively in the Northwest, prompted by a need to meet a definite change in economic conditions. Group banking is not simply chain banking under another name. Chains of banks under common ownership or common control, usually of a single individual, have existed for generations, the majority stockholder or stockholders simply exercising that natural right to supervise the operations of all the corporations in which their holdings represented controlling interests. Chain management generally reflected a single dominant individual. Group banking, on the other hand, is the association of a number of corporately independent institutions within a single holding company for mutual advantages, the group being built around one or more large banks of a territorial nature and its management resting in the hands of the banking interests of the territory served.

HOW BANKS AFFILIATE

The association of these banks is accomplished by the exchange of stock of the affiliating institutions for the shares of the holding company, the investment interest of the individual stockholders being transferred to the controlling corporation. As a consequence, the ownership of a group rests in the hands of a large number of stockholders representative of the entire district served by the group.

In the parent corporation, a reserve capital structure is created which stands as an emergency reserve for every member of the group.

ADVANTAGES

Group banking of this type has certain inherent elements of increased strength over single banking institutions. Banking is a business of careful investment of the funds entrusted by depositors, and the simple pooling of the investments of a number of banks entails a wider diversification of risk. The group accomplishes a further diversification through the greater variety and type of area and industry served by its members.

Supported by this greater diversification the unit is in a position to meet more fully peak credit loads and seasonal needs of its community. Such seasonal needs of different localities and industries vary widely, often to a point of complete absorption of local credit resources. The group organization provides means of mobilizing the credit supply of the territory to meet these conditions. At the periods of over-supply of available money in units of the group this capital may be marshaled for financing the general business of the territory.

The central treasury also provides a means for expanding the capital structure of its affiliates if the growth of the local communities requires the expansion of loaning power to meet rapid development of trade and industry.

Maintenance of supplementary facilities in territorial divisions of the group will enable the affiliated banks to provide types of services formerly offered by only the largest banks.

Management of the banks in the group remains in the hands of their corporate organization, the credit authority being exercised by local officers and directors. Supervision by the holding company is directed at maintaining efficient management, the conducting of careful examinations, the requirement of periodical reports, the exchange of information, and the adoption of efficient standards and methods.

BUILDING THE COMMUNITIES SERVED

Group banking contemplates the development to the maximum of the service of the component units to the communities in which they are situated. Only through the prosperity and success of its affiliates can the group expect to develop and prosper, and its continued prosperity rests with the development of the communities served.

In recent years there has been a growing tendency among the smaller and more isolated banks to keep their assets in such a liquid condition as to be able to meet an emergency, mass withdrawal at any moment. This has resulted in the creation of overly large liquid reserves, such as cash on hand, cash on deposit with other banks, investments in highly liquid assets such as Government and other low-return bonds and notes. The existence of a large mobile reserve within the holding company will release back to the use of the local communities a large volume of capital now withdrawn from support of general business.

The Northwest is a new country, rich in resources whose exploitation for the benefit of the people living within the territory, will require large credits from outside its borders. The group is a medium through which capital can be drawn into the Northwest and diffused throughout the entire region.

These are the financial institutions affiliated with First Bank Stock Corporation.

[Figures as of December 31, 1929]

State, bank, and city	Capital, surplus, and undivided profits	Deposits	Resources
MINNESOTA			
First National Bank, Minneapolis[1]	$11,613,170.30	$98,089,237.49	$121,035,069.92
First Minneapolis Trust Co., Minneapolis	2,400,000.00	23,879,378.42	26,510,493.24
First Minneapolis Co., Minneapolis	3,697,842.47		4,484,010.33
Minneapolis-Trust Joint Stock Land Bank, Minneapolis	667,169.93		5,073,272.16
Minnehaha National Bank, Minneapolis	121,562.17	1,622,346.14	1,848,564.10
Bloomington-Lake National Bank, Minneaplis	263,424.16	2,103,852.36	2,570,425.25
Produce State Bank, Minneapolis	136,617.18	1,175,329.84	1,318,672.85
Hennepin State Bank, Minneapolis	123,725.89	578,162.77	693,141.87
First National Bank, St. Paul	11,046,408.05	93,059,881.05	113,962,801.79
Merchants Trust Co., St. Paul	1,180,802.25	7,916,619.29	9,183,666.59
Grand Avenue State Bank, St. Paul	52,100.58	519,641.67	575,157.47
Farmers & Merchants State Bank, St. Paul	79,155.93	893,204.16	983,426.82
First Veterans State Bank, St. Paul	112,709.01	262,200.00	381,161.52
Security State Bank, St. Paul	97,056.58	799,690.80	909,278.21
Freeborn County National Bank & Trust Co., Albert Lea	130,000.00	451,905.99	586,205.71
North Side State Bank, Albert Lea	52,365.26	721,569.77	773,935.03
Farmers National Bank, Alexandria	126,592.60	985,291.10	1,125,208.11
Austin National Bank, Austin	140,616.51	1,770,728.93	1,963,928.28
First National Bank, Austin	315,388.90	2,456,236.36	2,894,680.49
National Bank of Benson, Benson	74,428.03	150,266.52	224,694.55
Farmers National Bank, Blue Earth	80,865.72	573,388.25	714,570.19
First National Bank, Blue Earth	44,301.19	463,576.46	519,127.65
First National Bank, Brainerd	217,934.12	3,113,015.13	3,407,891.15
Minnesota National Bank, East Grand Forks (opened Jan. 2)	65,000.00		65,000.00
First National Bank, Fairmont	139,298.24	1,203,774.98	1,393,073.22
First National Bank, Graceville	52,818.83	814,784.88	904,173.91
First National Bank, Heron Lake	93,277.64	824,288.19	952,565.83
State Bank of Litchfield, Litchfield	152,069.15	1,312,412.65	1,483,958.54
American National Bank, Little Falls	151,003.52	1,506,012.36	1,766,225.36
Peoples State Bank, Little Falls	38,124.61	391,789.06	429,913.67
First National Bank, Mankato	321,595.64	3,683,109.18	4,142,204.82
Mankato Loan & Trust Co., Mankato	120,183.24		151,421.32
Northfield National Bank & Trust Co., Northfield	167,062.51	1,038,574.26	1,314,896.69
First National Bank, Owatonna	136,743.21	1,822,635.08	2,059,378.29
Pipestone National Bank, Pipestone	110,119.47	1,071,095.13	1,196,356.17
Security National Bank & Trust Co., Red Wing	166,121.01	1,383,294.71	1,556,626.46
First National Bank, Rochester	383,951.54	3,712,470.88	4,316,266.15
Merchants National Bank, Sauk Centre	69,741.92	1,144,476.46	1,298,420.07
First National Bank, Spring Valley	102,441.70	1,203,156.61	1,365,598.31
Security Natilnal Bank, Willmar	127,706.62	95,376.56	223,083.18
First National Bank, Windom	177,706.11	1,222,003.03	1,485,199.69
Total	35,349,201.79	264,004,776.52	327,843,744.06

[1] Figures for the North side office, the West Broadway office and the St. Anthony Falls office of the First National Bank in Minneapolis are included in the totals of the main office.

State, bank, and city	Capital, surplus, and undivided profits	Deposits	Resources
MONTANA			
Midland National Bank, Billings	$325,000.00	$4,223,760.78	$4,748,760.78
Commercial National Bank, Bozeman	504,307.79	2,735,096.50	3,310,704.14
Metals Bank & Trust Co., Butte	1,278,185.55	21,140,244.53	22,776,710.08
American National Bank, Forsyth	36,781.89	458,892.12	500,674.01
Chouteau County Bank, Fort Benton	97,000.00	893,067.00	991,352.00
First National Bank, Great Falls	789,936.87	12,360,038.83	13,304,975.70
Montana National Bank, Havre	81,714.90	1,072,327.51	1,156,242.41
American National Bank, Helena	511,467.36	4,598,081.63	5,209,548.99
Montana Trust & Savings Bank, Helena	327,929.81	2,664,621.61	2,992,551.42
National Bank of Montana, Helena	425,924.88	3,614,999.83	4,155,662.21
National Bank of Lewistown, Lewistown	200,229.19	1,331,251.32	1,531,480.51
National Park Bank in Livingston, Livingston	244,498.80	3,095,544.92	3,372,907.19
First National Bank, Miles City	300,858.95	2,823,552.49	3,128,701.44
Western Montana National Bank, Missoula	408,657.80	4,435,804.06	4,944,461.86
First State Bank, Shelby	42,908.24	619,607.71	662,515.95
Total	5,575,402.03	66,066,890.84	72,787,248.69
NORTH DAKOTA			
First National Bank, Bismarck	438,041.62	3,989,507.39	4,527,549.01
First National Bank, Candо	76,028.04	712,449.29	802,690.49
Merchants National Bank, Cavalier	66,385.30	677,294.22	743,679.52
First National Bank, Cooperstown	66,015.48	292,267.96	412,996.15
Merchants National Bank & Trust Co., Fargo	334,732.77	2,552,937.39	3,006,134.08
First National Bank, Glen Ullin	40,369.30	535,114.23	583,254.17
Red River National Bank & Trust Co., Grand Forks	268,122.80	860,512.76	1,136,738.88
First National Bank, Harvey	102,174.55	803,360.42	930,534.97
First National Bank, Hebron	66,749.95	662,885.29	762,418.05
National Bank & Trust Co., Jamestown	139,083.10	1,456,042.79	1,604,181.18
First National Bank, Lidgerwood	39,812.53	429,888.50	495,113.13
Union National Bank, Minot	127,171.60	1,525,693.58	1,772,108.05
First National Bank in Neche, Neche	40,000.00	500,000.00	600,000.00
First National Bank, New England	58,595.03	357,880.46	435,635.48
First National Bank, New Rockford	117,326.72	665,822.78	814,541.94
First National Bank, Rolla	54,464.66	386,901.98	471,909.31
National Bank of Valley City, Valley City	138,350.71	1,162,518.30	1,361,068.53
Total	2,173,424.16	17,572,077.34	20,460,582.95
SOUTH DAKOTA			
Aberdeen National Bank & Trust Co., Aberdeen	255,562.17	3,380,282.33	3,635,844.50
First State Savings Bank, Aberdeen	103,247.61	834,623.83	944,780.11
Clark County National Bank, Clark	61,509.01	433,095.55	525,688.24
First National Bank, Gettysburg	48,281.14	437,846.32	516,956.21
Potter County Bank, Gettysburg	51,907.73	617,157.22	683,519.28
First National Bank, Highmore	114,672.26	847,936.40	1,017,603.66
Security National Bank (in process of organization), Huron	260,000.00		260,000.00
First National Bank, Lemmon	77,472.90	532,183.70	641,888.65
First National Bank, Miller	173,632.30	1,126,243.51	1,299,875.81
First National Bank, Ree Heights	49,656.08	300,665.27	350,321.35
First National Bank, St. Lawrence	59,073.63	288,532.79	372,306.44
First National Bank & Trust Co., Vermilion	163,611.13	1,959,275.07	2,149,312.33
Total	1,418,625.96	10,758,441.99	12,398,096.58
MICHIGAN			
First National Bank, Calumet	509,893.32	3,873,519.63	4,628,412.95
First National Bank, Hancock	243,176.71	3,122,788.47	3,436,705.18
First National Bank, Laurium	185,465.45	1,767,082.66	2,068,632.96
	938,535.48	8,763,390.76	10,133,751.09
TERRITORIAL SUBSIDIARIES			
First Bancredit Corporation, St. Paul	1,101,227.54		2,751,120.30
First Securities Corporation, St. Paul	7,500,000.00		13,990,463.78
	8,601,227.54		16,741,584.08
Combined totals	54,056,416.96	367,165,577.45	460,365,007.45

OFFICERS

C. T. Jaffray, chairman of the board of directors; George H. Prince, president; Lyman E. Wakefield, vice president; Richard C. Lilly, vice president; Paul J. Leeman, vice president and general manager; Lyle W. Scholes, vice president; A. McC. Washburn, vice president and general counsel; E. C. Kibbee, vice president; Alfred E. Wilson, secretary and comptroller; M. M. Hayden, treasurer; and M. A. Cooley, assistant secretary and assistant treasurer.

DIRECTORS

Shreve M. Archer, Minneapolis, president Archer-Daniels Midland Co., Dellwood Elevator Co., and Toledo Seed & Oil Co.; director, First National Bank of St. Paul; Merchants Trust Co., St. Paul; and St. Paul Fire & Marine Insurance Co.

Julian B. Baird, St. Paul, president First Securities Corporation; vice president, Merchants Trust Co., St. Paul, and First Veterans State Bank, St. Paul; treasurer, First Bancredit Corporation; secretary-treasurer and director, Northwest Airways (Inc.); director, First National Bank of St. Paul, and Grand Avenue State Bank, St. Paul.

J. C. Bassett, Aberdeen, S. Dak., chairman of the board of directors, Aberdeen National Bank & Trust Co.; president and director, First State Savings Bank, Aberdeen, S. Dak.; vice president and director, First National Bank, Frederick, S. Dak.; director, Federal Reserve Bank, Minneapolis, Dakota Central Telephone Co., and Agricultural Credit Corporation.

Russell M. Bennett, Minneapolis, president and treasurer Mace Iron Mining Co., Benore Co., and Ruddore Co.; president Fidelity Laundry Machinery & Engineering Co.; vice president and treasurer Minneapolis & Michigan Development Co.; vice president, Warben Land Co.; treasurer Keewatin Mining Co., Sargent Land Co., Sutton Land Co., Kearsarge Land Co., Meriden Iron Co., the Cascade Corporation, Cascade Land Co., and Cascade Mining Co.; director and member of executive committee, Brazilian Iron & Steel Co.; director, Minneapolis, St. Paul & Sault Ste. Marie Railway Co., First National Bank in Minneapolis, First Minneapolis Trust Co., the Munsingwear Corporation, Vassar Swiss Underwear Co., Cunic Investment Co., Judson Land Co., Judson Mining Co., Nevada Land Co., Nevada Mining Co., Pilgrim Land Co., and Leddore Mines (Ltd.).

F. R. Bigelow, St. Paul, president St. Paul Fire & Marine Insurance Co., Mercury Insurance Co., and St. Paul-Mercury Indemnity Co. of St. Paul; director, First National Bank of St. Paul, Merchants Trust Co., St. Paul, and Motor Power Equipment Co.

John W. Black, Minneapolis, president John W. Black Co.; Security State Bank, Cannon Falls, Minn.; First National Bank, Thief River Falls, Minn.; Security State Bank, Beardsley, Minn.; Richfield National Bank, Minneapolis; and Columbia National Bank, Columbia Heights, Minn.; vice president, Iron National Bank, Ironwood, Mich.; Oneida National Bank, Rhinelander, Wis.; First National Bank, Wheaton, Minn.; and Crystal Falls National Bank, Crystal Falls, Mich.; director, Produce State Bank, Minneapolis.

Ralph Budd, St. Paul, president Great Northern Railway Co.; director, Chicago, Burlington & Quincy Railroad Co., the Colorado & Southern Railway Co., Western Fruit Express Co., Spokane, Portland & Seattle Railway Co., Glacier Park Hotel Co., Canadian Rockies Hotel Co., First National Bank of St. Paul, Merchants Trust Co., St. Paul.

E. L. Carpenter, Minneapolis, president Shevlin, Carpenter & Clarke Co., Carpenter-Hixon Co. (Ltd.), Land, Log & Lumber Co., McCloud River Lumber Co., Shevlin-Clarke Co. (Ltd.), the Shevlin Co., Shevlin, Carpenter & Hixon Co., National Lumber Manufacturers' Association; vice president, the Shevlin-Hixon Co.; director, Northwestern National Life Insurance Co., First National Bank in Minneapolis, First Minneapolis Trust Co.; trustee, Farmers & Mechanics Savings Bank, Minneapolis.

F. A. Chamberlain, Minneapolis, chairman executive committee First National Bank in Minneapolis; president Minneapolis Eastern Railway Co.; director First Minneapolis Trust Co.; Minneapolis & St. Louis Railway Co.; Northwestern National Life Insurance Co.; and Northwestern Fire & Marine Insurance Co.

Hovey C. Clarke, Minneapolis, treasurer Shevlin, Carpenter & Clarke Co., Minneapolis; director Shevlin-Clarke Co., Minneapolis; chairman Lloyds of

Minneapolis; director First National Bank in Minneapolis; First Minneapolis Trust Co.; and Minneapolis Foundation.

Franklin M. Crosby, Minneapolis, vice president of General Mills (Inc.) and the Washburn-Crosby group; director First National Bank in Minneapolis.

N. P. Delander, St. Paul, vice president and director First Securities Corporation; director First National Bank of St. Paul; Merchants Trust Co., St. Paul; First Bancredit Corporation; Toro Manufacturing Co.; Stott Briquet Co.; A. J. Krank Co.; and Tri-State Telephone & Telegraph Co.

S. W. Dittenhofer, St. Paul, chairman of the board The Golden Rule, St. Paul; president Dittenhofer Realty Co.

Charles Donnelly, St. Paul, president Northern Pacific Railway Co. and Northwestern Improvement Co.; director Chicago, Burlington & Quincy Railroad Co.; Colorado & Southern Railway Co.; Railway Express Agency (Inc.); First National Bank of St. Paul; and Merchants Trust Co., St. Paul.

L. O. Evans, New York, general counsel Anaconda Copper Mining Co. and Butte, Anaconda & Pacific Railway Co.; director Metals Bank & Trust Co., Butte, Mont.; First National Bank, Great Falls, Mont.; and Western Montana National Bank, Missoula, Mont.

E. T. Foley, St. Paul, president Foley Brothers (Inc.); director Purity Bakeries Corporation; First National Bank of St. Paul; and Merchants Trust Co., St. Paul.

Harry P. Gallaher, Minneapolis, president the Northwestern Consolidated Milling Co.; director, First National Bank in Minneapolis.

Charles W. Gordon, St. Paul, president Gordon & Ferguson (Inc.), St. Paul; director C. G. Gunther's Sons, N. Y.; First National Bank of St. Paul; and Merchants Trust Co., St. Paul.

Theodore W. Griggs, St. Paul, president and treasurer Griggs, Cooper & Co.; director First National Bank of St. Paul; Merchants Trust Co., St. Paul; Minnesota Employers' Association; C. W. Griggs Investment Co., Tacoma, Wash.; and Cable Telephone Co., Cable, Wis.

William Hamm, jr., St. Paul, vice president Theo. Hamm Brewing Co., Hamm Realty Co., Hamm Building Corporation; Inter-City Realty & Loan Co., F. & R. Corporation, and Emporium of St. Paul (Inc.); director First National Bank of St. Paul and Merchants Trust Co., St. Paul.

Isaac E. Hansen, St. Paul, vice president First National Bank of St. Paul.

Harry J. Harwick, Rochester, Minn., secretary and treasurer Mayo Clinic, Rochester, Minn., and Mayo Properties Asssociation, Rochester, Minn.; director, secretary, and treasurer the Kahler Corporation, Rochester, Minn.; First National Bank in Minneapolis; First Minneapolis Trust Co.; Wells-Dickey Co.; and O. M. Corwin Co.

John H. Hauschild, Minneapolis, president Charles W. Sexton Co.; attorney Underwriters at Lloyds of Minneapolis; director First National Bank in Minneapolis and Minneapolis Fire & Marine Insurance Co.

Horace M. Hill, Minneapolis, president Janney, Semple, Hill & Co., Minneapolis; director First National Bank in Minneapolis and First Minneapolis Trust Co.

Louis W. Hill, St. Paul, chairman of the board, First National Bank of St. Paul; director, Great Northern Railway Co.; president Great Northern Iron Ore Properties; director, National Surety Co., New York; Merchants Trust Co., St. Paul; and Petroleum Corporation of America, Jersey City, N. J.; president Glacier Park Hotel Co. and Canadian Rockies Hotel Co. (Ltd.); president and director Arthur Iron Mining Co., St. Paul; Fillmore Iron Mining Co., St. Paul; Grant Iron Mining Co., St. Paul; Harrison Iron Mining Co., St. Paul; Jackson Iron Mining Co., St. Paul; Leonard Iron Mining Co., St. Paul; Minawa Iron Co., St. Paul; Minosin Iron Co., St. Paul; Nibiwa Iron Co., St. Paul; North Star Iron Co. of West Virginia; Polk Iron Mining Co., St. Paul; Tyler Iron Mining Co., St. Paul; Van Buren Iron Mining Co., St. Paul; Wabigon Iron Co., St. Paul; and Wenona Iron Co., St. Paul; director, Alexandria Iron Co., Duluth; Mesaba Security Co., Duluth; Monterey Ore Co., Duluth; Neath Mining Co., Duluth; and Wysox Iron Co., Duluth.

Louis K. Hull, Minneapolis, president Western Pacific Land & Timber Co.; member of the executive committee, McCloud River Lumber Co.; director, First National Bank in Minneapolis; First Minneapolis Trust Co.; First Minneapolis Co.; Minneapolis-Trust Joint Stock Land Bank.

Charles G. Ireys, Minneapolis, vice president, treasurer, and director, Russell-Miller Milling Co., Minneapolis; secretary, treasurer, and director, Occi-

dent Elevator Co.; Electric Steel Elevator Co.; secretary, treasurer, general manager, and director, American Elevator & Warehouse Co. (Inc.), Buffalo, N. Y.; and Occident Terminal Co., Duluth, Minn.; director, First National Bank in Minneapolis; First Minneapolis Trust Co.; Wells-Dickey Co.

Horace H. Irvine, St. Paul, president Thompson Yards (Inc.); treasurer, Weyerhaeuser Timber Co.; vice president, Weyerhaeuser Sales Co.; director, St. Paul Fire & Marine Insurance Co.; Globe Steel Tubes Co.; First National Bank of St. Paul; and Merchants Trust Co., St. Paul; president Grand Avenue State Bank, St. Paul; and Snohomish River Boom Co.

C. T. Jaffray, Minneapolis, president Minneapolis, St. Paul & Sault Ste. Marie Railway Co. and Duluth, South Shore & Atlantic Railway; chairman of the board the Agricultural Credit Corporation and Northwestern Fire & Marine Insurance Co.; director First National Bank in Minneapolis; First National Bank of St. Paul; First Minneapolis Trust Co.; Merchants Trust Co., St. Paul; First Minneapolis Co.; First Securities Corporation; First Bancredit Corporation; Northwestern National Life Insurance Co.; Title Insurance Co.; American Radiator Co.; and Northwest Terminal Co.

John Junell, Minneapolis, member, Junell, Oakley, Driscoll & Fletcher, attorneys; director, First National Bank in Minneapolis; Southern Minnesota Joint Stock Land Bank; Truax-Traer Coal Co.; and Automotive Investments (Inc.).

Charles O. Kalman, St. Paul, president Kalman & Co., St. Paul; president and director Watertown & Sioux Falls Railway; director, First National Bank of St. Paul; Merchants Trust Co., St. Paul; Northwestern Trust Co., St. Paul; St. Paul National Bank; North American Aviation (Inc.); Petroleum Corporation of America; Griggs, Cooper & Co.; the Emporium of St. Paul (Inc.); Gordon & Ferguson (Inc.); Schunemans & Mannheimers, St. Paul; Anchor Casualty Co.; Bliss & Laughlin (Inc.); Hudson Motor Co. of Illinois; Kalman Steel Co.; Stott Briquet Co.; and Minneapolis Theatre Co.

Paul J. Kalman, St. Paul, chairman of the board Globe Steel Tube Co.; Kalman Steel Co.; and Hudson Motor Co. of Illinois; president Kalman Investment Co.; Bliss & Laughlin (Inc.); Kalman Floor Co.; and Twin City Motor Car Co.; director, First National Bank of St. Paul; First Bancredit Corporation; Merchants Trust Co., St. Paul; Grand Avenue State Bank, St. Paul; and Benedict Stone (Inc.).

Cornelius F. Kelley, New York, president Anaconda Copper Mining Co.; Andes Copper Mining Co.; Butte, Anaconda & Pacific Railway Co.; International Smelting Co.; Chile Copper Co.; Chile Exploration Co.; Silesian-American Corporation; Silesian Holding Co.; and Copper Exporters (Inc.); vice president, United Metals Selling Co.; and Copper Export Association; director, Butte Water Co.; Guaranty Trust Co., New York; Western Montana National Bank, Missoula; Metals Bank & Trust Co., Butte; American Brass Co.; Anaconda-American Brass Co. (Ltd.); and Rocky Mountain Power Co.; chairman Copper Institute; and Giesche Spolka Akcyjna; first vice president American Manufacturers Export Association.

William P. Kenney, St. Paul, vice president and director of traffic, Great Northern Railway Co.; director, Great Northern Railway Co.; vice president, Glacier Park Hotel Co.; vice president and director, First National Bank of St. Paul; director, Merchants Trust Co., St. Paul; Minnesota Mutual Life Insurance Co.; and Western Fruit Express Co.

Horace C. Klein, St. Paul, managing partner, Webb Publishing Co., St. Paul; director, Standard Farm Paper Association; and Agricultural Publishers Association.

P. J. Leeman, Minneapolis, vice president and general manager, First Bank Stock Corporation; vice president, First National Bank in Minneapolis; president Produce State Bank; vice president, First Minneapolis Co.; director, First Minneapolis Trust Co.; First Securities Corporation; First Bancredit Corporation; Federal Reserve Bank, Minneapolis; Northwestern Fire and Marine Insurance Co.; Twin City Fire Insurance Co.; Northern Finance Corporation; Duluth, South Shore & Atlantic Railway Co.; and Western Oil & Fuel Co.

R. C. Lilly, St. Paul, president First National Bank of St. Paul; vice president, First Bank Stock Corporation; vice president and director, Merchants Trust Co., St. Paul; vice president and director, Grand Avenue State Bank, St. Paul; president Northwest Airways (Inc.), St. Paul; director, First Securities Corporation; vice president and director, First Bancredit Corporation; director, First National Bank in Minneapolis; Tri-State Telephone and Telegraph

Co.; Griggs, Cooper & Co.; and the Emporium of St. Paul (Inc.); trustee, Minnesota Mutual Life Insurance Co.; director, Dakota Central Telephone Co., Aberdeen, S. Dak.

C. B. Little, Bismarck, N. Dak., president First National Bank of Bismarck; Provident Life Insurance Co., Bismarck, N. Dak.; and Bismarck Loan & Investment Co.; director, First National Bank of St. Paul; Merchants Trust Co., St. Paul; and Bismarck Building & Loan Association.

A. C. Loring, Minneapolis, president Pillsbury Flour Mills (Inc.) of Delaware; and Pillsbury Flour Mills Co. of Minnesota; director, Great Northern Railway Co.; and First National Bank in Minneapolis.

James MacNaughton, Calumet, Mich., president Calumet and Hecla Consolidated Copper Co.; vice president, general manager, Isle Royal Copper Co.; LaSalle Copper Co.; and Cliff Mining Co.; general manager, Lake Milling, Smelting & Refining Co.; director, Duluth, South Shore & Atlantic Railway Co.

Sumner T. McKnight, Minneapolis, president S. T. McKnight Co., Minneapolis; chairman board of directors, Produce State Bank, Minneapolis; president Minneapolis Theater Co.; LaSalle Realty Co.; and Commercial Developing Co.; director, First National Bank in Minneapolis; Northwestern Bell Telephone Co.; Northwestern States Portland Cement Co.; Minneapolis-Moline Power Implement Co.; and Anchor Casualty Co.; trustee, Minneapolis Foundation.

T. A. Marlow, Helena, Mont., president National Bank of Montana, Helena; president Montana Trust & Savings Bank, Helena; director Metals Bank & Trust Co., Butte; director Northern Montana State Bank, Big Sandy, Mont.; director Federal reserve bank, Helena branch; director First National Bank of St. Paul; director Merchants Trust Co., St. Paul; director Montana Flour Mills Co., Great Falls; director Montana Elevator Co.; director Independent Coal & Coke Co., Salt Lake City; director Great Northern Railway Co.; partner McNamara & Marlow, Big Sandy, Mont.; director McNamara & Marlow (Inc.).

B. V. Moore, Minneapolis, vice president and treasurer First Minneapolis Trust Co.; vice president and treasurer First Minneapolis Co.; vice president Minneapolis-Trust Joint Stock Land Bank; director Bardwell Robinson Co.

J. A. Oace, St. Paul, vice president First National Bank of St. Paul; director Merchants Trust Co., St. Paul; director First Bancredit Corporation; director First Securities Corporation; director First Veterans' State Bank, St. Paul.

E. B. Ober, St. Paul, president Motor Power Equipment Co., St. Paul; vice president Anchor Casualty Co.; director First National Bank of St. Paul; director Merchants Trust Co., St. Paul; director St. Paul Industries; director Minnesota Employers' Association.

A. F. Pillsbury, Minneapolis, treasurer Pillsbury Flour Mills Co.; director First National Bank in Minneapolis; director First Minneapolis Trust Co.; vice president Farmers & Mechanics Savings Bank, Minneapolis; director Northwestern National Life Insurance Co.; director Twin City Rapid Transit Co.; president Kearsarge Mining Co.; director Sutton Mining Co.; director Keewatin Mining Co.; director Sargent Mining Co.

C. S. Pillsbury, Minneapolis, vice president Pillsbury Flour Mills Co.; director First National Bank in Minneapolis; director First Minneapolis Trust Co.; director Minneapolis, St. Paul & Sault Ste. Marie Railway Co.; vice president Title Insurance Co.; president Sargent Land Co.; president Keewatin Mining Co.; vice president Sutton Land Co.; vice president Union Elevator Co.; director Kearsarge Land Co.

J. S. Pomeroy, Minneapolis, vice president First National Bank in Minneapolis; director First Minneapolis Trust Co.; president Bloomington-Lake Nation Bank, Minneapolis.

F. M. Prince, Minneapolis, chairman of the board First National Bank in Minneapolis; director First Minneapolis Trust Co.; director First National Bank, Cloquet, Minn.; director the Shevlin Co.; director First National-Soo Line Building Co.

George H. Prince, St. Paul, president First Bank Stock Corporation; chairman and director First National Bank of St. Paul; director First National Bank in Minneapolis; president Merchants Trust Co., St. Paul; director First Securities Corporation; director First Bancredit Corporation; member advisory council Federal Reserve Board, Washington, D. C.; vice president First National Bank of Cloquet; director Archer-Daniels Midland Co.; director St. Paul Fire & Marine Insurance Co.; director Tri-State Telephone & Telegraph Co.; director Consolidated Elevator Co., Duluth.

George W. Robinson, St. Paul, president and general manager Tri-State Telephone & Telegraph Co., St. Paul; vice president Dakota Central Telephone Co.,

Aberdeen, S. Dak.; vice president United States Independent Telephone Association; president Program Service Co.; vice president Northern Building & Loan Association; trustee Minnesota Mutual Life Insurance Co.; director First National Bank of St. Paul; director Merchants Trust Co., St. Paul; director St. Paul Industries (Inc.).

John D. Ryan, New York, chairman of the board Anaconda Copper Mining Co.; chairman of the board Chile Copper Co.; chairman of the board Andes Copper Mining Co.; director International Smelting Co.; director National City Bank of New York; director American Brass Co.; president United Metals Selling Co.; president the Montana Power Co.; trustee Emigrant Industrial Savings Bank, New York; director Metals Bank & Trust Co., Butte, Mont.; trustee Consolidated Gas Co. of New York; director Brooklyn Edison Co.; director American Power & Light Co.; director United States Realty & Improvement Co.

Fred W. Sargent, Chicago, president Chicago & North Western Railway Co.; Chicago, St. Paul, Minneapolis & Omaha Railway Co.; director, Continental Illinois Bank & Trust Co., Chicago; Merchandise Bank & Trust Co., Chicago; United States Chamber of Commerce.

H. A. Scandrett, Chicago, president Chicago, Milwaukee, St. Paul & Pacific Railroad Co.; Chicago, Milwaukee & Gary Railroad Co.; Chicago, Terre Haute & Southeastern Railroad Co.; member of executive committee of Association of Railway Executives; member of executive committee of Western Association of Railway Executives; director, Chicago Union Station Co.; Indiana Harbor Belt Railroad Co.; Minneapolis Eastern Railway Co.; Continental Illinois Bank & Trust Co., Chicago; First National Bank of St. Paul; Merchants Trust Co., St. Paul; Continental Telegraph Co.; Excelsior Coal Co.; Milwaukee Land Co.; Western Railroad Association, Chicago.

Sam Stephenson, Great Falls, Mont., president First National Bank, Great Falls, Mont.; member, Cooper, Stephenson & Hoover; president Great Falls Townsite Co.; Rocky Mountain Fire Insurance Co.; Great Falls Electrical Products Corporation; chairman of the executive committee, Montana Flour Mills Co.

Martin L. Thompson, Vermilion, S. Dak., chairman of the board First National Bank & Trust Co., Vermilion, S. Dak.; president Associated Farms, (Inc.), director, Thompson Lumber Co.; owner Thompson-Lewis Co.

Lyman E. Wakefield, Minneapolis, president First National Bank in Minneapolis; chairman of the board of directors First Minneapolis Trust Co.; vice president First Bank Stock Corporation; director, First Securities Corporation; First National Banak of St. Paul; Merchants Trust Co., St. Paul; Wells-Dickey Co.; George A. Hormel & Co.; Jacob E. Decker & Sons; treasurer and director, Nicollet Hotel, Minneapolis; president and director, Equitable Loan Association; director, Northwest Fire & Marine Insurance Co.

E. C. Warner, Minneapolis, president E. C. Warner Co., Minneapolis; Canadian Elevator Co. (Ltd.); Tuxedo Park Co.; chairman of the board, McGill Warner Co.; vice president, Northwestern Fire & Marine Insurance Co.; president Grain Securities (Ltd.); director, Monarch Lumber Co.; First National Bank in Minneapolis; Consolidated Grain Co. (Ltd.); Twin City Fire Insurance Co.; Hanover Fire Insurance Co.; Fulton Fire Insurance Co.

A. McC. Washburn, Minneapolis, vice president and general counsel First Bank Stock Corporation; First National Bank in Minneapolis; director, First Minneapolis Trust Co.; First Securities Corporation; First Bancredit Corporation; vice president, Spalding Hotel Co., Duluth; Howze, Spencer & Co.; director, Investment Certificate Co., Duluth, Minn.

Robert W. Webb, Minneapolis, president First Minneapolis Trust Co.; First Minneapolis Co.; Minneapolis-Trust Joint Stock Land Bank; chairman of the board, First Securities Corporation; director, First National Bank in Minneapolis; Northwestern Fire Insurance Co.; Twin City Fire Insurance Co.; First Bancredit Corporation; chairman of the board Title Insurance Co. of Minnesota; trustee, Minneapolis Foundation.

Frederick B. Wells, Minneapolis, vice president, F. H. Peavey & Co.; president Globe Elevator Co.; vice president, Peavey-Duluth Terminal Elevator Co.; Monarch Elevator Co.; director, First National Bank in Minneapolis; First Minneapolis Trust Co.; president Grand Trunk Pacific Elevator Co.; vice president, British-America Elevator Co.; president National Elevator Co.; Northern Elevator Co.

Stuart W. Wells, Minneapolis, president Wells-Dickey Co.; director, Russell-Miller Milling Co.; First National Bank in Minneapolis; First Minneapolis Trust Co.; Foley Manufacturing Co.; O. M. Corwin Co.; Equitable Loan Association.

F. E. Weyerhaeuser, St. Paul, vice president, Weyerhaeuser Timber Co., Tacoma, Wash.; vice president, Thompson Yards (Inc.), St. Paul; director Great Northern Railway Co., Continental Illinois Bank and Trust Co. Chicago; First National Bank of St. Paul, Merchants Trust Co., St. Paul.

R. M. Weyerhaeuser, St. Paul, director, Northern Pacific Railway Co., chairman of the board, Northwest Paper Co.; president Edward Rutledge Timber Co., First National Bank, Cloquet, Minn., director, First National Bank, of St. Paul, Merchants Trust Co., St. Paul.

W. D. Willard, Mankato, Minn., vice president, First National Bank, Mankato, vice president and treasurer, Mankato Loan and Trust Co., secretary-treasurer, Mankato Citizens Telephone Co., treasurer, Mankato Industrial Corporation.

Frederick E. Williamson, Chicago, president, Chicago, Burlington, and Quincy Railroad Co., Colorado and Southern Railway Co., Fort Worth and Denver City Railway Co., Wichita Valley Railway Co., director, Chicago Burlington and Quincy Railroad Co., Colorado and Southern Railway Co., Fort Worth and Denver City Railway Co., Wichita Valley Railway Co., Trinity and Brazos Valley Railway Co., Western Pacific Railroad Co., Chicago Union Station Co., First National Bank, Chicago, First Union Trust and Savings Bank, Chicago, Continental Illinois Bank and Trust Co., Chicago, First National Bank of St. Paul, Merchants Trust Company, St. Paul.

James E. Woodard, Butte, Mont., president Metals Bank and Trust Co., Butte, vice president, First Securities Corporation, Director, First Bancredit Corporation, Midland National Bank, Billings, Interstate Lumber Co., Electrical Products Corporation of Montana, Montana Flour Mills Co., West Dome Oil Co.

Statement of banks and corporations affiliated with First Bank Stock Corporation

State, city, and name of bank	Capital	Surplus	Undivided profits	Deposits	Total resources	Per cent controlled
MINNESOTA						
Minneapolis:						
First National Bank	$6,000,000.00	$5,000,000.00	$613,170.30	$97,796,613.27	$122,159,177.19	99.30
First Minneapolis Trust Co	1,000,000.00	1,000,000.00	400,000.00	23,070,838.90	26,510,493.24	99.30
Minnehaha National Bank	100,000.00	20,000.00	1,562.17	1,622,346.14	1,848,564.10	99.30
Bloomington Lake National Bank	200,000.00	20,000.00	43,424.16	2,103,852.36	2,570,425.25	99.30
Produce State Bank	100,000.00	20,000.00	16,617.18	1,175,329.84	1,318,672.85	99.30
Hennepin State Bank	100,000.00	20,000.00	3,725.89	568,162.77	693,141.87	100
St. Paul:						
First National Bank	6,000,000.00	4,000,000.00	1,046,408.05	92,742,783.83	114,567,233.34	97.07
Merchants Trust Co	800,000.00	200,000.00	180,802.25	7,405,146.16	9,364,875.63	97.07
Grand Avenue State Bank	25,000.00	20,000.00	7,100.58	519,641.67	575,157.47	97.07
Farmers & Merchants State Bank	50,000.00	20,000.00	9,155.93	893,204.16	983,426.82	97.07
First Veterans State Bank	80,000.00	20,000.00	12,709.01	262,200.00	381,161.52	97.07
Security State Bank	60,000.00	30,000.00	7,056.58	802,255.10	911,842.51	69.33
Alexandria, Farmers National Bank	100,000.00	25,000.00	1,592.60	985,291.10	1,125,208.11	100
Austin:						
Austin National Bank	75,000.00	60,000.00	5,616.51	1,770,728.93	1,968,928.28	100
First National Bank	100,000.00	200,000.00	15,388.90	2,462,236.36	2,894,680.49	100
Benson, National Bank of Benson	50,000.00	20,000.00	4,428.63	150,266.52	224,694.55	100
Blue Earth:						
Farmers National Bank [1]	50,000.00	25,000.00	5,865.72	573,388.25	714,570.19	100
First National Bank [1]	25,000.00	10,000.00	9,301.19	462,997.40	518,548.59	98
Brainerd, First National Bank	100,000.00	100,000.00	17,934.12	3,113,015.13	3,407,891.15	64.50
East Grand Forks, Minnesota National Bank	50,000.00	10,000.00	5,000.00		65,000.00	100.00
Fairmont, First National Bank	100,000.00	25,000.00	14,298.24	1,203,774.98	1,398,073.22	100.00
Graceville, First National Bank	25,000.00	15,000.00	12,818.83	814,784.88	904,173.91	100.00
Heron Lake, First National Bank	35,000.00	35,000.00	17,277.64	824,288.19	952,565.83	100.00
Litchfield, State Bank of Litchfield	100,000.00	25,000.00	27,069.15	1,312,412.65	1,483,958.54	100.00
Little Falls:						
American National Bank	100,000.00	25,000.00	26,003.52	1,506,012.36	1,771,225.36	51.00
Peoples State Bank	25,000.00	5,000.00	8,124.61	391,087.76	429,913.67	100.00
Mankato:						
First National Bank	250,000.00	50,000.00	21,595.64	3,680,254.11	4,152,204.82	100.00
Mankato Loan & Trust Co	60,000.00	40,000.00	20,183.24	29,350.23	151,421.32	100.00
Northfield, Northfield, National Bank & Trust Co	100,000.00	50,000.00	17,062.51	1,038,574.26	1,314,896.69	100.00
Owatonna, First National Bank	100,000.00	25,000.00	11,743.21	1,822,635.08	2,059,378.29	100.00
Pipestone, Pipestone National Bank	75,000.00	25,000.00	10,119.47	1,071,481.97	1,196,743.01	100.00
Red Wing, Security National Bank & Trust Co	100,000.00	50,000.00	16,121.01	1,383,294.71	1,556,626.46	100.00
Rochester, First National Bank	200,000.00	100,000.00	83,951.54	3,712,470.88	4,316,266.15	100.00
Sauk Centre, Merchants National Bank	25,000.00	30,000.00	14,741.92	1,153,048.02	1,298,420.07	100.00
Spring Valley, Frist National Bank	50,000.00	35,000.00	22,441.70	1,208,156.61	1,365,598.31	99.2
Willmar, Security National Bank	100,000.00	20,000.00	7,706.62	95,376.56	223,083.18	100.00

[1] Now consolidated.

Statement of banks and corporations affiliated with First Bank Stock Corporation—Continued

State, city, and name of bank	Capital	Surplus	Undivided profits	Deposits	Total resources	Per cent controlled
MONTANA						
Billings, Midland National Bank	$200,000.00	$100,000.00	$25,000.00	$4,223,760.78	$4,748,760.78	100
Bozeman, Commercial National Bank	150,000.00	100,000.00	254,307.79	2,742,696.50	3,310,704.14	86.67
Butte, Metals Bank & Trust Co.*	600,000.00	400,000.00	328,185.55	21,193,524.53	22,776,710.08	100
Great Falls, First National Bank	200,000.00	400,000.00	189,936.87	12,360,038.83	13,304,975.70	100
Havre, Montana National Bank of Havre	50,000.00	25,000.00	6,714.90	1,074,527.51	1,156,242.41	100
Helena:						
American National Bank	200,000.00	225,000.00	86,241.66	4,598,307.33	5,209,548.99	99.67
National Bank of Montana	250,000.00	150,000.00	25,924.88	3,629,737.33	4,158,981.65	99.20
Montana Trust & Savings Bank*	150,000.00	100,000.00	14,824.81	2,664,621.61	2,954,446.42	100
Lewistown, National Bank of Lewistown	150,000.00	30,000.00	20,229.19	1,331,251.32	1,531,480.51	100
Livingston, National Park Bank	100,000.00	100,000.00	44,571.48	3,097,919.92	3,372,979.87	100
Miles City, First National Bank	150,000.00	100,000.00	50,858.95	2,827,842.49	3,158,701.44	98.66
Missoula, Western Montana National Bank	200,000.00	100,000.00	107,037.22	4,435,804.06	4,944,461.86	100
Shelby, First State Bank	25,000.00	12,500.00	5,408.24	619,607.71	662,515.95	100
NORTH DAKOTA						
Bismarck, First National Bank	200,000.00	125,000.00	12,400.91	3,988,635.34	4,526,676.96	99.4
Cando, First National Bank	50,000.00	10,000.00	16,028.04	712,472.67	807,690.49	95
Cavalier, Merchants National Bank	30,000.00	30,000.00	6,385.30	677,299.38	748,684.68	100
Cooperstown, First National Bank	50,000.00	10,000.00	6,015.48	292,267.96	412,996.15	90
Fargo, Merchants National Bank & Trust Co	250,000.00	50,000.00	34,732.77	2,552,937.39	3,006,134.08	61.4
Glen Ullin, First National Bank	25,000.00	10,000.00	5,369.30	535,114.23	583,264.17	100
Grand Forks, Red River National Bank & Trust Co	200,000.00	50,000.00	18,122.80	860,512.76	1,136,758.88	99.37
Harvey, First National Bank	50,000.00	25,000.00	27,174.55	803,360.42	930,534.97	100
Hebron, First National Bank	30,000.00	30,000.00	6,749.95	662,885.29	762,418.05	77
Jamestown, National Bank & Trust Co	100,000.00	25,000.00	14,083.10	1,456,042.79	1,604,181.18	100
Lidgerwood, First National Bank	25,000.00	5,000.00	9,812.53	429,888.50	495,113.13	100
New England, First National Bank	25,000.00	20,000.00	13,595.03	357,880.46	435,635.49	100
New Rockford, First National Bank	25,000.00	60,000.00	32,326.72	665,882.78	814,541.94	50.4
Rolla, First National Bank	40,000.00	10,000.00	4,464.66	389,301.98	471,909.31	100
Valley City, National Bank of Valley City	100,000.00	25,000.00	13,350.71	1,162,518.30	1,361,068.53	89
SOUTH DAKOTA						
Aberdeen:						
Aberdeen National Bank & Trust Co	100,000.00	75,000.00	34,863.46	3,380,282.33	3,635,844.50	98
First State Savings Bank	50,000.00	40,000.00	13,247.61	834,623.83	944,780.11	100
Clark: Clark County National Bank	25,000.00	25,000.00	11,509.01	433,697.33	525,690.02	100
Gettysburg:						
First National Bank[1]	25,000.00	15,000.00	8,281.14	436,399.21	515,509.10	100
Potter County Bank[1]	30,000.00	20,000.00	258.27	617,157.22	681,869.82	100
Highmore, First National Bank	50,000.00	25,000.00	39,672.26	847,936.40	1,017,603.66	100
Lemmon, First National Bank	30,000.00	20,000.00	27,472.90	532,183.70	841,888.65	100
Miller, First National Bank	50,000.00	100,000.00	23,632.30	1,126,243.51	1,299,875.81	100
Rec Heights, First National Bank						

First National Bank[1]	25,000.00	25,000.00	258.27	617,157.22	681,899.82	100
Potter County Bank[1]	30,000.00	20,000.00	39,672.26	847,936.40	1,017,603.66	100
Highmore, First National Bank	50,000.00	25,000.00				
Lemmon, First National Bank	*30,000.00*	*20,000.00*	*27,472.90*	*532,183.70*	*641,888.65*	*100*
Miller, First National Bank	*50,000.00*	*100,000.00*	*23,632.30*	*1,126,243.51*	*1,299,875.81*	*100*
Ree Heights, First National Bank	*25,000.00*	*15,000.00*	*9,656.08*	*300,665.27*	*350,321.35*	*100*
St. Lawrence, First National Bank	*25,000.00*	*15,000.00*	*17,073.65*	*288,532.79*	*372,306.44*	*100*
Vermilion, First National Bank & Trust Co	100,000.00	50,000.00	15,687.09	1,959,275.07	2,151,140.45	100
MICHIGAN						
Calumet, First National Bank	200,000.00	250,000.00	59,893.32	3,873,524.14	4,628,417.46	97.8
Hancock, First National Bank	100,000.00	100,000.00	43,176.71	3,122,788.47	3,456,705.18	99
Laurium, First National Bank	100,000.00	50,000.00	35,465.45	1,767,082.66	2,072,632.96	98.2
Subsequent acquisitions						
Albert Lea:						
Freeborn County National Bank & Trust Co	100,000.00	20,000.00	10,000.00	421,246.10	556,077.15	100
North Side State Bank	25,000.00	15,000.00	15,897.48	699,670.62	777,001.88	72
Forsyth, American National Bank	25,000.00	10,000.00	1,781.89	426,898.96	463,689.24	88
Windom, First National Bank	75,000.00	25,000.00	20,119.10	1,255,644.80	1,462,423.75	96.9
Fort Benton Chouteau County Bank	20,000.00	30,000.00	46,364.18	728,231.56	824,595.74	100
Lake Elmo, State Bank of Lake Elmo	15,000.00	10,000.00	11,412.67	374,323.32	417,128.34	100
Neche, First National Bank in Neche	25,000.00	10,000.00	2,630.10	510,695.25	554,006.09	100
Park River, First National Bank	25,000.00	25,000.00	5,081.92	446,844.14	534,241.06	100
Robbinsdale, Security State Bank of Robbinsdale	25,000.00	15,000.00	2,013.11	384,980.96	432,758.74	100
Rothsay, Farmers State Bank	15,000.00	10,000.00	10,812.34	409,575.19	457,307.08	100
St. Paul, Northwestern Trust Co	1,000,000.00	100,000.00	59,995.01		2,533,205.27	54
St. Paul, Saint Paul National Bank	100,000.00	25,000.00	5,991.34	1,431,440.92	1,581,032.26	100
South Heart, First State Bank	10,000.00	11,000.00	1,989.00	131,135.96	154,124.96	51
Total of banks	22,505,000.00	14,808,500.00	4,651,948.80	366,814,961.02	439,808,536.86	

[1] First National Bank and Potter National Bank Bank now consolidated.

Figures as of Dec. 31, 1929, except where acquired at later date:

National banks	68
State banks, members Federal reserve system (indicated by (*))	2
State banks, nonmembers Federal reserve system	21
Other corporations	7
Institutions	98

Other corporations

State, city, and name of bank	Capital	Surplus	Undivided profits	Deposits	Total resources	Per cent controlled
MINNESOTA						
Minneapolis:						
First Minneapolis Co.[1]	$1,500,000.00	$1,878,290.31	$319,552.16		$4,484,010.33	99.30
Minneapolis Trust Joint-Stock Land Bank	450,000.00	50,000.00	167,169.93		5,073,272.16	99.30
St. Paul:						
First St. Paul Co.[1]	3,000,000.00	2,134,119.53			6,045,885.61	97.07
First Bancredit Corporation	518,200.00		83,027.54		2,251,120.30	99.98
Austin, Austin National Co.	75,000.00	5,185.35			137,800.40	100
Owatonna, The F-N Co.	10,000.00	15,000.00	3,525.01		41,725.01	100
Subsequent acquisition						
St. Paul, Northwestern Acceptance Corporation	247,375.00	8,370.20			589,219.66	100
Total of corporations	5,800,575.00	4,090,965.39	573,274.64		18,623,033.47	
Grand total	28,305,575.00	18,899,465.39	5,225,223.44	$366,814,961.02	458,431,570.33	

[1] First Securities Corporation, organized Jan. 2, 1930, assumes all business First St. Paul Co. and bond department of First Minneapolis Co.

(5) We have acquired controlling interest in the various banks and corporations comprising our group in the following manner:

(*a*) By purchase of their stock for cash.

(*b*) By incorporating new banks, and paying in the capital in cash.

(*c*) By exchanging stock of this corporation for stock of the banks.

(*d*) By a combination of (*a*) and (*c*).

In some cases we have solicited the affiliation, but in a large majority of cases we have been approached by the banks themselves. In every case a very thorough examination is made before the purchase is completed, and all undesirable assets are either removed from the bank or are secured by adequate guaranty. In some cases where undesirable assets are removed, the accepted assets are guaranteed by deposit of a portion of our stock, given to them in exchange for theirs. We require all depositing stockholders to guarantee the validity of their stock, and also require them to sign a guaranty protecting us against any liabilities of the bank existing on the date on which the deal is closed and now shown on the balance sheet. The number of shares of our stock given in exchange for the stock of the affiliating bank or corporation is determined both by the amount of net capital assets which we require, and by the earning power of the bank or corporation over a period of years.

(6) The capital structure of the First Bank Stock Corporation is composed solely of fully-paid and nonassessable shares of the par value of $25 per share of our capital stock. There was outstanding on December 31 a total of 3,016,870.57 shares of this stock with a par value of $75,421,764.39. The stockholders are distributed georgraphically as follows:

	Number of stockholders
Minneapolis	6,753
Saint Paul	2,345
Minnesota (outside of Twin Cities)	3,201
Michigan	383
Montana	987
North Dakota	892
South Dakota	516
Wisconsin	446
Other States	596
	16,119

With the exception of 200,000 shares sold through First Minneapolis Co. and First St. Paul Co. to the general public at $47.50 per share, and 32,000 shares sold to officers and employees of the corporations affiliated with First Bank Stock Corporation at $42.50 per share, all of the stock has been issued in exchange for the stock of banks and corporations now affiliated with us, and no attempt has been made to otherwise control its distribution.

I have some facts concerning the matters you discussed yesterday which I know you will be interested in. The conditions which I described a few moments ago, concerning the possible earnings of the small banks, have changed substantially the opportunity for a bank in various-sized communities. To-day the bank in the small community finds it practically impossible to make a fair earning and I want to repeat what Mr. Decker told you yesterday that there is no more dangerous institution in a community anywhere than a bank which can not make money. It is just fundamental if they can not make a profit, they are a dangerous institution because they can not exist. They do exist over a period, because the stockholders will permit themselves to be assessed for operating charges, but eventually they get tired of that and there is a closing.

My experience is that it takes exceptional management to enable a bank to earn sufficient to justify its existence if it has deposits of less than $250,000 under a State charter, and less than $500,000 under a national charter.

I am reading these figures, because I can not carry them in my head, but taking Minnesota alone, there are 73 towns in Minnesota with less than 100 population that have banks. In 9 of these towns, the total deposit is less than $50,000; 24 have deposits from $50,000 to $100,000; 19 from $100,000 to $150,000; 10 from $150,000 to $200,000; and 5 from $200,000 to $250,000.

In communities of from 100 to 200 in population, 5 have deposits under $50,000; 36 from $51,000 to $100,000; 29 from $100,000 to $150,000; 19 from $150,000 to $200,000; and 12 from $200,000 to $250,000.

In towns of all sizes in Minnesota, there are 55 with a total deposit less than $50,000; 71 from $51,000 to $100,000; 88 from $100,000 to $150,000; 95 from $150,000 to $200,000; and 16 from $200,000 to $250,000. This shows a total of 325 towns in the one State where the bank deposits are less than $250,000. That does not mean there is only one bank in the town; in many instances there are two. There are 145 towns which have no banking facilities whatsoever.

I want to call your attention to this: Is it possible to make a statement before you that will not be circulated in the newspapers, to the detriment of our own people back home?

Mr. STRONG. Not in the presence of the newspaper gentlemen, because that is what they are paid for. These young men are paid to get the news; especially to get the news you do not want them to have.

Mr. WAKEFIELD. It is my observation that most newspaper men have some judgment.

Mr. STRONG. It is my experience that if you ask them not to print a thing they will not print it.

Mr. WAKEFIELD. I will say this, at this point, that since I came down here——

Mr. BRAND. Let us settle this question. I want the information which he thinks would be interesting to this committee, in order that we may intelligently prepare legislation to remedy these evils.

Mr. WAKEFIELD. I will get to it in another way.

Mr. BUSBY. If it is worth while to explain the matter, I do not think it is well to cover it up, even if it applies to your institution.

Mr. WAKEFIELD. It does not involve my institution.

Mr. BUSBY. Or any other institution.

Mr. WAKEFIELD. It does not involve much, but it might be misunderstood.

Referring to these 145 towns without banking facilities, and where there were banks, since I came down here, Mr. Veigel, who is superintendent of banks of the State of Minnesota, has come out publicly with a recommendation that the State of Minnesota authorize State banks to put branches or offices or teller's windows into those towns. I will read the statement.

> Personaly, I am inclined to think the State might permit strong banks to establish branches in neighboring places, say within a radius of 20 miles. That right would be carefully limited so it could not be abused. No bank would be allowed to put a branch in a town which had a bank already. No branch would be permitted except under a charter from the commission. Ordinarily not more than one bank should be allowed to have a branch in any place.
>
> Branches such as I have in mind would be merely offices, with a teller in charge, whose authority would be limited to receiving deposits and cashing checks.

Mr. Veigel's purpose in making that recommendation undoubtedly is because of the fact there are so many small communities at the present time not served with banking facilities, and he would like the State banks of Minnesota to take care of these people.

Mr. Decker described yesterday the requests that had come to permit deposits in drug stores. We have had the same kind of thing and have them constantly, but there is not any way you can take care of those things under the present conditions.

This position on the part of Mr. Veigel is a complete change of attitude. He has been, in the past, firmly opposed to any form of branch banking at any time.

Now, this condition that I have just described in reference to these small towns, there are the points where this branch banking seems to become a topic for discussion. I feel myself that ultimately the small banking business must be taken out through branches of some institution that can afford to run offices at various points. We are not prepared to suggest areas, from the standpoint of public policy, for branch banking and our opinion and our belief of the attitude of the general public in the territory concerning branch banking, as a general thing, are the same as those described by Mr. Decker yesterday. I think our larger towns would be resentful of an effort or a necessity of having branch banks in their various communities. It is quite likely that the trend may be such that within a few years our people out there may change their attitude in that respect.

However, I feel confident at this time that if legislaion were passed, which directed or made necessary for us immediately to convert our banks into a branch banking system, it would mean the destruction of that business, because I think that it would mean that we would have a new crop of banks formed to take advantage of the feeling existing at the present moment, and it would simply destroy an agency that is there taking care of the business better than it can be through any other arrangement and it would be very very disastrous.

I realize that it may be necessary that branch banking be authorized within certain trade areas. I do not know who will determine those areas. I should hate to try to do it myself.

If that were done, we would be perfectly willing to operate in competition with whatever might develop under a privilege of that kind. But I do believe that it would be destructive and disastrous if a permission of that kind were granted, and at the same time legislation, destructive of the thing which we are undertaking to do, were put into effect.

Now, do not forget this: I think I can show you that my motives and feelings in that statement are sincere, because, in my opinion, if we could to-day convert our entire group into a branch system, I feel satisfied that we could handle that business more profitably and make more money than we can under the group system.

We feel that the benefits from group banking should not be sacrificed, and even though there were a branch banking system I still believe there will be for many years a better and more successful banking service rendered in many communities through the group system as we are operating.

Now, I referred awhile ago to the motives which prompted our undertaking this type of organization.

Gentlemen, I think that you will all admit that if you were living out in Minneapolis and St. Paul and you were engaged in the banking business there and in a position to see the possibility for future development and the carrying on successfully of the business of the territory and you realized that there was no possibility for growth or development within your city, except as the territory which makes it should grow and develop, you would be very much interested in trying to see that that territory outside of your trade area got itself into a position where it would be satisfactorily banked at the earliest possible moment, and that is the only motive which we have in undertaking the job which we are doing. It is for the definite purpose of furnishing banking facilities in each one of the points where we operate, which will have the confidence of the public, which will be in the position of knowing that they need not be fearful of their own single institution, and on account of that fact unwilling to take care of the loans and business in their own community which they should take care of, and who understand that the driving force back of the entire organization is the means and the will to serve those various communities and develop any business that is legitimate in this territory to the limit. That is not altruism. There is nothing to that. That is the way through which our banks have grown in the cities, and it is the only way. That is the means through which the business of the Twin Cities was developed. It is the development of the territory surrounding it, and there is no other way to develop it.

So our purposes are those of self-preservation practically. We want that territory to stand out in a business way. Over very many years the territory of the ninth Federal reserve district was freer from any business and financial difficulties than any other section of the United States. We have always been able on account of the agricultural background to hold ourselves in steady rein and go ahead progressively.

We have gone through a period which has been very unsatisfactory and we are on the way up and we are trying to see that we do not again find ourselves in the difficulties which we have just experienced and through which we have passed.

Now, I am going to state a few things here which I trust, from the questions asked here yesterday, are those things which you are particularly interested in and anxious to have information on. In the questionnaire you asked me to explain fully what control or influence the holding company, or a central bank controlled by the holding company, exercises over the group of banks acquired.

Now, gentlemen, the First Bank Stock Corporation is organized under the laws of Delaware, and I should like to tell you why. In our first consideration of this matter we intended to organize under the laws of Minnesota, which would have given our corporation a double stock liability. That particular feature is one which we would have welcomed in the organization.

However, we transferred the corporate organization to the laws of Delaware for this reason, that under the laws of Minnesota any stockholder of our corporation living in any other State, in case of death, his stock would be subject to inheritance taxes in two or three different States, and we felt it was an unjust thing to ask our people to buy stock when we were covering a wide area, in a corporation

where, in case of their death, they would be subject to the inheritance-tax penalties at two or three different points. That was the basis for using the Delaware incorporation. It was not to avoid the double liability on the stock. We did not care anything about that.

Mr. BRAND. Would it interrupt you to ask you a question there?

Mr. WAKEFIELD. No, sir.

Mr. BRAND. What is the liability under the present law of the group banks?

Mr. WAKEFIELD. They have the double liability, but the corporation is the holder of their stock. We would not have had any objection to the double liability of the holding company's stock.

Mr. BRAND. But it is a double liability on the stock of the banks?

Mr. WAKEFIELD. Yes, sir.

Mr. WINGO. I do not think you made clear the point you wanted to make in reference to the inheritance tax.

Mr. WAKEFIELD. I think you gentlemen are all familiar with the fact that it has gotten to the point now where different States have passed laws that if a man goes to New York and dies—rather, if he owns stock in Minnesota, we collect an inheritance tax on it in Minnesota.

Mr. GOLDSBOROUGH. You mean two States, and not two or more States?

Mr. WAKEFIELD. It may be many States. There have been cases where the whole stock has been used up in payment of taxes.

Mr. WINGO. Why did you go to Delaware? They do not have it there?

Mr. WAKEFIELD. No, sir.

Mr. SEIBERLING. There is no transfer tax in Delaware?

Mr. WAKEFIELD. No, sir. In our case we have the First Bank Stock Corporation with officers and employees set up to supervise the management of the banks in our group, and in that supervision we go a long ways. We depend upon the officers and directors of the banks, who, by the way, have identically the same responsibility, and they do not avoid it—the same responsibility they have always had, or would have had, and as is true under all corporate ownership, in case of mismanagement. The stockholders are the ones who are obliged to make changes in the directors and officers.

In this case, we feel that we have a much more live and active interest on the part of the stockholders, because the stockholder is the First Bank Stock Corporation, and the First Bank Stock Corporation is following the business of that institution intimately and it will, if anything goes wrong in any single unit in that institution, be in a position of taking an active interest as a stockholder and bring about required changes in a much more satisfactory manner than is ordinarily true of a corporation whose stock is spread over a large group of small stockholders, the interests of which are not definite or active.

Mr. GOODWIN. And perhaps more expeditiously?

Mr. WAKEFIELD. Yes, sir. Our method of conduct is this: No bank has been taken into our organization except upon a complete examination which involved the setting up of a complete set of information for our own office concerning the loans in that bank, and we have a record to start with of the loans in that bank. In

all cases, every loan made by officers involving $500 and over are reported to our office in Minneapolis daily and accompanying that loan, if it is a new loan, is a financial statement or a statement of the collateral upon which the loan is made; so that in the case of a poor one being made, we have knowledge of that fact within 24 hours after it has happened.

We have a corps of examiners who are charged with the responsibility of entering and examining those banks not less than two times each year, and who make those examinations and bring them into the office and enter into correspondence with the officers of the banks or discuss with them there anything that they think needs a little attention.

One of the difficulties of the small banker has been this fact, that he has had no opportunity to get in touch with people and avail himself of the modern method of banking—the modern method of determining the value of credits, and our experience is that that group with which we are associated are the happiest bunch of men over the fact they have a chance to sit in and advise, and work out, and find out how a bank should be operated and how loans should be made.

I want to repeat what Mr. Decker said yesterday, that there is much more damage done by a poor loan than there is by not making loans that should be. There is much more harm done by making the loan that is not justified than ever will be created by turning down some one who should have the money.

In connection with all this, I want to say that I have been reading the testimony that has been presented before this committee, and it has been my opinion—and perhaps it is not correct—that there has been in the minds of the members of the committee the need of protecting the borrower.

Now, gentlemen, I want to make this clear. In my opinion, the job this committee has to undertake is to protect the depositor, and the borrower needs no protection. Money is the most competitive commodity in the world. There is not anyone that I ever have known of that can get a monopoly in it. It will move overnight if there is a better place to put it, and I have never seen the time when any business or enterprise that needed capital to develop it did not find it. There will always be varying costs of money, based upon the risks and the type of thing that the money is going into. Some people are willing to take a long risk and a long rate. Others prefer to confine their loans to those which carry no risk and always secure the least possible commercial rate.

In my opinion, Congress nor no one else needs to devote one moment's thought to protecting the borrower. The borrower will take care of himself, and he will get his money at the most reasonable rates possible, where the credit is justified, during whatever condition prevails at that time.

So our supervision of those banks is intimate and very close, because we recognize that in every single institution in our group our responsibility is complete. We have a liability for assessment on stock that we own in these individual banks of 100 per cent. That does not mean anything. Our liability is what is involved in every bank we operate, and it is necessary to see to it that those banks do not have any more difficulties than is reasonable.

Now, then, yesterday questions were asked about the flexibility or the flow of funds through group operation from section to section. I can not speak for any other people in the business, but I am going to make a statement of our own practices in that respect.

We are operating entirely within the ninth Federal reserve district, and there are varying needs and conditions over that district. If we have a bank located at a point where, at a particular time, there is a demand for funds beyond which we have deposits to make loans, we investigate the credit involved, and at the same time the First Bank Stock Corporation has intimate knowledge of the money available to lend in each bank or their condition, and if there is some other bank needing loans, and the loans are good ones, we have no hesitancy in transferring that loan to that particular bank, or to the First National Bank of Minneapolis or the First National Bank of St. Paul, and if a case should develop where there were no funds within the group we will do what we have done in the past. We have 67 banks who are members of the Federal reserve system. The First National Bank of St. Paul and the First National Bank of Minneapolis are both members. We will go to the Federal reserve bank and borrow such money as is required to take care of the reasonable needs of our territory over any particular period. It is our business and what we should do and what the Federal reserve bank is for and what we have done in the past.

In answer to this question—

Upon what principle are you working in determining the geographical area into which your group of banks will be extended—

I desire to say that we have confined ourselves to the ninth Federal reserve district as a matter of principle and I have described the method of audit and examination.

I think, gentlemen, that is all I have to say in the way of a statement at this time.

Mr. STRONG. I understood you a few moments ago to say that Congress should devote itself to the protection of the depositor—the man with the money—and give no concern to the man who wanted to borrow money. Is that your position?

Mr. WAKEFIELD. I think so.

Mr. STRONG. How many banks are there in your group?

Mr. WAKEFIELD. There are 91 in that list.

Mr. STRONG. How many were in the group as originally started?

Mr. WAKEFIELD. Well, there were a few more than that. We had this little company while we were trying to buy banks, and we had 17 banks in that company.

In this information I have given, I have given the percentage of stock owned by the First Bank Stock Corporation in each bank. In two or three banks, you will find we only own the control.

Mr. STRONG. But 17 started the group?

Mr. WAKEFIELD. There were 33 banks to start with.

Mr. STRONG. Who set the values on those banks, as taken over by your group?

Mr. WAKEFIELD. The First National Bank of St. Paul was an independent institution, and so was the First National Bank of Minneapolis. The value of those 17 banks which we had already purchased was what we paid for them.

Then we had a conference between the people in the three Montana banks, the First St. Paul, and the First Minneapolis, to determine a fair basis upon which they should join.

Mr. STRONG. I have not gotten to that. I am talking about the original group.

Mr. WAKEFIELD. Our original group started with what I have described.

Mr. STRONG. Who set the value on the two big banks in Minneapolis and St. Paul?

Mr. WAKEFIELD. We sat down and took the capital, resources, and earnings, together with the deposits, and figured out a formula which was worked out.

Mr. STRONG. Were you an officer in either bank?

Mr. WAKEFIELD. The First National Bank of Minneapolis.

Mr. STRONG. You set your prices upon your own banks when you started the group?

Mr. WAKEFIELD. We did not. It was a difficult thing to do between the two cities.

Mr. STRONG. You agreed between the two banks how much stock of the holding company you would take for the stock of your banks?

Mr. WAKEFIELD. We agreed upon a formula which the officers thought would be fair, and then that formula and agreement were turned over to a committee of the boards of each of the two banks for review and approval and was finally approved by the board of directors of the two banks.

Mr. STRONG. But the officers of the two banks agreed upon how much stock they would allow themselves for the stock of the two banks?

Mr. WAKEFIELD. Absolutely. Some one had to do that.

Mr. WINGO. Do you not think in that connection it would be wise to have him give the formula?

Mr. WAKEFIELD. I can not——

Mr. STRONG. Do you have any objection to giving us the formula that you used?

Mr. WAKEFIELD. I have described it, but I can not tell you exactly the figures used. But it was based upon this: The First St. Paul had less capital assets than we had and they had less stock, although they had a bank with deposits as great.

Mr. STRONG. Did you have an examination made of each of those banks?

Mr. WAKEFIELD. Yes; they examined ours and we examined theirs.

Mr. STRONG. You jointly agreed on the stock you would allow?

Mr. WAKEFIELD. Yes.

Mr. STRONG. When you came to take in the stock of the other banks you used a different formula? You said how much they should have for the stock?

Mr. WAKEFIELD. In a great many cases they got a better deal than we got ourselves.

Mr. STRONG. I do not know anything about the facts. I expect there were a great many cases where they did not, were there not?

Mr. WAKEFIELD. I can see what you have in your mind, Mr. Strong, and of course any statement that I might make you would feel was probably my opinion. I think it would be propably the best thing

for you to find out from a lot of the people who got the stock whether they were treated fairly and are being treated fairly.

Mr. STRONG. They might not know, if they get a dividend, whether they were treated fairly or not.

Mr. WAKEFIELD. Many of the stockholders to-day are receiving greater dividends on their stock which they received than they used to pay themselves in their own banks.

Mr. STRONG. Oh, I realize that combination of money and credit are likely to produce large incomes.

Mr. SEIBERLING. Will you ask him at this point if that applies to the original banks?

Mr. WAKEFIELD. They are receiving identically the same dividends.

Mr. STRONG. But they placed a value on the banks of which they got the stock. I think it is fair to go into this because of the statement you made that Congress should take care of the man who has the money—the depositor—and not the man who has to borrow it. Personally I think that is a peculiar statement.

Mr. WAKEFIELD. The difficulties in our territory have arisen entirely from the difficulties of the depositors.

Mr. STRONG. It has been suggested that I ask you how are the directors in the individual banks of the group elected?

Mr. WAKEFIELD. They are elected by the stockholder which happens to be the First Bank Stock Corporation.

Mr. STRONG. Then they are not elected by the individual banks?

Mr. WAKEFIELD. The First Bank Stock Corporation is the owner of the stock of the banks and is the only person who can elect the directors.

Mr. STRONG. Then you elect the directors in all the banks?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. What dividends on your stock do you pay?

Mr. WAKEFIELD. Our stock is $25 par value and pays a dollar dividend.

Mr. STRONG. What was the original stock of the two banks—the one in St. Paul and the one in Minneapolis?

Mr. WAKEFIELD. Both have $6,000,000 capital.

Mr. STRONG. Both had?

Mr. WAKEFIELD. It is the same to-day.

Mr. STRONG. And they took $6,000,000 of stock from the holding company?

Mr. WAKEFIELD. They had $6,000,000 capital. I have it all in this little booklet. You take our bank, the First National Bank of Minneapolis: It has capital, surplus, and undivided profits of $11,613,170.30.

Mr. STRONG. How much stock did you take in the holding company?

Mr. WAKEFIELD. Let me finish this. All these institutions belong in the First National Bank, and I will tell you this. We have $11,613,170.30 in capital, surplus, and undivided profits in the First National Bank.

We have $2,400,000 in the First Minneapolis Trust Co.

We have $3,697,000 in the First Minneapolis Co.

We have $667,000 in the Minneapolis Trust Joint-Stock Land Bank.

In addition to that we have an equity of a considerable amount in our buildings, which has been charged down.

Now, our total set-up of capital assets that we showed was $22,000,000, and we received $30,000,000 of stock of the First Bank Stock Corporation.

Mr. STRONG. After you figured in all the assets and value you got $8,000,000 more than the figures showed?

Mr. WAKEFIELD. In stock.

Mr. STRONG. In the holding company?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. What did the St. Paul bank get?

Mr. WAKEFIELD. They got $27,000,000, I believe. I can not tell you that exactly. I remember my own figures, because I handled them.

Mr. STRONG. Theirs was also watered—that stock? [Laughter.]

Mr. WAKEFIELD. I do not admit there was any water around the place.

Mr. STRONG. Of course, there could not be any other liquids at the present time. There was some liquid put into it, evidently, anyhow.

Mr. WAKEFIELD. At the time we made this arrangement the stock of the First Natitonal Bank of Minneapolis was selling at $220 a share. The stock that we received—the par value of the stock that we received, which was four shares for one, was $100. Now, I do not think we watered any.

Mr. STRONG. Did you do the same thing with the other banks—increase them in a proportionate amount in your corporation for the stock you took from them?

Mr. WAKEFIELD. If they had an organization that you justify it; yes.

Mr. STRONG. But you passed upon that?

Mr. WAKEFIELD. Yes, sir. In connection with that, every one of these deals was a mutual transaction. There was nobody obliged to sell. That was a mutual agreement.

Mr. STRONG. I know some little banks that were glad to sell.

Mr. WAKEFIELD. I know a lot of them that would be glad to sell.

Mr. STRONG. But it was the most intense pressure upon them anyone could possibly imagine.

Mr. WAKEFIELD. Not in our section.

Mr. STRONG. You feel that branch banking would be all right in the little towns that could not support a regular bank?

Mr. WAKEFIELD. Mr. Strong, I feel that it is almost essential in order to find some means of taking care of these deposits, where there are no banks in those communities—almost essential to get them into some live institution that can furnish the necessary banking facilities.

Mr. STRONG. But you think in the small towns that no one can make enough profit in to support a unit bank, that branch banking should be permitted?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. But in communities where banks can make a regular profit—enough profit to support a regular bank—you do not think Congress should authorize branch banking?

Mr. WAKEFIELD. I think it may be perfectly proper for Congress to authorize branch banking in trade areas, but if they should do it, I think it would be disastrous to force us to discontinue our group banking.

Mr. STRONG. You would have no objection to branch banking operating in your area?

Mr. WAKEFIELD. None at all.

Mr. STRONG. Of course, the argument the branch banker or the man advocating branch banking, might make in your trade area, is that if they are allowed to go in there, they will select not only the profitable banks in the good banking towns, but they will put branches in all towns and that they can do it through teller windows, and give the people banking facilities which your arrangements withhold from them.

Mr. WAKEFIELD. No. If such authority was given, do not ever think that we would be asleep. We would be taking care of those small towns.

Mr. STRONG. With teller windows?

Mr. WAKEFIELD. With all the banking facilities that could be handled profitably in those communities.

Mr. STRONG. But you would be the judge, of course, as to what that town would be entitled to.

Mr. WAKEFIELD. Some one has to be.

Mr. STRONG. You do think the residents of the town should be, but it should be some one in distant control?

Mr. WAKEFIELD. It must be some one who understands that business and knows whether they can operate that branch with profit in that territory.

Mr. STRONG. Do you agree with Mr. Decker—I did not listen very closely to your discourse with regard to the farm problem—do you agree with Mr. Decker's interesting statement yesterday that the farm problem grew out of lack of capital rather than the lack of banking facilities?

Mr. WAKEFIELD. It grew out of too much capital.

Mr. STRONG. Grew out of too much capital?

Mr. WAKEFIELD. Yes, sir. I agree with Mr. Decker that a great deal of our difficulty was occasioned entirely by our banking situation, but not all of it by any means.

Mr. STRONG. You think you had more banks than bankers?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. Are you aware of the fact that just prior to the war the tariff was taken off of agricultural products? We had practically free trade in agricultural products.

Mr. WAKEFIELD. I have been engaged in business in a manner which has kept me alive to the farm difficulties over a great many years.

Mr. STRONG. That being true, you know that as a fact, do you not?

Mr. WAKEFIELD. I do not know a thing about the tariff.

Mr. STRONG. That is one branch of the farm problem you have not followed?

Mr. WAKEFIELD. I do not feel that it has been an important factor in the farm difficulty.

Mr. STRONG. You think it is not important, not having investigated it?

Mr. WAKEFIELD. No; I think—let us delve into that a bit.

Mr. STRONG. All right, delve.

Mr. WAKEFIELD. I will make my statement about farm products in this manner: The products of the farm are primarily food products. The market for those products is dependent upon the needs of the population of the world for food. There is no method or means whereby an extension of that market can be brought about beyond those needs.

It is not as it is with the automobile manufacturer, or other manufacturer of other articles. You can not get a man to buy twice as much food as he needs, although you may induce him, through sales efforts, to buy two automobiles, or half a dozen neckties. It is an absolutely limited market.

The world generally is attempting to produce the food necessary in the various countries, as far as possible in those countries, and, in my opinion, there are no means whereby the United States, as an individual nation, can create a condition which will enable us to produce unlimited quantities of food products and secure an adequate price for them; in other words, in my opinion, the industry of farming in this country must depend primarily upon the domestic market for the sale of its products, and when it reaches beyond that or attempts by any artificial means to provide a market beyond that, they are treading on dangerous ground.

Mr. STRONG. Then you do not think we should attempt to export agricultural products?

Mr. WAKEFIELD. I think it is perfectly legitimate to export all you can, but you are up against all the factors of the world market when you do it.

Mr. STRONG. In your discussion of the farm problem—I want to try to follow you along those lines—you seemed to think that it is wholly a matter of financial trouble, or wholly a financial problem.

Mr. WAKEFIELD. The farm problem?

Mr. STRONG. Yes.

Mr. WAKEFIELD. No; I do not—by no means.

Mr. STRONG. What I wanted to point out was that after the war was over we were the only major country in the world that was flooded with farm products.

Mr. STRONG. Now, as I understand, under your system, so far, you have accepted only banks in communities where you feel a banking institution can make a profit?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. Then it will be necessary for Congress, or by some other means, to provide banking facilities or accommodations by teller windows, or in some way, for those communities that can not support a bank proper?

Mr. WAKEFIELD. Under the present law, there is not any way we could take care of those small communities, and do it in a sound business way.

Mr. STRONG. How do you feel that Congress ought to proceed in its legislation toward permitting branch banking—just simply permit it in trade areas by national banks, unlimited?

Mr. WAKEFIELD. That would require more thought than I have given it, before I could set up a formula.

Mr. STRONG. Do you think trade areas is the proper limitation?

Mr. WAKEFIELD. I do. I do not know how you are going to determine trade areas. There is this thing to think about, that is, when the Federal reserve banks were established, it evidently was in the mind of Congress at that time they were opposed to permitting a central bank in the United States, or a centralized control of credit and of banking facilities, and so they undertook at that time to set up districts, based upon the flow of banking business, and determined on certain areas which, in my opinion, were pretty carefully and pretty successfully worked out, to govern the location of the various Federal reserve banks. There were hearings held in our section, I presume there were in others, at which all people interested might present themselves and their arguments and finally a certain district was located and determined as being the ninth Federal reserve district. Now, in my opinion, that was a thoroughly sound idea. The last thing that we want to see is to find ourselves hitched up body and soul with, we will say, New York City or Wall Street; because we believe if we are permitted to have an independent, strong, institution, with plenty of competition in our territory, that we can serve that territory more intelligently and better than it can be done through any other method.

Mr. STRONG. I know you have said that; but what I am trying to get at is what you think Congress should do with regard to setting up trade areas.

Mr. WAKEFIELD. I think that would have to be left to some kind of commission that could sit down and make a study, the same as they did in establishing the Federal reserve banks, and determine what those should be.

Mr. STRONG. The governor of the Federal Reserve Board when before the committee said, I think, they had a tentative figure of making a division of about 27 areas, if I am correct in that.

Mr. AWALT. Thirty-seven.

Mr. STRONG. Yes; 37 areas.

Mr. AWALT. And afterwards amended it to 50, I believe, Mr. Strong.

Mr. STRONG. And afterwards amended it to 50; that would not be in accord with your idea?

Mr. WAKEFIELD. It might. I have not any idea on that particular thing; I do not know just how the country should be divided.

Mr. STRONG. The president of the Federal Reserve Board also said he thought that finally those areas would be broken down and we would have national branch banking, but he did not contemplate that would happen for perhaps 50 years and gave as a reason that they did not have at the present time trained men to handle nation-wide branch banking. Is that in accord with your views?

Mr. WAKEFIELD. I do not know as it is in accord with my views. My views are that I should dislike very, very much ever to see country-wide branch banking in this country. I do not think we would do as well.

Mr. STRONG. Your present idea is it might be confined practically to the 12 Federal reserve systems?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. That is what you sought to do in your group bank, in your district?

Mr. WAKEFIELD. Yes, sir.

(At this point Mr. Luce took the chair.)

Mr. LUCE. Did I understand you to say, Mr. Wakefield, that when those banks were taken over you required that each one of them should guarantee its liabilities of the moment?

Mr. WAKEFIELD. Yes. We could not take in a bank and assume undisclosed liabilities that they might have. We made those people stand back of what they gave us in the way of figures.

Mr. LUCE. You referred to the undisclosed liabilities.

Mr. WAKEFIELD. It covers all liabilities.

Mr. LUCE. And how were you able to help out any bank that had suffered as a result of the inflation and was struggling to keep its head above water?

Mr. WAKEFIELD. Well, sir, I will give you a picture. Here is just one instance which just tells that story. This is in a city of 3,000. The largest bank in the community was experiencing an active withdrawal; the bank's reserve account was overdrawn and its cash on hand was less than $1,000. When our examiners reached the scene, they found the town alert with lots of people in front of all three banks, and the public generally disturbed by rumors. This was an old bank with deposit liabilities in excess of a million dollars. The stockholders had previously paid an assessment of 50 per cent. This was very recent. The affiliation was accomplished by our organization of a new corporation, which was supplied with a capital structure of $150,000 and which assumed the former bank's deposit liabilities. The bank pledged all of its assets, including its capital and surplus and, in addition, the stockholders and the directors of the old bank put up a guarantee fund of $200,000 in cash. That was $200,000 on a $100,000 bank and they had already paid a 50 per cent assessment. Now, then, that shows you how far those people would go to prevent a closing in their community, and their one ambition was to save their depositors from being tied up by the failure of the bank, if there was any way to do it.

Mr. LUCE. But your central organization took no risks in the creation of this structure?

Mr. WAKEFIELD. Well, we took some.

Mr. LUCE. And what were they?

Mr. WAKEFIELD. Well, after all of this was done, we do not know whether we are going to come out entirely whole, or not. We figured that if that arrangement did not cost us over $50,000 we would feel we were justified in preserving that town; because it would have involved a large group of banks up and down that territory.

Mr. LUCE. How would that be a loss of $50,000, if all of the liabilities were guaranteed?

Mr. WAKEFIELD. Guaranteed to this extent, that we accepted immediately certain assets and assumed the entire deposit liabilities.

Mr. LUCE. I see.

Mr. WAKEFIELD. The guarantee is not big enough.

Mr. LUCE. Did I understand you aright, also, when I gathered your shares in the holding company are nonassessable?

Mr. WAKEFIELD. The holding company's shares are nonassessable. They are a Delaware corporation.

Mr. LUCE. Is it your judgment the requirement of contribution by owners in case of failure is a wise and admirable thing in the business world?

Mr. WAKEFIELD. Not generally; but I think it is proper in banking.

Mr. LUCE. And why should the owners of a holding company escape these liabilities more than anybody else?

Mr. WAKEFIELD. They have not. They are stockholders in the holding company—the holding company itself is liable for 100 per cent assessment on every bank stock it owns, which comes out of the property of the stockholders of the holding company.

Mr. LUCE. But you are not liable on those holdings in proportion to the old holdings?

Mr. WAKEFIELD. On the individual stock owned in the holding company, we could not levy an assessment.

Mr. LUCE. It has been brought up from time to time that branch banking may at times result in collapse of a huge institution, as took place in Canada in one instance.

Mr. WAKEFIELD. Just one, I think, in the whole history of the country.

Mr. LUCE. That shows the possibility that your holding company might go on the rocks.

Mr. WAKEFIELD. I do not believe it would, but there is a possibility.

Mr. LUCE. The Canadian bank undoubtedly did not believe it would.

Mr. WAKEFIELD. Quite likely.

Mr. LUCE. But an attempt is made to discourage us from instituting branch banking on the ground it once did happen; that once there was a great failure of a bank with many branches, and that establishes the possibility your holding company might, in a period of financial stress, become bankrupt.

Mr. WAKEFIELD. Yes.

Mr. LUCE. Now how do you justify the exemption of your own directors and your own stockholders from the double liability which is required under those circumstances from other corporations?

Mr. WAKEFIELD. Well, my opinion is this, that through a set-up with a capital structure such as we have, the liability, in case of loss of some unit in that group, is far more strongly covered than it would be with an individual liability of a group of stockholders.

Mr. LUCE. Very likely this is a technical question and has no important bearing, but we are confronted with the Canadian episode and it may be proper to inquire as to what would happen under similar circumstances in this country.

Mr. WAKEFIELD. Yes.

Mr. LUCE. Suppose some of the communities in your neighborhood dwindle. There is a story in this morning's paper—or was it yesterday—to the effect that the census enumerators are finding throughout Illinois, I think was the particular locality specified, large numbers of villages that are dwindling and in one case the whole village was sold out at auction—the changing conditions of the

time resulting in a dwindling of the smaller communities. What will happen; what course shall you pursue if one of your communities has that experience? Shall you close that bank?

Mr. WAKEFIELD. I think good business judgment would require us to liquidate the institution and close it if we were operating in a town where it was no longer possible to make a profit in doing the business.

Mr. LUCE. Then, your form of doing business does not necessarily assure a continuance of existing banking facilities?

Mr. WAKEFIELD. It certainly assures a continuance if there is enough business there to justify a continuance.

Mr. LUCE. But would it be in the case of competition in a prosperous community?

Mr. WAKEFIELD. Well, competition is the best thing we know of and, if we had competition which took our business away from us, we would probably have to quit and go out of that community. We never have had that experience yet.

Mr. LUCE. I might say, Mr. Wakefield, that your admirable statement covered most of the questions I wanted to ask, but there are one or two questions I would like to ask, particularly in the case of the shifting of funds. We are constantly told in the discussions of this subject that either holding companies or branch banking or any other form of amalgamation will inure to the disadvantage of the smaller communities and will shift funds to the great centers, notably New York and Chicago. In the first place, will you tell us what actually happened, so far as your own experience shows, during the period of the great inflation last summer, when money rose as high as 9 per cent in New York?

Mr. WAKEFIELD. Well, our situation was just this: Some of the banks in our group had funds which they loaned on call in New York. The First National Banks of St. Paul and Minneapolis were loaning money largely on account of the grain situation and our own discounts were running very high, comparatively; so that at no time during that period did we have any surplus funds. We were, most of that time, borrowers at the Federal reserve bank and at no time during that period did we have a dollar of the funds of those two big banks loaned in New York on call, although we could have made double the rate we were getting by putting it there.

Mr. LUCE. How was it in the case of the bank in Fargo, for example?

Mr. WAKEFIELD. That did not.

Mr. LUCE. Suppose it had surplus funds, did those reach New York last fall?

Mr. WAKEFIELD. If they had had surplus funds, they possibly might have loaned; but at that time we had not yet taken complete control of all of these banks and could not regulate or control or direct their loaning, and some of them did have—I know that—all through the period surplus funds loaned in New York.

Mr. LUCE. Of course, what I am driving at is to try to find out whether the holding company or branch bank tends to send money to the spot in the country where the best return can be received for it, to the detriment of local industries requiring funds?

Mr. WAKEFIELD. No; I am positive that does not happen, because it would be the poorest thing we could have happen. You must remember this, that nobody is obliged to do business with a certain

bank, and the bank recognizes its responsibility to the business of its community. It must. It does not make any difference what their selfish motives might be, the fact remains they must take care of that business or they can not keep it. And during the period you describe, of all of this inflation, the banks that I know of were loaning money at a fixed arbitrarily low rate to business people, and borrowing money to furnish to them instead of trying to shift it down to where they could make a profit.

Now, then, you are speaking of loaning money on call in New York. There come periods, seasonal periods, in the banking business when every bank may find itself temporarily long on money. Nearly all the banks in this country are paying interest on deposits, and the banker can not sit with that money idle, and the logical and reasonable place for him to loan it is to loan it on call in New York City, because he can get it back at the moment he wants it. In the history of the country there never has been a time, except a very brief period at the opening of the war, when money loaned on call could not be returned at once and immediately. As it is at present, this happens to be right now the time when there is perhaps a greater freedom of money than usual, and there is a considerable amount of it which is loaned in New York on call, and at a very low rate because of the fact there is so much money looking for any price to cover its cost.

Mr. LUCE. The argument we most hear here might be illustrated by taking at random Fargo, which comes in my mind: It is urged that if some man is starting in business and desiring to establish some new industry, the success of which is always problematical, and should go to the Fargo bank in such a period as that of last August and ask for a loan, the centralized banking system would say to itself, "We can get a sure thing by loaning this money in New York at 8 per cent; we are not sure this fellow is going to make good, and it is better to send that money to New York at 8 per cent than it is to run any risk with the hope of getting 6 per cent."

Mr. WAKEFIELD. The man that felt that way about it would not stay in business long, would not stay in the banking business very long, because there is not any banker I know anything about who does not take the keenest interest in any business that is going to be conducted and developed in his territory, and he will go just as far as his business judgment will permit to take care of that thing. Banking business is competitive, and if he does not do that he will lose that business; his bank will become known as an institution that is not taking care of the local people and they will go to his competitor. I have not the slightest fear of that sort of thing developing.

Mr. LUCE. Possibly others of us do not, but that charge is made and must be met. Carrying that a bit further, it is urged, under the unit-banking system, the president of the local bank has that very keen heart factor at work for the safety of his own institution and the maintenance of his own business and preservation of his position of influence in the community Now, by such a change as you have brought, the banker has lost some part of his personal anxiety; he no longer depends upon the business of that bank for the safety of his own fortune; he is now dependent upon the prosperity of a large group of banks; and it is suggested that you have thereby diminished his own zeal, caution, prudence, enterprise, and

interest in the community; in other words, that all amalgamation tends to destroy local initiative, courage, hope, zeal, and all the other good things involved in it. What do you say to that?

Mr. WAKEFIELD. I would say this: That under the system we are operating our group banks up in the Northwest—I do not know about them anywhere else—it is just exactly the contrary to the thing you have described. If there is any man out there running a bank who thinks he is through or that he has been relieved of any responsibility, we are going to find it out very soon and he won't remain there very long; because in every case we are stockholders of the First Bank Stock Corporation, the success and profits of which are dependent upon each individual unit being successful and making money and going ahead, and that can not be accomplished without that particular institution looking after its territory and taking care of its local business to the limit.

Mr. LUCE. You think the president won't go out on the golf links any more days of the month after that change than before?

Mr. WAKEFIELD. I am dead sure he won't; and perhaps a good deal less.

Mr. LUCE. Now, it is furthermore urged that under chain-banking systems there is an inevitable favoritism to borrowers.

Mr. WAKEFIELD. I do not know what that means. I have never known of favoritism to borrowers.

Mr. LUCE. Well, that is the allegation; that, for example, somebody controls your system. It is the story of all human enterprise that there is some one man at the middle of the thing whose judgment dominates. Now, the allegation is made, under those circumstances, that central man, whose word goes, if he has a prejudice in favor of mining, for example, or against mining, will in the first place favor one particular group of borrowers against another; or, going beyond that, if he has a prejudice within the mining group, he will through his influence turn the money to the advantage of one man and the disadvantage of another man. That charge is being made all the time in the discussion of this subject—that concentration conduces to favoritism.

Mr. WAKEFIELD. Well, I do not know. I have never come in contact with anything of that sort. I have been president of the First National Bank of Minneapolis for some time. Perhaps I might be considered to be the fellow who could do something like that, something such as you describe concerning the bank; but I would hesitate to try to do anything like that with the group of officers in the bank and directors that are in touch with the business of that institution and following it all of the time. And besides that, it would be the poorest business judgment any man could exercise; and most of us like to think we are going to exercise good business judgment.

Mr. LUCE. Very well. Now, turning to another phase of the subject: You know, of course, the proper committee of the House is at present investigating the subject of holding companies in railroad stocks; there is a demand that we investigate holding companies in public-service corporations and very strong and able men have written in the magazines, notably, Professor Ripley, describing what is going on in the way of pyramiding securities and intimating or arguing that harm would come to the country. Now in uniting these

bank stocks, there is nothing standing in the way of some super holding company getting a majority of the stock of your group, is there?

Mr. WAKEFIELD. I think it would be practically impossible; but, at the same time, of course there is no way we could prevent stockholders selling their stock and finally finding out that it might be controlled by somebody. I wish there were.

Mr. LUCE. Do you think there would be harm if some second Mr. Insull got into the banking field and got control through this particular method? I want to bring out——

Mr. WAKEFIELD. I will make this statement: I have thought of that a good deal. The purposes of our organization are primarily based upon the desire to have institutions up there that are big enough to take care of the present-day types of business and which are owned and operated by the people living practically within the territory served. Now we have recognized and I have had the question asked by others as to what would prevent some super holding company, such as you describe, stepping in and taking possession and control of our group of banks and our institutions, possibly we will say in New York—that is what most people try to talk about; they seem to think that just the use of the word "Wall Street" is sufficient.

Now my opinion is this: In the first place, I do not think it ever will happen; I should dislike very much to see it happen. On the other hand, if it did happen, and anyone in the organization in New York came out and acquired, through purchase, the controlling interest of the First Bank Stock Corporation, I do not believe there could be any change in policy or any change in degree of service rendered to the communities, or any real practical difference ever made in the conduct of the business; because the business is competitive in that territory and, if any New York institution attempted to operate it against the interests of that terriory, they would destroy the value of the thing they had purchased. And I do not believe it would ever happen, because I think any one that did acquire it would be anxious to protect the value of the holdings and earnings of the thing they purchased, rather than to buy it and destroy it.

Mr. LUCE. I rather think you are right, but a large number of people discussing this question think you are wrong.

Mr. WAKEFIELD. I know it.

Mr. LUCE. So we must try to find out how to meet their arguments, because it is urged, under such circumstances, our banker, Mr. Insull, will then have command of such enormous aggregations of capital that he can—well there are those who say he can ruin the whole United States.

Mr. WAKEFIELD. Well, that could not be, because anybody who finds themselves in a position of having control of that kind, if they are going to keep it at all, must carry on those businesses the way they should be carried on, or else they destroy the very thing they acquired.

Mr. LUCE. Another argument raised against the form of organization you have established is—and I do not use the word with any invidious significance—that it is slippery; it gets out from under the tax laws, it gets out from under the banking laws; that the

holding-company idea is not that of openness with the capacity for examination and comprehension which the branch-banking system presents. And, by the way, before you answer I would say that you have not yet quite made clear to me why you have thought the holding system to be superior to the branch-banking system.

Mr. WAKEFIELD. The reason I feel it is superior at the present time is because of the fact that it permits continued operation of unit banks.

Mr. LUCE. That is, the nominal operation; the banks still look like unit banks?

Mr. WAKEFIELD. Are unit banks.

Mr. LUCE. Well, let us see. As I said yesterday, power is the test all the time of what a thing is; not the looks of it, not the name or appearance, or mask under which it works, but power is the test. Now the power, in the case of your banks, has been concentrated in the Twin Cities; you dominate; that is what you went into it for—to dominate.

Mr. WAKEFIELD. All right.

Mr. LUCE. And I do not say that any criticism ought to be made.

Mr. WAKEFIELD. Dominate it for the benefit of the territory in which it is operating.

Mr. LUCE. And for your own profit. Like every business man, you have the double concern of doing somebody else a favor and bringing to yourself a gain. I am a business man myself.

Mr. WAKEFIELD. In answer to that, if you are a business man, then you know mighty well that our form of set-up has shared the prosperity of our big banks with a tremendously greater group of people, and there is not any more money to be made by the individual that did own stock in the First National Bank of Minneapolis under this system than there was under the old holding.

Mr. LUCE. I grant you; but let us get back to the question of why a somewhat obscure, tenuous, and hazy form of organization like a holding company is, in your judgment, superior to a definite, clear, open, above-board form of branch banking.

Mr. WAKEFIELD. Eventually it may not be; but the thing we have done was the result of absolute necessity under the conditions that prevailed. It is the only means to-day whereby any one could step in legally and present to this territory banking institutions that the public have confidence in; it is the only means there is. Now, then, possibly—probably—a branch-banking system, properly determined as to area, may develop and be the solution of it all; but, for the time being, with the public habits and training relating to the operation of a unit bank, the directors and officers of which are living in their community—they are at home—it is so strong that it would be destructive and disastrous to make any change in that.

Mr. LUCE. Will you make a little clearer why any provision on our part for branch banking would, under those circumstances, imperil your own institution?

Mr. WAKEFIELD. Oh, it would not; and I have said before we would be perfectly willing that such provision should be made, and perfectly willing to meet whatever competition is developed for us; but we do not want it made upon the basis which is intended immediately to destroy and put out of business the group system. If a

branch bank law were passed to-day, we probably would be the first people to be out in some of these communities making use of it.

Mr. LUCE. One other phase of the subject: When one of the banks in your group has an excess of funds, what do you advise them to do with the excess?

Mr. WAKEFIELD. That depends upon the conditions prevailing. If, as I described awhile ago, we had some other section that was needing money and did not have it, if we could make good loans there, we would certainly advise that other bank to buy some of those loans.

Mr. LUCE. Would you advise them under any circumstances to buy securities?

Mr. WAKEFIELD. Oh, yes. There is a certain amount, a reasonable amount, of marketable securities that are almost essential in any bank.

Mr. LUCE. It has been brought out in our hearings there is a marked tendency to turn banking from what we used to think its proper function—commercial loans—to investment securities. What is the situation in your district in that regard?

Mr. WAKEFIELD. Well, banking and the use of money must always keep up with the times, and if conditions change, so that one type of loan disappears, some new development comes in and takes its place. Take your installment-selling business to-day: The loans to those large corporations that are furnishing funds to carry installment contracts are a substantial factor in banking loans to-day. They did not exist 10 years ago. Money is always seeking the opportunity to take care of development and will always abandon and disappear from businesses that have passed by the need of it.

Mr. LUCE. You see no objection, then, to permitting banks to go into the investment business; that is, you see no harm in the tendency of bankers to become investment bankers?

Mr. WAKEFIELD. I think the banker to-day must be familiar with the investment banking business if he is going to operate successfully.

Mr. LUCE. Is there any attempt made in your district to imitate or to follow the eastern example in giving special protection to savings depositors?

Mr. WAKEFIELD. Well, we have laws covering that in our State institutions that are especially designed to protect the savings depositors. The national bank does not have any special—there is no special provision regarding savings deposits in national banks.

Mr. LUCE. Why should not there be?

Mr. WAKEFIELD. I think the proper banking structure does not require any. There is nobody operating banks that intends to lose any savings deposits.

Mr. LUCE. Oh, not intend to; but we find sometimes in the East, in spite of good intentions, they sometimes do, and we have passed stringent laws preventing the intermingling of funds.

Mr. WAKEFIELD. I think any law of that kind extending to the general banking structure would be disastrous. I think it would be a great disadvantage to the banking business and absolutely unnecessary.

Mr. LUCE. Well you impugn the judgment of the legislators of my State very seriously in your statement.

Mr. WAKEFIELD. That may be true; but I still feel that way about it.

Mr. LUCE. As I have before pointed out in these hearings, we have a law that is very strict that there must be a solid brick wall without any aperture——

Mr. WAKEFIELD. You are from New York?

Mr. LUCE. I am from Massachusetts—between the savings bank and the national bank; because in so many instances have the officers in the national banks been able to lay their hands on the funds of the savings banks.

Mr. WAKEFIELD. Oh, you mean between the same institution, the same crowd operating the two types of institutions?

Mr. LUCE. I mean we go so far as to prevent the two banks from having any physical access to each other.

Mr. WAKEFIELD. Yes; but your national banks in Massachusetts can receive deposits for savings accounts?

Mr. LUCE. They have been coming to do so, lately, and it is perhaps part of my job here to bring to the attention of this committee what we think is the safe and prudent course in that matter.

Mr. WAKEFIELD. I think, if you are looking after the best interests of your people up there, you won't try to interfere with the national banks taking savings deposits.

Mr. LUCE. We are very proud of our mutual savings bank system——

Mr. WAKEFIELD. So are we, and we have some very fine ones.

Mr. LUCE (continuing). Yet we feel the mutual savings banks may interfere with the national banking system.

Mr. WAKEFIELD. I think one of the worst things that could happen would be to require that all savings deposits should be deposited in mutual savings banks; because, when so deposited, they are then available for only one purpose, that is, investment in a very limited type of security and, of course, unavailable for the good of the general business of the country.

Mr. LUCE. Well, my own community differs completely from you, sir. I think that is all the questions I want to ask.

Mr. FORT. Mr. Wakefield, there has been some question about the valuation of stocks for the purpose of an organization like yours. Bank stocks customarily sell in the market away in excess of their capital, surplus, and undivided profit book value, if they are soundly maintained, do they not?

Mr. WAKEFIELD. Yes.

Mr. FORT. And in the fixation of the value at which a bank stock sells, for example, the extent of the assets and services that it has as a fiduciary are always figured in the prospective earnings from them, are they not?

Mr. WAKEFIELD. Yes.

Mr. FORT. And also the rate of earnings of the capital, which would be fixed by the proportion of deposits to capital?

Mr. WAKEFIELD. Yes.

Mr. FORT. Also the value of any special service that the bank may have created which produces earnings?

Mr. WAKEFIELD. Yes.

Mr. FORT. All of those things are reflected in the price, so that the preparation of a formula that could be absolutely uniform would be very difficult, would it not?

Mr. WAKEFIELD. I do not think you could develop one that would apply the same in any large number of cases.

Mr. FORT. A bank with a very small capital and surplus value might have trust estates, earnings on which would make the stock-market value a very high one?

Mr. WAKEFIELD. There are always some unusual conditions in every institution.

Mr. FORT. We had a case in my own State where the sale of the bank was set aside because the selling board of directors had filed a consent to the substitution of another trust company for themselves as trustee under a large estate, and our court held that in itself made the whole transaction of fixing price fraudulent.

Mr. WAKEFIELD. That meant the deprivation of an income piece of business from the institution.

Mr. FORT. Yes; which was in no way reflected in the capital, surplus, and book value.

Mr. WAKEFIELD. Yes.

Mr. FORT. Do you feel, however, if we are definitely, either by failure to legislate or by legislation, to consider group banking as a definite national policy we should in any way regulate the price bases in which banks should be taken into the group?

Mr. WAKEFIELD. No, sir; I do not. I do not see where there can be any possible reason for even any discussion of it.

Mr. FORT. You do not feel there is any hazard, speaking generally now, of individuals who are substantially controlling in a group company purchasing a lot of small banks at deflated values and putting them into holding companies at high values?

Mr. WAKEFIELD. I do not believe—if there is anybody going to do a thing like that they are not serious in the business; they are doing it for a stock-jobbing proposition and manipulation.

Mr. FORT. Exactly. Well, should there be no restriction of any kind of a possibility of that in anything that touches the fundamentals of the Nation as banking does?

Mr. WAKEFIELD. I think the court would protect anybody that was mixed up in anything like that amply under the present law.

Mr. FORT. Has not that been going on, as a matter of fact, actually in taking over the branches of some banks, in some sections of the country?

Mr. WAKEFIELD. Not that I know of; I have never heard of any.

Mr. FORT. We hear rumors of these things, without ability to prove them, that banks have been bought, small banks, by large banks from their own insiders, at highly inflated values, for the purpose of establishing branches.

Mr. WAKEFIELD. I do not know where that could happen; it could not happen in our neighborhood.

Mr. FORT. And you would have no suggestion of any way in which we could protect against it?

Mr. WAKEFIELD. I think the public are amply protected to-day.

Mr. FORT. In setting up your plan, were any banks forced in, forced to join your organization by any competition or threat of competition locally?

Mr. WAKEFIELD. Never.

Mr. FORT. That, however, is a real possibility in a company such as yours, if people chose to use it, is it not?

Mr. WAKEFIELD. I do not think it is a possibility to-day. I can not think or have not been able to think of a single case where an influence of that kind could have been used with any result whatever.

Mr. FORT. Not even if you had first acquired, we will say, in a small town—I see you have in some minor cities two and three banks in your group; the purchase of the first of those banks could be used to afford special accommodations of one sort and another?

Mr. WAKEFIELD. No. I will tell you how that works: We have two banks down there in Austin, Minn. That happens to be the town where I first started in the banking business—southern Minnesota. The First National Bank of Austin was the one for which I first worked. That was owned by the Banfield family down at Austin and was a very successful and good bank. I never even had a conversation with them about that bank, believing they would not want to let go of it; it had been in the family for very many years. The Austin National Bank, in Austin, was saved a few years ago from closing by voluntary contribution from Mr. Hormel, of the George A. Hormel & Co., whose business is located in that town. He found the bank was going to close and stepped in and put $275,000 into it and kept it open, which gave him the ownership of the bank, a business in which he did not want to be engaged. They came to us and wanted us to buy that bank. A few weeks later, the Banfields came up to me and told me they thought the consolidation of those two banks down there would really put that town on the map and make it a worth-while institution and they wanted to come in with us. The Northwest Bancorporation did not have a bank in Austin and I rather expected they would acquire the First National Bank until the owners came voluntarily and asked to be put into our institution. The banks will be consolidated later. Since the Northwest Bancorporation has acquired the third bank in that town.

Mr. FORT. Please get this very clear, Mr. Wakefield: I do not mean to suggest or to intimate that you have done that thing up to date. I think, on the contrary, your and Mr. Decker's organizations have done a very fine job for the Northwest territory; but I am talking in general terms, throughout the United States.

Mr. WAKEFIELD. I see what you have in mind. Let me say this——

Mr. FORT. Now taking your very illustration of Austin, if there are two banks there and you step in and take one, is it not very easily possible that you can, through your greater facilities and other things, competitively force the other bank, willingly or unwillingly, to join your chain?

Mr. WAKEFIELD. We are occupying a great many towns where there are banks not connected with us in existence, and we have a most harmonious arrangement in those towns. I have not heard of a single case where there has been anybody even suggesting there was any thought or any possibility of that sort of thing happening.

Mr. FORT. Well the possibility is there in the power, is it not?

Mr. WAKEFIELD. I think it is. I thing we could go out and just simply raise the deuce in a town and possibly put a bank out of business; but I think it would be the poorest policy on the part of our organization of anything they could do.

Mr. FORT. You could put it out of business or force it to accept an exchange of stock which, in the first instance, it was not willing to accept?

Mr. WAKEFIELD. I rather doubt that. Of course, if we were the only fellows working, we might be able to do something like that.

Mr. FORT. The same thing has been done since the passing of the McFadden bill, by placing a branch of the larger bank in the immediate neighborhood of the smaller unit bank and the smaller unit bank has felt that the part of prudence was to sell out, rather than to continue to buck the competition of the larger organization.

Mr. WAKEFIELD. Of course, that would have to be in a territory where branch banking was permitted.

Mr. FORT. Exactly; but is there any difference in principle as to the possibility of operation between your system and the branch-banking system?

Mr. WAKEFIELD. Well, I think there is very much difference.

Mr. FORT. Why?

Mr. WAKEFIELD. Because our institution differs in that each bank continues its corporate existence, with a group of officers and complete legal organization and must have a real, substantial business to warrant its going in. It would be an entirely different thing to open up a little office here with practically no expense and go ahead and do business.

Mr. FORT. Well, one of the services you can give in a town, and a proper and needed service, undoubtedly, arises from the fact that the local bank has only a 10 per cent loaning limit?

Mr. WAKEFIELD. Yes.

Mr. FORT. And there may be very desirable accounts in that town that need larger accommodation. You can permit the deposit to remain with the small local bank, the whole deposit, but can grant accommodation from your First Minneapolis, can you not?

Mr. WAKEFIELD. Absolutely, and do.

Mr. FORT. That would be rather destructive to the other local bank, would it not?

Mr. WAKEFIELD. No; because the old methods of doing business are still in existence, and wherever it has been the case in any town, where there is a business located that is substantial and their loan requirements have been above the legal limit of the local bank, the local bank has made an arrangement for those people to go to some central bank somewhere and secure additional accommodations, and they are now getting them.

Mr. FORT. And, in a great many instances, they are getting them also from two or three local banks?

Mr. WAKEFIELD. Yes, in some cases.

Mr. FORT. Instead of going to out-of-town people?

Mr. WAKEFIELD. Yes, in some cases, they are.

Mr. FORT. Now I asked a question or two yesterday of Mr. Decker in regard to branch banking, on which I want your views as a banker. Can you see any justification for the branches of the banking

system, if we are going to authorize them, paying different rates to depositors on the same class of deposits in different branches?

Mr. WAKEFIELD. Well that would require consideration of the policy of operating the branch bank. I do not know what the answer is, but my first impression would be you would absolutely be required to have a uniform rate; you could not vary those rates. While your funds would be in one place, I do not see just how you could do it.

Mr. FORT. We have in my State savings banks paying as high as 4¾ per cent, credited monthly in some towns; we have other towns where the credit is semimonthly, at 4 per cent, or below. If we were to have this trade-area branch banking, the branch going into the town where the local banks were paying 4¾, would either have to pay that or get no business, would it not—other things being equal as to the solidity and solvency of the banks?

Mr. WAKEFIELD. Well one of the most definitely destructive tendencies in banking competition is that of attempting to pay rates on money greater than really warranted by good sound business judgment.

Mr. FORT. Of course, some mutual savings banks have accumulated surplus enough, which belongs to their depositors, does it not?

Mr. WAKEFIELD. That is true.

Mr. FORT. Now should the branch-banking system be permitted to compete with local banks on interest, or should the rates be uniform throughout the system?

Mr. WAKEFIELD. I do not think anything ought to be done that would prevent competition,—free competition. Now you are speaking of the surplus—

Mr. FORT. Would that include the right to go into a community where the banks were paying 4 per cent and to offer 4¾ for the branch-banking system?

Mr. WAKEFIELD. Well I do not believe competition would be that way.

Mr. FORT. Would it not be, in order to attract deposits, in the first instance?

Mr. WAKEFIELD. Oh, no. I think the tendency would be to lower the rate; because any one who has been in the banking business long knows you can not attract money to you that way and hold it, but that you have to keep it.

Mr. FORT. Unless you first force out all competition.

Mr. WAKEFIELD. It does not make any difference, whether there is open competition there, or not; money won't go at unfair rates; it will find some other source of use. You are speaking of the surplus of mutual savings banks?

Mr. FORT. Yes.

Mr. WAKEFIELD. The committee must keep in mind this, that the mutual savings bank is a nontax-paying institution and, in considering the difference between the two types of institutions, just remember that the tax of the State and National Banks is a very subsantial item of expense.

Mr. LUCE. Might I correct you in one particular: That is not true in my State.

Mr. WAKEFIELD. In mutual savings banks?

Mr. LUCE. Our savings banks pay a tax of one-half of one per cent on their deposits.

Mr. WAKEFIELD. But how does that compare with your National Bank tax?

Mr. LUCE. Well, our national bank system has been thrown into confusion by the action of this particular committee, much to my sorrow. [Laughter.]

Mr. FORT. Then you do not feel, if we are going to authorize any branch banking, that we ought to attempt to have anything to say about the uniformity of the rate, or competitive rate, or anything else?

Mr. WAKEFIELD. No; I think it would be a mistake.

Mr. FORT. We ought to leave it entirely to the working out of the system as it is?

Mr. WAKEFIELD. Yes.

Mr. FORT. Now, I said a while ago one of the bases of calculation of the value of bank stocks is the relation of deposits to capital, the usual rule, I think, being there ought to be about 10 per cent as a maximum.

Mr. WAKEFIELD. About 10 times.

Mr. FORT. Ten times?

Mr. WAKEFIELD. Yes.

Mr. FORT. A system such as yours giving a secondary security in the public mind to the bank in which they deposit, would be able, would it not, to secure deposits in greater volume than the public would generally think appropriate for banks of their capital, if they had no such secondary security?

Mr. WAKEFIELD. Well the facts are that in comparison between the capital requirements that anybody has ventured to even suggest as being adequate of a branch banking system, and the actual capital investment under a group system, we could operate with the same deposits we have to-day, as branch banks, taking any basis I have ever heard of, on a very greatly reduced capital investment.

Mr. FORT. Mr. Wakefield, I am trying to talk general principles and do not question what you gentlemen are doing; I am trying to get at the fundamentals of this question for general use. Now, what I am trying to get at is whether such a system as yours, with a secondary line of defense, will not perhaps open the door to the banking business of America being carried on with a less capital investment than it is now required to have?

Mr. WAKEFIELD. Well, one of the disadvantages of the group system is that it can not do that; that it does require a complete capital structure for each institution, based upon the business in that community.

Mr. FORT. So that, as between these two, if we regarded less capital in banking as a desideratum, would it not be better off under the branch system than it would under the group system?

Mr. WAKEFIELD. If you want to reduce the capital required?

Mr. FORT. If we want to reduce it.

Mr. WAKEFIELD. I think that is true.

Mr. FORT. Now, the reduction phase is of interest only in order to reach small communities than can not earn on a large capital?

Mr. WAKEFIELD. The what?

Mr. FORT. The reduction phase of the capital position—that is, the idea that possibly we might want to reduce the capital anywhere—the reduced capital requirement is of interest only in order to reach those sections which can not earn on the present capital requirement?

Mr. WAKEFIELD. I do not understand just exactly what you have in mind.

Mr. FORT. Here is what I mean: If the branch system can operate on a less capital per volume of deposits than the group system, then it can afford to install branches or teller windows in places where a unit bank could not afford to be set up?

Mr. WAKEFIELD. Surely; in those small towns where to-day the capitalization of an individual unit requires an investment there and an operation that is unprofitable, it is the only means of going into that community. One of the reasons why a branch could go in there is because it would not be required to have the capital investment.

Mr. FORT. But that would not apply to your group system?

Mr. WAKEFIELD. No; that stops the group system.

(The committee thereupon took a recess until 2.30 o'clock p. m.)

AFTER RECESS

The committee reconvened pursuant to the taking of the recess, Hon. E. Hart Fenn presiding.

STATEMENT OF L. E. WAKEFIELD—Resumed

Mr. WAKEFIELD. Mr. Chairman, may I have permission to further explain a little visit Mr. Strong and I had this morning, in which he was discussing my attitude or expression of opinion that we did not need to devote a great deal of time to protecting borrowers?

Mr. FENN. I think so.

Mr. WAKEFIELD. And he replied to me something along this line—my associates have called my attention to a condition in the record that might be misunderstood—he made the reply, "Then you are in favor of looking after the rich fellow and letting the poor fellow look after himself."

Mr. WINGO. Now, Mr. Chairman, I think, if that explanation is to be made, Mr. Strong ought to be here. Mr. Strong, so far as my recollection is concerned, made no such statement as that.

Mr. WAKEFIELD. It is perfectly agreeable to me.

Mr. FENN (presiding). Then let us let it rest there.

Mr. FORT. Mr. Wakefield, you have spoken very interestingly of the greater desirability to the bank of local loans over call-money loans. Is it the custom in your territory to expect local borrowers to maintain deposits with the bank bearing some relation to the amount of their borrowings?

Mr. WAKEFIELD. In most cases lines of credit are granted upon the basis of deposits only.

Mr. FORT. So that, where you make a local loan, you get a deposit, say, of 20 per cent normally as an average of the amount of the loan and a maintained balance?

Mr. WAKEFIELD. Your 20 per cent we do not know anything about.

Mr. FORT. You hope for it, but do not get it?

Mr. WAKEFIELD. We would like to get it, if we could, but we do not get it.

Mr. FORT. Ten per cent?

Mr. WAKEFIELD. Well, there is not any set figure, and, in many cases—you take these small banks in the country—many loans are made to people that practically have no balance.

Mr. FORT. Small loans, though?

Mr. WAKEFIELD. Yes.

Mr. FORT. But when you come to your larger loans——

Mr. WAKEFIELD. They are usually based upon a corresponding business.

Mr. FORT. So that one of the direct advantages that is bound to come to a bank that does maintain that policy of local loaning is an increase of deposit accounts?

Mr. WAKEFIELD. Yes.

Mr. FORT. And the ordinary banker, from purely cold-blooded motives, in a time when he has a demand for money locally, knows that he is going to get more money to loan by loaning locally than he will by loaning on call in New York?

Mr. WAKEFIELD. Absolutely. The deposits of every bank come from the community where the bank is located, and, unless the bank carries on and helps the individuals and institutions of that community, it is defeating its own growth and development.

Mr. FORT. So you do not believe there is any serious danger of starving local borrowers for the purpose of taking advantage of the call-loan rate in any section of the country?

Mr. WAKEFIELD. I am positive that there is not.

Mr. FORT. On the other hand, there are some places where the borrowing demand does not equal the resources of the bank, are there not?

Mr. WAKEFIELD. That is true.

Mr. FORT. And those banks turn to the call-loan market, rather than to investments, as their only means of utilizing their funds?

Mr. WAKEFIELD. Or to the purchase of commercial paper in the open market, or to the purchase of acceptances, that type of thing.

Mr. FORT. Now, you have not expressed any opinion that I have heard to-day in regard to the merger of banks. I notice, as I said earlier, that you have in some of your small cities two and three and in some cases, I think, four banks in a single town: Is it the policy of such an institution as yours to maintain all of those local units, or is it your plan ultimately to merge them?

Mr. WAKEFIELD. It is the plan ultimately to put them all together.

Mr. FORT. You feel, then, the effect of your operations will be ultimately to reduce the number of banks?

Mr. WAKEFIELD. Yes.

Mr. FORT. Of course, where you own all of the stock, or substantially all of the stock—I say you; your corporation—the question of the price at which a merger is effected is of slight importance, I mean the price at which the stock of the different banks is taken into account in the merger.

Mr. WAKEFIELD. In a merger?

Mr. FORT. Yes.

Mr. WAKEFIELD. No; where we own the stock of both banks, it is just the assets that are merged, and the business is merged without any regard to price.

Mr. FORT. Have you any views on how far such holding companies as yours and the Northwest Bancorporation, for example, ought to be allowed to merge?

Mr. WAKEFIELD. No. I do not know whether there is any spot—I am satisfied of this, in a territory such as we are occupying, that it would be a great misfortune, in my opinion, if anything were ever done to eliminate the competitive situation that exists there.

Mr. FORT. Then since competition is, in your judgment, as I think it is in that of practically this entire committee, if not all of it, a desirable factor where it can be maintained, would we be doing, in your judgment, what we should not do if we tried to find ways and means of maintaining competition?

Mr. WAKEFIELD. No; I think you would be justified.

Mr. FORT. You have said that it is, and of course we all know that it is, whether the securities are listed or not, always possible that the control of an institution such as your corporation could be bought if somebody wanted to pay the price.

Mr. WAKEFIELD. Yes.

Mr. FORT. It would not be sound policy for the Nation to permit the control of the banking within any Federal reserve district to get into one hand, would it?

Mr. WAKEFIELD. I do not think there would be any danger of that, because if it did it would be a temporary situation. Unquestionably there would be competition come into a situation of that kind.

Mr. FORT. There might in the larger cities; there would not in the smaller ones.

Mr. WAKEFIELD. Well, for instance, if the Northwest Bancorporation and our corporation should see fit to merge, you can not make me believe it would take 60 days for somebody to be in the field setting up a competitive institution.

Mr. FORT. You mean a competitive group institution such as yours?

Mr. WAKEFIELD. Yes; or, if branch banking were in existence, competing branch bank.

Mr. FORT. You do not think such an institution as that would find any excuse to put a bank into some of those smaller towns when the local bank was already sufficient?

Mr. WAKEFIELD. I do not think there is going to be—in the little towns such as I have described this morning, I do not think there is ever going to be any competition in those towns; because I do not think there can be.

Mr. FORT. Well by "little towns," you mean, perhaps a different thing from what I mean.

Mr. WAKEFIELD. A town where there are four or five or six hundred depositors.

Mr. FORT. I mean a town of four or five or six thousand people.

Mr. WAKEFIELD. Oh, I think those towns are big enough for two banks.

Mr. FORT. But if you have one and the Northwest Bancorporation has the other and you consolidate the ownership of the two corporations, even without formal consolidation——

Mr. WAKEFIELD. I think there would be another bank in that town.

Mr. FORT. You do?

Mr. WAKEFIELD. Yes.

Mr. FORT. That, however, would rest with the comptroller and the State authorities?

Mr. WAKEFIELD. Yes.

Mr. FORT. And there would have to be proof of the need, would there not?

Mr. WAKEFIELD. That is not going to be difficult to supply, the need of competition in a substantial town, is it?

Mr. FORT. I do not know. How do you operate your organization, in view of the provisions of the Clayton law on directorates?

Mr. WAKEFIELD. You see we have no—our directorates in each of those banks are entirely different people; there is no one connected with the First Bank Stock Corporation who is either an officer or a director of the group of institutions of any of them.

Mr. FORT. There is not?

Mr. WAKEFIELD. No.

Mr. FORT. That confirms as a policy what some of us have believed, namely, that if we are to permit any group ownership, we should insist upon at least a majority of the directorates being local.

Mr. WAKEFIELD. Oh, yes.

Mr. FORT. In each bank.

Mr. WAKEFIELD. Yes.

Mr. FORT. You would feel that is a sound policy?

Mr. WAKEFIELD. Well, it is our policy. Our policy is that the officers and directors of the banks in our group are 100 per cent local people.

Mr. FORT. So that you feel——

Mr. WAKEFIELD. Mr. Fort, Mr. Washburn corrects me to this extent: You asked me about the directorates?

Mr. FORT. Yes.

Mr. WAKEFIELD. Of course, there are officers of the individual banks who are directors of the First Bank Stock Corporation.

Mr. FORT. Oh, I understood that. Now, how do you handle this situation: Your directors, if you have taken all of the stock over in the First Bank Stock Corporation, your local directors have no actual capital stock ownership in the bank of which they are directors?

Mr. WAKEFIELD. They are required to buy; a man is required to buy the number of shares to qualify as a director, which he owns outright.

Mr. FORT. He buys them through you?

Mr. WAKEFIELD. Yes.

Mr. FORT. You would have to keep some string on them so that he can not resell them if he is out as a director, would you not?

Mr. WAKEFIELD. We try to.

Mr. FORT. I suppose you are advised as to whether that is strictly legal?

Mr. WAKEFIELD. Well, we have used good attorneys, I think.

Mr. FORT. But the maximum, then, of the director's liability of individual loss through mismanagement is his holding of that minor amount of qualifying shares—say, 10 shares?

Mr. WAKEFIELD. Oh, in our case, where we have directors, they are substantial owners of stock in the First Bank Stock Corporation.

Mr. FORT. But that loss that may result through local mismanagement is pretty widely cushioned by the holding of the first bank stock?

Mr. WAKEFIELD. Yes.

Mr. FORT. So that you have not the same protection, quite, that the ordinary bank has where their directors, as they do in most cases, actually own control of these smaller banks?

Mr. WAKEFIELD. Were you here when I described our method?

Mr. FORT. Part of it; not all of it. I happen to be on the Rules Committee and had to attend a meeting of that committee, and I want to say, apologetically to the committee and the witness, my absence was occasioned by the fact I had to attend another committee meeting.

Mr. WAKEFIELD. I think I showed we have been keeping track of that and followed that thing, so that that responsibility is complete.

Mr. FORT. All right; I won't ask you to go back over that. Now, you have said, and Mr. Decker said—I think you have said; I know he did—that we should be very slow to pass any legislation on this general subject, because of a lack of sufficient information on which to proceed at the present time. It seems quite clear from your description of your set-up that a properly-managed group (and it sounds as though your management was entirely proper) might be a very considerable public value and relatively small public injury, but it is a fact, is it not, Mr. Wakefield, the plan does open itself, under improper management, to grave dangers?

Mr. WAKEFIELD. Well, I am glad you mentioned that point, because I would like to state right here our feeling is that if this development, this type of group banking, is to continue, it ought to be accompanied by a provision for supervision of the holding company and the whole institution, and examination and control by the comptroller's office, just the same as the bank is now. And that ought to be done; we are anxious that it be done, because of the fact we recognize the weakness you have just described and the possibility that somebody may, possibly, try to start a group of banks, not with the intention of handling them in the interest of the community, but as a mean of making money out of the transfer of stock, or something else, and which, in case they did and there was a failure of that sort of institution, would be extremely injurious to us.

Mr. FORT. And have you any special regulations in mind that we should consider the adoption of as relating to group banking, other than that of inspection and supervision?

Mr. WAKEFIELD. I have not gone far enough in the consideration of that topic to formulate a definite proposal. I think we could; I think we could work out a set of regulations that might be very beneficial, if given time.

Mr. FORT. My own feeling is that nobody can advise this committee so well as to what we ought to do, to guard against dishonest

or improper management, as an honest man running a thing properly; because he can see the hazards much more clearly than we can see them.

Mr. WAKEFIELD. I am quite sure, if we were requested to do it, we could develop a set of suggestions.

Mr. FORT. I, for one, would be delighted if you would do so and submit them to the committee—at your leisure, I mean. I do not know there is any objection to that. We are not going to settle this thing to-morrow and pass a law the day after.

Mr. WAKEFIELD. Yes.

Mr. FORT. It is a fact, Mr. Wakefield, is it not, that the larger an institution becomes, the more completely the management in everything but policy passes to the chief executive head and out of the hands of the board of directors, whether it is banking or any other form of industry?

Mr. WAKEFIELD. That depends on two or three factors, I think, Mr. Fort. Where you have a very large board of directors of any big corporation, especially a bank, it is not possible to keep all of that board intimately in the affairs of the bank; but that is usually covered by the formation of an executive committee, or management committee, which is a smaller group of directors, who do have access to the affairs almost daily of the ordinary bank, and do keep in very close touch with them. I do not believe a single individual, no matter how big the institution may be, actually goes off and formulates all of the policies and uses his own judgment without advice and consultation.

Mr. FORT. No; I said the matters of policy are for the board; but, after the policies are once settled, the executive of an institution such as this you are managing has very wide discretion.

Mr. WAKEFIELD. And responsibility.

Mr. FORT. And can wreck or make the institution pretty much before his board knows very much of one thing or the other about it.

Mr. WAKEFIELD. I do not think that would be true in a bank.

Mr. FORT. Well it has been almost if not quite true in some.

Mr. WAKEFIELD. Well, it would not be true in the banks I am familiar with.

Mr. FORT. Do you think the 10 per cent loan limit is big enough for all essential banking purposes?

Mr. WAKEFIELD. Yes; I do.

Mr. FORT. With the modern shift of banking from commercial paper to collateral loans, should we consider, particularly in a group system like yours, or branch system, the limitation of the amount that might be loaned on a single collateral; that is, we will say, on United States Steel stock?

Mr. WAKEFIELD. That is a new thought to me. That is, you might have a dozen different loans, all with the same collateral.

Mr. FORT. Yes.

Mr. WAKEFIELD. In a total amount equaling considerably more than 10 per cent?

Mr. FORT. The average banker makes his loan on collateral, without regard to the name of the maker.

Mr. WAKEFIELD. There is a question in my mind whether a definite legal restriction might not cause some confusion or difficulty in certain cases.

Mr. FORT. Well, I am thinking particularly of the unlisted local stocks.

Mr. WAKEFIELD. Of course, there again you have to go back to the fact that if the management of the bank, the people in charge of making loans, do not use good judgment, I do not believe you can make legislation that is going to furnish a substitute for managerial capacity and ability to run institutions that ought to exist in good banks.

Mr. FORT. I agree there; but, at the same time, we have put 10 per cent limit on the individual loans.

Mr. WAKEFIELD. Yes.

Mr. FORT. Because we felt we ought not to allow the power to the individual who was a bad banker to go beyond that. The question is whether we should not parallel that with reference to the collateral, with the developments in modern banking.

Mr. WAKEFIELD. I could not answer that offhand.

Mr. FORT. In such an organization as yours should we permit cross loans on collateral; in other words, should your First National Bank of Minneapolis make collateral loans based on the stock of the First Bank Stock Corporation?

Mr. WAKEFIELD. I do not think any bank owned by a holding company such as ours should be permitted to loan a dollar on the stock of the holding company. I think it is just the same thing, in effect, as though you took the First National Bank of Minneapolis and permitted it to loan on the stock of the First National Bank, which has never been done.

Mr. FORT. How about affiliated corporations and things of that sort—the same rule?

Mr. WAKEFIELD. The same rule.

Mr. FORT. Nor should the affiliated corporation be allowed to loan on the bank stock, should it?

Mr. WAKEFIELD. No.

Mr. FORT. And in places where ownership of stocks is permitted by banks or trust companies, ownership for their own account of stock in other banks or trust companies, cross ownership ought not to be permitted there, should it?

Mr. WAKEFIELD. We do not have any of it; we are not permitted to do that.

Mr. FORT. No; but there are a great many places where they are.

Mr. WAKEFIELD. I do not understand just how that would work.

Mr. FORT. In my own State a bank may own stocks more freely, for instance, than a fire insurance company, with less restriction on the type of stock that may be bought. Assuming that one trust company owns the stock of another trust company, it should not be permitted that the second trust company should own stock in the first?

Mr. WAKEFIELD. I do not think that one trust company—that a trust company ought to be permitted to own stock of another trust company.

Mr. FORT. Nor to loan on it?

Mr. WAKEFIELD. No—well, yes.

Mr. FORT. I mean nor loan on it if it were affiliated in any sense, directly or indirectly?

Mr. WAKEFIELD. Yes.

Mr. FORT. I think that is all. Thank you very much, Mr. Wakefield.

Mr. BEEDY. Did you testify as to the par value of your shares in the holding company?

Mr. WAKEFIELD. Yes; I described the entire thing.

Mr. BEEDY. And what was the par value?

Mr. WAKEFIELD. $25.

Mr. BEEDY. And when you exchanged stock in banks which you took over for shares in your holding company what was your method of ascertaining values? Did you cover that?

Mr. WAKEFIELD. I covered that with Mr. Strong, and I guess somebody else asked me all of those questions.

Mr. BEEDY. Did you trade in your holding stock-company shares as of on the basis of $25 per share.

Mr. WAKEFIELD. Yes.

Mr. BEEDY. Irrespective of what the market value might have been?

Mr. WAKEFIELD. Yes.

Mr. BEEDY. And have you fixed upon any method of attempting to approximate a uniform return on the investment to all shareholders?

Mr. WAKEFIELD. No. The situation existing in one bank that was taken in was entirely different from that in another, and the arrangement was an attempt to be absolutely fair under all the circumstances with the people that held the stock.

Mr. BEEDY. But the conditions were so diverse it was practically impossible to approximate an equal return on the investment?

Mr. WAKEFIELD. Yes. Well, Mr. Beedy, we have had cases of where we have taken banks, where the stockholders of that bank not only waived their capital and surplus accounts but put up additional cash to guarantee the deposits that were taken over, and then turned around and bought stock in the holding company.

Mr. BEEDY. You testified about the ownership of stock in the holding company by directors. I presume you were talking about directors in the holding company?

Mr. WAKEFIELD. No.

Mr. BEEDY. Directors in the various banks?

Mr. WAKEFIELD. Directors in the various banks.

Mr. BEEDY. Are you familiar with the legal requirement as to ownership?

Mr. WAKEFIELD. In a bank?

Mr. BEEDY. Yes.

Mr. WAKEFIELD. Yes.

Mr. BEEDY. And you said you were attempting to keep some strings on this stock held by directors. Will you explain that to us?

Mr. WAKEFIELD. We have not any string on that stock that could be enforced, because you can not make it.

Mr. BEEDY. That is, all this stock in the holding company that is owned by the directors is owned as of their own right.

Mr. WAKEFIELD. Absolutely, in the holding company; but what you are referring to, really, is the qualifying shares that a man has in the individual bank.

Mr. BEEDY. Yes; that is it.

Mr. WAKEFIELD. And those shares which he has to qualify as a director in that bank, if it were attempted to enforce any agreement and he did not want it enforced, we could not do it.

Mr. BEEDY. That is, you have no legal hold on those shares?

Mr. WAKEFIELD. No legal hold on those shares whatsoever.

Mr. BEEDY. But may have a moral hold on them?

Mr. WAKEFIELD. We have a gentleman's agreement.

Mr. BEEDY. That is all.

Mr. GOODWIN. I just want to ask a few questions, Mr. Wakefield, in reference to country banks. The farm-mortgage loan business has practically disappeared from the country banks as an item of profit and revenue?

Mr. WAKEFIELD. I think that is true.

Mr. GOODWIN. Loaning under the McFadden act, national banks are permitted to loan on village property, both business and home property?

Mr. WAKEFIELD. Up to a certain amount.

Mr. GOODWIN. Up to a certain amount?

Mr. WAKEFIELD. Yes.

Mr. GOODWIN. Those kinds of loans are rather precarious, are they not, in this particular day, when chain stores are entering the field of commercial enterprise in the small towns and villages throughout our State and other States?

Mr. WAKEFIELD. Well, Mr. Goodwin, it has been my observation, as far as values in the small towns are concerned, the chain-store unit has sort of strengthened the market and made a little rise in values there.

Mr. GOODWIN. But the country bank is a little timid about loaning on village property, as a rule, within the bounds of safety?

Mr. WAKEFIELD. Yes; they have to be rather conservative, due to the fact there is but little of a market in a small country town for houses and other pieces of real estate.

Mr. GOODWIN. The par clearance of checks has also reduced the revenue of country banks to some extent; at least, those who are members of the Federal reserve?

Mr. WAKEFIELD. Yes; but that has been partially corrected.

Mr. GOODWIN. Now, what other avenues are there left for the country bank, out of which it can make a profit, so that it can exist?

Mr. WAKEFIELD. Practically the only thing left is the privilege of doing a commercial banking business; that means receiving deposits and loaning those in a commercial way and making a return.

Mr. GOODWIN. Has it been your experience that the ordinary country banker is sufficiently familiar with the value of bonds so that he can make a loan and safe investment?

Mr. WAKEFIELD. I think it has been very perplexing to the country banker who has found it necessary to buy securities, due to the fact of his unfamiliarity with them and his lack of a source of his own through which he could secure the right kind of information concerning them.

Mr. GOODWIN. And through your organization you are in a position where you can advise the members of your group as to what investments, in the way of bonds, are safe and can prudently and profitably be made?

Mr. WAKEFIELD. We have an expert bondman and a department in the central office of our corporation, charged with the responsibility of buying all bonds that may go into the bank and with the responsibility of having those checked up concerning conditions that may make it advisable to move them out, at all times, and that is all that department has to do. It is not engaged in buying or selling bonds, or marketing them; its job is to use all of the statistical and other information which we possess, and expert knowledge, to buy the right kind of bonds for our banks.

Mr. GOODWIN. It has been suggested in the line of Mr. Luce's questioning this morning, in regard to favortism, that there may be institutions or individuals who may be entitled to credit but who can not obtain credit because of conflicting interests that they have in reference to some of the stockholders or directors of a holding company. Is there anything to that intimation?

Mr. WAKEFIELD. You have used the words "holding company," Mr. Goodwin, and I have had that same expression made concerning an individual bank. The same thing would be true. In my experience, I have never known of a case of where a stockholder or director of an institution, particularly a banker, where he was interested in a line in competition with some other man doing business with the bank, where we have had any suggestion that we should not go right along and take care of the other fellow. And it would not be possible to have that in your organization; if it were, that man would not be a good director.

Mr. GOODWIN. It also has been suggested that contractors who employ union labor have been discriminated against. Have you found any such situation in your experience?

Mr. WAKEFIELD. I never heard—I never knew, myself, whether a man employed union labor or not, so far as the contracting business was concerned.

Mr. GOODWIN. I think that is all.

Mr. LETTS. Mr. Wakefield, your company is incorporated, of course?

Mr. WAKEFIELD. Yes.

Mr. LETTS. Under what law?

Mr. WAKEFIELD. Delaware.

Mr. LETTS. You said this morning something about going down to Delaware, because you could avoid difficulties with respect to the inheritance tax.

Mr. WAKEFIELD. That is true.

Mr. LETTS. And you said something about double liability—if you organized in Minnesota, you would be subject to the double liability?

Mr. WAKEFIELD. Yes, sir.

Mr. LETTS. Is that true as to the holding company?

Mr. WAKEFIELD. It is true as to any company not a manufacturing corporation in Minnesota.

Mr. LETTS. I see. However, by going to Delaware, you nevertheless have retained the corporate entities as you found them with respect to the banking units?

Mr. WAKEFIELD. Oh, absolutely.

Mr. LETTS. You have not reorganized them in any way?

Mr. WAKEFIELD. Oh, no.

Mr. LETTS. And, for the most part, I suppose the banks connected with you in Minnesota are organized under the laws of Minnesota?

Mr. WAKEFIELD. No. Out of the 91 banks, 67 of them are national banks. There are some State banks; the balance are national banks.

Mr. LETTS. It will be your purpose from time to time to take State banks as well as national banks into your organization?

Mr. WAKEFIELD. We have not hesitated to take a bank, State or National, and have up to date continued the same corporate existence that it had before; but in cases where it was necessary, with one exception, to organize a new bank, that has been a national bank; and that one case where it was necessary and we did not have a national bank was where it would have necessitated carrying it over the week end, and there was one day in there and we could not wait to have the charter granted in Washington.

Mr. LETTS. You are authorized to do almost any kind of business, are you not?

Mr. WAKEFIELD. Well, sir, I have not read what the lawyers put into the powers of that corporation; but I imagine they will let you do almost anything.

Mr. LETTS. And you have up to date proceeded to conduct a banking business through these various units?

Mr. WAKEFIELD. Yes, sir.

Mr. LETTS. And you have your securities corporation?

Mr. WAKEFIELD. Yes. We have a securities company. The capital and surplus in the securities company amounts to seven and a half million dollars.

Mr. LETTS. And you have a financing company called the First Bancredit Corporation?

Mr. WAKEFIELD. Yes. That is a small finance company which was organized to loan money to people building new homes, small homes, and is handled in this manner—that there are certain lumber dealers out through that territory who want to furnish the materials for somebody who is going to build a house, and they will take a second mortgage on the monthly payment plan. Then if their statement is satisfactory and they guarantee that to us we advance them the money.

Mr. LETTS. And is that agency through which your customers are permitted to finance the purchase of automobiles?

Mr. WAKEFIELD. No; we do no automobile business.

Mr. LETTS. Nothing like that?

Mr. WAKEFIELD. No.

Mr. LETTS. Or household devices?

Mr. WAKEFIELD. Well, we do expect to do that; as that business grows, as we can find the places to do that business, we are going to do some.

Mr. LETTS. Of course, and what you call the Bank Credit Corporation——

Mr. WAKEFIELD. The First Bank Credit Corporation.

Mr. LETTS (continuing). Is an organization designed to do just that sort of thing?

Mr. WAKEFIELD. Yes, sir.

Mr. LETTS. Do you expect to do any insurance business?

Mr. WAKEFIELD. No.

Mr. LETTS. Life, accident, fire, or otherwise?

Mr. WAKEFIELD. No.

Mr. LETTS. You could?

Mr. WAKEFIELD. No; the banks—some of our banks in the country have been for years agencies for insurance companies; but you meant, when you said, "to do an insurance business," to organize an insurance company and run it?

Mr. LETTS. I mean a place for issuing policies of any kind.

Mr. WAKEFIELD. Oh, no; absolutely not.

Mr. LETTS. Or operating agencies, or anything of that kind?

Mr. WAKEFIELD. No.

Mr. LETTS. Now, you have been in existence about eight months, have you?

Mr. WAKEFIELD. Yes; just about.

Mr. LETTS. And during that time you have acquired 91 banks?

Mr. WAKEFIELD. Ninety-one banks.

Mr. LETTS. And amassed a large capital, of course?

Mr. WAKEFIELD. Yes.

Mr. LETTS. It is your purpose to enlarge, to grow?

Mr. WAKEFIELD. We want to stay right in the field and fill it as fully as possible. Now, what that will involve I do not know.

Mr. LETTS. The Northwest Bancorporation is two or three months older than you?

Mr. WAKEFIELD. Yes; six months, probably.

Mr. LETTS. And they have been equally successful, I take it?

Mr. WAKEFIELD. I think so; at least equally. [Laughter.]

Mr. LETTS. I see there is a very friendly relationship between you gentlemen, and I am glad to see that, of course. How long would it takes your organization and the Northwest Bancorporation to control the financial life and activities of the Federal reserve district in which you are located?

Mr. WAKEFIELD. I do not think they could ever do it.

Mr. LETTS. You do not think it would be possible, even if you might desire, eventually, to become a monopoly in that regard?

Mr. WAKEFIELD. No; I do not. I feel very sure that it would not be possible.

Mr. LETTS. From the standpoint of returns to your stockholders, would it be desirable if you could?

Mr. WAKEFIELD. No; it would be destructive.

Mr. LETTS. Why do you say that?

Mr. WAKEFIELD. I say that for this reason, that if any operation of that kind ever took effect, there is plenty of the business, what we call choice business of the territory, that would leave us and go right out into Chicago, or somewhere else. We are constantly in competition, in the banking business, with New York, Chicago, and other centers.

Mr. LETTS. Have you been approached to go into an amalgamation which would cover the country?

Mr. WAKEFIELD. We have never had one suggestion or word from anybody in the world indicating or discussing a matter of that kind.

Mr. LETTS. When one sees how quickly you have grown, to such proportions, it makes us wonder just how long it might require a group of men to exercise a very great influence over the activities

of the whole country by joining hands. That is the reason I am asking that question.

Mr. WAKEFIELD. We have never heard of it.

Mr. LETTS. You now have about eight banks in Minneapolis?

Mr. WAKEFIELD. You say "we have?"

Mr. LETTS. Yes.

Mr. WAKEFIELD. Yes.

Mr. LETTS. And six in St. Paul?

Mr. WAKEFIELD. I think so.

Mr. LETTS. How many does the Northwest Bancorporation have in Minneapolis; can you tell me?

Mr. WAKEFIELD. They have more; I think nine.

Mr. LETTS. How many do they have in St. Paul?

Mr. WAKEFIELD. One bank.

Mr. LETTS. All told, can you tell us how many there are in the two cities? Just approximately.

Mr. WAKEFIELD. In the two cities?

Mr. LETTS. Yes.

Mr. WAKEFIELD. Just about 50 banks—27 in Minneapolis and 23 in St. Paul.

Mr. LETTS. You have not gone into Iowa?

Mr. WAKEFIELD. No, sir.

Mr. LETTS. You are confining your activities within the Federal reserve district?

Mr. WAKEFIELD. Yes; it has been our policy to do that.

Mr. LETTS. That is a present policy, of course, and one which may be changed at any time. You are quite young.

Mr. WAKEFIELD. I will have to have some pretty good argument advanced before that policy is changed.

Mr. LETTS. Have you found it advisable to adopt that as a policy?

Mr. WAKEFIELD. Well, I do not know that I can answer that question fully. I will say this, that we are not seeking to have control over or responsibility for a particular sized institution or anything of that sort. We do feel our obligation to the particular territory we are in and we have felt that we had all the responsibility that we want within the territory that we are covering.

Mr. LETTS. How is that responsibility fixed? Is that because of the trade conditions?

Mr. WAKEFIELD. No; I would not say that. You take the territory that the Northwest Bancorporation has gone into. It has a very close contact with our territory.

Mr. LETTS. You speak of your responsibility. What responsibility do you have in respect to Montana?

Mr. WAKEFIELD. Well, we are in the position, in our group, of having the large banking interests on our hands out in that territory.

Mr. LETTS. Is that because of investments out there or business?

Mr. WAKEFIELD. Because it is in the ninth Federal reserve district.

Mr. LETTS. That is rather arbitrary from your point of view, is it not?

Mr. WAKEFIELD. I explained this morning the ninth Federal reserve district, under the set-up, did cover pretty well the territory under the flow of banking business, back and forth.

Mr. LETTS. Will it be your policy to serve the smaller communities by branches? You have suggested that that, in your judgment, is

the proper way to serve the smaller community, and I am wondering whether, in deliberating upon your policy, you have deemed it necessary for you to render that service?

Mr. WAKEFIELD. Our policy would be to go just as far as the law will permit in supplying the right kind of banking facilities in the territory in which we operate. If it is a branch-banking system, we will do it. We will go just as far as the particular system will justify that we go.

Mr. LETTS. You, of course, in allowing these banks to affiliate with you, have only taken the strong banks, and I think that is proper because you want your venture to be a success, of course.

Mr. WAKEFIELD. You are mistaken. There are 19 banks which we have taken which required a complete recapitalization. That does not mean that they are strong banks.

Mr. LETTS. Were those ones with which you started out originally?

Mr. WAKEFIELD. No; those banks were strong.

Mr. LETTS. Then, what actuated you to take in these weak banks? What was the purpose behind it?

Mr. WAKEFIELD. Just this: That if we could, without loss, take over a situation where there was bound to be a closing and a liquidation of a bank and tying up of the deposits of that town, I feel certain that we have rendered that community a tremendous service if we have been able to work with the stockholders and directors of that bank which was going to close, and provide a means where a new bank was created, and kept those funds, as liquid deposits, in those communities.

Mr. LETTS. And you saved those?

Mr. WAKEFIELD. Yes, sir; and that was the main part of this organization—to attempt to arrest the tying up of banking deposits and keep them in the community.

Mr. LETTS. The Northwest Bancorporation shares with you that responsibility?

Mr. WAKEFIELD. Yes, sir; and have done a lot of it.

Mr. LETTS. Have they done their part in preventing disasters?

Mr. WAKEFIELD. Absolutely; they are on the job every day.

Mr. LETTS. Now, how can you decide whether a given responsibility is yours or the other fellow's?

Mr. WEKEFIELD. It is usually decided automatically by this fact: If that bank has for many years been our customer——

Mr. LETTS. Then it is your problem?

Mr. WAKEFIELD. Yes, sir; and we go there and try to take care of it. Neither one of us is running into those things head over heels, you understand.

Mr. LETTS. I understand that, and I can see just what you are trying to explain. When you have a choice in the matter you only take in strong banks; but when it is necessary to save a situation in the territory, you go to a bank in distress?

Mr. WAKEFIELD. Yes, sir.

Mr. LETTS. That is often done whether you are in a group or otherwise?

Mr. WAKEFIELD. We could not do that without the group system. If we were just operating our bank, all we could do is make some loans and carry them as far as possible.

Mr. LETTS. In this way, it permits you to reorganize it and put it on a firm basis?

Mr. WAKEFIELD. Yes, sir.

Mr. LETTS. I thank you very much. I think that is all.

Mr. SEIBERLING. Mr. Wakefield, you said that the principal reason why you were incorporated under the laws of Delaware was on account of the inheritance tax?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. I assume you do not know that under the Federal law you are allowed credit up to 80 per cent of the Federal tax for all taxes paid in other States?

Mr. WAKEFIELD. I am talking about the conflict of State inheritance taxes.

Mr. SEIBERLING. You can not get out of the State inheritance taxes, because you are incorporated in Delaware.

Mr. WAKEFIELD. All right; what State are you from?

Mr. SEIBERLING. I am from Ohio.

Mr. WAKEFIELD. Do you own stock in a corporation? If you own stock in Minnesota, Minnesota is going to collect inheritance tax on that stock.

Mr. SEIBERLING. I am going to get credit for that on my Federal tax.

Mr. WAKEFIELD. But you are going to pay Ohio's tax, too.

Mr. SEIBERLING. And I will get credit for that on the Federal tax. The fact you are incorporated in Delaware does not cost your stockholders a cent less for Federal taxes than if you were incorporated in Minnesota.

Mr. WAKEFIELD. Well, all I know is that our attorneys, who looked into the original set-up, insisted that we be not incorporated in Minnesota.

Mr. SEIBERLING. It is true that you get credit up to 80 per cent for all inheritance taxes paid to the States on your Federal tax.

Mr. WAKEFIELD. That is a legal question about which I am not competent to talk. I am not a lawyer. The statement I have made is the judgment of the attorneys we had to look over the situation, and I am quite sure if you will take the individual cases and look them over you will find it is a serious situation.

Mr. SEIBERLING. But assuming my statement to be true, and that you get credit up to 80 per cent on your Federal taxes for taxes paid in other States, your reason that you advance for incorporating in Delaware falls, does it not?

Mr. WAKEFIELD. I do not think that allowance on the Federal tax compensates for the situation.

Mr. WINGO. In those States that have reciprocity, you would get the benefit of that. Minnesota, of course, is not a reciprocity State.

Mr. WAKEFIELD. We have a very difficult situation there in that respect.

Mr. SEIBERLING. You do not think the escape of the double liability is any feature of your organization?

Mr. WAKEFIELD. That particular thing, in the discussions at the time of our organization, when it was being arranged, would have been accepted if we had our choice out there.

Mr. SEIBERLING. You never said to the stockholders who were coming into your organization that they would be relieved from double liability?

Mr. WAKEFIELD. Never. Some groups that have formed have deliberately provided for double liability. If we had it to do over again, we would provide for it.

Mr. SEIBERLING. You have not put into the record a statement of your First Bank Stock Corporation.

Mr. WAKEFIELD. Only just what is there in the statement.

Mr. SEIBERLING. You have not put in a financial statement.

Mr. WAKEFIELD. There is not any.

Mr. SEIBERLING. You certainly must have a financial statement of the holding company.

Mr. WAKEFIELD. It is not active. It does no business.

Mr. SEIBERLING. I have a statement of the issued stock or assets.

Mr. WAKEFIELD. I think I have that right here. I think I have a copy of it here, and if we have it, we shall be glad to put it in.

Mr. SEIBERLING. How much stock have you issued of your holding company?

Mr. WAKEFIELD. It is stated in the record this morning—3,016,000 shares.

Mr. SEIBERLING. At $25 a share, how much would that be?

Mr. WAKEFIELD. $75,000,000, approximately.

Mr. SEIBERLING. With that $75,000,000, you have purchased $54,000,000 of capital stock, surplus, and undivided profits in these subsidiary banks?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. You were discussing this morning a bank that was in great difficulty in a city of 3,000 inhabitants, and the depositors were there to get their money when you arrived on the scene, but you did not state how much stock you gave those stockholders for their bank.

Mr. WAKEFIELD. We did not give them any. They put up $200,000 in cash.

Mr. SEIBERLING. And gave you the bank?

Mr. WAKEFIELD. Yes; sure.

Mr. SEIBERLING. How many other banks were given you in this organization?

Mr. WAKEFIELD. Not very many, but there have been several cases where that has happened.

Mr. SEIBERLING. About how many?

Mr. WAKEFIELD. I can not tell you.

Mr. SEIBERLING. Then, this bank that you had given to you, how do you carry that on your books?

Mr. WAKEFIELD. We put in $150,000 in cash. We capitalized a new bank and assumed the deposit liabilities of that bank and after the stockholders had put up $200,000 in cash, we figured it may cost us $50,000 in losses, before we get out.

Mr. SEIBERLING. You made them guarantee the debts ?

Mr. WAKEFIELD. Up to that point—$200,000.

Mr. SEIBERLING. When you take over banks not insolvent, but almost insolvent, you escrow the stock delivered for debts?

Mr. WAKEFIELD. Not unless there is further need for security of the paper in the bank at the time it is taken over.

Mr. SEIBERLING. You want to be sure that all of the assets of the bank are good when you take them over?

Mr. WAKEFIELD. We are not crazy and we would simply not go out and throw the money over the transom in order to get possession of a bank.

Mr. SEIBERLING. You do not pay anything for good will?

Mr. WAKEFIELD. Wherever there is anything coming for good will, it is included.

Mr. SEIBERLING. How do you estimate that?

Mr. WAKEFIELD. Based upon the earnings of the bank, its capital and assets.

Mr. SEIBERLING. Have you ever considered good will in taking over any bank?

Mr. WAKEFIELD. Almost always.

Mr. SEIBERLING. Have you sold any of your stock in the market since you organized the corporation?

Mr. WAKEFIELD. I stated that this morning; it is in the record. We sold 200,000 shares to the public originally at $47.50 a share and 32,000 shares to officers and employees in the various banks in the group at $42.50.

Mr. SEIBERLING. You issued it to the original banks on the basis of $25 a share?

Mr. WAKEFIELD. On an agreed basis, but it was $25 par value stock.

Mr. SEIBERLING. When you agreed on the original value of the bank, you paid them at the rate of the par value for your stock?

Mr. WAKEFIELD. I explained that this morning. The First National Bank of Minneapolis, at the time this corporation was formed—our stock was selling for $220 per share. We received four shares of $25 each par value for 1 share of our stock.

Mr. SEIBERLING. You took the market price?

Mr. WAKEFIELD. No; we took what we considered to be a fair basis of exchange based upon the assets and earnings of the bank regardless of the market value of the stock, because if that stock is worth that price in the market, as First National Bank stock, and it is put in on a fair and equitable basis all the way through, it ought to have an appreciation in value as First Bank stock that would approach it, at least. The fact is it has not.

Mr. SEIBERLING. Would that price, if the stock was sold to the public, be a higher price than the price you took it over at?

Mr. WAKEFIELD. It was a lower price than the price existing at that time on the First National Bank stock.

Mr. SEIBERLING. What time was that?

Mr. WAKEFIELD. It was in late August.

Mr. SEIBERLING. You took your stock at $55 a share?

Mr. WAKEFIELD. That is about it.

Mr. SEIBERLING. And you sold to the public at $43?

Mr. WAKEFIELD. At $47.50.

Mr. SEIBERLING. I believe you stated this morning that there were some sections in the ninth Federal reserve district that had too many banks?

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

Mr. SEIBERLING. That is, the communities will not support all the banks they have?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. And some of them have to go out of business?

Mr. WAKEFIELD. I think that is true.

Mr. SEIBERLING. That is not a very good thing for the community?

Mr. WAKEFIELD. It is a very bad thing to have too many banks.

Mr. SEIBERLING. I think you also stated there were many communities that should have banking facilities that do not have them?

Mr. WAKEFIELD. I stated that there were 145 communities where there used to be banks and there are none now.

Mr. SEIBERLING. And you think one of the difficulties in organizing a unit bank in those cases is the fact the Federal farm land banks and the joint-stock land banks loan on mortgages in these communities?

Mr. WAKEFIELD. That is one of the difficulties; yes, sir.

Mr. SEIBERLING. What is the banking business that those communities need that they have not got?

Mr. WAKEFIELD. Just a place where the local people can go and deposit their money, cash checks and do a little banking business.

Mr. SEIBERLING. And borrow money on mortgages?

Mr. WAKEFIELD. It may be that that ought to be done.

I have great faith in the future of farm mortgages. At the present time they are in disrepute, but you can not make me believe that our basic type of security in our territory is forever going to be in disrepute. I think the time is coming when the farm mortgage willl have as good a standing as it had in the past.

Mr. SEIBERLING. We appropriated $500,000,000 to lend farmers on grain or loan associations, with grain securities. We have appropriated $150,000,000 already. Since they have that money available for their associations and they have the other instrumentalities available for farm mortgages—and then we have appropriated another $7,000,000 to lend for individual purposes when needed, by the Secretary of Agriculture—what more could the people need back in those communities?

Mr. WAKEFIELD. I think all that type of appropriation is really ineffective. It is not doing the average farmer any good whatsoever.

Mr. SEIBERLING. Don't you think that the functions of postal savings could be expanded so that in those far-off communities where no one can organize a bank successfully and yet where they need banking facilities these few needs that they have could be taken care of?

Mr. WAKEFIELD. I think it would be an ineffective and cumbersome and an undesirable attempt.

Mr. SEIBERLING. If the law provided that the money that was deposited in the postal savings should be deposited in the banks in the ninth Federal reserve district—money taken in the ninth Federal reserve district should be deposited in the banks of the ninth Federal reserve district—would that make any difference?

Mr. WAKEFIELD. I think the law does permit that and it is largely done, but in all cases it requires the banks to go and buy either State or Government bonds and deposit those in Washington to cover the

amount of the deposits they have from postal-savings banks, which means that that fund, if you have a small town where the postal-savings money is in the form of postal-savings deposits, is not available for loans and never can be.

Mr. SEIBERLING. They can be made available for deposits for use in connection with checking?

Mr. WAKEFIELD. I think if you are going to ask the Government to become responsible for the savings of the people through the postal savings of the people, they must be protected in the manner they are.

Mr. SEIBERLING. You say these communities need banking facilities which neither you nor any other organization can afford to furnish. What do you think we should do for them?

Mr. WAKEFIELD. I say if permission were given to banks in the country to put offices in the small towns where the public could come and borrow money and deposit money, it would meet every requirement needed and do it in an intelligent and desirable way.

Mr. SEIBERLING. That could only be done by branch banking?

Mr. WAKEFIELD. That is true.

Mr. SEIBERLING. You think some form of branch banking should be adopted in order to take care of those needs?

Mr. WAKEFIELD. I think some form of branch banking, as far as those towns are concerned, is absolutely essential.

Mr. SEIBERLING. Should branch banking be limited to the towns where there are no banks?

Mr. WAKEFIELD. I do not think it would be possible for Congress or for the State legislatures to set up a regulation of that kind. I think the permission to put branches in the towns would have to be left to the superintendent of banks or the comptroller, in his discretion. I think any other method would run into conflict and difficulty and work a hardship on some community.

Mr. SEIBERLING. You think if the Comptroller of the Currency had charge of it and took supervision over it, it would be proper to permit branch banks to be put in the trade areas in those places where banking facilities are not developed?

Mr. WAKEFIELD. I think the comptroller is entirely competent to exercise that supervision.

Mr. SEIBERLING. You spoke about the deflation period in your statement this morning. As a matter of fact, after 1920, many industries that suffered this same deflation that the farmers did either reorganized or put bond issues on their plants, paid their obligations and went on, but the farmer was unable to do that?

Mr. WAKEFIELD. That is true.

Mr. SEIBERLING. And consequently the banks have had to carry the loans while their securities have depreciated in value over a long period of years?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. Now, many found themselves in difficult circumstances, practically insolvent, and you have organized your group plan to go out and take over these banks, some for nothing and others for such terms as you can agree upon, so as to reorganize the banking facilities of your Federal reserve district. Is that correct?

Mr. WAKEFIELD. Not quite.

Mr. SEIBERLING. What is there incorrect about it?

Mr. WAKEFIELD. Well, there is an inference or two in your statement which is incorrect.

In the first place, I will state again that the only interest we have in having banks in our territory is in order that there may be institutions there which have the confidence of the public and with which they are willing to deal, and which are ready and competent and willing to take care of the banking needs of the community served. There is no other motive or purpose in it.

Mr. SEIBERLING. Your venture is very profitable in that these banks have a very valuable good will. Here is a bank that has been in operation for many years. It may be practically insolvent; nevertheless, it has a tremendous good will. You can take their assets over and have them guaranteed by responsible people and have the banking business conducted by competent people.

Mr. WAKEFIELD. But in every case we have figured a percentage value to the owners of the banks for the deposits that were turned over, which we have tried to give them in compensation for any good will that might exist there.

Mr. SEIBERLING. Do you agree with Mr. Decker that if proper banking facilities were furnished out in your community it would do more good than any other kind of relief that could be given to the agricultural districts?

Mr. WAKEFIELD. I agree with him that it furnishes the basis for constructive development and prosperity, and without it you can not have any such thing.

Mr. SEIBERLING. Then, of course, you agree that the banking facilities are very important?

Mr. WAKEFIELD. Absolutely important.

Mr. SEIBERLING. Now, I did not quite understand what you meant this morning when you said that the borrower needed no protection. I assume you have not been a borrower very much in your life?

Mr. WAKEFIELD. Yes, I have. Let me illustrate what I have in mind. There have been rare cases, in my opinion, when there have been developments started which the banks were not ready to assume responsibility for; that, they have been untried. I have in mind one very practical illustration. A few years ago there came into existence a widespread development of installment selling. Every manufacturer and merchant found he could increase his sales and production could be increased through the use of installment buying. It was some years before the banks were willing to assume the responsibility of lending upon that class of security. What happened?

Almost immediately great corporations were formed with substantial capital to undertake to furnish that money that was needed for those purposes, regardless of the banks.

Mr. SEIBERLING. Talking about automobile finance companies and so forth now?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. What rates of interest do they charge?

Mr. WAKEFIELD. It does not make any difference what the rates of interest are.

Mr. SEIBERLING. Is not the borrower interested in that?

Mr. WAKEFIELD. Yes, sir; but the cost of credit is usually gauged by the amount and type of risk involved in the transaction.

Mr. SEIBERLING. If you are going to make a man a loan at all, you are not going to make the loan unless you think the principal is reasonably safe?

Mr. WAKEFIELD. In a bank; yes.

Mr. SEIBERLING. If a man is entitled to a loan at all, is he not entitled to it at a reasonable rate of interest?

Mr. WAKEFIELD. It depends upon what the loan is for and what his situation is.

Mr. SEIBERLING. What do you mean by that? If you are going to make a loan at all, why is he not entitled to a reasonable rate of interest?

Mr. WAKEFIELD. The word "reasonable" is to be associated with or defined with the type of credit you are extending and a rate of interest that is reasonable on one form of credit may be unreasonable on another.

Mr. SEIBERLING. You think a man who is greatly in need of money ought to pay more for it than the man who does not need it so much?

Mr. WAKEFIELD. I want to get set with you.

Mr. SEIBERLING. All right; let us get set.

Mr. WAKEFIELD. The banking business has been developing in the larger communities all the time. Up in our country, on account of that fact and because we have recognized the development of that situation, we understand fully if the smaller bank is to be eliminated and can not prosper the large bank must step in and furnish the facilities to the small man. He must do it not entirely upon a deposit basis, either, but the large bank must be in a position to take care of the small people, and we have done everything we could to take care of them, even to the extent that two years ago, recognizing that responsibility that we have, we formed what we call a personal loan department in our bank, through which we loan to small individuals, without any other connection with the bank, up to $500 on an indorsement basis.

Mr. SEIBERLING. What per cent do you charge on that?

Mr. WAKEFIELD. Six per cent, and we are losing money on it. I regard it, however, as one of the best things we do.

Mr. SEIBERLING. You do not think the borrower is entitled to any protection under the law?

Mr. WAKEFIELD. Certainly I do; but I say I think he is protected under the law in every way I can think of.

Mr. SEIBERLING. What rate of interest do they pay on these mortgages you referred to?

Mr. WAKEFIELD. Our usury laws permit 8 per cent.

Mr. SEIBERLING. But what rate do they pay?

Mr. WAKEFIELD. I do not know.

Mr. SEIBERLING. What rate do you pay when you take them over?

Mr. WAKEFIELD. I do not know. I am not active in the corporation.

Mr. SEIBERLING. Do they buy them at a discount?

Mr. WAKEFIELD. That is a very small company and handles a very small business.

Mr. SEIBERLING. I wanted to get the facts.

Mr. WAKEFIELD. I do not know.

Mr. SEIBERLING. Is there anybody here that does know?

Mr. WAKEFIELD. No; but you can rest assured of this, that they get a charge on that business that pays the cost of operation and a return on the money. I do not know what the rate is.

Mr. SEIBERLING. Mr. Decker referred to banks yesterday as comparable with public-service corporations. Do you agree with him in that?

Mr. WAKEFIELD. I have never been able to find a basis of comparison myself.

Mr. SEIBERLING. You would not think it would be proper for the ticket agent of the Baltimore & Ohio down here, if he found a man had to go to New York to-night to charge him $5 or $10 more for his ticket than if he could wait until to-morrow?

Mr. WAKEFIELD. I do not understand that question, Mr. Seiberling.

Mr. SEIBERLING. Does not the Government do more for the banks than it does for any other business in this country?

Mr. WAKEFIELD. I do not think so. I think the banks do a tremendous amount for the Government every day in the year.

Mr. SEIBERLING. For the Government?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. Well, the banks operate with the money that belongs to the people, do they not?

Mr. WAKEFIELD. Now, do you want to get into an involved discussion of the theories of banking?

Mr. SEIBERLING. Do not your deposits come from the people?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. Even the very money you are lending back?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. Are they not entitled to get that money on a reasonable basis?

Mr. WAKEFIELD. I claim they do.

Mr. SEIBERLING. How much money have you made with this corporation of yours since you organized it?

Mr. WAKEFIELD. Which corporation?

Mr. SEIBERLING. Your holding company.

Mr. WAKEFIELD. The First Bank Stock Corporation?

Mr. SEIBERLING. Do you get out monthly statements?

Mr. WAKEFIELD. We get statements every day.

Mr. SEIBERLING. How much money are you making?

Mr. WAKEFIELD. I do not know, but last year, on the basis of operation of each unit, for the full year, the earnings of this corporation would be approximately $7,300,000 from all sources. That is approximately $2.40 a share on the capital stock.

Mr. SEIBERLING. That is the bank you took over?

Mr. WAKEFIELD. Yes, sir; the whole group.

Mr. SEIBERLING. But, as a matter of fact, what have you been making since you took them over?

Mr. WAKEFIELD. Less, because it is a low-money period right at the present time.

Mr. SEIBERLING. You do not think any money went from the ninth Federal reserve district to New York during the high call-money period?

Mr. WAKEFIELD. I do.

Mr. SEIBERLING. Do you know of any banks that borrowed from the Federal reserve bank and sent it to New York?

Mr. WAKEFIELD. I am quite sure they did not do that in our district.

Mr. SEIBERLING. You do not know of any?

Mr. WAKEFIELD. No, sir.

Mr. SEIBERLING. You think it is all right to have a call-money rate of 25 per cent?

Mr. WAKEFIELD. I think the best sort of regulation and the best indication to the general public of pending difficulties are secured through the fluctuations of the call-money rate in New York.

Mr. SEIBERLING. But you do not answer my question.

Mr. WAKEFIELD. I think it is perfectly proper that the rate should go to 25 per cent if the situation warrants it.

Mr. SEIBERLING. And very much higher?

Mr. WAKEFIELD. So much higher that they would not use it.

Mr. SEIBERLING. You think it should go to an unlimited amount?

Mr. WAKEFIELD. Yes, sir. I think any attempt to fix that rate would be to the detriment of the good of the entire country. I think that is the one mark we have to watch as showing pending danger, and if the public had paid attention to the call-money rate on the New York market in the last two years, they would not have been stung in the stock market like they were.

Mr. SEIBERLING. Do you think there should be any machinery in New York or any other place that could put the money so high that they can make the people pay more interest than the usury laws of the States permit?

Mr. WAKEFIELD. That period was one of the highest call money rate periods that we have had in this country. I know that it had no influence whatever upon the banking resources in our section being diverted to New York in order to get that high rate.

Mr. SEIBERLING. You know it did draw a vast amount of money to New York?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. Then where did it come from?

Mr. WAKEFIELD. From individuals and not from the banks.

Mr. SEIBERLING. But they had to take it out of the banks?

Mr. WAKEFIELD. Probably some did.

Mr. SEIBERLING. And diverted it to New York?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. And to the extent that that was done you did not have that money available to lend in your district?

Mr. WAKEFIELD. We took care of every requirement in our district.

Mr. SEIBERLING. Where did you get the money with which to do that?

Mr. WAKEFIELD. From the Federal reserve bank.

Mr. SEIBERLING. And that money you loaned back to your customers, who took it and sent it to New York and loaned at 15 and 25 per cent in New York?

Mr. WAKEFIELD. I think, as a customer of our bank, it is not our business to know what they do with their money.

Mr. SEIBERLING. Do you think the Federal reserve bank should be the instrumentality that permits the New York Stock Exchange to get 25 per cent for its money?

Mr. WAKEFIELD. I do not think your premises are correct.

Mr. SEIBERLING. Did it not work out that way?

Mr. WAKEFIELD. I say I do not think your premises are correct.

Mr. SEIBERLING. You can not control your customers?

Mr. WAKEFIELD. Their money; no.

Mr. SEIBERLING. It is their money?

Mr. WAKEFIELD. Yes.

Mr. SEIBERLING. They pulled it out of your bank and sent it to New York?

Mr. WAKEFIELD. I do not know as they pulled it out, but they did not deposit it.

Mr. SEIBERLING. Some of them pulled it out?

Mr. WAKEFIELD. I really doubt it.

Mr. SEIBERLING. Did not some of your large corporations lend money in New York on call?

Mr. WAKEFIELD. Very few. I think perhaps three or four million dollars was loaned that way in our entire territory.

Mr. SEIBERLING. And you had to go to the Federal Reserve Bank and borrow money to take care of the banking requirements of your community?

Mr. WAKEFIELD. We did at some times.

Mr. SEIBERLING. And you did that because you needed it in the ninth Federal reserve district?

Mr. WAKEFIELD. But do you think because we had to go and borrow money from the Federal reserve bank, that we ought to fix it so that the fellow who gets the money must deposit it in our banks?

Mr. SEIBERLING. The high call money took the money out of your banks and drew it to New York?

Mr. WAKEFIELD. I think it did in some instances.

Mr. SEIBERLING. And, to take care of that money that was drawn to New York, you had to go to the Federal reserve bank to get the money with which to carry on your business?

Mr. WAKEFIELD. I think that is somewhat true, but think of this: We were passing through a period when there was this inflation in New York of stock prices, and one of the real cures for a situation of that kind, is not to fix it arbitrarily so that it can not be carried on for a certain period, but if the public would accept the warning of the rate, then it would take care of itself.

Now, they went blind for a certain period and would not accept any warning.

Mr. SEIBERLING. The result was a tremendous crash in this country that affected the industrial situation and labor productivities.

Mr. WAKEFIELD. I do not think the crash has really resulted in affecting business very much.

Mr. SEIBERLING. That is your opinion, that it has not affected business?

Mr. WAKEFIELD. My opinion is that that is not the main cause of business conditions to-day.

Mr. SEIBERLING. The result is that the Federal reserve bank indirectly furnished a large amount of money for speculation in New York, and they could not help themselves under the system that exists.

Mr. WAKEFIELD. To an extent, I think, that may be so, but the Federal reserve system functioned in a most admirable way all through that period, in my opinion.

Mr. SEIBERLING. Do you think there should be some machinery set up somewhere so as to prevent the rates going so high?

Mr. WAKEFIELD. No, sir; I think the best thing we have in the country to-day is the absolutely free play of the rate on the New York call-money market. I think this: If there had been a limited rate fixed in New York City for call money, above which the price could not go, I think the stock exchange situation would have gone on considerably longer and the crash would have been far greater.

Mr. SEIBERLING. That theory you get from certain classes in New York and other places?

Mr. WAKEFIELD. I do not live in New York.

Mr. SEIBERLING. But suppose we had a limit that would not have drawn the money to New York, and they could not speculate with it, would there have been that great speculation?

Mr. WAKEFIELD. Why, money is going to New York at 3 and 4 per cent to-day faster than before when the high rates obtained.

Mr. SEIBERLING. They have no use for the money in your district that they have left in the banks?

Mr. WAKEFIELD. There is very little demand for money to-day.

Mr. SEIBERLING. You think business is all right?

Mr. WAKEFIELD. Yes, sir; fundamentally.

Mr. SEIBERLING. But there is no use for money in the country?

Mr. WAKEFIELD. If you want to get me onto the business situation——

Mr. SEIBERLING. No; but what do you think caused the business recession?

Mr. WAKEFIELD. The business recession at the present time?

Mr. SEIBERLING. Yes.

Mr. WAKEFIELD. Well, we start out and go through a period in this country every once in a while of very rapid production and accelerated sales and high tension of business and run until we overdo all those things.

This very factor of this new instrument of installment buying that I have been speaking of, was one of the main sources of increasing purchases on the part of the public. The first suit of clothes I bought was a $10 suit on which I paid $2 down and $2 a month. So I am in favor of installment buying.

Mr. SEIBERLING. I have one better than that in connection with the first suit I bought.

Mr. WAKEFIELD. The people were inexperienced with that type of facility. During the few years that have passed they have gained that experience and to-day, instead of having three or four or five contracts running at once, they are not going to be in quite the pinched condition from the exercise of the privilege of installment buying they have been in the past, and so they have shut down buying.

Mr. SEIBERLING. I can not take any more time. I have taken too much already. But you do not believe in usury laws, do you?

Mr. WAKEFIELD. Yes, sir; I do.

Mr. SEIBERLING. But you do not believe they should apply to the New York Stock Exchange?

Mr. WAKEFIELD. I think we need in this country a free market in the country of the type of the New York call money market because it is the finest barometer that exists in this country to-day, if people will watch it.

Mr. SEIBERLING. That is all.

Mrs. PRATT. Mr. Seiberling's questions seem to express objection to the fact that people drew their money out of a bank or took their money and invested it as they chose. That is the individual's right, is it not?

Mr. WAKEFIELD. It is.

Mrs. PRATT. And would not, in your opinion, any legislation to prevent the individual from doing just that very thing, be a type of legislation which this country seems to object to as affecting personal privilege and personal rights?

Mr. WAKEFIELD. I think I have covered that, Mrs. Pratt, in my statement that, in my opinion, there should be never any attempt of that sort.

Mrs. PRATT. Would not that be legislation infringing on personal privilege?

Mr. WAKEFIELD. Absolutely.

Mr. LUCE. I understand that Mr. Wakefield is going to come back in the morning, and so I will adjourn the meeting until to-morrow, but will ask the indulgence of the committee, inasmuch as I have to be at another committee meeting to-morrow morning, to ask one question at this time which I would have asked during my time, if this document had been before me.

I observe from his list that you have two banks in Austin, Blue Earth, Little Falls, and Mankato, Minn.; Aberdeen and Gettysburg, S. Dak.; and Helena, Mont.

Now, there are two of these places—Gettysburg, S. Dak., and Blue Earth, Minn., of which probably I should have been informed, but, in fact, I never heard of before, indicating possibly they are not both of them metropolises. [Laughter.]

Mr. WAKEFIELD. Those banks will be consolidated.

Mr. LUCE. How does it come that you are maintaing two banks in any place?

Mr. WAKEFIELD. We are not, in those cases that you mention there. It will take those two banks put together to make a bank that is justified, and they have already been consolidated.

Mr. LUCE. It is not your intention to maintain two banking offices in those places?

Mr. WAKEFIELD. No, sir.

Mr. SEIBERLING. Before we adjourn, is this financial statement to go into the record?

Mr. WAKEFIELD. Yes.

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

ANNUAL REPORT OF FIRST BANK STOCK CORPORATION, MINNEAPOLIS, ST. PAUL

FEBRUARY 18, 1930.

To the Stockholders of the First Bank Stock Corporation:

Since the last report to stockholders covering the operations of your corporation, the First Bank Stock Corporation's system of banks has been progressively expanded and at the close of the fiscal year, December 31, 1929, it included 85 affiliated institutions all situated within the boundaries of the ninth Federal reserve district. All units of the group are being maintained at a high point of operating efficiency, providing their communities with the most adequate banking and credit facilities, and affording their depositors a maximum degree of security.

The operations of the group are also being reflected in restored confidence throughout the territory and a consequent firmer foundation for stabilized conduct of general business.

We are now concentrating our attention upon the development of the coordinated activities of the group making available to the trade areas and customers of each unit the greater facilities of the system as a whole.

In expanding the First Bank Stock Corporation system we are maintaining the position of affording opportunity to the independent bank upon its own volition to affiliate with the corporation, and new affiliations are being accomplished only upon this basis. The growth of the group is evidence that the independent banker recognizes the benefits to be derived by association with your corporation. Negotiations for the affiliation of a number of additional banks are now pending and will be announced from time to time.

BALANCE SHEET

Of the First Bank Stock Corporation's authorized capitalization of 10,000,000 shares of a par value of $25, there was outstanding upon December 31 a total of 3,016,870.57 shares. The condensed balance sheet of the corporation of that date follows:

Resources:	
Cash on hand	$1,850,092.17
Bonds and commercial paper	3,165,574.79
Bills receivable	2,775,170.10
Accounts receivable	117,115.76
Total quick assets	7,907,952.82
Furniture and fixtures	8,572.92
Stocks	114,949,863.92
Accrued interest (net)	9,506.11
	122,875,895.77
Liabilities:	
Capital	75,421,764.39
Surplus and undivided profits	46,698,616.49
Dividend payable Jan. 1, 1930	755,514.89
	122,875,895.77

NOTE.—The item "stocks" represents the valuation at the time of purchase of our equities in the affiliated corporations. In arriving at the purchase price all factors tending to establish the going-concern value of these corporations were considered and final acquisition was accomplished upon a very conservative basis. In view of the fact that all purchases were made upon valuations established within recent months, no effort has been made to revalue them for purposes of this report. The management feels that the true value of these properties is constantly increasing. A consolidated statement of the banks and companies controlled by the corporation appears on page 4 of this report.

EARNINGS

We have obtained from each bank in the group an earnings statement for the entire year 1929, and where the bank was not in operation for the full year, its income has been carefully estimated. Based on these figures, the

annual net operating profit accruing to the corporation, after deducting all expenses and taxes, will amount to $7,282,652.04, or $2.4139 per share of our stock. It is not to be understood that these earnings have actually been received by the corporation; nor will they be received hereafter. It is the policy of your officers to ask dividends from the several banks only sufficient to meet our own dividend requirements, and to allow the excess earnings to remain in the several banks in the form of surplus or reserves, thus continuously strengthening the component parts of the entire organization.

The rate of earnings as at present determined is approximately 2½ times dividend requirements. It may be of interest to note that the earnings of the First National Bank of Minneapolis and First National Bank of St. Paul, independent of their respective subsidiaries and affiliates, are of themselves more than sufficient to meet the entire dividend requirements of the corporation.

FUTURE EARNINGS

The general lowering of interest rates throughout the country will undoubtedly affect banking profits for 1930, but it is hoped that this will be offset by other considerations, of which the principal are as follows:

(*a*) The benefits of group operation, which have scarcely as yet had time to make themselves felt, should be reflected from now on in expanded activities throughout the entire system. We are developing the facilities of our units in the credit, investment, and trust fields, thus increasing their earning capacity, and at the same time are accomplishing economies through the central clearance functions of the corporation.

(*b*) Prior to affiliation with the corporation, the unit banks operated on an excessive reserve basis, due to the financial uneasiness which prevailed throughout the district, and this naturally tended to reduce operating profits. Backed by the combined strength of the organization, it will now be possible for the unit banks to operate on a narrower reserve basis with a resulting increase in profits.

(*c*) That group banking is rapidly increasing public confidence in the member banks is already apparent, and this must inevitably bring about an increase in deposits.

(*d*) Prospects are excellent for substantial profits from our two divisional subsidiaries, First Securities Corporation and First Bancredit Corporation. These companies did not become operative in the group until recently and the earnings report for 1929, therefore, does not reflect their full possibilities. The First Securities Corporation was established with a capital and surplus of $7,500,000 and took over the investment business formerly handled by First Minneapolis Co. and First St. Paul Co. and is extending its service throughout the group. The First Bancredit Corporation is the successor to the Lumberman's Acceptance Corporation of Chicago and conducts a specialized financing business in the construction fields. Its capital structure of January 1 totals $1,101,000.

DIVIDENDS

The board of directors has declared the second quarterly dividend of 25 cents per share payable April 1 to stockholders of record March 15. This is at the annual rate of $1 per share.

TERRITORY SERVED

As of December 31, 1929, 60 cities were served by affiliates of the corporation, as follows:

State	Number of cities	Number of affiliates
Minnesota	21	42
Montana	11	13
North Dakota	15	15
South Dakota	10	12
Michigan	3	3
	60	85

CAPITAL-STOCK DISTRIBUTION

The stockholders of the First Bank Stock Corporation are distributed geographically as follows:

Minneapolis	6,753
St. Paul	2,345
Minnesota (outside of Twin Cities)	3,201
Michigan	383
Montana	987
North Dakota	892
South Dakota	516
Wisconsin	446
Other States	596
Total	16,119

INDEPENDENCE OF UNITS

There has been some uninformed criticism of group banking based upon the claim that the various banks composing the group have sacrificed their independence and that their operations, including their local loans, are directed from the head office of the corporation. This is absolutely untrue. The several banks are corporately just as independent as they were before they became affiliated with the corporation. They are operated and directed by local men for the benefit of the communities which they serve and from which they derive their business. Nothing has changed but the stock ownership and the remedy for inefficiency is just what it was before, namely, removal from office by the stockholders. On the other hand, each unit bank receives the benefit of cooperation with the other units and it is the function of the head office to centralize and improve this cooperation and the advantages which may be derived therefrom.

We look forward to a year of substantial progress and we would remind each stockholder that he can contribute thereto by directing business to our banks whenever he has an opportunity to do so.

Respectfully submitted.

P. J. LEEMAN,
Vice President and General Manager.

Consolidated statement December 31, 1929, first bank stock corporation group

	Invested capital	Deposits	Total resources	Per cent controlled
MINNESOTA				
Minneapolis:				
First National Bank	$11,613,170.30	$97,796,613.27	$122,159,177.19	99.30
First Minneapolis Trust Co	2,400,000.00	23,070,838.90	26,510,493.24	99.30
First Minneapolis Co	3,697,842.47		4,484,010.33	99.30
Minneapolis-Trust Joint Stock Land Bank	667,169.93		5,073,272.16	99.30
Minnehaha National Bank	121,562.17	1,622,346.14	1,848,564.10	99.30
Bloomington Lake National Bank	263,424.16	2,103,852.36	2,570,425.25	99.30
Produce State Bank	136,617.18	1,175,329.84	1,318,672.85	100.00
Hennepin State Bank	123,725.89	568,162.77	693,141.87	
St. Paul:				
First National Bank	11,046,408.05	92,742,783.83	114,567,233.34	97.07
Merchants Trust Co	1,180,802.25	7,405,146.16	9,364,875.63	97.07
First St. Paul Co	5,134,119.53		6,045,885.61	97.07
Grand Avenue State Bank	52,100.58	519,641.67	575,157.47	97.07
Farmers & Merchants State Bank	79,155.93	893,204.16	983,429.82	97.07
First Veterans State Bank	112,709.01	262,200.00	381,161.52	69.35
Security State Bank	97,056.58	802,255.10	911,842.51	99.98
First Bancredit Corporation	601,227.54		2,251,120.30	100.00
Alexandria, Farmers National Bank	126,592.60	985,291.10	1,125,208.11	
Austin:				
Austin National Bank	140,616.51	1,770,728.93	1,968,928.28	100.00
First National Bank	315,388.90	2,462,236.36	2,894,680.49	100.00
Benson, National Bank of Benson	74,428.03	150,266.52	224,694.55	100.00
Blue Earth:				
Farmers National Bank	80,865.72	573,388.25	714,570.19	100.00
First National Bank	44,301.19	462,997.40	518,548.59	98.00

Consolidated statement December 31, 1929, first bank stock corporation group— Continued

	Invested capital	Deposits	Total resources	Per cent controlled
MINNESOTA—continued				
Brainerd, First National Bank	$217,934.12	$3,113,015.13	$3,407,891.15	64.50
East Grand Forks, Minnesota National Bank	65,000.00		65,000.00	100.00
Fairmont, First National Bank	139,298.24	1,203,774.98	1,398,073.22	100.00
Graceville, First National Bank	52,818.83	814,784.88	904,173.91	100.00
Heron Lake, First National Bank	87,277.64	824,288.19	952,565.83	100.00
Litchfield, State Bank of Litchfield	152,069.15	1,312,412.65	1,483,958.54	100.00
Little Falls:				
American National Bank	151,003.52	1,506,012.36	1,771,225.36	51.00
Peoples State Bank	38,124.61	391,087.76	429,913.67	100.00
Mankato:				
First National Bank	321,595.64	3,680,254.11	4,152,204.82	100.00
Mankato Loan & Trust Co	120,183.24	29,350.23	151,421.32	100.00
Northfield, Northfield National Bank & Trust Co	167,062.51	1,038,574.26	1,314,896.69	100.00
Owatonna, First National Bank	136,743.21	1,822,635.08	2,059,378.29	100.00
Pipestone, Pipestone National Bank	110,119.47	1,071,481.97	1,196,743.01	100.00
Red Wing, Security National Bank & Trust Co	166,121.01	1,383,294.71	1,556,626.46	100.00
Rochester, First National Bank	383,951.54	3,712,470.88	4,316,266.15	100.00
Sauk Centre, Merchants National Bank	69,741.92	1,153,048.02	1,298,420.07	100.00
Spring Valley, First National Bank	107,441.70	1,208,156.61	1,365,598.31	99.20
Willmar, Security National Bank	127,706.62	95,376.56	223,083.18	100.00
MONTANA				
Billings, Midland National Bank	325,000.00	4,223,760.78	4,748,760.78	100
Bozeman, Commercial National Bank	504,307.79	2,742,696.50	3,310,704.14	86.67
Butte, Metals Bank & Trust Co	1,328,185.55	21,193,524.53	22,776,710.08	100
Great Falls, First National Bank	789,936.87	12,360,038.83	13,304,975.70	100
Havre, Montana National Bank	81,714.90	1,074,527.51	1,156,242.41	100
Helena:				
American National Bank	511,241.66	4,598,307.33	5,209,548.99	99.67
National Bank of Montana	425,924.88	3,629,737.33	4,158,981.65	99.10
Montana Trust & Savings Bank	264,824.81	2,664,621.61	2,954,446.42	100
Lewistown, National Bank of Lewistown	200,229.19	1,331,251.32	1,531,480.51	100
Livingston, National Park Bank	244,571.48	3,097,919.92	3,372,979.87	100
Miles City, First National Bank	300,858.95	2,827,842.49	3,158,701.44	98.66
Missoula, Western Montana National Bank	407,037.22	4,435,804.06	4,944,461.86	100
Shelby, First State Bank	42,908.24	619,607.71	662,515.95	100
NORTH DAKOTA				
Bismarck, First National Bank	337,400.91	3,988,635.34	4,526,676.96	99.4
Cando, First National Bank	76,028.04	712,472.67	807,690.49	95
Cavalier, Merchants National Bank	66,385.30	677,299.38	748,684.68	100
Cooperstown, First National Bank	66,015.48	292,267.96	412,996.15	90
Fargo, Merchants National Bank & Trust Co	334,732.77	2,552,937.39	3,006,134.08	61.4
Glen Ullin, First National Bank	40,369.30	535,114.23	583,264.17	100
Grand Forks, Red River National Bank & Trust Co	268,122.80	860,512.76	1,136,758.88	99.37
Harvey, First National Bank	102,174.55	803,360.42	930,534.97	100
Hebron, First National Bank	66,749.95	662,885.29	762,418.05	77
Jamestown, National Bank & Trust Co	139,083.10	1,456,042.79	1,604,181.18	100
Lidgerwood, First National Bank	39,812.53	429,888.50	495,113.13	100
New England, First National Bank	58,595.03	357,880.46	435,635.49	100
New Rockford, First National Bank	117,326.72	665,822.78	814,541.94	50.4
Rolla, First National Bank	54,464.66	389,301.98	471,909.31	100
Valley City, National Bank of Valley City	138,350.71	1,162,518.30	1,361,068.53	89
SOUTH DAKOTA				
Aberdeen, Aberdeen National Bank & Trust Co	209,863.46	3,380,282.33	3,635,844.50	98
Aberdeen, First Street Savings Bank	103,247.61	834,623.83	944,780.11	100
Clark, Clark County National Bank	61,509.01	433,697.33	525,690.02	100
Gettysburg, First National Bank	48,281.14	436,399.21	515,509.10	100
Gettysburg, Potter County Bank	50,258.27	617,157.22	681,869.82	100
Highmore, First National Bank	114,672.26	847,936.40	1,017,603.66	100
Lemmon, First National Bank	77,472.90	532,183.70	641,888.65	100
Miller, First National Bank	173,632.30	1,126,243.51	1,299,875.81	100
Ree Heights, First National Bank	49,656.08	300,665.27	350,321.35	100
St. Lawrence, First National Bank	57,073.65	288,532.79	372,306.44	100
Vermilion, First National Bank & Trust Co	165,687.09	1,959,275.07	2,151,140.45	100

Consolidated statement December 31, 1929, first bank stock corporation group—Continued

	Invested capital	Deposits	Total resources	Per cent controlled
MICHIGAN				
Calumet, First National Bank	$509,893.32	$3,873,524.14	$4,628,417.46	97.8
Hancock, First National Bank	243,176.71	3,122,788.47	3,456,705.18	99
Laurium, First National Bank	185,465.45	1,767,082.66	2,072,632.96	98.2
Total	50,105,720.13	359,594,273.24	446,915,233.70	
SUBSEQUENT ACQUISITIONS				
Albert Lea, Minn.: Freeborn County National Bank & Trust Co	130,000.00	421,246.10	556,077.15	100.00
North Side State Bank	55,897.48	699,670.62	777,001.88	72.00
Forsyth, Mont., American National Bank	36,781.89	426,898.96	463,689.24	88.00
Windom, Minn., First National Bank	120,119.10	1,255,644.80	1,462,423.75	96.90
Total	50,448,518.60	362,397,733.72	450,174,425.72	

OTHER ASSETS OF FIRST BANK STOCK CORPORATION AS OF DECEMBER 31, 1929

Cash on hand	$1,850,092.17
Bonds and commercial paper	3,165,574.79
Other investments	90,501.35
Bills receivable	2,775,170.10
Accounts receivable	117,115.76
Furniture and fixtures	8,372.92
Net interest earned not collected	9,506.11
Total	8,016,333.20

First Bank Stock Corporation

OFFICERS

C. T. Jaffrey, chairman of the board of directors; George H. Prince, president; Lyman E. Wakefield, vice president; Lyle W. Scholes, vice president; R. C. Lilly, vice president; A. McC. Washburn, vice president and general counsel; P. J. Leeman, vice president and general manager; E. C. Kibbee, vice president; A. E. Wilson, secretary and comptroller; M. M. Hayden, treasurer; M. A. Cooley, assistant secretary and assistant treasurer.

DIRECTORS

Shreve M. Archer, president, Archer-Daniels Midland Co., Minneapolis.
Julian B. Baird, president, First Securities Corporation, St. Paul.
J. C. Bassett, chairman of the board, Aberdeen National Bank & Trust Co., and president, First State Savings Bank, Aberdeen, S. Dak.
Russell M. Bennett, mineral lands, Minneapolis.
F. R. Bigelow, president, St. Paul Fire & Marine Insurance Co., St. Paul.
John W. Black, president, John W. Black Co., Minneapolis.
Ralph Budd, president, Great Northern Railway Co., St. Paul.
E. L. Carpenter, president, Shevlin, Carpenter & Clarke Co., Minneapolis.
F. A. Chamberlain, chairman executive committee, First National Bank in Minneapolis.
Hovey C. Clarke, Shevlin, Carpenter & Clarke Co., Minneapolis.
Franklin M. Crosby, vice president, General Mills (Inc.), Minneapolis.
N. Paul Delander, vice president, First Securities Corporation, St. Paul.
S. W. Dittenhofer, president, Dittenhofer Realty Co., St. Paul.
Charles Donnelly, president, Northern Pacific Railway Co., St. Paul.
L. O. Evans, general counsel Anaconda Copper Mining Co.
E. T. Foley, president, Foley Bros., St. Paul.
Harry P. Gallagher, president, Northwestern Consolidated Milling Co., Minneapolis.

Charles W. Gordon, president Gordon & Ferguson (Inc.), St. Paul.
Theodore W. Griggs, president Griggs, Cooper & Co., St. Paul.
William Hamm, jr., vice president, Theo. Hamm Brewing Co., St. Paul.
Isaac E. Hansen, vice president The First National Bank of St. Paul.
Harry J. Harwick, secretary-treasurer, Mayo Clinic, Rochester, Minn.
John H. Hauschild, president Charles W. Sexton & Co., Minneapolis.
Horace M. Hill, president Janney, Semple & Co., Minneapolis.
L. W. Hill, chairman of the board, The First National Bank of St. Paul.
Louis K. Hull, president Western Pacific Land & Timber Co., Minneapolis.
Charles G. Ireys, vice president-treasurer, Russell-Miller Milling Co., Minneapolis.
Horace H. Irvine, pine lands and lumber, St. Paul.
C. T. Jaffray, president Minneapolis, St. Paul & Sault Ste. Marie Railway Co., Minneapolis.
John Junell, Junell, Oakley, Driscoll & Fletcher, attorneys, Minneapolis.
Charles O. Kalman, Kalman & Co., St. Paul.
J. J. Kalman, president Kalman Steel Co., St. Paul.
Cornelius F. Kelley, president Anaconda Copper Mining Co.
William P. Kenney, vice president, Great Northern Railway Co., St. Paul.
Horace C. Klein, managing partner Webb Publishing Co. St. Paul.
P. L. Leeman, vice president, First National Bank in Minneapolis and vice president and general manager, First Bank Stock Corporation.
R. C. Lilly, president the First National Bank of St. Paul.
C. B. Little, president First National Bank, Bismarck, N. Dak.
A. C. Loring, president Pillsbury Flour Mills Co., Minneapolis.
James Mac Naughton, president Calumet & Hecla Consolidated Copper Co., Calumet, Mich.
Sumner T. McKnight, president S. T. McKnight Co., Minneapolis.
T. A. Marlow, president National Bank of Montana, Helena, Mont.
B. V. Moore, vice president, First Minneapolis Trust Co., Minneapolis.
J. A. Oace, vice president, the First National Bank of St. Paul.
E. B. Ober, president Motor Power Equipment Co., St. Paul.
A. F. Pillsbury, vice president, Pillsbury Flour Mills Co., Minneapolis.
C. S. Pillsbury, vice president, Pillsbury Flour Mills Co., Minneapolis.
J. S. Pomeroy, vice president First National Bank in Minneapolis.
F. M. Prince, chairman of the board, First National Bank in Minneapolis.
George H. Prince, chairman the First National Bank of St. Paul, and president First Bank Stock Corporation.
George W. Robinson, president Tri-State Telephone & Telegraph Co., St. Paul.
John D. Ryan, chairman of the board, Anaconda Copper Mining Co.
Fred W. Sargent, president Chicago & North Western Railway Co.
H. A. Scandrett, president Chicago, Milwaukee, St. Paul & Pacific Railroad Co.
Sam Stephenson, president First National Bank, Great Falls, Mont.
Martin L. Thompson, chairman of the board, First National Bank & Trust Co., Vermilion, S. Dak.
L. E. Wakefield, president First National Bank in Minneapolis.
E. C. Warner, president E. C. Warner Co., Minneapolis.
A. McC. Washburn, vice president and general counsel, First Bank Stock Corporation, Minneapolis.
Robert W. Webb, president First Minneapolis Trust Co. and chairman of the board, First Securities Corporation.
F. B. Wells, vice president, F. H. Peavey & Co., Minneapolis.
Stuart W. Wells, president Wells-Dickey Co., Minneapolis.
F. E. Weyerhaeuser, lumber, St. Paul.
R. M. Weyerhaeuser, lumber, St. Paul.
W. D. Willard, vice president and manager, First National Bank, Mankato, Minn.
Frederick E. Williamson, president Chicago, Burlington & Quincy Railroad Co.
D. N. Winton, president the Pas Lumber Co., Minneapolis.
James E. Woodard, president Metals Bank & Trust Co., Butte, Mont.

Mr. WINGO. I should like to have it understood that I will be allowed a few minutes to-morrow afternoon to question the witness.

(Discussion off the record.)

Mr. LUCE. The committee will stand adjourned until 2 o'clock to-morrow afternoon.

(Whereupon at 4 o'clock p. m. the committee adjourned to meet at 2 o'clock p. m. on Thursday, April 17, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

THURSDAY, APRIL 17, 1930

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

The committee met in the committee room, Capitol, at 2.15 o'clock p. m., Hon. E. Hart Fenn presiding.

Mr. FENN. The committee will come to order.

STATEMENT OF L. E. WAKEFIELD—Resumed

Mr. FENN. Mrs. Pratt, when we closed last evening you were cut short; you had not finished your inquiry.

Mrs. PRATT. I shall take only two or three minutes.

Mr. FENN. You have that opportunity now, and Mr. Dunbar follows and then Mr. Wingo.

Mrs. PRATT. Mr. Wakefield, I do not profess to be a banker, and for that reason I have no preconceived notions for or against the subject under discussion here; but I do wish to state that I have been very greatly impressed by the way in which you and Mr. Decker have handled the banking situation in your part of the country, and unquestionably you seem to have solved many of the problems there which we have under contemplation here for possible legislation; but the fact is that such men as you and Mr. Decker might not always be in control. What I wanted to ask was whether you felt that these holding companies—for instance, such a holding company as yours—should be subjected to the same rigid inspection as the banks?

Mr. WAKEFIELD. We feel very strongly on that point that the comptroller's office should have the right to come in and examine our holding company or any of the institutions in the holding company.

Mrs. PRATT. You feel that that would really be a safeguard?

Mr. WAKEFIELD. I do. I think there should certainly be some regulation and some restrictions put upon that type of business. We want that for our own benefit.

Mrs. PRATT. I do not know whether this is a proper question, and, if it is not, do not answer it; but do you feel that such holding companies should invest their funds in speculative stocks?

Mr. WAKEFIELD. No; I do not. My own view on this is contrary to some others; my own view is that no banking institution as such should invest in common stocks of any nature.

Mrs. PRATT. Just one more question. I think you stated that you were not as yet able to handle the banking situation in the smaller towns; at least, that you had not attempted to do so, and that you felt

that would be more appropriately covered by branches of State banks—I think you used the word "State."

Mr. WAKEFIELD. If I did, it was inadvertent, because I did not intend to say branches of State banks.

Mrs. PRATT. At the time I noted it down, because I wondered if you were opposed to any form of national-bank branch banking.

Mr. WAKEFIELD. Not at all. I believe that that privilege should be granted to national banks.

Mrs. PRATT. Do you feel that a national branch-banking system extending over a fairly wide area tends to establish in this country too much of a paternalistic system?

Mr. WAKEFIELD. No; I do not. Our position on the method of solving the difficulties that exist is in harmony, to a certain extent, with the suggestion made by the Comptroller of the Currency and the Governor of the Federal Reserve Board, except that we approach that topic from a reverse angle. Our belief is that if we are to have branch banking, it should be permitted originally from the outside in and not thrust upon the people from the center out into the country.

In other words, taking this town of Austin that I spoke of, the first national bank there might properly be authorized to do a branch-banking business within its territory, its vicinity, in the smaller communities, and eventually that might develop into a situation where it would be perfectly feasible and acceptable to the public that it become a branch of some system within a certain trade area.

Mrs. PRATT. Do you think that such a national bank, with branches established in the smaller communities, might become part of the group system, so that eventually your group system would absorb the whole?

Mr. WAKEFIELD. Eventually the group system might be converted into a branch system, if that became the thing that it was decided ought to be done.

Mrs. PRATT. I think that is all.

Mr. FENN. Thank you, Mrs. Pratt.

Mr. Goldsborough, you are next on the list, if you wish to interrogate Mr. Wakefield.

Mr. GOLDSBOROUGH. Mr. Wakefield, I have here Barron's for April 14, and it has a leading article by Ernest T. Clough, which is headed "Group Banking Sweeps the Country."

As I understand it, your organization and that of which Mr. Decker is president have been in existence each for less than a year?

Mr. WAKEFIELD. The Northwest Bancorporation has been in existence about 13 months and our present set-up about 9 months.

Mr. GOLDSBOROUGH. This article, in table No. 4, gives the Northwest Bancorporation as having 98 banks in its group and the First Bank Stock Corporation as having 100 banks in its group.

Has your group 100 banks?

Mr. WAKEFIELD. No; about 91.

Mr. GOLDSBOROUGH. Have you ever had as many as 100?

Mr. WAKEFIELD. It may be that they would get that figure from the fact that possibly in the total operation there may have been 100 banks involved, remembering that in some cases there have been two or three banks put together to make one at the time of the acquisition, or a couple of them consolidated.

Mr. GOLDSBOROUGH. Mr. Decker's statement was, as I remember it, that the first thing which was done, some four banks he named agreed on this set-up, but after a little while the movement became accelerated and, instead of having to suggest to the banks they come in—instead of the suggestion going from the holding company to the bank, very often it would come from the bank to the holding company, and, as I understand, that was also your experience?

Mr. WAKEFIELD. It was very much so in both cases.

Mr. GOLDSBOROUGH. The territory within which you and the Northwest Bancorporation are operating is a territory through which the banking experiences of the last 10 years have been tragic?

Mr. WAKEFIELD. That is true, I think.

Mr. GOLDSBOROUGH. I think Mr. Decker, in speaking of Cavalier County, in one of the Dakotas, stated there were some 26 banks when this difficulty started, and there are only 5 or 6 now in existence afterwards?

Mr. WAKEFIELD. Yes.

Mr. GOLDSBOROUGH. That the rest had been forced to close. I think he also stated in this Cavalier County the original capital—that is, the deposits of these banks before their failure took place—was around $5,000,000 for the 26 banks. Prior to the deflation period—that is, prior to 1921—were the banks, on an average, throughout the territory in which you operate as small as that would indicate?

Mr. WAKEFIELD. Yes; in the State of North Dakota, where Cavalier County is, they had one bank in 1920 for every 752 population.

Mr. GOLDSBOROUGH. That is a very interesting observation. As far as you know, had this banking situation in North Dakota prior to 1920 been of a sudden or a gradual growth?

Mr. WAKEFIELD. It had been rather gradual, over quite a period of years.

Mr. GOLDSBOROUGH. It is obvious, do you not think, that one bank, with its building and general overhead, for less than 1,000 population, is too much under any banking system?

Mr. WAKEFIELD. Yes; and in some cases even 1,000 population I do not think would supply anywhere near——

Mr. GOLDSBOROUGH. I fully agree with you on that.

Is it not more nearly true that one bank for every 2,500 or 3,000 is entirely adequate?

Mr. WAKEFIELD. I think you are correct. I have never made a careful study myself to determine a population basis for banks.

Mr. GOLDSBOROUGH. The business, of course, in the territory covered by the population would have a great deal to do with it.

Mr. WAKEFIELD. There certainly is a point there beyond which it is undesirable to go; it is simply destructive when you begin to have competition.

Mr. GOLDSBOROUGH. Now, the natural result of the very distressing condition which the Northwest Territory went through was, of course, that the people were more amenable than they ordinarily would be to suggestions as to changes in the banking situation?

Mr. WAKEFIELD. I think that is true, based on this fact, that they were ready to welcome any arrangement that they felt would be sound and safe and do the thing that they wanted to have done.

Mr. GOLDSBOROUGH. Now, do you believe the people who allowed such a number of banks to grow up in North Dakota prior to 1920 would, in so far as banking is concerned, have a very clear conception of what is sound banking? Do you not think a people of that kind would welcome almost anything which appeared to give relief?

Mr. WAKEFIELD. I think that they have given that topic much greater thought and that they probably have a better understanding to-day than they did when the times did not call for their thought on it.

Mr. GOLDSBOROUGH. Do you not think that in any line of endeavor, when a movement begins to gain momentum there is a tendency to try to get on the band wagon, as it were, whether it be in banking or in any other activity? Where there seems to be a movement on foot, do you not think there is a tendency, irrespective of every other consideration, to become panicky and desirous of getting on the band wagon? I do not know of any other way to express it which conveys my meaning more clearly.

Mr. WAKEFIELD. I do not think that is always true. I think there may be a tendency of that kind, but I think it is accompanied in business by rather clear consideration and judgment in connection with what is best to do.

Mr. GOLDSBOROUGH. I notice in this article the statement is made that——

> If the unit bank did not ally itself with the powerful city institution, would it find itself playing a lone hand against great odds, with the neighboring unit bank gleefully advertising its strength as a member of the XYZ corporation, with total resources of so many hundreds of millions of dollars?

Do you think there is any vitality in that observation?

Mr. WAKEFIELD. I think in the territory that I am familiar with that the matter has been handled in such manner that the sound unit bank has not been unfairly prejudiced in the public mind.

Mr. GOLDSBOROUGH. Mr. Wakefield, you do not have it in mind, do you, that either at this time or ultimately your organization will not do what other organizations have done since the beginning of time, endeavor to get the advantage of its competitor?

Mr. WAKEFIELD. Why, I have in mind that in the operation of our institution we are going to serve the public to the fullest possible extent, with the very idea of making that service of such value and attractiveness that we will get all the business that can come to us.

Mr. GOLDSBOROUGH. But you think that would continue to be the condition if competition were eliminated?

Mr. WAKEFIELD. I never expect to see it eliminated.

Mr. GOLDSBOROUGH. You say you never expect to see it eliminated, which would seem to me to be an unusual observation, an unusual point of view, but it seems to parallel an observation you made, I think, yesterday, that you did not understand what was meant by favoritism to one possible borrower over another, that you did not have any conception of what that meant.

I think that fairly states what you said, and if it does not you can correct it.

Mr. WAKEFIELD. That is correct; and in my experience in business I have never known of a thing of that kind to exist, nor do I know to-day of any area in the banking business in this country that has not very strong, substantial competition.

Mr. GOLDSBOROUGH. Do I understand you to say you have never known of an instance where a borrower has been favored over another, where everything else was equal?

Mr. WAKEFIELD. Do you mean in the ordinary business transaction?

Mr. GOLDSBOROUGH. Yes.

Mr. WAKEFIELD. What do you mean by "borrower"?

Mr. GOLDSBOROUGH. I mean a borrower from the bank.

Mr. WAKEFIELD. You mean, supposing there were two grain men doing business with us, both equally good, would there be any chance of favoring one over the other?

Mr. GOLDSBOROUGH. Any business.

Mr. WAKEFIELD. In any business doing business with the bank, equally good? I have never known of a case.

Mr. GOLDSBOROUGH. You have never known of a case?

Mr. WAKEFIELD. Never; and I do not think it would be possible to happen. It might happen in some bank——

Mr. GOLDSBOROUGH. All I have to say is that your experience is different from that of everybody else I have ever heard of.

Mr. WAKEFIELD. I am running a bank, and that is the way I run mine.

Mr. GOLDSBOROUGH. I am not running one, but I am a director in three, and I have had some experience. I remember—and I am going to base a question on this observation—that in my county there was at one time only one bank, and I remember very distinctly if anybody wanted to start in a business which was in competition with those who were in control of that bank, they could not borrow any money from it. That condition has been cured by competition, and that is the only way it was cured.

I remember in an adjoining county, Talbot, there used to be only one bank and that exact condition existed, which ultimately brought another institution into the county; but when you say you never knew of an instance of that, you surprise me very much.

Mr. WAKEFIELD. My own judgment is that the very instance you have recited is evidence that their shortsighted policy in running that original bank without competition brought about the cure for it, because it did bring competition.

Mr. GOLDSBOROUGH. I know, but the very interesting thing to me is your statement that you never knew of anything of that kind going on in a banking institution.

Mr. WAKEFIELD. I never did.

Mr. GOLDSBOROUGH. It is done every day, my dear sir, in every bank in the United States except yours.

Mr. WAKEFIELD. If any banks are doing that kind of business, I do not know of them, and I do not believe they could keep the business very long if they did.

Mr. GOLDSBOROUGH. You can not keep the selfish instincts of the boards of directors down.

Mr. WAKEFIELD. No, sir; but the most selfish instinct of a board of directors is the building up of the business of the institution in which they have made their investment.

Mr. GOLDSBOROUGH. Not necessarily, because in this country bankers are not bankers; they are business men who are drafted to be-

come directors of banks because of their influence in the neighborhood.

Mr. WAKEFIELD. You had better send them up to Minneapolis and we will educate some of them.

Mr. GOLDSBOROUGH. That is the universal situation in this country. It may not be in Minneapolis, but I have no doubt that the Minneapolis boards of directors of banks are made up of prominent business men, just as they are elsewhere.

Mr. WAKEFIELD. They are, but I have never known of a case where one of those business men has ever interfered or ever requested that there be interference with the taking care of competitors in the same line of business as theirs, where the request of the competitor was justified. If they did, we would not have them for directors.

Mr. GOLDSBOROUGH. That is a very ideal condition which I am sure exists nowhere else on earth, because it is contrary to human instincts.

Mr. WAKEFIELD. I can not agree with you on that.

Mr. GOLDSBOROUGH. It is like King Canute, trying to sweep back the ocean.

Of course, if your theory were correct, is it not true we would not have to have any banking restrictions at all; we could simply say, "You are all-wise and you are absolutely honest; now, go to it and benefit the public"?

You would not have to have any restrictions at all; that is where your theory would lead to.

Mr. WAKEFIELD. I do not think it would go quite that far.

Mr. GOLDSBOROUGH. I see. In your organization, do you borrow on the stock that you own in the constituent banks?

Mr. WAKEFIELD. Who? Individually?

Mr. GOLDSBOROUGH. No; this corporation. The First Bank Stock Corporation owns the stock of these constituent banks.

Mr. WAKEFIELD. Yes; but it never has borrowed a cent, and I do not expect it ever will.

Mr. GOLDSBOROUGH. But it has the right to borrow, like any other owner of property would have such a right.

Mr. WAKEFIELD. Yes; it could borrow.

Mr. GOLDSBOROUGH. It could take that stock and borrow on it and then it could take the proceeds and buy common stocks on margin, and it would not be doing anything illegal; you would not be violating the law if you did that.

Mr. WAKEFIELD. Yes; and somebody would be unwise if they did it.

Mr. GOLDSBOROUGH. No, no; you misconceive the purpose of my question entirely.

Mr. WAKEFIELD. You are asking a hypothetical question.

Mr. GOLDSBOROUGH. No; I am not asking a hypothetical question at all. We are not interested as a legislative committee in whether you are honest or dishonest, or in whether you are wise or unwise. Those are matters with which the authorities whom you deal with and the public with which your deal are concerned, but as a legislative committee we are not interested in that. What we are interested in is whether or not the proposition is economically sound.

Mr. WAKEFIELD. Yes, sir.

Mr. GOLDSBOROUGH. And that is the only thing we are interested in.

What I am asking you is whether or not, under your setup, you could not borrow on the stock that you own and take the proceeds of that borrowing and buy common stocks on margin.

Mr. WAKEFIELD. Certainly.

Mr. GOLDSBOROUGH. And you could do it legally, could you not?

Mr. WAKEFIELD. Certainly.

Mr. GOLDSBOROUGH. Without violating the law?

Mr. WAKEFIELD. Certainly.

Mr. GOLDSBOROUGH. Do you think you ought to have that right?

Mr. WAKEFIELD. I would think it would be a great mistake if there were ever any attempt to say by legislation how the owner of an individual piece of property might use it or what he might do with it.

Mr. GOLDSBOROUGH. Even though he is the absolute owner——

Mr. WAKEFIELD. Yes.

Mr. GOLDSBOROUGH (continuing). Of all of the stock in a banking institution?

Mr. WAKEFIELD. Yes.

Mr. GOLDSBOROUGH. Do you want to correct that statement? It is perfectly all right to do it.

Mr. WAKEFIELD. I do not want to correct it.

Mr. GOLDSBOROUGH. That is rather an astonishing statement.

How do you distinguish, as a practical proposition, between one of your constituent banks and a branch bank?

Mr. WAKEFIELD. They are entirely different.

Mr. GOLDSBOROUGH. Of course, you have absolute control of the institutions, and the mother bank has absolute control of the branch banks. What are the differences?

Mr. WAKEFIELD. The First Bank Stock Corporation owns the stock of the First National Bank at Austin, and the First National Bank at Austin is a separate corporate institution, capitalized and officered there in Austin, and its board of directors and its management are there in Austin, with absolute control. The only supervision we have over that bank is exactly the same as the individual stockholders have had in the past and do always have as owners of the stock.

Mr. GOLDSBOROUGH. But you own all the stock.

Mr. WAKEFIELD. Yes, sir; and so was all of the stock owned before.

Mr. GOLDSBOROUGH. But you do not get all of the stockholders to act cohesively.

Mr. WAKEFIELD. And that is the reason this is much more effective that we have a live, active stockholder that is watching that bank.

Mr. GOLDSBOROUGH. Do you not control that bank just as absolutely as the home bank controls any of its branches in a branch banking system?

Mr. WAKEFIELD. No. If we had a branch bank down there under the branch-banking system, we would have no capital investment in that town.

Mr. GOLDSBOROUGH. Why is that true of necessity?

Mr. WAKEFIELD. Because, we will say, that the First National Bank of Minneapolis was authorized to have branches, and it would be capitalized the required amount as a single bank; it would have an office or a branch in Austin managed by a manager.

Mr. GOLDSBOROUGH. Why does that have to be the system?

Mr. WAKEFIELD. I have never heard of any other system of branch banking.

Mr. GOLDSBOROUGH. We have been told by Governor Young and by Mr. Pole that the branch banks do not have to lose their individuality at all.

Mr. WAKEFIELD. I read Governor Young's testimony and Mr. Pole's testimony and I do not remember reading that statement.

Mr. GOLDSBOROUGH. You say that, as far as you know, there is no branch-banking system which provides for local boards of directors and local capital to control the branches?

Mr. WAKEFIELD. No.

Mr. GOLDSBOROUGH. It may be very interesting to you to know that there is a branch-banking system in Maryland with 21 branches, which has no parent bank and no branch bank; each bank stands on exactly the same level, but they each support the other. In other words, there is a general capital set-up involving all the banks, and when a new bank is started the community is canvassed for the purpose of getting the stock which is to go into that institution and that institution is put on its feet with that stock and the board of directors is elected locally.

Mr. WAKEFIELD. Is that local bank, then, a separate corporation?

Mr. GOLDSBOROUGH. No, indeed.

Mr. WAKEFIELD. I do not understand that a set-up of that kind, as I have been familiar with branch banking in my experience, is typical branch banking.

Mr. GOLDSBOROUGH. I do not know that it is typical branch banking, but it is perfectly conceivable to have a branch banking system where you have your local directors, if you want it that way. You do not have to have just a local manager.

Mr. WAKEFIELD. You can do most everything. The question is whether it is the right thing to do.

Mr. GOLDSBOROUGH. Then I will ask you this: I will ask you whether you do not think that in a branch banking system the constituent banks should be autonomous?

Mr. WAKEFIELD. I think that in a branch banking system the capital structure should have a relationship to the deposit liability and should be based upon that and that only.

Mr. GOLDSBOROUGH. You can not conceive, as a business man, of a branch banking system where the capital is so divided up that each institution has the responsibility of earning dividends on a certain proportion of that capital which is locally owned and where the board of directors is exclusively local and where no outside board of directors has anything to do with it at all?

Mr. WAKEFIELD. I do not think that that is branch banking.

Mr. GOLDSBOROUGH. What would you call it?

Mr. WAKEFIELD. That is group banking.

Mr. GOLDSBOROUGH. No; that is not group banking; that is, it is not the kind of group banking we have been hearing about for the last three days.

Now, Mr. Wakefield——

Mr. FORT. Before you leave that subject may I give you an illustration of that same idea that has now taken place in New Jersey?

Mr. GOLDSBOROUGH. Yes, sir.

Mr. FORT. In the setting up of branches in my home city of Newark since the passage of the McFadden bill, they have largely taken over old banks and converted them into branches, but have retained the old boards of directors as advisory boards of directors in those branches, and in every case I understand that the local advisory board of directors passes on the loans that are made to the customers of that branch, subject, however, to supervision from the main office. That is somewhat similar. They have been taking stock in the parent bank in exchange for their own holdings of stock in the bank that sold out.

Mr. WINGO. Do you mean from among the local stockholders?

Mr. FORT. They were all in the city of Newark under the McFadden bill, but 1 bank in Newark has absorbed 7 or 8 other Newark banks and made them branches of the major bank, and they retained the old boards of directors as advisory boards in charge of the affairs or the business done at the branch, which has supplanted the old local neighborhood bank.

Mr. WINGO. But his illustration was, if I got the set-up——

Mr. FENN. Does Mr. Goldsborough yield?

Mr. GOLDSBOROUGH. Yes.

Mr. WINGO (continuing). That the parent bank was in Baltimore and had branches scattered over Maryland towns, whereas the set-up you have in mind would be that the local stockholders of the Baltimore bank, living in this village here, would among them select an advisory board and run that branch?

Mr. FORT. It might be that way, yes; it is possible, but they would have to be supervised, of course, from the central office.

Mr. WINGO. Purely advisory?

Mr. FORT. Yes.

Mr. WAKEFIELD. I think that has been done in many cases—in most cases, where a bank has absorbed other banks and made them branches, but the fact remains that after that absorption, the capital structure is in the one bank, and that the board of directors and the officers of the one bank are absolutely running that branch, without any——

Mr. FORT. These boards of advisory directors have to retain stock in the parent bank, and therefore have a direct financial interest in the way they operate their branch.

Mr. WAKEFIELD. That is true; but that advisory board can not be put together down there so that it has any real authority over the business of that bank.

Mr. GOLDSBOROUGH. Why can it not?

Mr. WAKEFIELD. Because the law does not allow it.

Mr. GOLDSBOROUGH. It does in Maryland, and it has worked for 30 years, and each one of those banks is autonomous and nobody knows which is the parent bank.

Mr. WINGO. I thought that was chain banking.

Mr. GOLDSBOROUGH. No; that is not chain banking. You will have it described to you on the 22d of this month. Of course, there is theoretically a parent park at Cambridge, because it was the first bank, but, as a matter of fact, the local banks are absolutely autonomous—absolutely.

Now, in a recent statement of Mr. Insull's, in which he was discussing holding companies, he made this very significant statement: "The ability of the holding company to help depends largely on its ability to act without restrictions, other than those in an ordinary private business."

Is that your view?

Mr. WAKEFIELD. I am not familiar with what is involved in that statement by Mr. Insull, because of his entirely different problems.

Mr. GOLDSBOROUGH. Would that be your statement in connection with your holding company?

Mr. WAKEFIELD. No; I have expressed myself before this committee and, in response to Mr. Fort, I have agreed to attempt to set up a formula of supervision and restriction.

Mr. GOLDSBOROUGH. I know, but you have said you wanted to be examined, for instance, by the comptroller or by the banking authorities, which was very commendable; but you have also said, as I understood you a few minutes ago, that you did not think the conduct of your business ought to be interfered with any more than the conduct——

Mr. WAKEFIELD. In connection with that borrowing problem you described.

Mr. GOLDSBOROUGH. Yes.

Mr. WAKEFIELD. My answer to that is based upon this: As far as I am concerned, I would be perfectly willing that a regulation should be prescribed that would prevent our institution ever going out and placing those stocks and borrowing money. On the other hand, I think the principle involved in an attempt to do that would be entirely wrong to American business.

Mr. GOLDSBOROUGH. In other words, you think your holding company which has to do only with banks ought not to be encumbered with the same restrictions as are the ordinary banking institutions?

Mr. WAKEFIELD. I do not think that you can. There is no restriction that says that if you own bank stock you can not borrow money on it, and I do not think you can pass or fix any regulation governing a company of that kind and interfering with the general business structure.

Mr. GOLDSBOROUGH. Do you think the ordinary safeguards which experience has taught us should be placed around banking institutions are right or wrong?

Mr. WAKEFIELD. Right, absolutely.

Mr. GOLDSBOROUGH. Now, if they are right, why should not those same restrictions be placed around an organization which in effect is nothing in the world but the parent bank of a branch banking system?

Mr. WAKEFIELD. All right; I think they should, but there is not at the present any restriction of the kind that you described.

Mr. GOLDSBOROUGH. Now you say that you think they should have them?

Mr. WAKEFIELD. I think they should have the same restrictions that are placed upon present banking institutions.

Mr. GOLDSBOROUGH. Could present banking institutions borrow money on stock that they own and buy common stock with it?

Mr. WAKEFILD. The stockholders of a present banking institution can borrow money on the stock that they own.

Mr. GOLDSBOROUGH. But the institution itself?

Mr. WAKEFIELD. The First Bank Stock Corporation is in effect an individual stockholder of the banks. It is not in the banking business. It is the owner of stocks of the banks. It does no banking business.

Mr. GOLDSBOROUGH. Does no banking business—and yet it controls 91 banking institutions?

Mr. WAKEFIELD. You might individually own the control of a bank; would you welcome a law that said you could not take your bank stock and pledge it as collateral?

Mr. GOLDSBOROUGH. No; I would not welcome it.

Mr. WAKEFIELD. Do you think it should be done?

Mr. GOLDSBOROUGH. I would expect it to be done, or expect to be put out of business.

Mr. WAKEFIELD. No; you would not; you would want it left to your judgment as to what you did with your property, because what you did with the stock in that bank is not going to affect the bank itself.

Mr. GOLDSBOROUGH. Not going to affect the bank itself?

Mr. WAKEFIELD. No.

Mr. GOLDSBOROUGH. The conduct of your institution absolutely controls the very breath that the directors of those banks breathe, and yet you say they exist independently of you?

Mr. WAKEFIELD. Well, we are not getting anywhere in a conversation of this type.

Mr. GOLDSBOROUGH. Well, if you do not care to answer my questions it is absolutely all right.

Mr. WAKEFIELD. I would like to answer them.

Mr. GOLDSBOROUGH. Just simply say so if you do not want to.

Mr. WAKEFIELD. But you have gone into a line of conversation which is all theoretical.

Mr. GOLDSBOROUGH. Theoretical?

Mr. WAKEFIELD. My first answer to you is that I have never had any notion of anybody having any intention in any group company of going out and pledging its stock to buy common stocks on margin, and I do not think it has ever been done.

Mr. GOLDSBOROUGH. Every law is based on a theoretical condition, is it not, if you want to control something that might happen?

Mr. WAKEFIELD. In spite of any law made governing banks, if there is somebody that is absolutely foolish and crazy enough to go and bust his bank, he can do it.

Mr. GOLDSBOROUGH. But you are not in favor of regulating it?

Mr. WAKEFIELD. I certainly am.

Mr. GOLDSBOROUGH. You are in favor of just letting the personal equation be the entire guide?

Mr. WAKEFIELD. No, sir. The argument we are in is one concerning the right of the owner of stock to use his stock in banking at all.

Mr. GOLDSBOROUGH. It is very interesting to get that point of view, because I do not think the committee in the previous hearings has gotten that impression from your testimony.

Mr. WAKEFIELD. I do not know what impression you are referring to.

Mr. GOLDSBOROUGH. What I am referring to is this—one of the things I am referring to—that this committee, in my judgment,

from what I know of the committee and from what they have said to me, would not begin to stand for a position taken by a holding company which controls banks exclusively that it should be allowed to do business without the same restrictions being placed around its business as are placed around other banking institutions.

Mr. WAKEFIELD. I agree with you absolutely, but there is not any restriction placed around a banking institution that says that a stockholder of that institution can not borrow money on his stock.

Mr. GOLDSBOROUGH. Well, will you explain what that has to do with the question I have been asking you? In your case, your corporation owns all of this stock.

Mr. WAKEFIELD. It is the stockholder.

Mr. GOLDSBOROUGH. I say that, but yet, in effect, it is in the banking business because it absolutely controls these banks.

Mr. WAKEFIELD. It is in the banking business exactly as any stockholder of a bank is in the banking business.

Mr. GOLDSBOROUGH. We will not get anywhere if that is the way you feel about that.

Let me ask you another question:

You, or either you or Mr. Decker, and maybe both of you, have contended that these constituent banking institutions still have the same local pride that they had when they were owning their own stock locally?

Mr. WAKEFIELD. Yes, sir.

Mr. GOLDSBOROUGH. Now, as I understand it, these directors have to own a certain amount of the stock of a bank in order to qualify?

Mr. WAKEFIELD. Yes, sir.

Mr. GOLDSBOROUGH. But, as a matter of fact, they do not own it at all, because you put such restrictions around them that if they attempt to dispose of the stock, it puts them out of business.

Mr. WAKEFIELD. They own it outright, absolutely; they paid their money for it and have received the dividends on it.

Mr. GOLDSBOROUGH. Did you not say yesterday that they could not sell it?

Mr. WAKEFIELD. No. I said there is no way you could set up an agreement that would hold water whereby you could force them to sell it.

Mr. GOLDSBOROUGH. By which you could force them to sell it?

Mr. WAKEFIELD. Prevent them from selling it or offering it.

Mr. GOLDSBOROUGH. Did you not say that you made every attempt——

Mr. WAKEFIELD. I said we had a gentleman's agreement.

Mr. GOLDSBOROUGH. You did not use that expression.

Mr. WAKEFIELD. I used that expression.

Mr. GOLDSBOROUGH. I did not hear you. Go ahead; you had a gentleman's agreement——

Mr. WAKEFIELD. That if they are going to leave us, they will sell the stock back to us, not to somebody else.

Mr. GOLDSBOROUGH. Do you mean to say that their minds, in dealing with their customers, have the same freedom of action as they would have if they were actually controlling their own institution?

Mr. WAKEFIELD. I can not understand why there should even be a question of that kind asked.

Mr. GOLDSBOROUGH. I do not believe you do, from the testimony.

Mr. WAKEFIELD. A director of any institution, a man who directs or that becomes a director of a bank knows what kind of an obligation he has assumed, and it has been my observation that they understand that fully and the past history of banks has made it obvious to directors of that class of institution that they did have obligations, and I think those who are directors of banks understand fully that they are taking responsibilities when they become directors. The old day, when it was just an honor to be a director of a bank, has passed, and the man who is a director of a bank to-day in our country knows mighty well he is assuming as obligation of responsibility in taking that position.

Mr. GOLDSBOROUGH. But did I suggest that he did not have any such feeling as that? Did I ask you any question that had any relation to what you have just said?

Mr. WAKEFIELD. You just asked whether the directors felt their responsibility.

Mr. GOLDSBOROUGH. I asked whether they have the same freedom of action as they would have if they were not simply vassals. That is what they are.

Mr. WAKEFIELD. You are making the statement that they are.

Mr. GOLDSBOROUGH. I am making the statement upon all the facts you have given us as to your set-up.

Mr. WAKEFIELD. You have assumed a conclusion concerning those facts which is incorrect.

Mr. GOLDSBOROUGH. My dear sir, you have only been in existence for 8 months and your competitor for 13 months, and no secondary reaction has had time to show itself at all. You do not know, and I do not know, and nobody else knows, what the result of this sort of a set-up is going to be as time goes on. What I am trying to find out, and what the committee is interested in, is whether or not this terribly rapid growth ought to be stopped until we find out what it is. This is a serious discussion, and I am not primarily concerned in personal equations, but that has been practically the only thing which has been discussed around this table for three days. This committee is entirely convinced of the business integrity, of the wisdom, of the foresight, of the energy, and everything of that kind of the present set-up of these organizations. There is no criticism of anything of that kind, but what we are trying to get at are the "guts" of the economic structure that is being built up. That is what we are after.

Now, Mr. Wakefield, you agree, do you not, that equality of economic opportunity is the thing we all should try to facilitate?

Mr. WAKEFIELD. If you will explain that, elucidate that——

Mr. GOLDSBOROUGH. You do not know what I mean by that?

Mr. WAKEFIELD. No.

Mr. GOLDSBOROUGH. You have never known, then, of an individual or a business organization to be squeezed out by a group of bankers, or anything of that kind?

Mr. WAKEFIELD. It has not been true in my experience.

Mr. GOLSBOROUGH. That has not been true in your experience. As far as your experience goes—and I am perfectly sincere in this question—banking everywhere as you have known it has been conducted in an absolutely fair way?

Mr. WAKEFIELD. The prime motive back of every successful banking institution——

Mr. GOLDSBOROUGH. I did not ask you that.

Mr. WAKEFIELD. All right.

Mr. GOLDSBOROUGH. I did not ask you about successful banking institutions, as you have based your whole argument on your faith in this institution of yours and on the fact that there have been a great many institutions that were not successful, and both you and Mr. Decker began with this long story, which was a true one, and a very proper one for you to give, of the conditions in your territory and the bank failures which had led up to this structure. Of course, if we had not had unsuccessful bankers, we would not have group banking, branch banking, or chain banking, and this committee would not be considering them.

So you do not understand what I mean by equality of economic opportunity?

Mr. WAKEFIELD. You would have to make a much longer explanation than that in order that I might answer it.

Mr. GOLDSBOROUGH. All right. Now, in view of the fact that these two great institutions in the Northwest have been built up in 13 months' time, and in view of the fact that they constitute an absolutely unchartered sea in so far as banking is concerned, do you not believe as a citizen, and not as a successful banker, not as one who believes himself useful—and I believe you are useful, too, in this exigency down there——

Mr. WAKEFIELD. Thank you.

Mr. GOLDSBOROUGH. But, as a citizen, do you not believe that the least this committee can do is to stop that growth right where it is until we can find out what is going to be the result of that sort of a set-up?

Mr. WAKEFIELD. There are two factors or two things in your statement which I shall have to refer to before I answer your question.

The first is that this big thing that you described as having been built up in a year was in existence and was nothing more than a joining together of those institutions that were in existence. It has not been created. Those banks were there operating, and then, in answer to your question, I think that any legal restriction upon our operations at the present time would be extremely detrimental to the best interests of the territory in which we are operating, and very disastrous.

Mr. GOLDSBOROUGH. Well, I did not mean in that question to suggest that for the present your set-up was to be interfered with, or that any institution which you now control should be, or that any attempt should be made to dissociate that institution from your organization, but my question was this, whether or not you do not think, in view of the fact that this holding-company system of banking is so novel and has had such a rapid growth within the last two years—and that covers the Transamerica, too, within that 2-year period—it ought to be stopped where it is until we can find out what is going to be the ultimate result of that sort of banking? That is my question.

Mr. WAKEFIELD. The only answer I can make to that, Mr. Goldsborough, is what has been said previously, and that is that in my

opinion, and I think in the opinion of everybody that is involved in the problem of banking to-day, there should be, if we are to have group banking, restrictions and regulations to govern that business, and there is not anybody that would welcome those any more than we would.

Mr. GOLDSBOROUGH. I think that is all.

Mr. FENN. Mr. Wingo.

Mr. WINGO. I shall not ask many questions, Mr. Chairman.

All of your stockholders live within your Federal reserve district, do they not?

Mr. WAKEFIELD. All except 500. It is in that tabulation. Out of 16,000, there are but 500 that live outside of the ninth Federal reserve district.

Mr. WINGO. Are any of those very large stockholders?

Mr. WAKEFIELD. I could not tell you exactly that the number of shares of stock involved is, but it is a very small proportion of the total.

As a matter of fact, this might be interesting, that it would take—I do not know just how many, but I know it would take hundreds of stockholders, of the larger sockholders, added together to make anywhere near a control of it.

Mr. WINGO. But the greater portion of your stockholders, both in number of individuals and in the number of shares they hold, are directors in your unit banks, are they not?

Mr. WAKEFIELD. Not directors, because we have 16,000 stockholders.

Mr. WINGO. They are either directors or patrons of your institutions?

Mr. WAKEFIELD. Yes.

Mr. GOLDSBOROUGH. May I ask one more question?

How many directors have you in your holding company?

Mr. WAKEFIELD. Sixty-seven.

Mr. GOLDSBOROUGH. That is all.

Mr. WINGO. The point I had in mind was that I think the record will show that the great majority of your stockholders, both as to number and volume of stock held, are local?

Mr. WAKEFIELD. Yes.

Mr. WINGO. That they are around these different units that compose your system and that the holding company controls as part of their group.

Mr. WAKEFIELD. Very largely so.

Mr. WINGO. Have you had a stockholders' meeting since you organized?

Mr. WAKEFIELD. Yes.

Mr. WINGO. Where was that held?

Mr. WAKEFIELD. In Minneapolis.

Mr. WINGO. How many were present in person, if you recall, approximately?

Mr. WAKEFIELD. Just about 100 stockholders that came in.

Mr. WINGO. How many of your different banks were represented in that meeting? Do you recollect whether there was a stockholder from every community present?

Mr. WAKEFIELD. No; I am quite sure there was not.

Mr. WINGO. Under your charter, under the laws of Delaware, you may hold your annual stockholders' meeting elsewhere than in the State of Delaware?

Mr. WAKEFIELD. Yes, sir.

Mr. WINGO. And you intend to hold your stockholders' meetings at the head office in Minneapolis, I presume?

Mr. WAKEFIELD. Either St. Paul or Minneapolis.

Mr. WINGO. In other words, you are going to hold them within your local territory?

Mr. WAKEFIELD. Yes, sir.

Mr. WINGO. I suppose that a large part of your stock was represented by proxies at that stockholders' meeting?

Mr. WAKEFIELD. Yes, sir

Mr. WINGO. In other words, about the customary situation existed with reference to the meeting of your stockholders as would with an ordinary corporation of that sort?

Mr. WAKEFIELD. That is true. However, in this case the presence of about 100 stockholders was a greatly increased representation of stockholders present as compared with my experience in operating the First National Bank, when it was rare that more than two or three outside stockholders would come.

Mr. WINGO. Do different banks in your group lend on the stock of your holding corporation?

Mr. WAKEFIELD. Some loans have been made, but those loans are being absolutely taken out of the bank. My purpose at the present time is that no loans should be made. I expressed myself yesterday that it should be legally restricted so that a loan on the stock of the holding company could not be made from a bank owned by the holding company.

Mr. WINGO. Well, under the law one of your constituent banks—I will call them that—can lend to one of its customers who own stock in your First Bank Stock Corporation, the parent company?

Mr. WAKEFIELD. At the present time; under the present law.

Mr. WINGO. Under the present law one of those constituent banks can make a loan, with the collateral being the stock of the parent company?

Mr. WAKEFIELD. That is true.

Mr. WINGO. But you say it is the policy of those who are now managing your parent corporation to restrict that, and you feel it would be proper as one of the restrictive provisions in any law that we passed to prevent that?

Mr. WAKEFIELD. I do. I think it is absolutely wrong.

Mr. WINGO. Well, if you did not do that you would have possibilities of pyramiding and it would be very dangerous.

Mr. WAKEFIELD. Surely.

Mr. WINGO. There is some confusion in the minds of some members of the committee, and especially among some of the bankers who either sat here in the room or read some of the hearings, as to what is the distinguishing characteristic of a group bank as compared with a chain bank. Will you give us for our information what your conception of the difference is? Just what is group banking and what is chain banking? How can you distinguish the two?

Mr. WAKEFIELD. I think there is a confusion in the general understanding, and possibly there is not any absolutely accurate descrip-

tion which can be made. My experience has been and my thought and my understanding was that chain banking was such a thing as that which we have always criticised and been looking out for; a certain group would start in and form an individual bank, put it in operation and begin to do business, and then they would decide to put a bank at another point and would let the people that put up the money for the stock of the first bank capitalize the second one.

That is the general impression I have of what I used to think was chain banking until I began to read these hearings, but I have discovered that there is a wide difference of opinion about what chain banking means.

Mr. WINGO. You are not the only man who has been confused from reading these hearings.

Well, now, what would you class this? I just noticed this recently, and frequently you have something right under your nose for years and all of a sudden you will notice the significance of it, and I noticed this since these hearings started: That the name of one gentleman has appeared on three different letters that have come to my office from three different banks; he happens to be president of each one of three State banks. There are three or four gentlemen who are interested in all three of those banks, and yet they are separate corporations in separate towns, two of them in one company and another in another county.

Would you call that a group banking or a chain banking system?

Mr. WAKEFIELD. I do not know. If that particular individual owned the control of all of those banks, personally I should think that it is not group banking as we are talking about it to-day.

Mr. WINGO. I had always understood before this hearing started that a chain bank was where the parent corporation owned and controlled the stock of several constituent banks, and that a group bank was where there was a group of individuals that owned and controlled the stock of a group of banks. Now I seem to be in error or, rather, that conception does not seem to be the one some of you gentlemen have.

Mr. WAKEFIELD. This conception that I just expressed to you of a chain bank was the one we always had in our minds up there as representing chain banking, and we are always anxious not to be thought of in that same lot, and so we chose to call ourselves group bankers.

Mr. WINGO. The only distinction is that you wanted to get away from what you regarded as an evil, of having the parent bank go to the head of another bank and saying, "We want to buy the control of your bank," or "We want you to tie up with us, and we will lend on your stock"; in other words, they would pyramid that way, and the distinction you want to make is that you are not that kind of a chain?

Mr. WAKEFIELD. That is it. That may not be fair, to make that statement in connection with what is now thought of as chain banking, but I say it has all been discussed and muddled up.

Mr. WINGO. It is hardly worth the time to discuss that any further on account of the limited time. I am afraid we have made the confusion worse than we found it—I mean that I have, not you.

Now, what is to prevent one of your national banks—that is, a constituent bank—from doing this: The national-bank examiner

comes in and examines it and says, "Here is some paper that I do not think ought to be in here; you will have to take this paper out."

We will take, for illustration, these two banks that you have in Potter County, S. Dak., at Gettysburg; one is the First National Bank and the other the Potter County Bank.

Mr. WAKEFIELD. They have been consolidated.

Mr. WINGO. All right; use them as illustrative. One is a State bank and the other a national bank, and we will assume that they are still in existence. While they are still in existence, the national-bank examiner comes into the First National Bank of Gettysburg and says, "You have to take this paper out of here." They say, "All right." Then they will step across the street to the Potter County Bank and say to them, "We have got to get rid of this"——

Mr. WAKEFIELD. But the Potter County Bank won't take it.

Mr. WINGO. Then within a week or 10 days along comes a State-bank examiner, and he goes into the Potter County Bank and says, "You have some paper here you have got to get rid of." So they will then again step across the street and pass it over into the First National Bank.

Is there anything to prevent that under existing law?

Mr. WAKEFIELD. Not under the law; but the thing that would prevent it would be the directors of the Potter County Bank; they would not receive it from the other bank, in my opinion, and what I have said before is this, that I think that if a group bank system is operated and it has national banks, that that fact ought to authorize the comptroller to make examinations of any bank that it owns, State or national.

Mr. WINGO. In other words, you are getting into this situation with your banks: You have practically the same set-up as a Federal reserve bank. Now, that Federal reserve bank, under the law, has a right to check up on the member bank, even if it is a State bank?

Mr. WAKEFIELD. Yes.

Mr. WINGO. If group banking is to continue, such as yours, do you think in any legislation we may enact there should be some restrictive legislation? I can conceive of occasions arising where a man will say that the national bank examiner does not understand the situation and where a State bank examiner will say the thing is perfectly right and that the national bank examiner is wrong; in other words, you might have something else besides improper practices, and, in order to protect the system, do you think there should be some restrictive legislation?

Mr. WAKEFIELD. I think there should be authority given to the comptroller's office to examine every unit of any group operated, regardless of whether it is State or national.

Mr. WINGO. The question has been asked: How would Congress be able to say that a State bank must submit to that examination?

Mr. WAKEFIELD. I do not know, but I have an idea that if we are operating a group with members of the Federal reserve system in that group, that fact in itself could be a basis for requiring the privilege of an examination. You understand we always pay for the examinations, anyway.

Mr. WINGO. In asking that question—the question was suggested to me—the thought occurred to me that we could find some way.

One way would be that we could provide that no national bank could belong to a group system whose stock is held by a corporation that did not agree to submit to an examination by the comptroller, or by our taxing power, or the use of the mails. There are many different ways we could use to make it effective. If all these different constituent banks of yours were national banks, of course, that question would be obviated, would it not?

Mr. WAKEFIELD. Yes.

Now, if trade area or Federal reserve district branch banking were permitted for your territory, the probabilities are that you would transform your system into a branch bank system, would you not?

Mr. WAKEFIELD. I think we would be obliged to.

Mr. WINGO. You could not avoid it, could you?

Mr. WAKEFIELD. Not within a reasonable time.

Mr. WINGO. In the first place, it would be to your advantage from the standpoint of economic operation?

Mr. WAKEFIELD. I think it would. The only thing I have in mind is that until the time comes when the public is ready for that sort of system, I would be a litttle bit concerned about trying to force it on the various large communities.

Mr. WINGO. What I was trying to do was to detect the trend, and I know of no way of getting the trend of business in any line than to get the reaction of the leaders in that particular business. Now, while I do not believe in anything except the independent unit banks, I have gotten old enough to know I must face conditions and not theories.

You feel, then, that the natural trend would be such that not only from force of competitive necessity, but the very practical consideration of economic administration would lead you gentlemen to transform your system into a branch-banking system?

Mr. WAKEFIELD. I think that is true.

Mr. WINGO. Even if we do not change the law, is it or is it not your opinion that the independent unit banks will continue to dwindle, both in importance and number?

Mr. WAKEFIELD. In the small towns, I think they will.

Mr. WINGO. Take the larger towns; take the cities where they have branch banking: Has not the experience been that the branch-banking systems are eliminating the independent unit banks? First, is the decrease in the granting of charters to independent unit banks, and then the competition has gradually caused independent unit banks to sell out and become branches of a larger system, not always because unfair methods are used—I am not trying to get into an argument over that; I am simply discussing the natural trend and assuming always proper methods are used—but I know in some instances, without any effort made to drive an independent unit bank out of the city, the directors and stockholders of the unit bank have gotten together and concluded that they had better become a branch of a larger bank.

For illustration, I understand the Riggs Bank here in this city have taken over one or two unit banks in the city that afterwards became branches. So the natural tendency in the city is to do that, as well as in the smaller towns?

Mr. WAKEFIELD. Perhaps I can answer that by giving the history of our own city. Our State now has a law prohibiting a bank operating in the State of Minnesota, from operating branches, even within the city. A few years ago that restriction did not exist. There was no law to that effect. At that ime—I was not then connected with the bank—our bank bought outlying banks and converted them into branches. We have three operating to-day that were established before the legislature passed the law prohibiting further branches. To-day, we can not establish branches outside of our main office, but in spite of that, the number of individual banks in the city has steadily decreased. There are less now than there have been at any time, and the interesting factor in connection with that is this, that each year, some time during the year, we are waited upon by a delegation of citizens from some improvement association or from some section of the town, with the request that we put an office out there. They explain they have a growing trade center and want banking facilities and ask us to put them there. Of course we can not do it.

Mr. WINGO. I want to get your reaction on the present trend of banking organization, just assuming that we did not change the law, but stood pat—to use an expression I have heard used, sometimes: Take my State, for instance, that does not permit branch banking. We have some branches, but at the present time we do not permit branch banks to be established. Nevertheless, there has been a gradual decrease in the number of banks and in the importance of those individual unit banks, and a growth in chain or group banking. For illustration, I know of one group that, until recently was controlled by one man mainly, a man of high character who commanded the respect of the business world. A bank would get into trouble in a small town. They knew he was president of, or through his business associates, controlled banks, and so the citizens would wait on him and say, "We wish you would take over this bank." In two or three instances, they appointed a committee, after the bank was closed, to wait on him and ask him to take over the bank or become the head of a reorganized bank.

The last time I made inquiry about that, the comptroller suggested that in that group or chain, there were 55 banks. That has been built up by that kind of process more than any desire of his to build up a chain. His chief business has been insurance, but he has developed into this other.

Now, that natural trend in my State is further accentuated almost week by week. I notice in my State where two banks in some of the smaller communities—and that means outside of the four or five cities, like Little Rock, Fort Smith, and Pine Bluff—there is a consolidation of two banks where perhaps both of them were apparently doing very well, and in some instances, I would hear it whispered under cover that we had a consolidation of bank A and bank B because bank A got in bad shape and "We took it over."

I find that process going on in my own State, and is not that the natural trend in your section?

Mr. WAKEFIELD. Yes, sir; and the superintendent of banks of the State of Minnesota has been privately and constantly advocating the consolidation of banks and units into bigger units, in order that

the small units may be built up to a size that will enable them to go ahead properly.

Mr. WINGO. They have reached that conclusion, but naturally these things have influenced it, such as changed conditions like par exchange on checks, and the elimination of exchange on remittances on checks that come in. There are many reasons why the banking business has become not only less profitable, but, in some instances, almost impossible for them to make enough to pay their expenses.

Then, in other instances, there is the attraction of larger banks offering greater facilities and better service which has taken their business away from them by gradual accretions, so that they found they could not longer exist.

Mr. WAKEFIELD. I think that comes primarily from the natural development of the age and the country, and this fact being worked out: In the early days, in the past history of our territory, a small bank could secure very high rates for money that they were loaning, and gradually, as those people grew in size (that is the customers and borrowers of those small banks) they discovered they could go on to some place else and borrow the money at the current market rates, if their credit was substantial. So, I think the banking business generally is coming nearer to a uniform level of rates charged and service rendered, which means that unless there is a sufficient amount of commercial banking business at a point, it can not justify or pay the expenses of an organization at that point.

Mr. WINGO. Then I have noticed this: It is not only true in my own district, but I have been told it is true in other sections of the country, that with the improved highways and motors, villages—and by that I mean the great mass of smaller towns—in a large number of instances are being destroyed by the people moving to the county seat, or the metropolis due to the fact that, with improved highways and motors, a point 25 miles away is nearer now than the local village bank used to be formerly, 5 miles away.

Mr. WAKEFIELD. There is no question but that the east of transportation and the development of good roads has changed the habits of the people of the country. They now prefer to go to the place where there is a good moving picture and where the stores are better and different, rather than stop at the little village where they used to transact their business.

Mr. WINGO. Yes; I know that is true. I can meet at a moving-picture house in my town people who come there in cars from towns that I know are 50 miles away—people that I know.

You have stated that if we did not pass any laws at all, that was the natural tendency and it meant the ultimate extension of these large branch banks into the smaller towns. Suppose that we should believe in the independent unit bank and would put a restraining order in the statute that would prevent the organization of any more branch banks in the United States: What effect do you think that would have upon the maintenance of these independent unit banks in these small towns?

Mr. WAKEFIELD. I am afraid that would result in a considerable diversion of the banking business into the State systems, following along the lines of the recommendation of our own superintendent of banks, that the legislature authorize State banks, within certain areas, to take care of the situation with branches.

Mr. WINGO. Suppose all the States followed the suit of the Federal Government: Do you think that business would be sufficiently profitable to maintain small independent unit banks in the small communities?

Mr. WAKEFIELD. No, sir; I think you would force closings in those towns.

Mr. WINGO. And that would force those people to go further to get to an independent unit bank?

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

Mr. WINGO. Now, some question was asked about your capital stock liability, but I believe you said, as far as you are concerned, you are perfectly willing that there should be 100 per cent liability on that stock.

Mr. WAKEFIELD. Yes, sir.

Mr. WINGO. But, as a matter of fact, the First Bank Stock Corporation is liable under the law of your State to a 100 per cent assessment on the stock of the constituent banks owned?

Mr. WAKEFIELD. Yes, sir. It goes further than that. We would not last a minute if we had an occasion where the liability in connection with that individual bank was greater than the capital stock of that bank, and we did not supply it. We would be out of business.

Mr. WINGO. I do not believe I care to ask any further questions. I thank you very much, Mr. Wakefield.

Mr. BUSBY. How many systems of group banking are there in the ninth Federal reserve district?

Mr. WAKEFIELD. Of group banking?

Mr. BUSBY. Yes.

Mr. WAKEFIELD. I do not know just how to answer that. There are, of course, the two—the Northwest Bancorporation and ourselves—which are the large ones. There are others. For instance, J. W. Black Co. are interested in a group of banks.

Mr. BUSBY. Of about how many?

Mr. WAKEFIELD. I think 10 or 12. I can not be accurate about that. There are two or three cases where there are individuals who have a group of banks and are operating them. There is the Isaac Hazlett group. I forget how many banks he has. That has been in existence for many years.

Mr. Otto Bremmer, of St. Paul; I do not think he is a controlling stockholder, but he is a stockholder in a large number of banks in that territory.

Mr. BUSBY. How many in that group?

Mr. WAKEFIELD. About 75.

Mr. BUSBY. And the Hazlett organization has about how many?

Mr. WAKEFIELD. Probably 10 or 15 banks in the Hazlett group.

Mr. BUSBY. And the First Bank Corporation has, I believe you said, 91?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. And the Northwest Bancorporation——

Mr. WAKEFIELD. I think they said they had 98.

Mr. BUSBY. Do you know how many banks are operating in the ninth Federal reserve district?

Mr. WAKEFIELD. Two thousand two hundred and fifty.

Mr. BUSBY. Two thousand two hundred and fifty?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. So there are about 300 of those banks that are in the group system?

Mr. WAKEFIELD. I think that would be about right.

Mr. BUSBY. What is the attitude of the independent banks and bankers toward your group system in the territory in which you operate in competition with them?

Mr. WAKEFIELD. We have at the present time practically—well, I would say there was 60 per cent of those banks that are independent banks who are customers of the First National Bank of St. Paul and the First National Bank of Minneapolis. They are our friends and customers.

Mr. BUSBY. Customers to what extent and in what sense?

Mr. WAKEFIELD. They carry deposits with us and transact their business with us.

Mr. BUSBY. Does that mean that you have amicable leanings toward them and their business operations and that you are ready to cooperate and coordinate your efforts where there is need of assistance for them on your part?

Mr. WAKEFIELD. Always. Every year we loan those banks large amounts of money.

Mr. BUSBY. Of those independent banks—you say 60 per cent are your customers——

Mr. WAKEFIELD. And the other 40 per cent, of course, there is a duplication in that 60 per cent. Some do business with the Northwestern National Bank in addition to doing business with our two banks.

Mr. BUSBY. How about the other banks that are not customers of yours?

Mr. WAKEFIELD. They are all customers of ours, or of the other groups.

Mr. BUSBY. All of the 1,950 that are not in your systems are the customers of your systems, and therefore somewhat dependent on your systems for banking assistance in times of need?

Mr. WAKEFIELD. The Twin Cities banks have been the depositories of the banks in the ninth Federal reserve district for many years.

Mr. BUSBY. Now, what is the Twin Cities bank?

Mr. WAKEFIELD. The Twin Cities banks—they are the banks located in Minneapolis and St. Paul.

Mr. BUSBY. You do not mean individual banks?

Mr. WAKEFIELD. Yes.

Mr. BUSBY. What are the names of the individual banks?

Mr. WAKEFIELD. Well, there is the First National Bank of Minneapolis, the Northwestern National Bank of Minneapolis, the Midland National Bank of Minneapolis, the Metropolitan National Bank of Minneapolis, and the Marquette National Bank of Minneapolis.

In St. Paul they have the First National, the American National, the Empire National—I can not remember them all.

Mr. BUSBY. That is sufficient to illustrate. You mean to say, in other words, that St. Paul and Minneapolis are the banking centers for the ninth Federal reserve district and to those centers all the banks of that district come for banking contact?

Mr. WAKEFIELD. That is right.

Mr. BUSBY. Since you have organized these two very powerful, extensive and active groups of banks under the holding corporations, St. Paul and Minneapolis are even more the centers of financial operations in that district?

Mr. WAKEFIELD. It is probably accentuated to some extent. They have always been centers, however.

Mr. BUSBY. Is there not considerable dependence on your and the other banking groups—more than there was before?

Mr. WAKEFIELD. No; but there is just as much. When one of those banks in the country needs help, they come straight to us.

Mr. BUSBY. They feel you are operating in the banking field as a friend to the other banks, as well as to secure business and make profits out of your enterprise?

Mr. WAKEFIELD. Our relations, as far as I know them, with those customer banks are cordial and are as complete as always.

Here is an instance that occurred the other day. There was a farmers and merchants bank in Winette, in the oil district in Montana. They came to us a while ago and talked about joining up with us. That negotiation was not completed, and the bank closed. After it closed, the stockholders and depositors that represented the whole group of Winette, met and prepared a petition which was printed in the Winette paper, a copy of which I have here, in which they petitioned the First Bank Stock Corporation to come out there, and they said that they, as individuals, would raise whatever money was required to pay out the poor paper in the bank, if we will come and organize and open a bank there.

Mr. BUSBY. What was their purpose in doing that?

Mr. WAKEFIELD. It is pretty well described in this statement [exhibiting].

Mr. BUSBY. In a few words——

Mr. WAKEFIELD. They describe their location, the fact that the nearest bank east is 98 miles and the nearest bank west is 26 miles; that it is the county seat, and they feel they ought to have a bank there.

Mr. BUSBY. They have no hope of getting a return of their stock—in other words, they have lost money?

Mr. WAKEFIELD. They, as citizens of the town, are willing to put up the money to get us in there.

Mr. BUSBY. It is more of local business pride than the advantage they may derive?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. In establishing a bank there, you assume no responsibility whatever for any errors committed in the banking operations at that place?

Mr. WAKEFIELD. That process would have to be this: It would mean you would have to organize a new bank and take over such assets as acceptable and assume the deposit liabilities of the old bank.

Mr. BUSBY. You described your stock operations yesterday in regard to organizing your holding company. If I remember correctly, you stated you had $22,000,000 in assets and you exchanged that for $30,000,000 in stock in the holding company.

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. What did the $8,000,000 difference between the $22,000,000 as assets and the $30,000,000 in stock, represent?

Mr. WAKEFIELD. It represented a situation like this—at that time if you owned 1 share of First National Bank stock, you could sell it for $220.

Mr. BUSBY. Yes.

Mr. WAKEFIELD. We had no desire to attempt to capitalize the holding company to take over the stock at its then market value, because we felt if the holding company took it over it should show at an appreciated value in the holding company's stock. So we figured a basis which seemed fair and agreeable of $100 of the stock of the holding company for each share of the stock of the bank.

Mr. BUSBY. As a matter of fact, the four shares in the holding company were worth on the market more than $100?

Mr. WAKEFIELD. Yes; at that time the market put them up equal to the bank stock—practically $55 a share.

Mr. BUSBY. $220 for the four shares?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. What did the $8,000,000 represent?

Mr. WAKEFIELD. Capital value in the set-up. It is not a matter that you can figure any way you want to.

Mr. BUSBY. Is not this the situation: You fellows were setting up the holding company and determining the size of shares and par values and the exchcange ratios, and the $8,000,000 represented a margin of safety more than anything else, did it not?

Mr. WAKEFIELD. No; that thought never came in. I know how it was done. It represented delivering shares of the stock in the holding company which would be an equivalent to the thing that the fellow owned before he got it.

Mr. BUSBY. At the time you gave the figures I figured that the actual market value of the four shares of the holding company's stock you would receive would just about equal the market value of your bank stock, per share, and that the $8,000,000 was what we would commonly term "water."

Mr. WAKEFIELD. All right. The market value——

Mr. BUSBY. What do you say about that feature of it, before we leave the $8,000,000?

Mr. WAKEFIELD. We do not regard it as water. It is done——

Mr. BUSBY. I understand how it was done, but water in a stock transaction represents an issue back of which is no economic value or back of which you have no assets, or to represent which you have no assets.

Mr. WAKEFIELD. Watered stock, as the term is used, has usually represented a set-up of stock that has been sold at a price which included the water. In this case it was not sold to the public. It was given to the people who owned the stock originally. You might say that $220 a share for the First National Bank stock would have a lot of water in it.

Mr. BUSBY. No.

Mr. WAKEFIELD. That $8,000,000 represented good will and earning power of that bank.

Mr. BUSBY. That is the most substantial basis on which you could put it.

Mr. WAKEFIELD. That is the sound basis.

Mr. BUSBY. Did you assign that basis to it when you issued it?

Mr. WAKEFIELD. That was the basis—earnings, capital assets, good will and prospects of that bank, and deposits.

Mr. BUSBY. Outside of good will, you had collected in stock of equal value to the amount that you had involved in your banks?

Mr. WAKEFIELD. Collected what?

Mr. BUSBY. In getting stock in your holding company of equal value for all of the assets you had in your banks, outside of the good name of the bank.

Mr. WAKEFIELD. Let us get this picture in this way: You are an individual and you want to buy some stock——

Mr. BUSBY. Pardon me just a moment. I can not examine you if you insist on directing questions to me all of the time.

Mr. WAKEFIELD. I am making a statement to you. I am an individual and want to buy some stock in the First National Bank of Minneapolis. I pay $200 a share for it because I believe it is worth it. I have bought it at a price which includes the future prospect and earning power and good will of that bank, have I not?

When we set up our holding company, we did not do that literally, because we did not want a capitalization that represented any such market price. We believed the market price was higher than it should be. We capitalized it down close to the asset value, giving consideration to all those things.

Mr. BUSBY. Take the original question: If the $8,000,000 represented your good name largely, you still had that in your old banking institutions, did you not?

Mr. WAKEFIELD. Yes; and have it yet.

Mr. BUSBY. There was no necessity of paying the holding company, because you set up a holding company, or taking any shares of the holding company you set up because your bank had a good name in the banking field, was there?

Mr. WAKEFIELD. Well, now——

Mr. BUSBY. But you do not answer my question. You insist on explaining something else. If you were in a court, there would be objection to your answer and you would be directed to answer "yes" or "no."

Mr. WAKEFIELD. You do not ask questions that I can answer "yes" or "no" to. You ask me questions to which I object to saying "yes" or "no." I can not say "yes" and——

Mr. BUSBY. Then you can say "no."

Mr. WAKEFIELD. And I do not want to say "no," because that would not be correct.

Mr. BUSBY. Then, we will quit.

Mr. WAKEFIELD. Let me explain this to you: In our stock transaction the stock went to the stockholders of the bank. There was nothing involved except an exchange of stock.

Mr. BUSBY. And the bank remained as it was?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. And it took the same good name it had?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. And continued practically uninterrupted, as if no holding company had been organized?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. That being the case, I can not see the reason for extending to the persons who had formerly owned the bank stock that had turned it over to a holding corporation—I can not see the advantage of giving those same persons $8,000,000 in shares of the holding corporation, when all the shares of the holding corporation had been paid for by the bank stocks, dollar for dollar.

Mr. WAKEFIELD. All right. In no case where we have taken over a bank, even though it was a bank that was, as some one suggested yesterday, given to us, have we failed to recognize in the price paid for that bank a percentage value of the deposits of the bank. If that was recognized in the deposits of the bank in Minneapolis, it would have almost covered the $8,000,000.

Mr. BUSBY. What did the holders of the bank stock give for the $8,000,000?

Mr. WAKEFIELD. They gave their stock in the First National Bank, which they could have sold for twice that amount.

Mr. BUSBY. Well, they got twice that amount. They got $22,000,000.

Mr. WAKEFIELD. No; they got stock in the holding company.

Mr. BUSBY. In the holding corporation?

Mr. WAKEFIELD. Yes.

Mr. BUSBY. I see why you fellows are good bankers. Now, you say those banks out there can not make money where they are operating as individual banks?

Mr. WAKEFIELD. It is becoming more difficult for them under present conditions.

Mr. BUSBY. Why can't they?

Mr. WAKEFIELD. Well, there is a point—in order to operate a bank you have to have a capital structure which is set by law; how much that shall be. You have to have vaults, a place to do business, and have to have a group of officers.

Mr. BUSBY. Yes; I know that.

Mr. WAKEFIELD. And you have to pay taxes on that capitalization. Unless that bank is at a point where the deposits are particularly large so that they can earn all those costs and a return on the investment and a sufficient margin to cover losses, they can not operate successfully.

Mr. BUSBY. Well, a bank with $500,000 in deposits is not an unusual bank, is it?

Mr. WAKEFIELD. If you were here all the time, you heard me tell about a lot that were very much less.

Mr. BUSBY. In my section, banks with $25,000 and $50,000 capital frequently have $750,000 in deposits.

Mr. WAKEFIELD. That is not true in our section.

Mr. BUSBY. That is not so?

Mr. WAKEFIELD. No.

Mr. BUSBY. And yet there is all that money described by the gentleman who represented the Northwest Bancorporation as being in the country and lying out in hidden places, available for them if they have a bank in which people have confidence.

Mr. WAKEFIELD. That is what we are trying to do, get that money.

Mr. BUSBY. Don't you think that the bank failures in that section of the country are due to the deflation in land and agricultural commodity values?

Mr. WAKEFIELD. That has been an important factor, but it has been accompanied by a change in conditions and a change in banking trend that has taken place.

Mr. BUSBY. A few days ago I checked over the report of the comptroller—Mr. Pole—and I found that in nine of the States lying in the Central Northwest section, comprising about 14⅓ per cent of the population, you had 56.2 per cent of the bank failures of the country, or 56⅕ per cent of the 4,925 banks that failed between 1921 and 1929.

Do you know, as a resident of that section, that the securities taken by the banks—such as lands, livestock, wheat, and other agricultural products—have practically ceased to be a safe form of security or collateral to offer for loans?

Mr. WAKEFIELD. No, sir; that form of securities and the deflation of the agricultural situation was an important factor in closing banks. There is no question about that. But this type of security is taken and being taken to-day in a manner perfectly sound and safe, and is the best security you can get on earth.

Mr. BUSBY. If your banking system had gone into this same field in 1921 and remained there through this inflated period, don't you think it would have been seriously crippled, even though it had the judgment of men behind it that your corporation has behind it?

Mr. WAKEFIELD. No, sir; I do not. I know of any number of instances where men ran banks in that territory side by side with others that failed.

Mr. BUSBY. What would have been your policy toward making loans—what do you think would have saved those banks?

Mr. WAKEFIELD. An intelligent basis of credit.

Mr. BUSBY. You would have refused credit to some that the other banks extended credit to?

Mr. WAKEFIELD. I think I would not have made loans the same way.

Mr. BUSBY. Mr. Young, Governor of the Federal reserve system, stated that if many of those banks had applied for membership in the Federal reserve system in 1917 and 1918, that he estimated as many as 2,500 banks that later failed would have been taken into the Federal reserve system on what they understood about them and about judging bank's assets at that time.

Mr. WAKEFIELD. I do not think that——

Mr. BUSBY. You have understood better than that?

Mr. WAKEFIELD. I think that is probably true; but remember, the basis upon which a bank might become a member of the Federal reserve system at the time he described was on the condition of the assets as of that time.

Mr. BUSBY. Do you not think that, with all of the bank crashes and the financial upheavals that have come about in the last few years, including the recent stock-market crash, you are exceedingly opportune in coming forward with your group-banking system at this time; so much so that you can put it over better now than at any time prior to this, and you will be better able to put it over now

than when things have gotten back to a normal basis? Do you not think that is the situation?

Mr. WAKEFIELD. That is partly true; yes. There is no question but what there is a change in sentiment based upon this fact, that the thing that the public wants in our territory is banking facilities in which they have confidence and which they believe will take care of them in a proper banking way.

Mr. BUSBY. I am going to get through in a little bit. Why is it that your bank can thrive and make money with other banks are failing? After all, that is the thing we are trying to find out.

Mr. WAKEFIELD. I think, as Mr. Decker said—and I would like to repeat—there are two factors involved in that, and one is management.

Mr. BUSBY. You have to have something to manage. What I am talking about is the concrete application of your business principles to instances.

Mr. WAKEFIELD. I know of no occasion in our territory where it has failed.

Mr. BUSBY. What is so different in your case that the other banks can not get hold of?

Mr. WAKEFIELD. Nothing.

Mr. BUSBY. Can you give us a detailed explanation of how you get dividends on the things that they handle but out of which they can not get dividends?

Mr. WAKEFIELD. A large part of the difficulty is based on the ability of the community in which the bank is located to furnish the business to make it a success.

Mr. BUSBY. I agree that if a bank is located in a place where there is no business it can not thrive.

Mr. WAKEFIELD. Yes; and you must remember that there has been a great shift in business.

Mr. BUSBY. How much dividends does your holding corporation pay?

Mr. WAKEFIELD. One dollar per share.

Mr. BUSBY. Is that dollar rate a fixed amount?

Mr. WAKEFIELD. It is always determined by the board of directors, based upon the earnings of the bank.

Mr. BUSBY. Are all your dividends declared through your holding corporation?

Mr. WAKEFIELD. Yes, sir. The banks individually declare the dividends, and they declare that dividend to its stockholder, which is the First Bank Stock Corporation. It is from the receipt of those dividends that the corporation pays its dividends.

Mr. BUSBY. What becomes of the remainder of the dividends from those banks?

Mr. WAKEFIELD. It is put into the reserve of the banks.

Mr. BUSBY. Your system has not existed long enough to build up satisfactory reserves in these group banks in every instance?

Mr. WAKEFIELD. No; some banks have not been permitted to pay any dividends. They have held all earnings in order to build it up.

Mr. BUSBY. They get a dividend on the holding-company stock, just as the more prosperous banks get?

Mr. WAKEFIELD. The stockholders do.

Mr. BUSBY. What is the best dividend that could be paid if all earnings were declared and none were passed to surplus?

Mr. WAKEFIELD. That would always be a fluctuating amount. Based upon the experience of the last year—that is, giving credit to each individual unit for its earnings for the year—the total earnings of the group were $7,300,000, approximately, and the payment in dividends was $3,000,000—equivalent to $2.41 a share as the average gross earnings of the institution.

Mr. BUSBY. If you run along for a few years, and have the same success you have had, you will be able to increase your dividend payments on your holding company stock quite materially, will you not?

Mr. WAKEFIELD. We should be able to do that if we can maintain those earnings.

Mr. BUSBY. I notice that quite a number of you gentlemen who are directors in the holding corporation are directors in the subsidiaries of that organization.

Mr. WAKEFIELD. Not bank subsidiaries.

Mr. BUSBY. I mean your trust companies.

Mr. WAKEFIELD. We have a trust company operated in Minneapolis.

Mr. BUSBY. I notice some of them are presidents of railroads and directors.

Mr. WAKEFIELD. That is true.

Mr. BUSBY. Now, is it not a fact that your financing corporation will be more lenient toward an application for financing from some of its subsidiaries, than from outsiders?

Mr. WAKEFIELD. What do you mean——

Mr. BUSBY. For instance, if a railroad wants to borrow money——

Mr. WAKEFIELD. I wish we could make some of those railroads apply to us. They do not do it.

Mr. BUSBY. Where do they put their bonds or stocks?

Mr. WAKEFIELD. In New York and Chicago.

Mr. BUSBY. You fellows are too careful, I imagine, for them.

Mr. WAKEFIELD. We would like to get it, but those are old associations, and we can not get them.

Mr. BUSBY. A man who wants credit looks out for himself—that is what you stated, is it not?

Mr. WAKEFIELD. I said he usually gets credit according to the justification for his receiving credit.

Mr. BUSBY. Do you not think credit is very uncertain as to whom it will favor?

Mr. WAKEFIELD. It is my experience that credit favors the fellow——

Mr. BUSBY. Have you not heard the proverbial expression that a fellow takes his hat in his hand and goes out to borrow money to meet his obligations?

We saw a man going through here the other day from an Oklahoma bank to New York hunting finances, and I think we find men doing that all the time, trying to get money, where they have plenty of assets.

Mr. WAKEFIELD. They always get it, do they not?

Mr. BUSBY. Well, I have not seen them all, but I do not think so. Do you have any suggestions in regard to the thought that credit is inclined to come together and form a monopoly?

Mr. WAKEFIELD. It is my honest opinion that credit is the last thing in the world that any one in the world will get a monopoly on.

Mr. BUSBY. The New York Times, a few days ago, published a list of 12 banks in the world, 5 in the United States and 3 in New York, that had combined assets of more than $20,000,000,000, which is a fourth more than all the gold and silver in the world. Do you call it credit combining, where banks——

Mr. WAKEFIELD. Why, the Chase National Bank, of New York, has total assets to-day amounting to twice the total resources of our entire Federal reserve district.

Mr. BUSBY. I understand it is about $3,000,000,000.

Mr. WAKEFIELD. But that is not a monopoly of credit, although it furnishes very acute competition.

Mr. BUSBY. Bringing all of the banks that are embraced in this Chase National Bank together, in forming that gigantic merger—is not that a combination of credit?

Mr. WAKEFIELD. Well, yes; it is.

Mr. BUSBY. If you get enough combinations like that together, so that you would have a combination representing thirty-five or forty billion dollars of banking credit, would you not be approaching a monopoly?

Mr. WAKEFIELD. Yes; if you could do that, but it would not exist for more than about two weeks.

Mr. BUSBY. Is there any law preventing that?

Mr. WAKEFIELD. I do not know that there is.

Mr. BUSBY. Do you not think there ought to be a law to prevent that?

Mr. WAKEFIELD. No.

Mr. BUSBY. Do you not think if they continued to bring in the biggest banks and then bring together still bigger banks, that it will become dangerous?

Mr. WAKEFIELD. They will have an unending job on their hands.

Mr. BUSBY. Do you not think there is a limit to the credit to be issued in a country where the total assets of the country are limited to $300,000,000,000?

Mr. WAKEFIELD. I do not think there is a way to do that.

Mr. BUSBY. Do you think there could be any more credit possible than would bear a proper relation to the assets of the country?

Mr. WAKEFIELD. I do not think there is any way in which anyone can ever go to work and put a ring around the credit of this country.

Mr. BUSBY. Do you know anything of the rumors in the banking world to the effect that certain South American countries came to big New York banks negotiating loans and had to pay individuals, who spoke for those countries, securing the loans, millions in commissions in order to get a hearing at the hands of the bankers?

Mr. WAKEFIELD. I know that there are in New York various groups that are constantly in keen competition for financing of that type.

Mr. BUSBY. That is not my question at all.

Mr. WAKEFIELD. Well, I do not know. I never heard of it.

Mr. BUSBY. Do you not know that it is rumored that one of the South American countries came to New York and borrowed $40,000,-

000 and a certain gentleman who negotiated that loan, kept $12,000,000 of it that the South American country never did get and never will get, for commmissions for handling the big loan of the South American country?

Mr. WAKEFIELD. I have been in the bond business and business relating to it a great many years, and it sounds almost impossible.

Mr. BUSBY. You never heard of it?

Mr. WAKEFIELD. No, sir.

Mr. BUSBY. Do you not think that if these trust subsidiaries were taken away from your holding company, that one of its chief sources of income would be cut off?

Mr. WAKEFIELD. No.

Mr. BUSBY. You heard Mr. Decker tell about making $2,800,000 by a stock manipulation within his own Northwest Bancorporation—selling it to an underwriting syndicate and then proposing to buy it back at about $3,000,000 less than they sold it for, because he said he put over a good piece of merchandising?

Mr. WAKEFIELD. That was a perfectly proper and regular business transaction.

Mr. BUSBY. Do you think banks should be tied up with an organization that puts that over?

Mr. WAKEFIELD. There were no banks connected with it. The underwriters of that stock agreed to underwrite 150,000 shares. They agreed to underwrite 150,000 shares of that stock, which was offered to the stockholders at $72 a share, and, on the proportion of that stock which they were obliged to take and pay for, they were supposed to get at $70. That was $2 a share commission for assuming the responsibility of underwriting.

Mr. BUSBY. Assuming the responsibility is what I am getting at.

Mr. WAKEFIELD. They assumed that responsibility and those underwriters lost the difference between $54 and $70 a share, which they paid for it. But the corporation itself had no thought except the thought of selling its capital stock.

Mr. BUSBY. Under former banking practices and the purposes of banking, that kind of transaction was entirely outlawed, was it not?

Mr. WAKEFIELD. Never. It was never—there was never a time when it was not perfectly legitimate for banks, or anyone else. If our bank wanted to increase its capital stock, there would not be anything wrong with it, or unusual.

Mr. BUSBY. Do you not feel that that type of business is undesirable?

Mr. WAKEFIELD. Not that type; that type is all right.

Mr. WINGO. I am not sure about this and possibly those who read the record may not be sure. As I understand, these underwriters, while, in this particular case they suffered a loss, if their judgment had been sustained, they would have made a profit?

Mr. WAKEFIELD. Yes; of $2 a share.

Mr. WINGO. In other words, their faith in the future price of that stock proved to be unfounded?

Mr. WAKEFIELD. That always happens in the underwriting business. You can not guess right always.

Mr. WINGO. This was a customary underwriting transaction?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. I want to ask you what those same underwriting organizations do with that stock in placing it on the market?

Mr. WAKEFIELD. In this case they sold it and took their loss.

Mr. BUSBY. What was their purpose to do with it?

Mr. WAKEFIELD. The purpose was to sell it and make the difference in the price at which it was bought and the price at which it was sold.

Mr. BUSBY. Was it listed on the Chicago and New York exchanges?

Mr. WAKEFIELD. Yes, sir; it was.

Mr. BUSBY. And the people did not take it?

Mr. WAKEFIELD. No, sir; because the market went off.

Mr. BUSBY. What do you think about the idea ultimately, through the World Bank for International Settlements, of there growing up a superfinancial organization that will not only control credits in foreign countries, but in America?

Mr. WINGO. You are going to infringe on Mr. McFadden's copyright.

Mr. WAKEFIELD. That is beyond my——

Mr. BUSBY. What is your idea of the original reparation bonds, to the amount of $300,000,000 that are to be taken over by the Bank of International Settlements, being placed on the market of this country through the New York banks, and subscribed by the American people?

Mr. WAKEFIELD. I am not well enough informed as to the set-up and what is going to be offered, to make any expression.

Mr. BUSBY. What do you think of the Federal reserve banks buying Government bonds and bankers bills in sufficient quantity to force credit, unasked for, into the banking field of more than half a billion dollars, within the last 30 days? Do you think that is a thing to be desired now, when money is easy and no one wants money?

Mr. WAKEFIELD. I am not familiar with just what the Federal reserve has done, but I am a great believer in the Federal reserve system.

Mr. BUSBY. So am I; but do you think we need a great amount of credit thrown on the market when money on call is around 2 and 2½ per cent; when it is so easy nobody cares for it, and the Federal reserve forces it on the banking institutions of the country and in competition with them for the business that is available in these depressed times?

Mr. WAKEFIELD. I do not know. It may be entirely justified. If that would act as a means of stimulating business, it may be very desirable. You are getting out beyond my depth.

Mr. BUSBY. I am afraid I am not. I am afraid I am getting out beyond where you want to go. Do you not think it would be a very helpful factor in the disposition of $300,000,000 of German reparation bonds, if there was a lot of easy money when they arrived here?

Mr. WAKEFIELD. Yes; I presume so. I do not think that we in this country can completely disassociate ourselves with world conditions any more.

Mr. BUSBY. I understand. This is a sort of winding up swing. We have been talking about everything else, and I thought we might as well take a crack at that.

Mr. FORT. I have just a few questions I should like to ask you in connection with matters that have been brought up since I questioned you.

In regard to the question of the propriety of your institution, the First Bank Stock Corporation, borrowing, it might happen in some stage of the game when banking conditions were particularly disturbed that you might have to borrow on your assets through your inability to sell further amounts of your own stock in order to get cash to protect some bank?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. Banks are permitted to borrow on collateral, are they not?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. There is no distinction between what you can do and a bank can do, under the law?

Mr. WAKEFIELD. That is true. The question was whether we should borrow to buy stocks on margin.

Mr. FORT. Banks borrow to protect their investments by loans and other methods at times?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. And they borrow from the Federal reserve bank very frequently?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. Your purpose being to purchase bank stocks, you may be justified in some instances in borrowing to make that purchase?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. In some of these groups I see a reference to the percentage of total outstanding stock owned by the corporation, which runs, in some cases, up to 100 per cent?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. That is impossible if your directors own qualifying shares?

Mr. WAKEFIELD. We included the qualifying shares as originally being in our possession.

Mr. FORT. In connection with Mr. Goldsborough's questioning today, I have looked back to your testimony of yesterday when I was questioning you on the power of your corporation to regain from any director the stock you sold to him. You did not use exactly the same language yesterday, namely, that it was a gentleman's agreement. You said that you had tried, with the best lawyers you could get, to tie it up.

Mr. WAKEFIELD. But found it was impossible from a legal viewpoint. You will find that in there somewhere.

Mr. FORT. You may have meant that, but that is not what you said.

Mr. WAKEFIELD. I said it somewhere.

Mr. FORT. Not in the questions I asked you. I have the record here and the question and answer you made are as follows: I will read your answer.

They are required to buy; a man is required to buy the number of shares to qualify as a director, which he owns outright.

Then I asked you:

He buys them through you?
Mr. WAKEFIELD. Yes.
Mr. FORT. You would have to keep some string on them so that he can not resell them if he is out as a director, would you not?
Mr. WAKEFIELD. We try to.
Mr. FORT. I suppose you are advised as to whether that is strictly legal?
Mr. WAKEFIELD. Well, we have used good attorneys, I think.

Mr. WAKEFIELD. Then, read on further.

Mr. FORT. That is all.

Mr. WAKEFIELD. There is another place where I said something about that.

Mr. FORT. I did not happen to be in the room when that remark was made. I thought you should have a chance to amplify on that if it is not exactly what you intended to say.

In your group, do you interchange information as between the banks for the passing of credit lines between individual borrowers?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. That is for the purpose of checking up the borrower's own statement?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. Do you fix the total credit line for the entire group?

Mr. WAKEFIELD. In the purchase of commercial paper we do.

Mr. FORT. I think we talked yesterday concerning individual borrowers who might want to borrow from local bank A and local bank B both. Assuming they were both members of the First Bank Stock Corporation, would the First Bank Stock Corporation fix the total credit line which might be extended to an individual by all the banks in its group?

Mr. WAKEFIELD. I think we would. That has not come up, but, I think, we should pass on what we will loan to different borrowers through our banks.

Mr. FORT. There was one question I asked Mr. Decker, but I find I did not ask you.

What is your judgment as to the desirability of uniformity of banking code, State and National?

Mr. WAKEFIELD. I think it would be beneficial.

Mr. FORT. And that code should adhere to the stricter form of banking regulations, rather than the more lax?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. And we would be justified, in your opinion, in such steps as we might take to endeavor to bring the entire banking system of the country up to the highest possible standard of sound banking?

Mr. WAKEFIELD. Yes. I would not want to say, offhand, that the strictest form would be the better form, if that form would appear unreasonable. If it was along national banking lines——

Mr. FORT. One further question in reference to your cross-examination on the basis of your organization's exchange of stock: It would be absolutely true, would it not, if you took simply the asset value—that is, capital, surplus, and undivided profits, divided by the total number of shares outstanding in each bank, and use that as the basis of your stock exchange, you would be putting too high a price in some cases, and too low a price in others, because of the total disregard of the intangible, such as good will?

Mr. WAKEFIELD. That is true.

Mr. FORT. So, it is not water to include the good-will item, but it is necessary in order to preserve an equitable adjustment of value as between different banks?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. Suppose your First Bank Stock Corporation was organized on a nopar stock basis, the same purpose would be reached by simply fixing the taking over of the other banks on the basis of so many shares of nopar stock?

Mr. WAKEFIELD. That is true.

Mr. FORT. That is a modern method of capitalization in a great many instances, is it not?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. I want to remind you, apropos of my cross-examination, that you are making the statements and all you are getting from the witness is "yes" or "no." When you put words in his mouth he can answer "yes" or "no." But when I asked some questions that required him to use the words he could not answer for me.

Mr. FORT. Well, you might call me the counsel for the defense. [Laughter.]

On the distinction Mr. Wingo was asking you about between chain and group banking, it has seemed to me that the word "chain" implies interlocking links and that that means ownership by one bank itself of another bank, or ownership where the stock is locked in loans in one bank to own another bank, rather than any system of ownership where either an individual or a group of individuals or a corporation, as in your case, owns the stock, which we would call group banking.

Is that the distinction you have in mind?

Mr. WAKEFIELD. That is the old common conception of group banking, but I think there are some people who control banks along slightly different lines that we call group banks.

Mr. FORT. Namely, when the stock is owned by one bank in another bank, or stock is owned by a group of individuals in more than one bank, they borrowing from one to buy the other.

In your judgment is that type of chain banking either sound or defensible?

Mr. WAKEFIELD. I think it is very undesirable.

Mr. FORT. That is my own idea.

Mr. FENN. The committee will stand adjourned until next Tuesday.

(Whereupon, at 4.25 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m., Tuesday, April 22, 1930.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

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

APRIL 23, 24, AND 25, 1930

VOLUME 2

Part 9

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1930

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EXHIBIT A

THE DEMAND FOR PROFESSIONAL BANK MANAGEMENT

Address by J. W. Pole, Comptroller of the Currency, before The Ohio Bankers Association at Columbus, Ohio, February 12, 1929

The last two decades have witnessed a remarkable development in the volume and in the variety of the banking business. Demands for financial services unheard of by the last generation are now required to be met by banking institutions. The old simple form of banking in which the banker relied almost entirely upon his personal knowledge of his customers is no longer adequate to meet the present day situation.

We need only refer to the history of banking in the State of Ohio for an illustration. In the year ending June 30, 1908, there were 990 banks of all classes in operation in this State. These had total aggregate resources of about $952,000,000. Twenty years later, for the year ending June 30, 1928, there were 1,051 banks of all classes but with aggregate resources of $3,377,000,000. Thus while the number of banks in the State of Ohio has remained almost stationary the banking resources are nearly four times as great. This means that the officers of these banks have had nearly four times as much business thrust upon them as they had 20 years ago. Nor do these figures for resources tell the whole story because they do not take into account the tremendous growth of the trust business now in the hands of these banks nor of the investment securities which they buy for sale over their counters The State of Ohio may be taken as an index of the development of banking throughout the United States, for here are represented every type of banking from those banks situated in the outlying agricultural districts to those in the most congested commercial and indusrial centers.

Twenty years is an extremely short time in the history of a State or a nation. The remarkable increase in growth of the banking business within that time can be taken as an indication of the trend toward a future growth in even greater volume. Another 20 years should see the banking resources of this State exceed $12,000,000,000. It takes no gift of prophecy to make this prediction. We are still a very young country and the full force of our economic vitality has yet to be developed. Our population will greatly increase, our cities become larger and larger and our rural population denser than it is to-day. There will be further expansions and intensifications of industrial activity. Our world commerce, already at imposing figures to-day, must be regarded as almost in its infancy. The very economic necessity of the situation will bring agriculture up to a higher point of efficiency. And any statement as to the future of transportation and communication must seem extravagant beginning as we are with transportation by air at great speed over vast distances and communication through the air by radio.

All of these developments will be reflected in the expansion of banking resources for our banks are the handmaids of progress, supporting, sustaining, and serving in an essential capacity every forward economic movement.

There was a time in this country when almost any person of average intelligence could aspire to become a banker without any special previous training. It may be said that it was the original theory of the law that any group of citizens had a right to form a banking corporation. The old-fashioned banker was primarily a custodian and a lender of money. If he possessed a natural shrewdness of mind and a strong character he was likely to succeed. In the local community he was the dominant financial figure. He had opportunities

to make money outside of his banking business. He became financially interested in the local street car company, in the light and power company, in the gas works, in the ice plant and in other such enterprises in which local capital participated. These opportunities are also fast disappearing not only because modern banking requires all of the energy and attention of the banker but also because these local forms of public utilities are fast giving way before the economy and efficiency of great central organizations operating through local branches and there is no local financing. Some banks of this old type still remain in existence but they must be regarded now as survivals of a financial era which has passed.

Modern banking is a highly complicated and technical business, and it is exemplified primarily by the city banks which have been compelled to meet the varied financial demands of commerce and industry. It is in these commercial centers that the competition in all lines of business is so keen as to compel the utmost economy in operation and the most efficient management control. Out of the experience of these city banks there has developed in the United States a fairly definite opinion in financial circles as to what constitutes sound banking. This standard of bank management has not been theoretically arrived at by any manner of means. It has grown up through hard knocks until finally the best method has been found to meet a given situation.

Let us pass briefly in review some of the principal features of modern banking. First let us take the loans and discounts. The old-fashioned character loans have almost disappeared. This does not mean that character is not a valuable asset in the transaction. It simply means we are no longer in the pioneer stage of our civilization. We have reached a stable development where the instrumentalities of credit are ample. Great emphasis now is laid upon adequate credit information and analysis. Nothing is left to chance, guesswork or favoritism. This credit information is often obtained as a result of the most skillful scientific investigation, involving the study of plants, machinery, cost accounting, estimates of future operations, financial history, personal reports on management, personnel and the like. The bank must be in a position not only to acquire but to comprehend and digest the most technical information and data concerning its customers. In this country where every variety of business operation is carried on by corporations, the bank must be generally familiar with corporate organization and management in the field of production, manufacture, transportation, and distribution, for the simple reason that it is to the banks that these corporations must turn for advice and assistance in financing their operations. Commercial banking therefore requires a fundamental knowledge of every process of commerce itself.

Now let us look at the business of buying and selling investment securities by banks. This is largely a postwar development. It is well known that the Liberty loan campaigns during the war served to educate the public at large in making small investments in sound securities. The tremendous commercial expansion in this country following the war has been financed in increasing volume through the issuance of investment securities in which the general public is invited to invest. It is natural that the banks should participate in this development because their customers turn to them for advice.

The amendment in the McFadden Bank Act of 1927 has added impetus to the movement to make the banks distributors of the best type of investment securities. This means that the modern bank must be equipped with the proper instrumentalities to deal with this new financial development. It imposes a grave responsibility upon the banks which in turn requires them to create the facilities for a comprehensive and accurate knowledge of the various issues of securities which from time to time come upon the market. Not only must they have adequate financial and statistical information with respect to each issues but they must be in a position to interpret this information and to apply it to the particular transaction in hand.

Turning now to the fiduciary operations of the modern bank we find a similar growth and development. Within our own time we have seen the banks gradually displace the old type of individual and personal trustee, executor, administrator, guardian, and custodian. It has become a function of banking to administer the estates of deceased persons, many of which are of great magnitude. In addition, largely as a postwar development, there has been a most remarkable growth in the creation of corporate trusts. For every issue of securities for corporate financing, whether in the form of stocks, bonds, debentures or notes, a bank is required to perform some ministerial or fiduciary function. The bank has thus become an essential factor in the procedure of cor-

porate finance and must act as trustee of bond and debenture issues and of long-term notes, as fiscal agent, as registrar, as transfer agent, as a participant in underwriting syndicates, as depositary under plans of reorganization, as assignee and receiver, as custodian or trustee for investment trusts—in fact in every fiduciary capacity which may be required by the machinery of corporation finance.

The future of the trust business of banks in the United States would seem to make it one of the most important phases of banking business. On the other hand its proper administration makes it absolutely necessary that the bank equip itself with the most advanced facilities for discharging these fiduciary responsibilities and obligations.

The impressive growth of trust service in the banking field is illustrated by considering the expansion in recent years of the fiduciary activities of banks in the national banking system. The passage of the Federal reserve act made possible the further extension of corporate trust facilities to practically every section of the Nation. Since February 25, 1915, when the first permit under this law was issued to a national bank, hundreds of banks throughout the United States have availed themselves of this opportunity to render additional service to their communities, until to-day 2,400 national banks have trust powers, representing 31 per cent of the number and 73 per cent of the capital of all banks in the national banking system. During 1928 these banks were administering 63,776 trusts, with individual trust assets aggregating more than $3,000,000,000 and were acting as trustees for bond and note issues totaling close to $8,000,000,000.

Compared with the year 1926, these figures represent an increase of 47 per cent in the number of national banks administering trusts; an increase of 145 per cent in the number of trusts being administered; an increase of 257 per cent in the volume of assets of individual trusts, while the bond and note issues outstanding for which these banks are acting as trustees aggregate in amount four times that in 1926.

About one out of every three national banks has authority to administer trusts, while in the State of Ohio 21 per cent of the number of national banks, representing 65 per cent of all of the capital of the national banks in the State are authorized to act in fiduciary capacities. Since 1926 the number of trusts being administered by these banks in Ohio has increased 52 per cent, while the volume of note and bond issues for which they have been named to act as trustees has doubled.

There is another phase of banking which has made remarkable strides within the last few years and that is the savings department. The great increase in individual wealth affecting every class of our population has put before the banks of the country a potential opportunity to build up a large savings business. Here again the bank must know how to cultivate habits of thrift in its community and to carry on extensively an intelligent campaign for savings deposits. That this is being done is evidenced by the remarkable increase in the aggregate total in the savings deposits in the country year by year. Taking the national banks alone, here in the State of Ohio these deposits have grown from $20,700,000 in 1908 to $269,000,000 in 1928, being an increase of over tenfold. There was an even greater increase in the State banks, although I have not the exact figures. For the country at large the ratio of increase is about the same as for the State of Ohio.

This brings me back to the subject of this address and that is that banking in the future will be in the hands of professional management. (I am using this term as opposed to amateur management.) This applies to banks of all classes, whether city or small town because banking in its essence is the same whether the population served be large or small. The very nature of our economic life which expresses itself through corporate organizations and in mass production will naturally demand of the smaller banks the same standards and type of banking services which have been demonstrated as sound and efficient by the larger city banks.

While the need for a higher training is increasingly demanded for making commercial loans upon the proper credit basis it is in the newer fields of banking—the trust business and the securities business—where technical training and specialized experience are emphatically the essential requirements for success. It is in these two fields that there is likely to be the greatest future expansion in banking and those banks will maintain the largest growth which equip themselves technically to meet this opportunity.

It would be worse than useless for a bank to embark upon them with an amateur management.

In general it must be said that old-fashioned business practices in banking must give way to scientific methods in the acquisition and the formulation of information, and in the application of the banking policies based thereon, by men who have acquired what might be called a professional knowledge of banking—a technical equipment to deal with method and policy.

I have in this address attempted to point out a practical condition which is facing the banking business to which remedial measures must be applied. I have also suggested the type of management personnel that will be necessary whatever form the remedy may take but I have not attempted to go further than that.

I may, however, say in closing that the large number of bank failures outside of the metropolitan centers during the past few years is an indication there are more banks than bankers. The scarcity of trained executives—that is to say, executives with that degree of managerial ability required by modern conditions—may be one of the underlying reasons for the rapid spread of branch banking and group or chain banking ideas among bankers and business men in this country. As the business of banking is growing at a more rapid pace than executives are being developed to operate each unit bank as a separate institution, it would seem to be an almost natural and logical outcome that this scarcity of talent will lead to a more centralized form of banking control.

Exhibit B

BANKING AND THE NEW FINANCIAL ERA

(Address by John W. Pole, Comptroller of the Currency, before the Maryland Bankers' Association at Atlantic City, N. J., May 23, 1929)

I. The Need For a National Banking System.

There are two fundamental reasons why a system of national banks is essential to the public welfare. First, commerce between the States is vested with a national interest and in order that it may be financed in an orderly manner it is necessary that there be a uniform system of commercial banking with a common standard under the direction and supervision of the Federal Government. Second, and more important than the first, it is necessary for the Government of the United States to possess a governmental instrumentality of finance in the form of a system of national banks in order that it may through them in times of stress be able to enforce a national financial policy. Our own financial history has conclusively demonstrated that the Federal Government can not rely upon the voluntary cooperation of the State banks and trust companies for the execution of a national policy. It may be instructive to pass some of this history briefly in review.

At the very beginning of our national life the woeful failure of the Continental Congress to finance the War of the Revolution was due in no small part to the lack of an instrumentality in the form of a national bank. The first bank of the United States was an outgrowth of this experience.

The First Bank of the United States was opened at Philadelphia, December 12, 1791, and its charter limited to 20 years. It later established branches at Boston, New York, Baltimore, Washington, Norfolk, Charleston, Savannah, and New Orleans and served as an instrumentality of the Federal Government. Through it loans were made to the Government in anticipation of taxes; it acted as custodian of Government funds; in the collection of the revenues; in the transmission of public moneys; and otherwise strengthened and improved the public credit.

As early as 1808 it was recommended to Congress that the charter be renewed. Later, as it became increasingly evident that war was imminent with Great Britain, Gallatin, then Secretary of the Treasury, urged upon Congress the necessity of the renewal of the charter in order to safeguard the interests of the Government. Strong opposition developed to the renewal of the charter, and in 1811 the bill for renewal was finally lost. The Government thus entered the war the following year without any banking instrumentality under its control.

There were in 1811, 88 local State chartered banks, with a combined capital of nearly $43,000,000. The failure to charter the Bank of the United States, or set up some similar Federal instrumentality in its place, caused enormous losses to the Government during the war period of 1812 to 1816 in the flotation of its loans. The Government was not able to secure the cooperation of any of the State banks. The Treasury received only $34,000,000 in specie for $80,000,000 of Government obligations put out. In other words we paid about 135 per cent for the money to finance the war, and the State banks profited at the expense of the public.

In 1816, as a result of this bitter lesson, Congress chartered the Second Bank of the United States. With the veto of the recharter bill for the Second Bank of the United States on July 10, 1832, by President Jackson, the Government was again deprived of a fiscal instrumentality. In 1841 a bill passed both Houses of Congress for the incorporation of a new Bank of the United States, but was vetoed by President Tyler. During the 30-year period preceding the Civil War the Federal Government operated without any fiscal instrumentality other than the Independent Treasury system.

At the outbreak of the Civil War in 1861 Secretary Chase foresaw the need for a national banking system to support the public credit. At this time there were more than 1,600 State banks in the country. No action was had in that year by Congress and in 1862 Chase again presented his plan in detail for a system of national banks and urged its adoption. After the outbreak of the war the circulating currency of the State banks rapidly increased with the result of great depreciation in value and loss of public confidence. In the following year (1863) the national bank act was passed but only a handful of new banks were incorporated that year.

In 1864 the national bank act was reenacted whereby many of its provisions were improved and the State banks were by a special amendment invited to become national banks.

The act still remained ineffective. Secretary Fessenden thereupon made a recommendation to Congress that the opposition of the State banks to the new national system be removed by the enactment of discriminatory legislation and Congress by the act of March 3, 1865, used the taxing power to compel the State banks to nationalize. The Civil War was over before the national banking system got under way.

Under the Federal reserve act of 1913 as originally enacted national banks were forced to become members of the Federal reserve system, and State banks were permitted to become members, if they so desired. From the period of 1914 to June 21, 1917, only 53 State banks and trust companies joined the Federal reserve system. We had entered the World War in April of that year and it was considered absolutely necessary that the Federal reserve system have the support of all of the banks, State and national. In order to induce the State banks and trust companies to come in, special amendments were made to the Federal reserve act and approved by the President, June 21, 1917. These amendments offered to the State banks more favorable conditions of membership than that held by the national banks. An extensive campaign was inaugurated for State bank membership. Under the stress of war with its liberty loan drives and the great fervor of patriotism, State and Federal officials as well as committees of the American Bankers' Association, publicly and repeatedly urged State banks and trust companies to enter the Federal reserve system as a patriotic duty. On October 13, 1917, the President of the United States issued a proclamation calling upon all eligible State banks to join the Federal reserve system as a "solemn obligation." Notwithstanding these circumstances, out of 8,500 State banks and trust companies eligible for membership, only 212 joined the system in 1917 after the amendments were adopted, and only 686 in 1918. The total membership of State banks and trust companies at the close of the war was only 936.

The Federal reserve system could not have been created by Congress out of the State banks and trust companies. Had the national banking system not been in existence the year before the outbreak of the World War, we would in all probability have witnessed another disastrous attempt in war finance.

II. The Plight of the National Banking System.

It is no criticism of the State banks and trust companies to say that the National Government can not rely upon them to serve as its instrumentalities in the enforcement of a Federal fiscal policy. Banking, like other business enterprises, is entered into by stockholders for the purpose of realizing a return upon the investment. It is futile to attempt to impute to such stockholders altruistic or patriotic motives. As between two systems of banks, capital will flow more freely into the one which yields the largest returns in dividends. If the advantage in this respect be fundamental and permanent, the system of banks thus favored will be the one which will survive.

If Congress therefore would protect itself from the loss of its present banking instrumentality, it must make it to the advantage of capital to seek the national rather than a trust company charter. Banking capital is without prejudice or sentiment. It will flow back into the national banks normally and easily with the turn of the tide of advantage. The alternative would seem to be the elimination of the national banks in favor of 48 distinct systems of banks under the supervision of 48 separate banking departments.

Within recent months the trend toward trust company charters by national banks has been alarmingly accentuated. Great consolidations of national banks and trust companies are taking place in which the national charters are being given up. Within the past 6 months, 79 national banks with aggregate resources of two and three-quarter billions have passed over under State

jurisdictions. I shall not attempt here to analyze the cause of these defections, but it is quite evident that it is being found more advantageous to carry on the business of banking under trust company charters.

However, it is within the power of Congress to turn the advantage in favor of the national banks and thereby make it to the interest of all banks to operate under the national charter. What form this action should take requires the most careful consideration. I shall, in the course of my remarks, suggest a method of approach to an adequate remedy.

III. Banking Faces New Economic Conditions.

The inauguration of the Federal reserve system in 1914 and the outbreak of the World War in that same year definitely marked the close of a financial era in the United States. The line of cleavage between the pre-war and the postwar periods is so clear that the student of finance has no difficulty in setting off the one against the other. Our economic development within the past 15 years has been so rapid and so varied that it seems as though we had lived in that short period through several generations. The mere mention of some of the outstanding factors in this development will be sufficient to bring to your minds the new conditions under which we now live. Not the least of these is the modern automobile upon the automobile road. These have abolished distances between local communities and have revolutionized the social life of the country districts. Transportation by air is now a practical fact and it would tax the imagination to conceive how it will accelerate the ease of transportation begun by the automobile. The extension of communication by telephone and now by radio to every rural community has brought into a common knowledge and contact every phase of our national life. The need for mass production of goods and commodities has caused greater centralization to corporate management in industrial enterprises with the result of greater efficiency and economy in operation and with cheaper and better output for the consumer. We have achieved an outstanding position in world finance and are rapidly developing the instrumentalities to discharge that serious responsibility. We are now in a period of great national prosperity and growth in which the public at large is participating to a degree hitherto unknown.

IV. The Unit System of Banking.

The system of banking which developed in the United States under the State banking laws and later under the national bank act of 1863 has come to be known as unit banking. The term unit banking is of recent origin and is used in contrast to the development of branch banking and group banking within the last few years.

A unit bank may be defined as a banking corporation having its origin in a definite local community and confining its banking activities primarily to that community. Its original organization was a local enterprise of considerable significance and local public interest. Its board of directors, officers and employees are residents of the local city, town or village. On the average the capital stock is relatively small. Of the 7,575 national banks in operation on March 27, 1929, 7,193 or 95 per cent had an average capital of $107,000, which includes all banks outside of central reserve and reserve cities; while the remaining 5 per cent or 382 banks in the central reserve and reserve cities had about 57 per cent of the total resources.

The business of a unit bank is derived from the community in which the bank is situated. This includes such business as may be afforded by the commercial activities of the city, town or village and by the outlying farming communities. The president of the unit bank is ordinarily a prominent local citizen and under the old economic regime he had an opportunity to become interested in local industrial enterprises and local public utilities.

Under the system of horse transportation for the rural communities—a system which ended with the close of the pioneer life of America—the unit bank was in a much stronger position than it is to-day. Apart from the question of their great contribution to the up-building of local communities, they were profitable as operating corporate units for the reason that they were normally integrated with the local economic situation. The president of such a bank was a personage in the community and the bank fostered and financed local business enterprises. The banker was a factor in the local street car company, the local telephone company, the local gas plant, the local power plant and the like. If I were asked to pick out a single type of institution which has con-

tributed the most to local community independence and thereby to the foundation of our national development, I should choose the unit bank. It is the most representative of the genius of the American people.

Looking, however, at the unit bank from the viewpoint of present day economic and social conditions, the question is being raised whether the unit bank can survive. The unit bank like many other types of local enterprise, was made possible by the great distance between the local settled communities. Distance has now been abolished and as a consequence of this one factor, the unit bank finds itself face to face with difficulties that seem to be almost insuperable. The old opportunities for the local banker to have a hand in local enterprises has passed away because the local enterprises have become to a large extent merged into larger national operations. Every phase of the public utility business has passed from local control into the hands of great centralized corporations which are able to give better and more efficient service. The financing is not done in the rural communities but in the large cities by the metropolitan banks.

The unit bank being therefore thrown back upon its own resources has to face the rising cost of management with a relative decrease in income. Many of them are now unable to offer to young men entering the banking business either salaries, or the prospects of a career of sufficient attractiveness to obtain the highest type of management personnel.

We can not escape being moved with great concern to observe that at a time of the most unparalleled strengthening of our financial position in domestic affairs and in foreign commerce and in investments, namely, during the last eight years, there have been more than 5,000 failures of unit banks in the United States, with an aggregate total of deposits of $1,500,000,000. These banks were scattered in various sections of the country districts of the United States, in the South, the Mid-West, the Northwest, and the Southwest, with a scattering few on the Pacific coast and the Northeastern States. It is impossible for me to describe the acute local suffering occasioned by the losses of hard-earned savings and by the disruption of local business enterprises. In many of the communities public confidence in the unit banks has been so severely shaken that funds which should find their way into banking channels are being withheld. During this 8-year period there was not a single failure of a large metropolitan bank.

The unit States banks in rural districts as a rule have not found it profitable to become members of the Federal reserve system. Out of about 15,000 State banks and trust companies in the United States, only 1,208 have become members. If it were not compulsory for national banks to become members of the Federal reserve system, considerably more than one-half of them would probably never have become members. The State unit banks outside of the large cities seem to find no place in the Federal reserve system.

V. The Growth of Group Banking.

We have witnessed within the last two years an amazing development in the concentration of control over groups of unit banks. This has come to be called group banking. It is not confined to any one section of the country, but seems to be springing up everywhere. There are literally hundreds of these groups of banks varying in size from half a dozen banks to a hundred or more. The usual form of the group system is for a holding company to acquire the majority of the stock of a number of unit banks and then set up a central management personnel for the purpose of operating the group as nearly as possible as a single system. Organizers of these groups maintain that a combination of unit banks under a single ownership affords greater safety to the public and an improvement in the quality of the banking services.

There appear to be, however, certain inherent weaknesses in a system of group banking. From an operating standpoint it is necessarily unwieldy. Each member of the group is a separate and distinct corporation responsible to its own board of directors. It must operate as a separate corporation under its own capital and resources and under the distinct limitations placed upon its activities by law. The central management can enforce its policies only by indirection, that is to say, by inducing the local boards to accept voluntarily its policies and in case of refusal, to set up at the next annual election a new board through its control over a majority of the stock. It is necessary to carry a full complement of overhead of personnel for each bank.

In other words, as compared with branch banking, group banking from an operating standpoint seems to lack the flexibility and the economy and efficiency

which carries the services of the central bank directly to the public served by each branch. Morally and psychologically the central management of the group system may go to each member of the group with its support, but the funds of the various members of the group can not be shifted about from one bank to another. The corporate set-up, therefore, of a group system is necessarily complicated, whereas under a system of branches, each branch is the bank itself and the full power and resources of the bank is in each place where it does business, whether at the head office or at the branches. Disregarding for the moment the question of public policy, the branch system is, in operation, incomparably simpler than the group system.

VI. Reexamination of Branch Banking Necessary.

Contrary to the opinion of many the McFadden Act of February 25, 1927, was not intended to be a permanent settlement of the branch banking question. It was a compromise measure.

Prior to the passage of this legislation, branch banking had made considerable headway in many sections of the United States. In certain large metropolitan centers like New York City, Detroit, Cleveland, Los Angeles, Boston, and others, branch banking as an extension of services by downtown banks to other parts of the city had demonstrated that the movement was sound and practicable. This latter situation was recognized by Congress in the McFadden Act when national banks were permitted to establish city branches. In some sections of the United States branch banking had been extended by State banks beyond the city limits to the surrounding suburban communities; to the boundary limits of the county or adjoining county; and in several instances to the boundary lines of the State itself. Regarding these outside branches as being in the nature of an experimental operation, Congress desired to create a situation under which this movement could be studied for a few years without permitting it to expand. As a consequence the McFadden Act held all of these branches in statu quo as to number and location, but permitted them to be nationalized. After the approval of the act practically every large branch banking system, with branches on the outside of the city in which the bank was situated, took advantage of this opportunity and became national banks and are now operating under the national banking laws.

In view of the existing situation with reference to unit banking, the growth of group banking, the curtailment of branch banking by Federal statute, and the increasing number of bank mergers under trust company charters, the time appears opportune to reexamine the basic structure of our entire banking system and to formulate a new banking policy to meet present-day conditions.

The national bank act specifically makes it the duty of the Comptroller of the Currency to recommend to Congress "any amendment to the laws relative to banking by which the system may be improved and the security of creditors may be increased." In the present state of the national banking system I feel it to be a serious undertaking to discharge that responsibility. Before proceeding, therefore, to lay before Congress a definite formulation of proposed amendments to the banking laws, I shall, at an early date, call into consultation a group of outstanding bankers and students of finance and shall ask their assistance in the formulation of recommendations to Congress which will offer to State banks and trust companies an opportunity to gain a wider field of banking operations under the national charter.

EXHIBIT C

THE NEED OF A NEW BANKING POLICY

(Address by J. W. Pole, Comptroller of the Currency, before the convention of the American Bankers Association at San Francisco, Calif., October 2, 1929)

I am happy to avail myself of this opportunity to lay before your association and the public, certain considerations which are of great importance to our system of banking. It is fortunate that this can be done at a time of business prosperity when the financial condition of the country is unquestionably sound.

Before I attempt to set forth any conclusions or suggest any remedies I wish to present a few salient facts and statistics which in the main tell their own story. In the course of the development of this country there have been evolved two types of banks; namely, the metropolitan bank which serves a city population and the larger business enterprises, and the country bank which serves the rural communities and the independent business houses in the smaller cities. The metropolitan banks, by virtue of their large capital, their access to a great diversity of banking business and their ability to secure the most highly trained personnel, are in a prosperous condition and reflect (as all banks should) the general strength of industry and commerce.

However, about three-fourths of the banks in the United States are outside of the metropolitan centers and it is these banks which serve the majority of our population. They necessarily have a small investment of capital funds, because there is not enough banking business in their localities to justify a larger capital. More than three-fourths of all national banks are capitalized at less than $200,000. The ratio is even less for the State banks. A study of bank earnings covering the last two or three years, which have been years of general business prosperity, shows that a large percentage of banks outside of the principal cities are operating with insufficient earnings. Taking 1927 as a typical year, 966 national banks operated at a loss, and an additional 2,000 earned less than 5 per cent. In other words about 38 per cent of all national banks earned for the year 1927 less than the yield of a high-grade security. It is well known that the earning capacity of the general run of country national banks is certainly not below that of the State banks similarly situated.

Current statistics for State banks are incomplete for the whole country, but figures are available for the calendar year 1926 which show that about 2,000 State banks operated at a loss. The average earnings of all banks, National and State, in one of our great agricultural States for the years 1924 to 1928, inclusive, were less than 1½ per cent on invested capital. In four other great middle western States comprising both agricultural and industrial activities 2,053 banks, National and State, earned in 1927 less than 6 per cent on invested capital.

BANK FAILURES

The inability of many country banks to earn a fair profit upon invested capital is naturally reflected in the large number of failures which have occurred during the past eight years. From 1921 to 1928, inclusive, about 5,000 banks closed their doors and tied up deposits of more than $1,500,000,000. Of this number, 700 were National banks and 4,300 were State banks. In 4 States from 40 to 53 per cent of all banks in existence in 1920 failed; from 20 to 40 per cent in 6 States; and from 10 to 20 per cent in 10 other States. Only two small Eastern States have had no bank failures within this period. Eighty per cent of these failures occurred in cities with a population of less than three thousand and about 70 per cent of the failed banks were capitalized at $50,000 or less.

I have, upon a previous occasion, discussed the social and economic changes through which the rural communities have passed since the World War, and

I shall not go further into that question at this time than to say that the country bank faces vastly different conditions from those which confronted it in 1913.

I do not wish to be misunderstood as putting all country banks into the same category. There are many country banks that are sound and prosperous because they are in a position to obtain diversification of their business or are managed with unusual skill and conservatism. But surely the failure of between five and six thousand country banks to which the savings of small depositors had been intrusted is a serious indictment against the system of banking in the rural communities of the United States. The burden of these failures has fallen upon those least able to bear it, and they have suffered both as depositors and as stockholders.

The principal remedy which has been tried in the past for bank failures is the Government guaranty of bank deposits. It may be definitely said that this remedy has failed wherever it has been adopted. There are those who have advocated stronger capitalization and more capable management for the country banks. This doctrine has been preached for years without avail, for the simple reason that the local business is not of sufficient volume to justify the larger capital or the employment of a more highly trained management. Many causes have been assigned for bank failures in the country districts, but one primary and fundamental cause covers all of the others; namely, that diversification of business is not generally possible. Without diversification there can be no assurance of success in the long run.

The condition which I have pointed out above is a present condition, for the figures which are available for the year 1929 show that 52 National banks and 403 State banks have failed within the last eight months. If these facts as to earnings and as to bank failures had been presented at the close of eight years of business stagnation and financial depression there might be no cause for concern. But the contrary is the case. The last eight years have witnessed the greatest business activity, commercial expansion, and financial strength the country has ever seen. Does not, therefore, the failure of so many country banks to share proportionately in this increased prosperity clearly indicate that there is a fundamental weakness in our banking system? Is it fair or just, or reasonable, to subject so many of our people to the hazards of continued bank failures? Where is the responsibility for this condition? It is not primarily upon the bankers. The responsibility of the banker is to operate his bank safely and profitably within the limits prescribed by law, but the responsibility for the system of banking under which he operates is upon the Government of the United States in the case of National banks and upon the State governments in the case of State banks. I shall return to this consideration before I close.

BRANCH BANKING

In all of the current discussions of the country bank situation, branch banking is involved in one way or another. Branch banking has existed in the United States in some form since the earliest times both under the authority of acts of Congress and of State laws. Under the Federal reserve act and under the McFadden Bank Act of 1927, national banks may establish branches in all foreign countries; in the insular possesisons of the United States; and within the corporate limits of all large cities in which the head office of the bank is situated where the State law permits State banks to have branches. In the case of the establishment of foreign branches, a national bank must have the approval of the Federal Reserve Board and in the case of a domestic branch, the approval of the Comptroller of the Currency. A number of States permit State banks to establish state-wide branches but the establishment of any such branches debars them from membership in the Federal reserve system. This restriction, however, has not been sufficient to restrain all State banks from establishing state-wide branches under the authority of State laws.

When the McFadden Act was under consideration, the extreme opponents of branch banking predicted that if national banks were permitted to establish branches even within the cities in which they were situated there would be a great scramble for branches with a consequent confusion in the banking business accompanied by the danger of overexpansion. Such has not been the case.

At the time the McFadden Act went into effect; namely, February 25, 1927, 145 national banks were operating a total of 390 branches. On June 30, 1929, about 2½ years later, 164 national banks were operating 992 branches, an increase of only 19 banks and 603 branches. When it is considered that between 7,500 and 8,000 national banks were in operation during this period, the establishment of 603 branches throughout the whole of the United States must be considered as only nominal. In fact the rate of increase was about the same as that prior to the McFadden Act when a national bank could only acquire branches by purchasing a State bank with branches. At the time of the approval of the McFadden Act the total number of branches of all banks in the United States was 2,900 and on June 30, 1929, this number had been increased to 3,440.

As the national law stands to-day the metropolitan banks can not extend their services to the rural communities by establishing branches.

GROUP BANKING

Notwithstanding the technical restrictions in the law against the establishment of branches in the country districts by banks in the cities, there has developed since the McFadden Act a new form of branch banking which appears to be without legal objection. For many years single individuals or groups of individuals have owned the majority of the stock of more than one bank. These banks were usually small and operated within a limited geographical area. This phenomenon was regarded as being without particular economic significance. The term group banking has come to be used to embrace a new type of bank ownership. A central financial corporation acquires the controlling interest in the stock of a number of banks, one of which is a metropolitan bank around which the others are grouped. Although technically each bank in the group is a separate corporation operating with a local board of directors, practically each member of the group depends upon a central management which controls the banking policy of the group. The financial responsibility of the central ownership and management is the main support of the group.

This movement is so new and is developing with such apparent rapidity that it is not possible to present complete statistical information about it. Strong financial groups for this purpose have been formed in practically every great commercial center of the country Some of these have already progressed to the point where they own from 25 to 50 banks. It is reported that there are 230 groups in existence in the United States including groups owned by individuals, and that they own about 2,000 banks. These figures are believed to be approximately correct.

Considering group banking as a phase or form of branch banking and counting each branch as a banking office, there are about 29,000 banking offices in the country as a whole, 6,000 of which are not strictly speaking unit banks. In other words, something over 20 per cent of all banking offices in the United States may be classed as branch banks.

Banking groups in the large cities which are thus obtaining control over country banks appear to be driven by economic necessity to using this method of extending the services of the metropolitan banks to the rural communities. They no doubt realize that the method used is more cumbersome and more expensive than branch banking in its proper sense. With the best of intentions, the most capable management and the highest financial responsibility on the part of a control group—and many of these groups meet these high qualifications—the group can never be operated with the economy, the flexibility and the singleness of policy which is possible under a branch system. If the laws permitted the establishment of branches in the country districts by these banks, group banking would disappear and the country districts would be able to do business directly with strong city banks.

While it is undoubtedly true that a strong metropolitan bank may, through the group system, greatly improve the rural-banking situation by putting behind a group of country banks its financial strength and skill of management, it is debatable whether or not this form of banking is the best remedy for the situation which confronts us. The central management of a group must operate through a number of separate corporations, each of which must maintain its own operating status under the banking laws with a full complement of banking overhead. Diversification of banking business in the group and the use of liquid funds can only be obtained by transferring assets from a bank in one

locality to that in another, at the same time maintaining the separate financial condition of each bank at the required standard. In the case of a group composed of both national and State banks this procedure complicates the work of the supervising authorities. While the conditions of each bank may be determined, the condition of the group as a whole does not come under the visitorial powers of the government concerned.

In the absence of Government permission for branch banking in its true sense present developments indicate that group banking, under the force of economic law, may eventually displace the present system of country unit banks.

THE EXTENSION OF BRANCH BANKING

I have given long and careful study to this question and have conferred with representative bankers of all classes. I have caused to be gathered comprehensive statistics on bank operations throughout the country. After reviewing all of the discussions concerning branch banking before and since the McFadden Act and having in mind that this should not be regarded as a controversy solely between bankers but that the interest of the general public also be given full consideration, I have reached the conclusion that an extension of branch banking privileges should be granted to national banks.

That it should not be nation-wide will be generally admitted. It has been suggested that branch banking be limited to the confines of each Federal reserve district. This may not be feasible to the same extent in all Federal reserve districts. Restricting it to State boundaries, which are political, rather than economic, presents difficulties, as does the suggestion that a radius of 50 or 100 miles from the parent bank be fixed, but there is an economic area to which the extension of branch banking can be applied, varying in size to meet the diversified conditions that exist in this vast country.

It is for Congress ultimately to fix the boundaries of these districts; but Congress, of course, would not and could not attempt to do so prior to careful consideration and study of all the factors, which could only be carried on by a committee of qualified experts. Would we not be making real progress if, at the coming session, the Congress were to instruct, let us say, the Secretary of the Treasury, the Governor of the Federal Reserve Board, and the Comptroller of the Currency to study the banking situation and to report the boundaries which they would recommend that the Congress set up, establishing such definite areas?

In order that this development, within whatever economic areas may be determined upon by Congress, may be sound and orderly, it should be protected by three safeguards: First, that government supervision be further extended and intensified; second that each parent bank be capitalized adequately to meet the responsibility of operating branches; and third, that discretion over the establishment and over the removal of every branch be vested in the Comptroller of the Currency.

Under a branch system of this character it would be possible for the parent bank to have a diversified banking business to protect it against economic depression in any one locality or in any one industrial activity or business enterprise. It would then be able to extend to the country districts the same quality of banking services and the same safety to its depositors which the customers of metropolitan banks in the large cities now enjoy. There would, of course, still remain the question of incompetent management and in a branch system the question of management is of the greatest importance on account of the magnitude of the enterprise. It is to this end that it seems wise that governmental supervision be developed to the point where the supervising authorities can protect the public as far as is humanly possible in this respect.

No weakly capitalized bank should be permitted to engage in branch banking and in the ordinary course of business it is not likely that such a thing would be proposed. Nevertheless, I am in favor of a statutory requirement for a minimum capitalization which will be large enough to insure the protection of the depositors and to discharge properly the responsibilities incident to the operation of a branch system.

One of the principal reasons why the scramble for branches under the McFadden Act, prophesied by many of the opponents of the measure, failed to materialize, was undoubtedly the incorporation in that act of the wise provision that no branch could be established without the approval of the Comptroller of the Currency. It was required that an application be filed by the bank

setting forth the reasons why the branch was desired, such application to be supported by a formal resolution from its board of directors in authorization thereof. Further procedure involved the detailing of a bank examiner to make a thorough investigation, having in mind the effect of the establishment of the branch upon the local community, upon the banking situation as a whole and upon the parent bank, and the filing with the Comptroller of the Currency of a full, written report of this investigation, along with recommendations from the chief national bank examiner. Upon the basis of this information and such other information as the comptroller might acquire from the Federal reserve bank or from other sources rests the approval or denial of each application for the establishment of a branch. This procedure has been sufficient to discourage any precipitate rush, and this discretionary power lodged with the Comptroller of the Currency will enable him at all times to require a branch system to develop in an orderly manner.

What of the sound country bank which has been operating for years with profit and is serving its local community? Under the procedure outlined above such a bank could not be driven out of business through the establishment of a de novo branch, for the simple reason that no Comptroller of the Currency would permit it. Bank stock is a commodity with a market value and if a stockholder wishes to sell to a branch system that is his right under the ordinary law of contract. But it is inconceivable that any Comptroller of the Currency, the proceedings of whose office are important public records, would ever lend his high responsibility to aid of a branch bank unfairly to drive a local bank out of business. The successful country bank, therefore, should have nothing to fear from the recommendation which I propose.

In my recent address at Atlantic City, I indicated that the proposal for the new legislation which I intended to formulate would offer to State banks and trust companies an opportunity to gain a wider field of banking operations under the national charter. With liberal branch banking privileges conferred upon the national banks, the attractions of a national charter would be considerably enhanced and while there would of course be no compulsion upon the State banks and trust companies to become national banks, in the usual course of business, it is believed that the stockholders of the large State institutions would find it to their advantage to operate under the national charter.

From the standpoint of the public, since commerce is national and interstate, the creation of a uniform banking system through the assimilation of the bulk of the banking resources of the country would be not only an advantage but a logical development. From the standpoint of the Government of the United States, the increase in the resources and strength of the national system as a result of the extension of branches and the conversion of large State banks into national, would bring into the Federal reserve system a great volume of banking resources now operating independently and at the same time develop an instrumentality over which the Government would have complete control and through which it could enforce an adequate banking policy.

Exhibit D

Number of banks in the United States in towns of 10,000 population or less and their average capital June 30, 1929

States	Number of banks	Capital	Average capital	States	Number of banks	Capital	Average capital
Alabama	302	$13,875,400	$45,945	Nebraska	828	$24,196,700	$29,223
Alaska	14	915,000	65,357	Nevada	30	1,816,600	60,553
Arizona	35	2,706,000	77,314	New Hampshire	52	4,154,000	79,885
Arkansas	394	14,901,175	37,820	New Jersey	295	28,800,700	97,629
California	300	21,159,320	70,531	New Mexico	55	2,340,000	42,545
Colorado	242	8,118,000	33,545	New York	622	47,594,950	76,519
Connecticut	62	4,640,000	74,839	North Carolina	375	16,674,662	44,466
Delaware	40	3,622,350	90,559	North Dakota	412	9,132,500	22,166
Florida	170	10,497,200	61,748	Ohio	765	37,807,500	49,422
Georgia	375	16,439,845	43,840	Oklahoma	596	16,647,150	27,931
Hawaii	3	350,000	116,667	Oregon	200	9,676,500	48,383
Idaho	131	4,792,500	36,584	Pennsylvania	985	83,652,248	84,926
Illinois	1,348	62,834,000	46,613	Rhode Island	5	650,000	130,000
Indiana	751	29,487,850	39,265	South Carolina	189	9,670,025	51,164
Iowa	1,248	44,149,800	35,376	South Dakota	378	9,849,400	26,057
Kansas	961	24,921,000	25,932	Tennessee	457	18,501,853	40,485
Kentucky	514	21,767,050	42,348	Texas	1,220	53,976,730	44,243
Louisiana	199	9,981,050	50,156	Utah	79	3,244,750	41,073
Maine	74	5,700,800	77,038	Vermont	67	5,751,000	85,836
Maryland	172	8,526,700	49,574	Virginia	408	22,493,410	55,131
Massachusetts	76	7,322,500	96,349	Washington	261	9,296,500	35,619
Michigan	642	25,877,342	40,307	West Virginia	240	13,633,850	56,808
Minnesota	959	25,640,500	26,737	Wisconsin	807	28,801,000	35,689
Mississippi	281	11,718,830	41,704	Wyoming	81	3,260,000	40,247
Missouri	1,129	31,629,800	28,016				
Montana	179	7,525,000	42,039	Total	20,008	$80,721,040	44,018

Average per State, 400.

EXHIBIT E

BANK SUSPENSIONS

DURING EIGHT YEAR PERIOD — 1921-1928 INCLUSIVE

BY SIZE OF CAPITAL STOCK

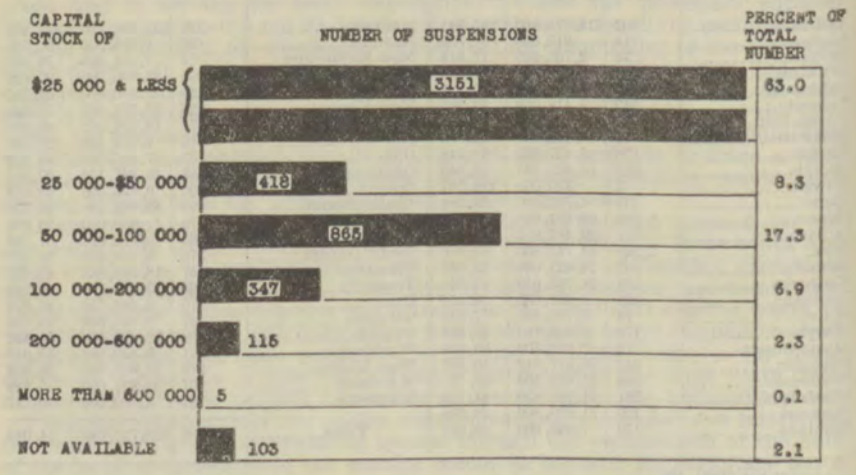

EXHIBIT F

BANK SUSPENSIONS -
DURING EIGHT YEAR PERIOD - 1921-1928 INCLUSIVE
BY SIZE OF TOWN OR CITY

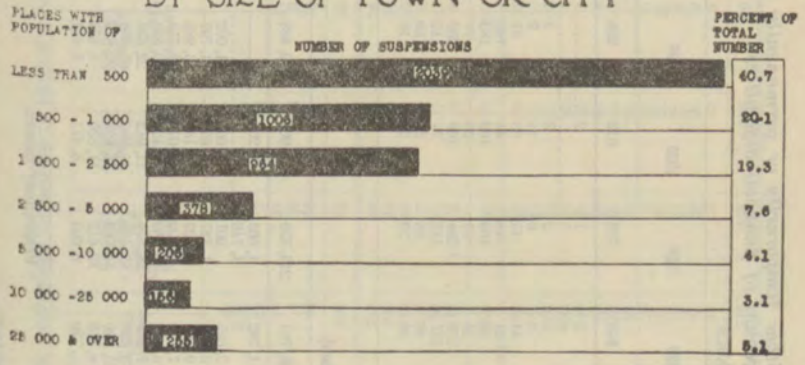

EXHIBIT G

Bank suspensions, 1921–1929—Represents banks closed to the public either temporarily or permanently by supervisory authorities or by the banks' boards of directors on account of financial difficulties

NUMBER OF BANKS

Federal reserve district	Total, 1921–1929	1921	1922	1923	1924	1925	1926	1927	1928	1929
United States	5,640	501	354	648	776	612	956	662	491	640
Boston	15	[1] 5	2	3	1	2	----------	1	1	----------
New York	30	6	3	4	6	----------	----------	2	3	6
Philadelphia	19	2	1	3	2	3	4	----------	1	3
Cleveland	101	5	1	6	6	14	9	29	17	14
Richmond	437	40	36	44	43	68	61	43	43	59
Atlanta	609	66	22	[1] 21	48	44	162	63	66	117
Chicago	827	46	25	53	108	109	182	124	87	93
St. Louis	449	33	26	24	53	53	77	82	57	44
Minneapolis	1,481	73	64	279	[1] 294	168	283	142	94	84
Kansas City	1,019	87	92	137	133	77	112	100	88	193
Dallas	411	82	51	46	53	50	50	44	24	11
San Francisco	242	56	31	28	29	24	16	32	10	16

DEPOSITS

[In thousands of dollars]

United States	[2] 1,721,402	196,460	110,721	188,701	213,338	172,900	272,488	193,891	138,642	[2] 234,261
Boston	23,938	[1] 15,472	1,861	1,782	1,605	1,298	----------	842	1,078	----------
New York	39,280	15,769	868	2	1,746	----------	----------	438	1,356	19,101
Philadelphia	13,807	2,400	415	2,695	901	2,665	1,002	----------	425	3,304
Cleveland	54,202	1,496	778	3,453	1,137	9,624	4,797	16,923	7,563	8,431
Richmond	112,082	8,103	15,243	9,584	5,822	13,182	13,988	13,220	13,339	19,601
Atlanta	241,486	18,984	6,244	[1] 7,670	5,002	6,079	65,713	34,265	35,395	62,134
Chicago	275,253	18,336	7,033	16,577	36,950	34,126	60,526	44,380	21,746	35,579
St. Louis	114,408	10,042	10,757	7,909	13,674	11,942	22,656	15,214	12,792	9,422
Minneapolis	361,878	17,972	15,528	73,321	[1] 85,433	44,985	65,594	26,598	17,147	15,300
Kansas City	[2] 263,966	25,278	31,269	45,620	34,763	28,698	22,872	20,620	15,642	[2] 39,204
Dallas	106,234	27,944	6,813	14,358	19,612	11,830	8,879	7,476	7,391	1,931
San Francisco	114,868	34,664	13,912	5,730	6,693	8,471	6,461	13,915	4,768	20,254

[1] Revised.

[2] Preliminary figures.

DIVISION OF BANK OPERATIONS, FEDERAL RESERVE BOARD, *January 28, 1930.*

EXHIBIT H

Number of incorporated banks in the United States June 30, 1929, segregated according to capital stock in each State

State	Capital under $25,000	Capital $25,000	Capital above $25,000 and including $50,000	Capital above $50,000 and up to $100,000	Capital $100,000	Capital above $100,000 and up to $200,000	Capital $200,000 to $500,000, inclusive	Capital $500,000 to $1,000,000, inclusive	Capital above $1,000,000 up to and including $5,000,000	Capital above $5,000,000	Total
Maine	----------	7	36	9	21	9	17	4	----------	----------	103
New Hampshire	----------	5	21	11	26	11	13	----------	----------	----------	87
Vermont	----------	10	28	8	22	7	10	----------	----------	----------	85
Massachusetts	----------	6	25	7	78	27	97	14	21	5	280
Rhode Island	----------	----------	1	----------	5	4	8	3	3	----------	24
Connecticut	----------	16	28	5	44	14	51	13	9	----------	180
Total, New England States	----------	44	139	40	196	72	196	34	33	5	759
New York	19	135	205	31	232	56	203	34	46	31	992
New Jersey	----------	26	72	11	195	42	143	26	19	2	536
Pennsylvania	5	228	349	67	119	346	333	56	37	6	1,546
Delaware	4	5	12	5	9	7	7	2	3	----------	54
Maryland	36	51	48	11	29	11	17	13	9	----------	225
District of Columbia	----------	----------	4	2	10	3	9	8	6	----------	42
Total, Eastern States	64	445	690	127	594	465	712	139	120	39	3,395
Virginia	113	74	113	29	73	21	39	15	5	----------	482
West Virginia	----------	79	98	18	56	14	35	5	3	----------	308
North Carolina	146	58	109	13	69	20	36	10	10	----------	471
South Carolina	49	44	53	12	35	11	22	2	2	----------	230
Georgia	96	116	96	24	49	21	29	3	10	----------	444
Florida	44	26	55	17	45	10	23	8	3	----------	231
Alabama	63	78	109	18	38	11	29	5	2	----------	353
Mississippi	112	40	81	22	28	14	14	----------	----------	----------	311
Louisiana	41	32	73	21	26	9	17	6	6	1	232
Texas	254	321	427	88	171	28	79	22	13	----------	1,403
Arkansas	160	83	90	28	24	11	21	2	----------	----------	419
Kentucky	184	87	152	32	61	20	28	9	4	----------	577
Tennessee	179	94	111	35	41	8	22	9	6	----------	505
Total, Southern States	1,441	1,132	1,567	357	716	198	394	96	64	1	5,966

Number of incorporated banks in the United States June 30, 1929, segregated according to capital stock in each State—Continued

State	Capital under $25,000	Capital $25,000	Capital above $25,000 and including $50,000	Capital above $50,000 and up to $100,000	Capital $100,000	Capital above $100,000 and up to $200,000	Capital $200,000 to $500,000, inclusive	Capital $500,000 to $1,000,000, inclusive	Capital above $1,000,000 up to and including $5,000,000	Capital above $5,000,000	Total
Ohio	42	312	262	52	140	63	107	27	19	5	1,029
Indiana	105	356	233	45	127	32	74	12	4		988
Illinois	126	460	522	100	219	59	249	38	17	3	1,793
Michigan	231	139	190	29	106	33	59	23	14	2	826
Wisconsin	282	160	296	46	84	16	64	7	1	1	957
Minnesota	452	275	224	28	48	4	28	7	4	1	1,071
Iowa	310	386	460	58	105	18	37	7	4		1,385
Missouri	666	159	226	47	98	13	75	6	8	5	1,303
Total, Middle Western States	2,214	2,247	2,413	405	927	238	693	127	71	17	9,352
North Dakota	234	130	39	3	11	5	3				425
South Dakota	152	140	76	4	16	2	4				394
Nebraska	319	240	239	22	28	4	13	5	5		875
Kansas	503	239	219	21	58	12	28	5	2		1,087
Montana	39	67	45	8	17	6	14	1			197
Wyoming	26	19	23	2	11	3	3				87
Colorado	78	77	71	7	26	3	13	2	3		280
New Mexico		27	23		3	2	3				58
Oklahoma	236	227	112	13	34	9	14	5	3		653
Total, Western States	1,587	1,166	847	80	204	46	95	18	13		4,056
Washington	76	93	77	14	31	8	27	6	6	4	342
Oregon	42	56	72	7	28	9	19	1	1	2	237
California		79	126	31	62	39	67	14	21	8	447
Idaho	31	47	40	1	13	3	2				137
Utah	8	28	34	4	14		14	2	1		105
Nevada	1	10	10	3	6	1	4	1			36
Arizona	4	5	14	2	12	2	8		1		48
Total, Pacific States	162	318	373	62	166	62	141	24	30	14	1,352
Alaska		5	2	2	4	1					14
Hawaii					4	2	8		4		18
Total, Alaska and Hawaii		5	2	2	8	3	8		4		32
Grand total	5,468	5,357	6,031	1,073	2,811	1,084	2,239	438	335	76	24,912

EXHIBIT I

[From The American Banker, February 20, 1930]

Roll call of leading bank groups in the United States as of December 31, 1929, in order of deposits

	Number in banks in group	Capital, surplus and undivided profits	Deposits	Resources	Remarks
Transamerica Corporation, San Francisco	3	$216,180,200	$1,537,431,892	$1,891,201,856	The three banks operate a total of 489 branches; 8 small banks also affiliated.
Detroit Bankers Co., Detroit	5	89,191,598	581,906,739	711,006,036	Includes 15 affiliated banks in greater Detroit.
Manhattan Co., New York	4	97,723,926	510,673,776	729,174,799	Controls two title companies; resources, $71,354,948.
Marine Midland Corporation, Buffalo	17	57,760,358	431,473,213	520,956,593	Deposits include $54,488,390 of corporation.
Mellon group, Pittsburgh	6	102,228,645	419,938,554	549,184,937	Affiliated through directorates, not a "group system."
Guardian Detroit Union group	35	66,828,073	393,086,329	509,949,812	
Northwest Bancorporation, Minneapolis	94	44,423,648	385,224,440	454,141,941	Includes Union Investment Co. group.
First Bank Stock Corporation, Minneapolis	85	40,993,177	366,272,510	433,074,788	Affiliated corporation resources increase total to $459,373,655.
Anglo California Corporation, San Francisco	18	28,536,000	211,764,000	277,691,000	
Wisconsin Bankshares Corporation, Milwaukee	23	28,265,371	204,019,979	243,312,082	
National Republic Bancorporation, Chicago	8	23,155,500	190,383,849	242,603,344	
Associated Banks of Pittsburgh	8	39,805,770	166,255,494	216,463,821	Hillman group Pennsylvania Bankshares & Security Co.
Fourth and First National group, Nashville	8	23,729,125	110,421,883	174,992,844	
First National Associates, Atlanta	7	19,960,348	110,303,810	136,248,898	
Southwest Corporation, Tulsa, Okla. (organizing)	18			138,000,000	
Commerce Trust group, Kansas City	5	10,127,245	98,618,140	110,723,431	
Old Colony Associates, Boston	19	16,579,421	94,743,708	116,227,526	Affiliated First National, Old Colony Trust, add resources of $731,169,376.
BancoKentucky Corporation, Louisville	6	14,696,624	94,606,725	120,710,615	
First Seattle Dexter Horton group, Seattle	7	11,267,758	93,029,921	109,978,770	
Citizens & Southern Holding Co., Savannah	7	10,159,543	68,489,950	80,798,122	
BancOhio Corporation, Columbus	4	10,045,257	67,245,149	79,834,148	Resources of security corporation increase total to $84,379,018.
Financial Institutions (Inc.), Portland, Me	10	7,162,000	62,200,000	71,500,000	
First National group, Portland, Oreg	4	5,390,289	48,861,309	54,795,916	Security Co. resources add $3,845,658.
Federal National Affiliates, Boston	8	4,730,146	54,007,998	61,640,635	
First Security Corporation, Ogden, Utah	25	5,015,691	45,543,921	51,062,654	Banks in Utah, Idaho, and Wyoming.
Marine Bancorporation, Seattle	10	5,631,894	41,809,934	50,815,982	
Hamilton National Associates, Chattanooga, (organizing)	12			50,000,000	
Old National Corporation, Spokane	22	3,876,026	37,196,509	43,890,203	
Worcester County National Affiliates, Worcester, Mass	6	4,500,000	37,000,000	43,500,000	
Atlantic Trust Co., Jacksonville, Fla	6	3,808,689	33,938,262	38,436,667	
Fletcher Savings & Trust, Indianapolis	7	3,538,753	26,899,435	31,094,569	Also controls joint stock-land bank, resources, $16,710,096.
First National group, Miami, Fla	6	3,849,499	22,539,545	26,700,848	
First Nebraska Bancorporation (organizing)				25,000,000	

Roll call of leading bank groups in the United States as of December 31, 1929, in order of deposits—Continued

	Number in banks in group	Capital, surplus and undivided profits	Deposits	Resources	Remarks
Toy National group, Sioux City, Iowa	19	$2,520,768	$21,434,044	$24,352,809	
West Coast Bancorporation, Portland, Oreg.	9	2,420,145	20,526,431	23,352,951	
American Traders Security Corporation, Birmingham	3	5,160,860	20,341,024	30,122,847	
Commerce Union Bank group, Nashville	3	2,095,284	14,895,920	18,976,339	
Pacific Bancorporation, Portland, Oreg.	10	1,291,176	11,918,747	13,738,186	
Total (38 groups)	547	1,012,648,807	6,635,003,140	8,505,255,969	

Other group systems exist throughout the United States than those listed above. The above tabulation, however, comprises what might be termed the leading "visible" groups, as far as can be determined at this writing, being with few exceptions the groups which are openly committed to group-banking policy and advertising or linked through interlocking directorates.

THIRTY-EIGHT LEADING BANK GROUPS REVEAL SPREAD OF SYSTEM—NEW FORCE IN MULTIUNIT BANK MANAGEMENT APPEARS IN 1929

The 38 leading groups of unit banks in the United States on December 31, 1929, which controlled resources of over $8,500,000,000 in 547 unit banks, according to the roll call of group systems just presented by the American Banker, represent the dominant institutions in the field of group banking as distinguished from branch banking and unit banking and demonstrate the extent to which this system of multi-unit banking spread during 1929.

This survey represents the most complete tabulation of group banking resources which has been published, and will serve to clarify the degree to which this method of achieving successful banking operation while maintaining the individual banking units as separate chartered units has progressed.

In addition to the groups listed in the tabulation, there are many lesser chain systems and also many group organizations, large and small, which are built around a more or less "invisible" central ownership of stock. No effort has been made to include these "invisible groups" in the tabulation. Several such chains when approached for statistics replied that they were not a "group system" and would not accept such a classification.

Nor has an effort been made to tabulate the branch bank systems which exist in the States which permit city-wide or state-wide branch operation, except as these systems are part of "groups" of independently chartered banks. Hence certain North Carolina and South Carolina branch bank systems which were formerly groups escape the "roll call."

If branch systems were taken into consideration, they would include such organizations as the National City Bank of New York, with 37 branches, and $2,200,000,000 in resources; Corn Exchange Bank, and numerous other New York and other city institutions; quite a number of California and other branch bank State institutions, including the Bank of California of San Francisco, which enjoys the peculiar privilege of conducting branch operations outside of its home State; the North Carolina Bank & Trust Co., with 10 branches and resources of $46,600,000; the Peoples State Bank of South Carolina, with branches in 27 cities and resources of $14,864,000, etc.

MULTIUNIT BANKING RESOURCES MAY TOTAL $18,000,000,000

Full knowledge of the figures for city or state-wide branch institutions would possibly double the amount of our Nation's banking resources which are represented in institutions committed to one form or another of multiunit banking operation making their totals $18,000,000,000 or so.

Barely two-thirds of the groups listed are more than a year old and organization of groups still continues.

In some instances these new organizations are simply the coming forward into open group operation of systems which have hitherto been invisibly linked together. Once organized they both attract other unit banks and create a situation in which competing key correspondent banks find it advisable to organize their own groups. Such a situation impelled the organization of some of the largest mid-western groups last year.

Developments in group banking during 1930 are expected to reveal the organization of still new groups, and the aggressive promotion of those already existing.

CONTROVERSY IN LEGISLATIVE FIELDS

State legislatures and Congress are likely to be scenes of sharp controversies as to the advantages and disadvantages inherent in the group banking system as compared with either unit or branch bank methods of operation.

One of the things which loom as a possibility as a result of the legislative attitude and which has been seriously though not publicly discussed is the organization of a group bankers' association, which will consider the problems of legislation, operation, and management principles which are peculiar to multibank systems as, for instance, the trust company division of the American Bankers' Association considers pertinent trust questions.

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, APRIL 23, 1930

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

The committee met at 10.30 a. m. in the committee room, Capitol, Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order.

We have before the committee this morning Mr. Robert O. Lord, of the Guardian Detroit Union Group of banks. Mr. Lord has prepared a statement, and it has been requested, inasmuch as Mr. Lord has furnished the members of the committee with copies of the statement, that he be permitted to proceed without interruption until he completes the statement.

We will be very glad to have you proceed now, Mr. Lord.

STATEMENT OF ROBERT O. LORD, PRESIDENT GUARDIAN DETROIT UNION GROUP (INC.)

Mr. LORD. I have read carefully all published reports of hearings before your committee, and from them I understand that, following your usual procedure, you wish me to make an uninterrupted statement on the subject of group banking, at the conclusion of which I shall be glad to endeavor to answer, to the best of my ability, any questions which may occur to members of the committee in connection therewith.

A few weeks ago your chairman very courteously furnished me with an outline of the points upon which the committee desired information. If it is agreeable to the committee, I shall, in my verbal statement this morning, take up each of these subheadings in turn, touching upon what I consider the high lights of the material which I have prepared, and submitting detailed data as appendices for inclusion in the printed record, if, in the judgment of the committee, this information is deemed to be of sufficient value to warrant its conclusion.

I should like to state right at the start that I feel that the committee, through these hearings, is laying the statistical foundation upon which we must build the banking structure of the future.

Information developed through the instrumentality of these hearings is bound to be of inestimable value to bankers generally. I have already derived great benefit from the information so far published, and I am more than glad to make what small contribution I can to the common fund of information, bearing upon the economics of the present situation in regard to banking, with the

thought that we bankers will all have more accurate and more comprehensive charts by which to steer the courses of our respective financial institutions in the future.

Every banker is to-day faced with the necessity of adapting banking practices and methods to economic conditions which have changed materially over those which obtained but a few years ago.

The past few years, here in America, have witnessed the sudden acceleration of economic forces which had been silently at work for more than a decade. Our use of electrical energy is increasing four times as fast as our population and even now equals that of the rest of the world combined. As a consequence, we have been able to obtain a steadily increasing productivity per worker, and simultaneously effect a gradual but substantial reduction in the hours of labor.

Commodity prices have, in general, declined—in the face of rising wage scales. The resultant improvement in our standard of living has excited the interest of the world and thrust upon America a new leadership—and with it new responsibilities, of which a considerable portion have devolved upon the bankers of to-day.

Many years ago economic pressure welded our crazy quilt of hundreds of short local railroads into a relatively small number of trunk lines, which, by superlatively prompt and effective service, have been heavy contributions to the national prosperity with which we have been blessed over a period of years, and which we shall undoubtedly continue to enjoy in spite of occasional recessions. Yet the pressure still persists, under mandate of Congress, for fewer and presumably more efficient railroad systems. The present line of the New York Central Railroad, between New York and Buffalo, originally consisted of literally dozens of independently owned short lines, each with its own management, frequently at odds with that of other short lines.

Similarly, the line of the Pennsylvania Railroad between New York and Pittsburgh originally consisted of a large number of short lines. Who, to-day, would venture the claim that a return to former conditions would be an improvement over the satisfactory service, for passengers and for freight, which we take for granted to-day.

Our highly integrated industrial enterprises have time and again proved bulwarks of strength in piece and in war, in prosperity and in depression. Our great superpower systems have created huge reservoirs of energy, with a flexibility of distribution which has enormously increased our potential productivity, and, incidentally, substantially lowered the average cost of electrical energy to the consumer.

Throughout our whole business structure the pressure is in the direction of larger and larger units, and more and more effective interconnection of units over wider and wider areas. The compelling reason is greater efficiency, bringing in its train lower prices for the consumer, greater stability of operations for the producer, and therefore a more abundant prosperity for the community served.

Banking, too, has felt the pressure toward larger units and closer interconnection of units, the better to serve growing industries and communities. The quickened tempo of to-day's business has emphasized the interindependence of communities within the same

natural industrial area, and has indicated the need for a more comprehensive and more closely knit banking service than has been available heretofore through the isolated unit banks, which met the less exacting requirements of a few years ago.

The impact of science is a major factor in keeping the business world in a state of flux. Research is creating new industries and destroying entrenched monopolies. We telephone London or Paris as easily as the nearest city; radio flings whispered words around the world; television will be an accomplished fact before we finish saying "It can't be done." The airplane shrinks America to one-fourth railroad size. Improved means of communication and transportation are constantly accelerating the pulse of business. Banking must keep pace.

It seems to me axiomatic that the happiness and prosperity of the residents of a given community depend, with few exceptions, upon the progress of its wealth-producing industries and other activities. These, in turn, can not flourish unless adequate banking facilities are promptly and continuously available. I think we should all remind ourselves, at this juncture, that banking is not business of itself—banking is merely a facilitating function of business. Banking of itself creates no new wealth, but a sound and adequate system of banking does aid in the creation of new wealth and can be of great assistance to the actual producers in facilitating the prompt and efficient interchange of goods and services, without which there can be no general diffusion of the state of well-being which we all desire.

Banking must adapt itself to changing conditions if industry and trade are not to be hamstrung in the struggle for world markets, which is beginning to emerge as the outstanding characteristic of the period through which we are passing.

I think it has been amply demonstrated, from the testimony already presented to the committee, that the larger cities to-day enjoy a safer and more effective banking service, in all phases, than is available to the smaller communities.

One of the movements to extend metropolitan service to subcenters, within a given trade area, has come to be known as group banking. Guardian Detroit Union Group (Inc.) was organized to acquire the stocks of banks, trust companies, and other corporations for the purpose of providing unified ownership, coordinated operation, massed resources, and world-wide contacts with industry and trade—an improved, completely rounded-out banking service for the great industrial area of lower Michigan. Quite frankly, it is as yet too early to appraise the results attained to date. Time alone will tell whether or not we are on the right track. In the meantime we are keeping our minds open and will welcome suggestions from governmental authorities or guidance through legislation.

Taking up, in order, the topics suggested by your chairman, I shall endeavor to conserve the time of the members of the committee by endeavoring to point out what I consider to be the significant features of the information requested, submitting, at the conclusion of each phase of my statement, complete detailed data as an appendix.

1. CHARTER AND BY-LAWS

In order to present a proper picture of the organization of Guardian Detroit Union Group (Inc.), it is perhaps necessary to start the story a few years previous to the formal incorporation of the group company.

As we all know, the effect of the growth of the automotive industry was a tremendous and rapid increase in the population of Detroit. Thirty years ago, it was a city of about 300,000. Now it has in excess of 1,500,000 people.

During this period, manufacturing so absorbed the attention and energy of Detroiters that banking facilities did not keep pace with the needs of the growing city. Detroit found itself dependent financially on outside cities. Even up to a few years ago, Detroit, fourth in population and value of manufactured products, ranked eighth or ninth in banking resources.

To help remedy this situation, on June 15, 1927, there was organized, under the banking laws of the State of Michigan, Guardian Detroit Bank. Under the plan and subscription agreement, there was sold unified stock. Each subscriber to stock in Guardian Detroit Bank at the same time subscribed for the same number of shares of Guardian Detroit Co., an investment affiliate, and for one-fifth of the number of shares in Guardian Trust Co., a purely fiduciary organization, which had been organized under the banking laws of the State of Michigan about two years previously. There were thus created three independent corporations owned by the same stockholders, in no way subsidiary to each other.

It was provided that none of the stock of the bank, the trust company, or the securities company should be acquired or transferred except in connection with the acquisition or transfer of a proportionate amount of the stock of each of the other two companies, so that each stockholder would, at all times, own the same percentage of the stock of any one of said companies as he owned of the stock of each of the other two companies.

The Detroiters—drawn from the ranks of manufacturing, merchandizing, construction, transportation, publishing, real estate, finance, and the professions—who sponsored the formation of Detroit's first group of related institutions equipped to transact, under one roof, every kind of banking, trust, and investment business for individuals and corporations, included, among others—

Henry E. Bodman, counsel Packard Motor Car Co.
Ralph H. Booth (now minister to Denmark), president Booth Publishing Co.
Roy D. Chapin, chairman of the board, Hudson Motor Car Co.
Howard E. Coffin, president National Aviation Corporation.
George R. Fink, president Michigan Steel Corporation.
Fred J. Fisher, vice president General Motors Corporation.
Edsel B. Ford, president Ford Motor Company.
Albert Kahn, architect.
Ernest Kanzler, now president Universal Credit Corporation.
Carlton M. Higbie and Jereme E. J. Keane, partners in the security business of Keane, Higbie & Co.
Alvan Macauley, president Packard Motor Car Co.
W. Ledyard Mitchell, vice president Chrysler Corporation.
Charles S. Mott, vice president General Motors Corporation.

Fred T. Murphy, trustee Murphy family trusts, also a trustee of Yale University.
Alger Shelden, president Shelden Land Co.
William Robert Wilson, chairman Great Lakes Aircraft Corporation.

Under unified ownership, and with coordinated management, these three institutions, which came to be known popularly as "the guardian group," grew and prospered so that within two years their aggregate resources amounted to approximately $78,000,000, without including the figures of the Guardian Detroit Co., the securities company.

Branch banking, within the corporate limits of the municipalities in which organized, had been permitted in Michigan for several years, one of the larger State banks having no less than 100 branches in the city of Detroit.

Due to its great growth in recent years, several adjoining municipalities had been annexed to Detroit, but several others had maintained their corporate identity although plainly included in the same economic area. In fact, two municipalities, Highland Park and Hamtramck, are entirely surrounded by Detroit.

In one of these municipalities was Highland Park State Bank (with seven branches) and Highland Park Trust Co. The officers and directors of the Highland Park institutions felt that it would be distinctly advantageous to effect a closer working arrangement with a large down-town bank, and the officers and directors of Guardian Detroit Bank were equally desirous of obtaining suitable additional banking locations in the metropolitan area of Detroit, without going through the slow and expensive process of acquiring sites and building up deposits in the various shopping and industrial communities.

In order to acquire the Highland Park institutions, which were outside the corporate limits of the city of Detroit and could not, therefore, be operated as branches of Guardian Detroit Bank, although from a purely economic standpoint they occupied exactly the same status as branch offices in the contiguous corporate area of Detroit, it was decided to organize under the provisions of the general corporation laws (Act 84, Public Acts of 1921, as amended) a Michigan corporation under the corporate title Guardian Detroit Group (Inc.), for the following purposes:

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

The banking laws of Michigan (including Act LXVI, Public Acts of 1929) impose no limitation on the ownership of bank stocks which would make such ownership different from that of other corporate shares. Furthermore, express power to acquire and own shares of other corporations is given in Article III of the articles of association quoted above. The ownership of such shares by the company is specifically "in furtherance of the objects of its existence." The power so to do is conferred upon the company by its charter and the statute of the State of Michigan. Furthermore, no statute could be found wherein a restraint of any sort is imposed

upon the transfer or ownership of shares of stock in national banks operating in Michigan, in Michigan State banks or Michigan trust companies.

Guardian Detroit Group (Inc.) was organized purely as a holding company, and, as such, its powers are limited solely to ownership and other securities and the exercise of the incident privilege of such ownership. This is the entire scope of its powers under its charter.

In order to determine whether the owning and voting of such shares (which is the full extent of business in which it is engaged) by the company might be held to engage the company in the business of banking, this question was submitted to the attorney general of the State of Michigan. It was our contention that the answer must be found in the nature of the business as authorized and carried on by the company. With this view, the attorney general agreed in an opinion filed on October 9, 1929, in which he reached the following conclusions:

BANKING LAW—CORPORATION LAW—STOCK

(Opinion of Attorney General of the State of Michigan, Filed October 9, 1929)

SYLLABUS

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

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

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

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

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

It will be noted from paragraph 4 of the above syllabus that the Attorney General held that a holding company could, by expression in its charter, meet the double indemnity of statutory liability under the banking act. Provision to this effect had been made some five months previously in the original articles of association of guardian Detroit Group (Inc.), filed on May 10, 1929, as follows:

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

Subsequently, the above paragraph of Article IX of the articles of association was amended at a meeting of the stockholders held on October 18, 1929, so as to provide a method of enforcing the double liability of stockholders with respect to bank and trust company shares owned by said corporation, as follows:

ART. IX. The holders of stock of this corporation shall be individually and severally liable (in proportion to the number of shares of its stock held by

them respectively) for any statutory liability imposed upon this corporation by reason of its ownership of shares of the capital stock of any bank or trust company, and the stockholders of this corporation by the acceptance of their certificates of stock of this corporation severally agree that such liability may be enforced in the same manner as statutory liability may now or hereafter be enforceable against stockholders of banks or trust companies under the laws of the United States or the State of Michigan. A list of the stockholders of this corporation shall be filed with the banking commissioner of Michigan and the Comptroller of the Currency whenever requested by either of those officers.

Another provision to which we shall have occasion to refer later is that embodied in the second paragraph of Article IX, as amended, which reads as follows:

ART. IX. This corporation reserves and shall have the right from time to time, upon the affirmative vote of three-fourths of its directors, to issue and dispose of all or any of its unissued or increased stock for the purpose of acquiring stock of banks, trust companies and other corporations without offering to the stockholders of this corporation for subscription any of the stock so to be disposed of.

The only particularly significant paragraph in the by-laws is the following:

ART. VI. Whenever at any meeting of the stockholders of a bank or trust company of which this corporation shall at the time own 75 per cent or more of the outstanding stock, an election of a board of directors is held, the shares of such bank or trust company owned by this company shall be voted in favor of the election of a board of directors of which at least 75 per cent shall consist of directors residing in the municipality where said bank or trust company is located or within a radius of 50 miles thereof.

Perhaps I should mention in passing that the board of directors of all of our member units outside of the Detroit metropolitan area, are made up entirely of local men, except in three instances wherein the local boards were insistent upon having in one case three and in the other two cases one representative from Detroit to serve on their directorates. All of these representatives are practical operating officers of Detroit units.

In brief, the articles of association (charter) have been accepted and approved by the secretary of state of Michigan. The provisions as to statutory liability give the same protection to depositors in unit member banks and trust companies as when the shares in these institutions were owned by various individuals.

In order to complete the record, photostatic copies of the following documents (marked "Appendix I") are submitted for the information of the committee:

Certificate of the secretary of state of Michigan authorizing the corporation to commence business, dated May 10, 1929.

Articles of association with all amendments to date.

Copy of by-laws with amendments to date.

(The documents in question are printed at the conclusion of Mr. Lord's testimony.)

DIRECTORATE OF HOLDING COMPANY

The original board of directors was a small one, comprising only nine members, but, with the acquisition of additional banks, one or more directors chosen from the board of the unit acquired was added to the directorate of the holding company, except in the case of a few of the smaller institutions. Usually, the chairman or president or senior operating officer of the unit in question was elected a director, and, in addition, the unit bank was invited to designate a

senior active operating officer to serve on the operating committee, the functions of which will be described later.

The board at present comprises:

Frank W. Blair, chairman of the board, Union Guardian Trust Co., Detroit, Mich.
Arthur C. Bloomfield, chairman, Union & Peoples National Bank, Jackson, Mich.
Henry E. Bodman, counsel, Guardian Detroit Union Group (Inc.), Detroit, Mich.
Clarence H. Booth, chairman of the board, Motor Bankers Corporation, Detroit, Mich.
Ralph H. Booth, president, Booth Newspapers (Inc.), Detroit, Mich.
Joseph H. Brewer, president, Grand Rapids Trust Co., Grand Rapids, Mich.
Walter O. Briggs, chairman and president, Briggs Manufacturing Co., Detroit, Mich.
Daniel D. Brown, president, First National Bank & Trust Co., Port Huron, Mich.
Harry C. Bulkley, attorney, Campbell, Bulkley & Ledyard, Detroit, Mich.
Charles S. Campbell, president, First National Bank & Trust Co., Kalamazoo, Mich.
Roy D. Chapin, chairman of board, Hudson Motor Car Co., Detroit, Mich.
George R. Fink, president, Michigan Steel Corporation, Detroit, Mich.
William A. Fisher, president, Fisher Body Corporation, Detroit, Mich.
Edsel B. Ford, president, Ford Motor Co., Detroit, Mich.
Frank E. Gorman, vice president, Capital National Bank, Lansing, Mich.
Stephen A. Graham, president, Federal Commercial & Savings Bank, Port Huron, Mich.
John C. Grier, jr., president, Guardian Detroit Co., Detroit, Mich.
C. H. Haberkorn, jr., chairman of board, Bank of Detroit, Detroit, Mich.
Carlton M. Higbie, chairman of board, Keane, Higbie & Co., Detroit, Mich.
Sherwin A. Hill, attorney, Warren, Hill & Hamblem, Detroit, Mich.
Charles H. Hodges, vice president, American Radiator & Standard Sanitary Corporation, Detroit, Mich.
James Inglis, president, American Blower Corporation, Detroit, Mich.
Richard P. Joy, director, National Bank of Commerce, Detroit, Mich.
George B. Judson, president, Bank of Detroit, Detroit, Mich.
Ernest Kanzler, president, Universal Credit Corporation, Detroit, Mich.
Jerome E. J. Keane, director, Guardian Detroit Bank, Detroit, Mich.
Dwight B. Lee, president and treasurer, Motor Products Corporation, Detroit, Mich.
Robert O. Lord, president, Guardian Detroit Bank, Detroit, Mich.
Alvan Macauley, president and general manager, Packard Motor Car Co., Detroit, Mich.
Francis C. McMath, director, Canadian Bridge Co. (Ltd.), Detroit, Mich.
George B. Morley, chairman of board, Second National Bank & Trust Co., Saginaw, Mich.
Charles S. Mott, vice president, General Motors Corporation, Detroit, Mich.
Fred T. Murphy, trustee, Murphy Family Trusts, Detroit, Mich.
Edwin H. Nelson, president, Nelson, Baker & Co., Detroit, Mich.
Phelps Newberry, vice president, Guardian Detroit Bank, Detroit, Mich.
Ransom E. Olds, chairman of board, Reo Motor Car Co., Lansing, Mich.
Jerome H. Remick, president, Detroit Creamery Co., Detroit, Mich.
Herbert S. Reynolds, president, Union & Peoples National Bank, Jackson, Mich.
John R. Russel, director, Union Guardian Trust Co., Detroit, Mich.
Murray W. Sales, president, Murray W. Sales & Co., Detroit, Mich.
Henry H. Sanger, president, National Bank of Commerce, Detroit, Mich.
R. Perry Shorts, president, Second National Bank & Trust Co., Saginaw, Mich.
Hal H. Smith, attorney, Beaumont, Smith & Harris, Detroit, Mich.
Oscar W. Smith, president, Parke, Davis & Co., Detroit, Mich.
John N. Stalker, president, Union Guardian Trust Co., Detroit, Mich.
James L. Walsh, vice president, Guardian Detroit Bank, Detroit, Mich.
Charles Beecher Warren, attorney, Warren, Hill & Hamblen, Detroit, Mich.
Dudley E. Waters, chairman, Grand Rapids National Bank, Grand Rapids, Mich.

3. NUMBER, NAME, LOCATION, CAPITAL, SURPLUS DEPOSITS, AND RESOURCES OF EACH BANK ACQUIRED BY GUARDIAN DETROIT UNION GROUP (INC.)

The following information is submitted as of the close of business March 27, 1930, which is taken as a convenient date by reason of the fact that it is the date of the last call of the Comptroller of the Currency for Statement of Condition of National Banks. It also is the date upon which the State Banking Commissioner of Michigan called for a Statement of Condition of all State Banks and Trust Companies in Michigan.

As of March 27, 1930, Guardian Detroit Union Group (Inc.) owned all or practically all of the capital stock (except directors' qualifying shares) of 10 national banks, 2 located in Jackson and 1 in each of the cities of Battle Creek, Detroit, Grand Rapids, Kalamazoo, Lansing, Niles, Port Huron, and Saginaw, 6 State banks, members of Federal reserve system, 2 located in Detroit and 1 in each of the cities of Dearborn, Flint, Highland Park, and Port Huron; 6 State banks nonmembers of Federal reserve system, 2 located in Dearborn and one in each of the cities of Detroit, Grosse Pointe Park, Hamtramck, and Trenton, and 5 trust companies, limited to purely fiduciary activities under the Michigan law, 2 located in Detroit and one in each of the cities of Flint, Grand Rapids, and Highland Park, with capital, surplus, deposits, and resources as follows:

Units in which the Guardian Detroit Union Group (Inc.), holds a controlling interest, recapitulation

	Capital	Surplus	Undivided profits and reserves	Deposits	Resources
10 national banks	$10,200,000.00	$10,500,000.00	$4,189,210.70	$176,707,176.87	$205,977,951.18
6 State banks (members Federal reserve system)	12,600,000.00	7,510,000.00	3,121,497.18	155,884,329.58	181,519,387.12
6 State banks (nonmembers Federal reserve system)	1,250,000.00	492,150.00	159,174.88	10,130,710.62	12,697,578.86
5 trust companies	7,550,000.00	4,574,000.00	1,653,977.77	58,117,955.12	76,194,525.05
	31,600,000.00	22,626,150.00	9,123,860.53	400,840,172.19	476,389,442.21

On March 27, 1930, the Guardian Detroit Union Group (Inc.), also owned an approximate 40 per cent interest in seven small State banks nonmembers of the Federal Reserve System.

In order to complete the record, detailed figures are submitted for the information of the committee, marked Appendix II.

(The document referred to is printed in full at the conclusion of Mr. Lord's testimony.)

4. NAME AND CAPITAL STRUCTURE OF CORPORATIONS OTHER THAN COMMERCIAL BANKS AND TRUST COMPANIES, THE MAJORITY OF THE STOCK OF WHICH IS OWNED BY GUARDIAN DETROIT UNION GROUP (INC.).

On March 27, 1930, Guardian Detroit Union Group (Inc.), owned either directly or indirectly all or substantially all of the capital stock of two joint stock land banks; nine securities companies; one

title guaranty company; two building companies; and one safe deposit company, all located in Michigan, excepting one Joint Stock Land Bank Co., whose principal place of business was Cleveland, Ohio, and one securities company in California, with a nominal capital of $10,000.

In order to complete the record, detailed figures as to capital stock, surplus, undivided profits, reserves and total resources of these corporations (marked "Appendix III") are submitted for the information of the committee.

(The document referred to is printed in full at the conclusion of Mr. Lord's testimony.)

5. METHOD OF ACQUIRING BANKS AND CORPORATIONS

As previously indicated under the original articles of association (charter) of Guardian Detroit Group (Inc.), the company may, upon the affirmative vote of three-fourths of its board of directors, issue and dispose of unissued or increased stock of said company for the purpose of acquiring stocks of banks or trust companies without offering to the stockholders of the company for subscription the stock to be so disposed of. By special provision of said charter, it is provided that the stockholders of said company shall be individually and severally liable (in proportion to the number of shares of stock held by them respectively) for any statutory liability imposed on such company by reason of its ownership of such shares of the capital stock of any bank or trust company.

In accordance with these provisions of the charter, Guardian Detroit Group (Inc.), acquired all or substantially all of the capital stock of the following institutions (except directors qualifying shares):

Guardian Detroit Bank, Detroit, Mich.
Guardian Trust Co., Detroit, Mich.
Guardian Detroit Co., Detroit, Mich.
Highland Park State Bank, Highland Park, Mich.
Highland Park Trust Co., Highland Park, Mich.
Bank of Dearborn, Dearborn, Mich.
National Union Bank & Trust Co., Jackson, Mich.
Federal Commercial & Savings Bank, Port Huron, Mich.
First National Bank & Trust Co., Port Huron, Mich.
Bank of Detroit, Detroit, Mich.

While Guardian Detroit Group (Inc.), was negotiating with and acquiring the above-listed institutions another company, called the Union Commerce Corporation, of Detroit, Mich., had acquired all or substantially all of the capital stock (except directors' qualifying shares) of the following institutions:

National Bank of Commerce, Detroit, Mich.
Union Trust Co., Detroit, Mich.
Union Co., Detroit, Mich.
Michigan Industrial Bank, Detroit, Mich.
Union State Bank, Dearborn, Mich.
Bank of Commerce, Dearborn, Mich.
Jefferson Savings Bank, Grosse Pointe, Mich.
Union Joint Stock Land Bank, Detroit, Mich.
Ohio-Penn. Joint Stock Land Bank, Cleveland, Ohio.
City National Bank & Trust Co., Battle Creek, Mich.
Keane, Higbie & Co., Detroit, Mich.
Union Industrial Bank and Union Industrial Trust Co., Flint, Mich.

Union Commerce Corporation had also acquired through exchange of its stock an approximate 40 per cent interest in seven small banks located entirely in agricultural communities. In two other cases 58 per cent and a 78 per cent interest was acquired. In acquiring the Ohio-Penn. Joint Stock Land Bank of Cleveland, Ohio, the Union Commerce Corporation exchanged its own stock for a portion of the Land Bank stock and in addition, purchased a large number of shares for cash. In the case of one other bank, the Union Commerce Corporation after exchanging its stock entered into an agreement with the stockholders wherein the Union Commerce Corporation purchased a considerable number of shares for cash.

Early in September of 1929, representatives of Guardian Detroit Group (Inc.) and Union Commerce Corporation discussed the possible advantages which might arise from a merger of the two companies. The discussion pointed out manifest benefits, and accordingly a proposed plan and agreement was drawn up providing for the acquisition of the stock of Union Commerce Corporation by Guardian Detroit Group (Inc.) through exchange of shares on a share for share basis after declaration of a 20 per cent stock dividend by Guardian Detroit Group (Inc.)

On December 17, 1929, the plan was declared operative—the title of Guardian Detroit Group (Inc.) thereupon being changed to Guardian Detroit Union Group (Inc.), which is its title to-day. Through this merger the latter company acquired ownership of stock in the financial institutions and other corporations referred to in the preceding paragraphs.

Subsequently, Guardian Detroit Union Group (Inc.) acquired by exchange of stock all or substantially all of the stock, except directors' qualifying shares, of the following institutions:

Peoples National Bank of Jackson, Mich.
City National Bank & Trust Co., Niles, Mich.
Capital National Bank of Lansing, Mich.
Grand Rapids National Bank, Grand Rapids, Mich.
First National Bank & Trust Co., Kalamazoo, Mich.
Grand Rapids Trust Co., Grand Rapids, Mich.
Second National Bank & Trust Co., Saginaw, Mich.

Subsequent to March 27, 1929, which date has been selected for the data included in this statement, Guardian Detroit Union Group (Inc.) acquired (on April 8, 1930) practically all of the capital stock, except directors' qualifying shares, of the National Bank of Ionia, Mich.

In figuring the basis of exchange of stock of the group company for that of the banks or trust companies acquired, it may be stated that, in general, the method was to reduce to a parity of actual value both the stock of the holding company and the stock of the bank to be acquired; and earnings of both institutions were also reduced to a parity—both factors being given due consideration in arriving at a basis satisfactory to both parties at interest. In this manner any tendency toward dilution of either actual value of the shares of earning power was minimized.

Actual values were determined by an examination of the assets of the bank with which negotiations were under way; and the bank, through its representatives, in turn, was afforded an opportunity to satisfy itself as to the value of the shares of the group company.

On March 27, 1930, Guardian Detroit Union Group (Inc.) owned all or substantially all of the stock of 27 banks and/or trust companies and a minority interest in seven additional banks. This is exclusive of the two joint-stock land banks owned. Many of the units acquired already had existing branches within the city limits of the municipality in which located. The total number of locations at which banking business is now transacted aggregates 102, exclusive of the seven banks in which a minority interest is owned.

6. CAPITAL STRUCTURE OF GUARDIAN DETROIT UNION GROUP (INC.)

Guardian Detroit Union Group (Inc.) has but one class of capital stock of $20 par value. To date 2,500,000 shares have been authorized, of which there are at present issued and outstanding 1,544,844 shares, representing a total of $30,896,880 par value out of a total authorized capital of $50,000,000.

These shares have been validated by the Michigan Securities Commission and were listed on the Detroit Stock Exchange on February 8, 1930.

It may be of interest to state at this juncture that Guardian Detroit Union Group (Inc.)—a Michigan corporation—is distinctly a Michigan institution inasmuch as 7,192 stockholders out of a total of 8,090 are residents of Michigan; 88.9 per cent of the stockholders reside in Michigan, and these Michigan stockholders own 92.64 per cent of the total stock now outstanding; New York City with 150 stockholders owns only 2.13 per cent of the total shares outstanding.

Details as to the geographical location of the stockholdings of the group company are as follows as of April 1, 1930:

DISTRIBUTION OF STOCK

The distribution of shares of Guardian Detroit Union Group (Inc.), according to the records as of April 1, 1930, was as follows:

Area	Number of stockholders	Total shares held	Percentage of stockholders to total	Percentage of stock to total	Average share holding
Michigan	7,192	1,424,390	88.90	92.64	198.05
New York City	150	32,751	1.85	2.13	218.34
Eastern part of United States (exclusive of New York City	244	31,303	3.02	2.04	128.29
Central part of United States	296	30,190	3.66	1.96	101.99
Western part of United States (west of Mississippi)	170	17,762	2.10	1.16	104.48
Outside of United States	38	1,119	.47	.07	29.45
Outside of Michigan, total	898	113,125	11.10	7.36	125.97
Michigan, total	7,192	1,424,390	88.90	92.64	198.05
	8,090	1,537,515	100.00	100.00	190.05

7. RELATIONS BETWEEN GUARDIAN DETROIT UNION GROUP (INC.) AND BANKS ACQUIRED

I believe that the information which the committee has requested on this subject can best be given by reading excerpts from confidential bulletin No. 1 of Guardian Detroit Union Group (Inc.):

dated January 2, 1930, copies of which were furnished to all officers and directors of unit members of the group. (Complete text included in Appendix IV.)

(The documents referred to are printed in full at the conclusion of Mr. Lord's testimony.)

From its inception Guardian Detroit Union Group (Inc.) has stood committed to the fundamental policy of developing the standing and prestige of local management and has placed the responsibility of such management upon the local boards of directors and local officers.

Article VI of the by-laws of the group provides:

Whenever at any meeting of the stockholders of a bank or trust company of which this corporation shall at the time own 75 per cent or more of the outstanding stock, an election of a board of directors is held, the shares of such bank or trust company owned by this company shall be voted in favor of the election of a board of directors of which at least 75 per cent shall consist of directors residing in the municipality where said bank or trust company is located or within a radius of 50 miles thereof.

To further carry out these policies, the board of directors of Guardian Detroit Union Group (Inc.) adopted the following resolutions:

Resolved, That credit based upon the deposits in a local bank, which is a unit member of Guardian Detroit Union Group (Inc.), shall be controlled wholly by the board of directors and the officers of the local unit bank; and

Resolved, That Guardian Detroit Union Group (Inc.) in its relationships with local banks which are unit members of the group, accepts as its sole function, responsibility, and duty—to provide stronger support to the banks and a more secure basis for these institutions—and the officers and staff of the group be, and they hereby are, directed to devote their energies and restrict their activities accordingly.

In order to put into effect these broad policies and such other more specific courses of action as may be adopted in conformity thereto, it is necessary to develop a form of organization for the group which will not only allow the greatest possible latitude in the transaction of local business, but will also, by a process of mutual education, make constantly available to each unit all the accumulated knowledge and expert opinion possessed by all the other units.

In considering this subject of the organization and functions of the group company, it should be borne in mind that (the banking laws) Act No. 66, public acts of 1929, State of Michigan, effective April 19, 1929, provides—

SEC. 14. The affairs of each bank shall be managed by a board of not less than five directors * * *.

SEC. 15. The board of directors, or a quorum thereof, * * * shall meet at least once each month and shall at such meetings examine the loans and investments made by the officers thereof since the last meeting of such board and shall review the other transactions of such bank. It shall cause to be spread upon the records of such bank, in the record book thereof which shall be kept for that purpose, the minutes of such meeting and all its actions thereat, including the approval of all loans required to be approved by the board of directors * * *.

SEC. 17. The board of directors of each bank shall appoint from its members or stockholders an examining committee, or committees, not including any officer who has active management of the bank, whose duties it shall be to examine the condition of the bank at least once every six months. The examining committee shall report to the board, giving in detail all items included in the assets of the bank which they have reason to believe are not of the value at which they appear on the books and records of the bank, and giving

the value of each of such items as in their judgment they may have determined.

From the above paragraphs it is evident that in each local bank incorporated or existing under the act referred to, and similarly in each bank chartered under the national banking act, the directors have certain statutory duties, for the satisfactory performance of which they are held personally responsible, and which can not be by them delegated to any other person or persons.

Aside from the bald illegality of any attempt to ursurp the functions or hamper the activities of the board of directors of a local unit bank, such a course would run directly counter to prudence, good judgment and commen sense. Experience indicates that the bulk of profitable business enjoyed by a given bank is the result of the personal efforts of directors and officers. Hence, any policy which impairs, even in the slightest degree, the prestige and enthusiasm of a local board of directors is a body-blow at the growth of the local unit bank, and therefore at the growth and prosperity of the group as a whole.

The deliberate adoption of policies so obviously suicidal is unthinkable; nevertheless, extreme care must be exercised to insure that group management does not perhaps unconsciously encroach upon the statutory and customary authority and responsibility of the unit-bank management. Accordingly, it was deemed advisable to particularly emphasize "the group policy of noninterference with local management," by formal action of the group board of directors. It was, therefore,

Resolved, That the board of directors of each local unit institution in Guardian Detroit Union Group (Inc.), is responsible for the management of the affairs of the institution in question; and that the officers of each unit institution in the group are responsible directly to the board of directors for their own institution and to no other authority, except the law.

In brief, the local banks, trust companies, and other unit members of the group are, and should be, considered as enjoying all the rights and accepting all the responsibilities of full partnership in the group, among the advantages of which are:

First. Each separate institution has the backing of resources many times greater than its own, giving the depositor even greater assurance as to the safety of his funds.

Second. The larger local corporations need no longer go to New York or Chicago for such accommodations as they may need in the matter of loans. The group should be able to provide all the funds to which any of the local corporations are entitled.

Third. The depositors will have available to them the credit information and the financial and investment advice of a large organization, including specialists in many lines. A single institution of moderate size could not afford to employ such experts.

Fourth. The depositors are assured of the continuance of capable management of the local institution. The group company must, of necessity, be in a position to furnish capable personnel to any unit member of the group when called upon to do so.

Fifth. The group provides contact with innumerable types of businesses and cooperation in developing new business for clients.

Sixth. The original stockholders of the unit bank, after exchanging their stock for stock of the group company, will have a diver-

sity of risk, dependent not alone on the prosperity of their local community but supplemented by larger resources with the investment spread over banking institutions located in many cities—in banks serving a wide range of industry and territory.

Seventh. Their new group stock is part of an issue of much greater number of shares, owned by thousands rather than hundreds of investors, giving them a broader and more active market in case they care to buy or sell—a stock recognized as desirable collaterial in every large city in the country.

Of course the advantages referred to above can be obtained only as a result of establishing sound policies uniformly throughout the group, developing unit organizations with the ability to put these policies into effect, and providing a means of measuring the degree in which these policies are effectively applied. The problem is to devise a form of organization which will accomplish these purposes without in any way infringing upon local autonomy.

GENERAL FUNCTIONS OF GROUP COMPANY

It would appear that the board of directors of the group company (upon which practically all units are represented by one or more directors) could, with perfect properity, announce its belief in the soundness of a given policy, and request the president to bring it, as a "recommended policy" to the attention of the boards of directors of all unit member institutions liable to be benefited thereby.

The board of directors of the local unit institution would be at liberty to agree or disagree with the recommendation, but when, as and if approved by the local board, it would become the "approved policy" of the local unit institution.

Both the board of directors of the local unit institution and that of the group would have, then, a joint interest in seeing that these approved policies are put into effect. They also have a natural desire to know the degree of conformity to established policies attained by the local unit in question and how it compares in relative operating efficiency with other units of the group.

Apparently, then, the group company can perform the following useful functions for the local unit institutions without in any way violating the basic policy of encouraging local management to run their own banks, namely:

(*a*) Acting as a clearing house for information bearing upon policies, practices, and results obtained by the various member unit institutions.

(*b*) Systematically making available to all units the practice of the best with a view to enabling all to reach the highest standards of operation and resultant profit.

(*c*) Providing expert advice at minimum cost in regard to tax and insurance matters and extraordinary legal questions.

(*d*) Providing capable supervision in connection with building construction and management.

(*e*) Coordinating business development activities.

(*f*) Purchasing standard equipment and supplies in quantity.

(*g*) The group company should also provide an independent examining force, in no way responsible for the condition which its

examination discloses, to supplement the work of the board of directors of a local unit in connection with the examining responsibilities imposed by statute.

In brief, it should be the principal function of the group company to act in an advisory capacity—recommending to the boards of the local units, policies, practices, economies, and so forth.

The local boards and the local officers of the units must operate their own banks or trust companies. They are better able to know and judge local conditions.

Guardian Detroit Union Group (Inc.) is not engaged in the banking business and has no intention of engaging in the banking business. However, the need for coordinating activities of the various member institutions requires some sort of organizations, in order to achieve the increased efficiency which may reasonably be expected from separate organizations imbued with a desire and a will to help each other in providing the best possible service for the community served. Accordingly, the following committees were elected by the board of directors: Advisory committee, executive committee, operating committee.

The advisory committee is largely a policy-making committee, its membership is comparatively small, and includes no active operating officers of any unit. This committee has entire freedom in criticizing either the policies or the management of any unit or any department of the associated institutions. Its meetings are not held on stated days, but upon the call of the chairman. Operating heads of units or departments have the advice and assistance of this committee as to any questions under consideration. The advisory committee, as at present constituted, includes the following:

Fred T. Murphy, chairman, trustee Murphy Family Trusts.
James Inglis, president American Blower Corporation.
Henry E. Bodman, counsel Guardian Detroit Union Group (Inc.), Detroit, Mich.
Roy D. Chapin, chairman of board Hudson Motor Car Co., Detroit, Mich.
Edsel B. Ford, president Ford Motor Co., Dearborn, Mich.
Charles H. Hodges, vice president American Radiator & Standard Sanitary Corporation, Detroit, Mich.
Ernest Kanzler, president Universal Credit Corporation, Detroit, Mich.
Alvan Macauley, president and general manager Packard Motor Car Co., Detroit, Mich.
George V. Morley, chairman of board Second National Bank and Trust Co., Saginaw, Mich.
Charles S. Mott, vice president General Motors Corporation, Detroit, Mich.
Jerome H. Remick, president Detroit Creamery Co., Detroit, Mich.
John R. Russel, director Union Guardian Trust Co.
Murray W. Sales, president Murray W. Sales & Co., Detroit, Mich.
Charles B. Warren, attorney, Warren, Hill & Hamblen, Detroit, Mich.

The executive committee includes several members of the advisory committee, together with other members of the board of directors who are operating men in the organizations in the group. Its duties are much the same as any executive committee, empowered to act on behalf of the board of directors.

The operating committee is made up of the operating heads of the various large units in the group. Its function is to discuss operating details, new business, and other matters pertaining to direct operations of the various institutions, which would make for better and more economical operation and for the further growth and development of the units in the group.

The following are members of the operating committee:

James L. Walsh, chairman, vice president Guardian Detroit Bank.
Frank W. Blair, chairman of board Union Guardian Trust Co., Detroit, Mich.
Frank M. Brandon, president City National Bank & Trust Co., Niles, Mich.
Joseph H. Brewer, president Grand Rapids National Bank, Grand Rapids, Mich.
Harry S. Covington, executive vice president National Bank of Commerce, Detroit, Mich.
Frank E. Gorman, vice president and cashier Capital National Bank, Lansing, Mich.
Stephen A. Graham, president Federal Commercial & Savings Bank, Port Huron, Mich.
John C. Grier, jr., president Guardian Detroit Co., Detroit, Mich.
Carlton M. Higbie, chairman of board Keane, Higbie & Co., Detroit, Mich.
George B. Judson, president Bank of Detroit, Detroit, Mich.
Charles A. Kanter, executive vice president National Bank of Commerce, Detroit, Mich.
Samuel R. Kingston, executive vice president and cashier National Bank of Commerce, Detroit, Mich.
Robert O. Lord, president Guardian Detroit Bank, Detroit, Mich.
Duncan J. McNabb, president Keane, Higbie & Co. (Inc.), Detroit, Mich.
Frank J. Maurice, executive vice president Highland Park State Bank, Highland Park, Mich.
E. R. Morton, vice president and cashier City National Bank & Trust Co., Battle Creek, Mich.
Phelps Newberry, vice president Union Guardian Trust Co., Detroit, Mich.
Bert K. Patterson, vice president and treasurer Guardian Detroit Union Group (Inc.), Detroit, Mich.
Herbert S. Reynolds, president Union and Peoples National Bank, Jackson, Mich.
Alex. Robertson, vice president National Bank of Ionia, Ionia, Mich.
Henry H. Sanger, president National Bank of Commerce, Detroit, Mich.
Earl H. Shepherd, vice president First National Bank & Trust Co., Kalamazoo, Mich.
R. Perry Shorts, president Second National Bank & Trust Co., Saginaw, Mich.
John N. Stalker, president Union Guardian Trust Co., Detroit, Mich.
Arthur H. Vogt, vice president and comptroller Guardian Detroit Union Group (Inc.), Detroit, Mich.
Herbert R. Wilkin, executive vice president Union Industrial Bank, Flint, Mich.

Instead of setting up a number of departments or divisions in the group company, certain staff officers have been appointed to assist the president of the group company in coordinating and stimulating the activities of local institutions in accordance with "approved policies."

A complete list of the entire personnel of the group company is included in the annual report which is attached as Appendix V.

(The document referred to is printed in full at the conclusion of Mr. Lord's testimony.)

With the exception of the vice president and treasurer, and the secretary of the group company, the official personnel of Guardian Detroit Union Group (Inc.) is made up entirely of talent loaned by the members of the group. The salaries, except in the instances given above, are paid by the local units of which the individual is an officer. This is in order to keep at a minimum the expense of the group organization and at the same time supply to the units of the group the best available advice on special subjects.

In the official organization of the group company, we have a group of active officers and advisory officers who, through their knowledge and experience, should prove to be of great service to

all of the units in the group. All operating heads are encouraged to write to the group company on any questions wherein it is felt that the staff of the group company can be helpful. Communications are ordinarily addressed to the president and by him referred, if necessary to the proper officer in the group organization for necessary action.

The advisory committee concerns itself only with the consideration of broad questions which affect the policy of the group as a whole; and the executive committee is limited in its activities to functioning in lieu of the board during the interval between regular quarterly meetings. However, the operating committee is intended to be the instrumentality to which the operating heads of the various unit members bring their day-to-day operating problems. In this connection, I think it would be of interest, inasmuch as we are dealing with a new kind of organization—to read a few extracts from the minutes of the first meeting of this operating committee:

> The chairman outlined the purposes of the meeting, quoting from the annual report of the president of Guardian Detroit Union Group (Inc.), as follows: "The operating committee is made up of the operating heads of the various large units in the group. Their function is to discuss operating details, new business, and other matters pertaining to direct operations of the various institutions, which would make for better and more economical operation and for the further growth and development of the units in the group."

It was pointed out that the operating committee consists, as present, of 27 members, and that it is apparently expected to take cognizance of all matters which have a bearing upon efficient and economical operation, or which may be expected to have an effect upon the growth of any banking, fiduciary, or investment unit, or of the group as a whole. It was the concensus that with such a large membership and such a broad range of activities, the operating committee can function most effectively through the organization of subcommittees, appointed to consider specific questions and to make appropriate reports and recommendations to the operating committee.

It was agreed that the operating committee should be represented by one of its own members on each subcommittee, but that the entire field of group official personnel should be drawn upon freely in making up the membership of the various subcommittees.

The chairman emphasized the importance of actually carrying out the policy laid down at the first meeting of the board of directors of the group company, namely, that the unit instructions were to continue to function independently and subject only to the control of their respective boards of directors and officers. He explained that the operating committee was essentially a voluntary gathering of operating heads of unit banks, trust companies, and other financial organizations who plan to foregather, from time to time, with a view to interchanging ideas; to determine, as the result of general discussion, the best banking policies and practices to the end that each "recommended policy" should be adopted by such units as saw fit to recognize the sheer logic of the suggestion, after taking into full account the exigencies of its local situation.

The chairman requested all members to consider the meetings of the committee as a forum for the discussion of, and a clearing house for, information bearing upon local-banking policies, operating methods, difficulties encountered, and results obtained by the various

member unit institutions, with a view of systematically making available to all units the practices of best so as to enable all to reach the highest standards of operations and resultant profit.

The chairman suggested that it was entirely possible that certain recommended policies might be applicable to certain member unit institutions and obviously inapplicable to others, and, accordingly, that votes be taken by units on each separate question considered by the operating committee so that proper flexibility of application would be insured without sacrificing the greatest possible degree of harmonious operation.

8. GEOGRAPHICAL AREA

In determining the geographical area into which Guardian Detroit Union Group (Inc.) has so far extended its operations, we were fortunate in having a natural, relatively compact trade area lying almost wholly within the State of Michigan. We have to date confined our operations entirely to the lower Peninsula of Michigan, the upper peninsula forming no part of the natural trade area.

All corporations now a part of the Guardian Detroit Union Group (Inc.) are located within the confines of the State of Michigan with the exception of the Ohio-Pennsylvania Joint Stock Land Bank, Cleveland, Ohio, and the Guardian Detroit Co., of California, a securities sales organization operating with a nominal capital of $10,000 and with offices in Los Angeles and San Francisco, Calif.

We have no present intention of crossing State lines, although economically Toledo and other Ohio cities are within the trade area of Detroit.

We feel at this time that group or branch banking should so far as our own activities are concerned be confined to an area which by the very nature of its business and industries is more or less dependent upon Detroit.

9. AUDIT AND EXAMINATION

Guardian Detroit Union Group (Inc.), is fortunate in having as vice president and treasurer, Mr. Bert K. Patterson, formerly chief national bank examiner of the seventh Federal reserve district, assisted by other former national bank examiners and assistants. These examiners made, during the formative stages of the group, detailed examinations of banks with which negotiations were under way, and their findings were used in determination of values and earnings necessary to arrive at an equitable basis for exchange of stocks.

These gentlemen have now completed a thorough examination of each unit member institution and, generally speaking, followed the same procedure as do national bank examiners, except that they are allowed much more time than is ordinarily permissible for regular examinations of national banks by the comptroller's representatives. Their examination is perhaps more comprehensive as to the condition of the banks.

We contemplate having examinations made by these gentlemen of all unit banks at least twice each year, examinations of course to be in addition to those of national or State examiners.

The unit banks forward to the group office each week a balance sheet statement of their condition which is used principally to keep the officers of the group company advised of any important fluctuations in the main accounts of the bank—for example, marked increases or decreases in deposits, etc. The unit banks also forward to the group office a balance sheet at the end of each month. These figures are assembled and consolidated. Likewise, the unit banks forward at the end of each month a statement of their earnings. These are also combined to note progress made from month to month.

All unit members of Guardian Detroit Union Group (Inc.) are gradually establishing the accrual system, in accordance with the most modern practice. Besides establishing a uniform method of bookkeeping and minimizing the possibilities of errors and inaccuracies, it is felt that the accrual system is an additional safeguard against possible loss in that it tends to show up any unusual transaction or series of transactions and thus invite immediate investigation as to the reasons therefor.

CONCLUSIONS

I think this completes the information which your chairman requested me to furnish. Before concluding my statement, I should like to say that if there is any other information desired by the committee, I shall be glad to have it prepared promptly and forwarded to the committee for inclusion in the record.

In that part of the latest Report of the Comptroller to Congress, under the heading, "Legislation Recommended," I note that the comptroller recommends the enactment of legislation which will bring the operations of bank holding companies under some degree of Federal supervision. The Guardian Detroit Union Group (Inc.) would welcome the expansion of the visatorial power of the comptroller to include all of the corporations in which we are interested.

The comptroller also recommended a further amendment to safeguard the additional shareholders' liability which each such bank holding company incurs through the ownership of the shares of national bank stock. As you will have noted from my statement, Guardian Detroit Union Group (Inc.), through the provisions of its charter filed May 10, 1929, Article IX, provided for this double liability, feeling that the depositor should be given every possible protection and safeguard.

As I see the situation to-day, we are confronted with the following facts:

(*a*) During the nine years ended December 31, 1929, 5,640 banks failed, with aggregate deposits exceeding $1,700,000,000, affecting the savings of over 7,000,000 depositors, and causing 114,000 shareholders very serious losses.

(*b*) During the last calendar year, there were 640 bank failures which caused the tying up of $234,000,000 of deposits—the greatest of any year in the decade except 1926.

(*c*) It is perfectly obvious that there is something radically wrong with a system of banking which permits such unusual hardships to be imposed over a wide geographical area, particularly in the smaller communities.

(*d*) During the same period, there have been no important failures among the banks in the larger cities.

(*e*) All attempts to improve matters by legislation requiring the guaranty of deposits or the like, have been proven to be economically unsound, and have been practically abandoned.

(*f*) Federal reserve banks are not charged with the responsibility of preventing bank failures and it is clearly beyond the power of any governmental agency to stand between banks and insolvency.

(*g*) Intensification of the present correspondent system has been suggested as a remedy, with the thought that the technical banking experience and approved metropolitan banking methods should be made available to a greater degree to smaller banks. Probably every failed bank was a correspondent of some metropolitan bank, but that fact has not prevented failures at the rate of more than 500 per year. In any event, there would be no obligation, under the correspondent system, for the metropolitan banks to protect the local depositors of their country correspondents.

In the final analysis, successful banking depends upon able management and upon outside economic conditions. Through branch or group banking, management for the smaller communities can undoubtedly be improved in the vast majority of cases—and through a larger institution properly capitalized with large financial resources and diversification of assets and carefully supervised both by the organization itself and by the government authorities, much greater protection can be given to the depositors and shareholders.

To my mind, there is no probability of undue concentration of capital, nor of the building up of a monopoly—for so long as the banking business can be made to earn with safety a satisfactory return, competition will exist, and new banks will continue to be organized in the future as in the past.

I am in full agreement with Gov. Roy A. Young, of the Federal Reserve Board, in his statement before this committee, that group, chain and branch banking have developed because of business necessity, even though there has been little encouragement for it in the way of legislation. Manifestly, more than one-half of the total banking resources of the country, measured in terms of loans and investments, would not now be held by branch, chain, and group systems unless there had been some good reason for this great growth. With him, I regard it as a natural development.

While undoubtedly economies of operation would result from the conversion of some of the present group systems into branch systems, I question whether this should be forced by legislation. There is a very definite advantage arising from the retention, by a local bank, of its own name and identity which, in most cases, has a long and honored significance in the eyes of the local public. Even though branch banking were permitted statewide in Michigan, at the present time it is likely that some of our unit banks would be kept as units, retaining their own corporate identity. In any event, I should like to emphasize that the financial mechanism of the country is a delicately balanced machine, and I respectfully urge upon you gentlemen that whatever course you decide to pursue should be tempered with the knowledge that its effects are likely to be far reaching. It seems to me that we must seek improvement

through evolution, rather than revolutionary measures, and allow time for the entire banking structure to adapt itself to the new order.

I want to thank the members of the committee for their courtesy in permitting me to cover this subject in my own way, without interruption, I shall be glad to answer, to the best of my ability, any questions which may occur to the members of this committee.

(The documents referred to are as follows:)

APPENDIX I

UNITED STATES OF AMERICA,
THE STATE OF MICHIGAN,
DEPARTMENT OF STATE.

To all to whom these presents shall come:

I, John S. Haggerty, secretary of state of the State of Michigan and custodian of the great seal thereof, do hereby certify that articles of association of Guardian Detroit Group (Inc.) were duly filed in this office on the 10th day of May, A. D., 1929, and the said company is authorized to commence its business in conformity with Act 84, Public Acts of 1921, as amended.

In testimony whereof I have hereunto set my hand and affixed the great seal of the State at the capitol, in the city of Lansing, this 10th day of May A. D., 1929.

[SEAL.]

JOHN S. HAGGERTY,
Secretary of State.

ARTICLES OF ASSOCIATION OF GUARDIAN DETROIT GROUP (INC.)

We, the undersigned, desiring to become incorporated under the provisions of Act No. 84 of the Public Acts of 1921, entitled "An act to provide for the organization, regulation and classification of domestic corporations; to prescribe their rights, powers, privileges and immunities; to prescribe the conditions upon which corporations may exercise their franchises," etc., do hereby make, execute, and adopt the following articles of association, to wit:

ARTICLE I

The name assumed by this association, and by which it shall be known in law is Guardian Detroit Group (Inc.).

ARTICLE II

This corporation intends to proceed under section 1, chapter 1, part 1, of the above act.

ARTICLE III

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

ARTICLE IV

Principal place where company will operate is Detroit, in the county of Wayne, State of Michigan.

Address of main office in Michigan is Penobscot Building, Detroit.

ARTICLE V

The total capital stock authorized is $7,500,000.
The amount subscribed is $1,000.
The amount paid in is $1,000.

The number of shares of common stock is 150,000 of the par value of $50 each.

Amount of common stock, paid for in cash is $1,000.

The amount of actual capital, in cash or property or both, which this corporation owned and possessed at the time of executing these articles is $1,000.

ARTICLE VI

The term of this corporation is fixed at 30 years.

ARTICLE VII

Names of stockholders, their residences and shares subscribed by each are:

	Number of shares
Henry E. Bodman, 20 McKinley Place, Grosse Pointe Farms, Mich	1
Edsel B. Ford, 100 Lake Shore Road, Grosse Pointe Shores, Mich	1
John C. Grier, jr., 8100 East Jefferson Avenue, Detroit, Mich	1
Sherwin A. Hill, Northville, Mich	1
Ernest Kanzler, 2501 Iroquois Avenue, Detroit, Mich	1
Robert O. Lord, 17 McKinley Place, Grosse Pointe Farms, Mich	12
Fred T. Murphy, 17620 East Jefferson Avenue, Grosse Pointe, Mich	1
Phelps Newberry, 36 Cloverly Road, Grosse Pointe Farms, Mich	1
James L. Walsh, 8161 East Jefferson Avenue, Detroit, Mich	1

ARTICLE VIII

The officers and directors for the first year of the corporation's existence, are as follows:

Directors:

Henry E. Bodman, Penobscot Building, Detroit, Mich.
Edsel B. Ford, Ford Motor Co., Dearborn, Mich.
John C. Grier, jr., Penobscot Building, Detroit, Mich.
Sherwin A. Hill, Union Trust Building, Detroit, Mich.
Ernest Kanzler, Penobscot Building, Detroit, Mich.
Robert O. Lord, Penobscot Building, Detroit, Mich.
Fred T. Murphy, Penobscot Building, Detroit, Mich.
Phelps Newberry, Penobscot Building, Detroit, Mich.
James L. Walsh, Penobscot Building, Detroit, Mich.

Officers:

Henry E. Bodman, chairman of the board, Detroit, Mich.
Robert O. Lord, president, Detroit, Mich.
John C. Grier, jr., vice president, Detroit, Mich.
James L. Walsh, vice president, Detroit, Mich.
Phelps Newberry, vice president and treasurer, Detroit, Mich.
Lewis K. Walker, secretary, Detroit, Mich.
Arthur T. Vogt, assistant treasurer, Detroit, Mich.
Robert C. Lehman, assistant secretary, Detroit, Mich.

ARTICLE IX

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

This corporation reserves and shall have the right from time to time upon the affirmative vote of three-fourths of its directors to issue and dispose of all or any of its unissued or increased stock for the purpose of acquiring stock of banks or trust companies, without offering to the stockholders of this corporation for subscription any of the stock so to be disposed of.

In witness whereof, we, the parties designated as provided by law by the parties associating, as shown under Article VII of these articles, for the

purpose of giving legal effect to these articles, hereunto sign our names this 9th day of May, A. D. 1929.

HENRY E. BODMAN.
JOHN C. GRIER, Jr.
ROBERT O. LORD.

STATE OF MICHIGAN,
County of Wayne, ss:

On this 9th day of May, A. D. 1929, before me, a notary public in and for said county, personally appeared Henry E. Bodman, John C. Grier, jr., and Robert O. Lord, known to me to be the persons named in, and who executed the foregoing instrument, and severally acknowledged that they executed the same freely and for the intents and purposes therein mentioned.

JOSEPH I. WEBB.
Notary Public, Wayne County, Mich.

My commission expires November 19, 1929.

This is to certify that at the organization meeting of the incorporators of Guardian Detroit Group (Inc.), a corporation to be formed under Act 84, Public Acts of 1921, of the State of Michigan, as amended, held this 9th day of May, 1929, the following resolution was unanimously adopted and that the undersigned was elected to act and did act as secretary of said meeting:

Resolved, That Henry E. Bodman, John C. Grier, jr., and Robert O. Lord, be, and they are hereby designated to sign and acknowledge the Articles of Association of Guardian Detroit Group (Inc.), for themselves and for the remainder of the incorporators of said corporation.

JOHN C. GRIER,
Secretary of the Organization Meeting of Guardian Detroit Group (Inc.).

MICHIGAN DEPARTMENT OF STATE,
CORPORATION DIVISION,
C–6240. *May 31, 1929.*

Received of Guardian Detroit Group (Inc.), five and no/100 dollars. (For filing amendment, $5.)

JOHN S. HAGGERTY, *Secretary of State.*

MICHIGAN DEPARTMENT OF STATE,
CORPORATION DIVISION,
C–5655 *May 10, 1929.*

Received of Guardian Detroit Group (Inc.), three thousand seven hundred and fifty-five and no/100 dollars. (For franchise fee, articles, $3,750, filing articles, $5.)

JOHN S. HAGGERTY, *Secretary of State.*

CERTIFICATE OF AMENDMENT TO THE ARTICLES OF ASSOCIATION OF THE GUARDIAN DETROIT GROUP (INC.)

We, the undersigned, being the president and secretary of the Gurdian Detroit Group (Inc.), a corporation existing under the provisions of Act. No. 84 of the Public Acts of 1921, as amended, do hereby certify, as required by section 9, chapter 1, Part II of said act:

That at a meeting of the stockholders of said corporation expressly called for the purpose of amending its articles of association and held at the office of said company on the 23d day of May, A. D. 1929, it was resolved by the unanimous vote of the capital stock of said corporation, that Article V of the articles of association be, and the same is, amended so as to read as follows, viz:

"ARTICLE

"The total capital stock authorized is $7,500,000.
"The amount subscribed is one thousand dollars ($1,000).
"The amount paid in is one thousand dollars ($1,000).
"The number of shares of common stock is 375,000 of the par value of $20.

"The amount of common stock paid for in cash is one thousand dollars ($1,000).

"The amount of actual capital in cash or property or both which this corporation owned and possessed at the time of executing these articles is one thousand dollars ($1,000)."

In witness whereof we hereunto sign our names this 23 day of May, A. D. 1929.

ROBERT O. LORD, *President.*
L. K. WALKER, *Secretary.*

(Indorsement:)

STATE OF MICHIGAN,
OFFICE OF THE SECRETARY OF STATE.

I, John S. Haggerty, secretary of state of the State of Michigan, do hereby certify this amendment of articles of association of Guardian Detroit Group (Inc.) to be a true and correct copy of the original on file in this office, as of May 31, A. D., 1929.

In testimony whereof I have hereunto set my hand and official seal at Lansing, this 31st day of May, in the year of our Lord 1929.

JOHN S. HAGGERTY, *Secretary of State.*

June 3, 1929: Received for filing amendment to articles of association of Guardian Detroit Group (Inc.). Charles C. Thompson, deputy clerk.

CERTIFICATE OF AMENDMENT OF ARTICLES OF ASSOCIATION GUARDIAN DETROIT GROUP (INC.)

We, the undersigned, being the president and the secretary of Guardian Detroit Group (Inc.), a corporation existing under the provisions of Act No. 84, of the Public Acts of 1921, do hereby certify, as required by section 10, chapter 2, Part II of said act:

That at a meeting of the stockholders of said corporation expressly called for the purpose of amending its articles of association and held at the office of said company on the 17th day of August, 1929, it was resolved by a vote of more than two-thirds of the capital stock of said corporation that the shares of stock of said company be increased from three hundred seventy-five thousand (375,000) shares to five hundred thousand (500,000) shares, and that Article V of the articles of association be, and the same is amended so as to read as follows, namely:

"ARTICLE V

"The total capital stock authorized is ten million dollars ($10,000,000).

"The amount subscribed is seven million two hundred eighty-five thousand dollars ($7,285,000).

"The amount paid in is seven million two hundred eighty-five thousand dollars ($7,285,000).

"The number of shares of stock is five hundred thousand (500,000) of the par value of $20 each.

"The amount of common stock paid for in cash is two million nine hundred forty-seven thousand five hundred dollars ($2,947,500), and four million three hundred thirty-seven thousand five hundred dollars ($4,337,500) has been paid in property, the description and valuation at which each item is taken is as follows:

	Number of shares
Consideration, issued in exchange for 50,000 "Guardian Units" (i. e., unified stock of Guardian-Detroit Bank, Guardian Trust Co., of Detroit, and Guardian Detroit Co., $5,000,000	250,000
Consideration, issued in exchange for 10,000 shares of Highland Park State Bank, $1,000,000	50,000
Consideration, issued in exchange for 5,000 shares of Highland Park Trust Co., $500,000	12,500
Consideration, issued for 6,000 shares (entire issue) of R. O. L. Co., $747,000	15,000
Consideration, issued in exchange for 2,000 shares of Bank of Dearborn, $200,000	4,000
Total shares	331,500

"Actual value of property taken in exchange in excess of, $7,447,000.

"The amount of actual capital in cash, or property or both, which this company owned and possessed at the time of executing the original articles is $1,000."

In witness whereof we hereunto sign our names this 20th day of August, A. D. 1929.

ROBERT O. LORD, *President.*
L. K. WALKER. *Secretary.*

STATE OF MICHIGAN,
County of Wayne, ss:

Robert O. Lord, Henry I. Armstrong, and Lewis K. Walker being duly sworn depose and say that they are three of the stockholders of the Guardian Detroit Group (Inc.), a Michigan corporation, amendments to whose articles of association are hereto attached; that they know the property described in such amendments and taken in payment for capital stock, and that the same has been actually transferred to such corporation, and further say that said property is of the actual value of $7,447,000 and upwards.

And further say not.

ROBERT O. LORD.
HENRY I. ARMSTRONG, Jr.
LEWIS K. WALKER.

Subscribed and sworn to before me this 20th day of August, A. D. 1929.

HELEN L. MCKAY,
Notary Public, Wayne County, Mich.

My commission expires January 30, 1933.

GUARDIAN DETROIT GROUP (INC.), CERTIFICATE OF AMENDMENT OF ARTICLES OF ASSOCIATION.

No. B 1005.

MICHIGAN DEPARTMENT OF STATE,
Lansing, Mich., December 5, 1929.

Received from Guardian Detroit Group (Inc.) the sum of $5, balance due on filing fee.

[SEAL.] JOHN S. HAGGERTY.

No. 20073.

GUARDIAN DETROIT GROUP (INC.)—ARTICLES OF ASSOCIATION

STATE OF MICHIGAN, *County of Wayne, ss:*

I, Thomas F. Farrell, clerk of the county of Wayne, and of the circuit court for said county, do hereby certify that the foregoing articles of association were received for record in my office, on the 7th day of December, 1929, and are recorded in record of articles of association, liber, on page—.

In testimony whereof I have hereunto set my hand and affixed the seal of said Court and County, at Detroit, this 7th day of December, 1929.

[SEAL.] THOMAS F. FARRELL, *Clerk.*
Fee $3.

By O. BINGHAM, *Deputy Clerk.*

No. 20073. Fee paid, $2.

DECEMBER, 7, 1929.

Received for filing articles of association, Guardian Detroit Group.

O. BINGHAM, *Deputy Clerk.*

CERTIFICATE OF AMENDMENT OF ARTICLES OF ASSOCIATION

GUARDIAN DETROIT GROUP (INC.), DETROIT, MICH.

We, the undersigned, being the president and the secretary of Guardian Detroit Group (Inc.), a corporation existing under the provisions of act No. 84 of the Public Acts of 1921, do hereby certify, as required by section 10, chapter 2, Part II of said act, and by section 9, chapter 1, Part II of said act:

That at a meeting of the stockholders of said corporation expressly called for the purpose of amending its Articles of Association and held at the office of said company on the 18th day of October, 1929, it was resolved by a vote of more than two-thirds of the capital stock of said corporation that Articles I, V, and IX of the Articles of Association be, and the same hereby, are, amended so as to read as follows, and that the shares of stock of said Company be increased from 500,000 shares to 2,500,000 shares:

ARTICLE I

The name assumed by this association and by which it shall be known in law is Guardian Detroit Union Group (Inc.)

ARTICLE V

The total capital stock authorized is $50,000,000.

The total amount subscribed is 394,500 shares, the par value of which is $7,890,000.

The amount paid in is $11,594,500.

The number of shares of stock is 2,500,000 of the par value of $20 each.

The amount of common stock paid for in cash is $2,947,500 and $8,647,000 has been paid in property the description and valuation at which each item is taken is as follows:

	Consideration
250,000 shares, issued in exchange for 50,000 guardian Units (i. e., unified stock of Guardian-Detroit Bank, Guardian Trust Co. of Detroit and Guardian Detroit Co.)	$5,000,000
50,000 shares, issued in exchange for 10,000 shares of Highland Park State Bank	1,000,000
12,500 shares, issued in exchange for 5,000 shares of Highland Park Trust Co	500,000
15,000 shares, issued in exchange for 6,000 shares (entire issue) of R. O. L. Co	747,000
4,000 shares, issued in exchange for 2,000 shares of Bank of Dearborn	200,000
16,250 shares, issued in exchange for 5,000 shares of National Union Bank & Trust Co., Jackson, Mich	500,000
8,000 shares, issued in exchange for 4,000 shares of Federal Commercial & Savings Bank, Port Huron, Mich	400,000
6,000 shares, issued in exchange for 3,000 shares of First National Bank & Trust Co., Port Huron, Mich	300,000
Total shares issued for property, 361,750; actual value of property taken in exchange is in excess of	8,647,000

The amount of actual capital in cash, or property, or both, which this company owned and possessed at the time of executing the original articles is $1,000.

ARTICLE IX

The holders of stock of this corporation shall be individually and severally liable (in proportion to the number of shares of its stock held by them respectively) for any statutory liability imposed upon this corporation by reason of its ownership of shares of the capital stock of any bank or trust company, and the stockholders of this corporation by the acceptance of their certificates of stock of this corporation severally agree that such liability may be enforced in the same manner as statutory liability may now or hereafter be enforceable against stockholders of banks or trust companies under the laws of the United States or the State of Michigan. A list of the stockholders of this corporation shall be filed with the banking commissioner of Michigan and the Comptroller of the Currency whenever requested by either of those officers.

This corporation reserves and shall have the right from time to time upon the affirmative vote of three-fourths of its directors to issue and dispose of all or any of its unissued or increased stock for the purpose of acquiring stock of banks, trust companies, and other corporations without offering to the stock-

holders of this corporation for subscription any of the stock so to be disposed of.

In witness whereof, we hereunto sign our names this 12th day of November, 1929.

[SEAL.]

ROBERT O. LORD, *President.*
L. K. WALKER, *Secretary.*

STATE OF MICHIGAN, *County of Wayne, ss:*

Robert O. Lord, John C. Grier, jr., and L. K. Walker, being duly sworn, depose and say that they are three of the stockholders of Guardian Detroit Group (Inc.), a Michigan corporation, amendments to whose articles of association are hereto attached; that they know the property described in such amendments and taken in payment for capital stock, and that the same has been actually transferred to such corporation, and further say that said property is of the actual value of $8,647,000 and upward.

ROBERT O. LORD.
JOHN C. GRIER, JR.
L. K. WALKER.

Subscribed and sworn to before me this 12th day of November, 1929.

GERTRUDE HINTZ,
Notary Public, Wayne County, Mich.

My commission expires June 30, 1930.

GUARDIAN DETROIT UNION GROUP (INC.) BY-LAWS

ARTICLE 1. MEETINGS OF STOCKHOLDERS

Annual meetings.—1. The annual meeting of the stockholders of this company shall be held at the principal office of the company the fourth Tuesday of January of each year at 11 o'clock a. m., eastern standard time, for the election of directors and such other business as may properly come before said meeting.

2. Notice of such meeting shall be sent by the secretary to each stockholder, by mail, addressed to such stockholder at his address as shown on the records of the company at least 10 days prior to the date of such meeting.

Special meetings.—3. Special meetings of the stockholders shall be called at any time on the order of the president or upon a resolution of a majority of the directors, or upon a written request of the holders of the majority of the stock of the company. Such meetings shall be held at the principal offices of the company.

4. Notice of each special meeting of stockholders shall be given in the same manner as in the case of the annual stockholders' meeting, but in addition thereto such notice shall state the object of such meeting, and no business shall be transacted thereat which shall not have been specified in said notice.

Quorum.—5. The owners of a majority of the capital stock of the company, represented in person or by proxy, shall constitute a quorum for the transaction of business at any meeting of the stockholders, but less than a quorum shall have power to take a recess or adjourn any such meeting.

Record of stockholders.—6. The board of directors of this corporation shall have the right to fix in advance a date, not exceeding 40 days preceding the date of any meeting of stockholders or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion, or exchange of capital stock.

ART. II. DIRECTORS

Number and election.—The affairs of the company shall be managed by a board of nine directors to be elected by the stockholders at each annual meeting to hold office for one year or until their successors are elected.

Amended August 8, 1929: The affairs of the company shall be managed by a board of 15 directors to be elected by the stockholders at each annual meeting to hold office for one year or until their successors are elected.

Amended September 10, 1929: The affairs of the company shall be managed by a board of 25 directors to be elected by the stockholders at each annual meeting to hold office for one year or until their successors are elected. Vacancies or newly created directorships may be filled at any time during the year.

Amended December 16, 1929: The affairs of the company shall be managed by a board of 41 directors to be elected by the stockholders at each annual meeting to hold office for one year and until their successors are elected. Vacancies or newly created directorships may be filled by the board of directors at any time during the year.

Amended January 28, 1930: The affairs of the company shall be managed by a board of 50 directors to be elected by the stockholders at each annual meeting, to hold office for one year or until their successors are elected. Vacancies or newly created directorships may be filled by the board of directors at any time during the year.

Quorum.—2. A majority of the directors shall constitute a quorum for the transaction of business.

Vacancies.—3. Vacancies in the board of directors shall be filled by the remaining members of the board.

Regular meetings.—4. The board of directors shall meet at the office of the company on the second Wednesday of December, March, June, and September, at 2 o'clock p. m. eastern standard time, unless such day be a legal holiday when such meeting shall be held on the next succeeding secular day at the same hour and place.

Special meetings.—5. Special meetings of the board of directors shall be called at any time on the order of the president or whenever a request of such meeting is made by a majority of the directors.

Directors' meeting—Notice.—6. No notice need be given of the time or place of the regular quarterly meetings of the board of directors, but notice shall be given of all special meetings, which notice may be in writing, or by telegram, addressed to each director at his address as shown on the books of the company, or verbally, or by telephone, at least 24 hours before the time of such meeting. Notice of special meetings of the directors need not specify the object of such meetings.

Powers.—7. The board of directors shall at each annual meeting or adjourned annual meeting elect the following officers: A chairman of the board, a president, one or more vice presidents, a treasurer, a secretary, one or more assistant treasurers, and one or more assistant secretaries. Each of the foregoing officers shall, unless meantime removed by the board of directors, hold office for the period of one year, or until his successor is elected.

The board of directors may also elect or appoint such additional officers as they may from time to time deem wise.

Executive committee.—8. The board of directors shall appoint from time to time an executive committee consisting of not less than 11 or more than 21 directors which committee shall have full power to act in the intervals between meetings of the directors, with all the power of the directors. The directors shall elect a chairman of said committee whose duty it shall be to preside at meetings thereof. The secretary of the company shall act as secretary of said committee and shall keep a record of its proceedings. Regular and special meetings of the executive committee shall be held at such times and places and upon the giving of such notice as the committee shall from time to time determine. A majority of such committee shall constitute a quorum for the transaction of business.

Advisory committee.—9. The board of directors shall appoint from time to time an advisory committee, none of whom shall be active, salaried operating officers of any of this corporation's affiliated companies, who shall have such duties as shall be delegated to it by said board of directors. The board of directors shall appoint a chairman of such committee. A majority of such committee shall constitute a quorum for the transaction of business.

ART. III. OFFICERS

Chairman of the board.—1. The chairman of the board of directors shall preside at all meetings of the board and of the stockholders of the company and in the absence or case of disability of any officers of the company may exercise the powers of any such officer.

President.—2. The president, subject to the board of directors, shall have general charge of the business, property, and affairs of the company. He shall be ex officio a member of all committees. He shall have power to execute, on behalf of the company, checks, drafts, orders, acknowledgments, receipts, certificates, and all other documents not by the by-laws of the company or by any resolution of the board required to be signed by another or two or more officers. He shall have power to sign in conjunction with the secretary or an assistant secretary certificates of stock of the company. He shall preside at meetings of the stockholders and of the board of directors in the absence of the chairman. He shall also have power to employ such executives and engage such employees of the company as are not required to be elected or appointed by the board.

Vice president.—3. Each of the vice presidents shall have and exercise such powers as the president may delegate and as are not required by these by-laws to be performed by some other officer; and in the absence or disability of the president, the vice president first in order of election shall have and exercise all the powers of the president, and in case of the absence or disability of the vice president first in order of election the other vice presidents shall in the order of their respective elections have and exercise the powers of the president.

ART. IV. SEAL

The seal of the corporation shall be in the form impressed hereon.

ART. V. STOCK CERTIFICATES

1. Stock in the company shall be represented by certificates in the following form:

2. Certificates representing stock of the company shall be executed by two officers of the company as follows: A president or a vice president and the secretary or an assistant secretary.

3. Transfers of shares of stock of this company shall be made upon the books of the company by the registered holder in person or by attorney duly authorized upon surrender of the certificate or certificates representing such shares, but only when duly indorsed upon the form appearing on the reverse side of the certificate.

ART. VI

These by-laws may be amended, altered, or repealed by the board of directors at any regular or special meeting.

1. That whenever at any meeting of the stockholders of a bank or trust company, of which this corporation shall at the time own 75 per cent or more of the outstanding stock, an election of a board of directors is held, the shares of such bank or trust company owned by this company shall be voted in favor of the election of a board of directors of which at least 75 per cent shall consist of directors residing in the municipality where said bank or trust company is located or within a radius of 50 miles thereof.

ART. VII. REGULAR DIRECTORS' MEETING

A regular meeting of the newly elected board of directors shall be held immediately upon the adjournment of the annual meeting of stockholders at the same place at which said annual meeting of stockholders is held, provided however, that the majority of directors attending said meeting may authorize and adjournment thereof. At said meeting the directors shall elect officers for the ensuing year.

ART. VIII. AUTHORIZED SIGNATURES

Whenever certificates representing stock of this company have been or shall be executed by or with the signature of officers authorized to execute the same, and any such officer or officers shall cease to be such officer prior to the issuance of such certificates, or any of them, said certificates may, nevertheless, be issued by this company and shall constitute valid certificates representing ownership of the stock of this company.

APPENDIX II

Units in which the Guardian Detroit Union Group (Inc.) holds a controlling interest

	Capital	Surplus	Undivided profits and reserves	Deposits	Resources
NATIONAL BANKS					
Battle Creek, Mich., City National Bank & Trust Co. (operating one branch)	$600,000.00	$700,000.00	$102,289.66	$6,336,270.86	$8,340,710.47
Detroit, Mich., National Bank of Commerce (operating 20 branches)	5,000,000.00	6,000,000.00	1,458,316.40	95,295,284.87	108,729,391.05
Grand Rapids, Mich., Grand Rapids National Bank (operating 8 branches)	1,000,000.00	500,000.00	251,437.60	18,994,321.97	22,056,233.97
Jackson, Mich.:					
National Union Bank & Trust Co. (operating 1 branch)	500,000.00	300,000.00	215,503.94	8,461,405.18	9,854,502.24
Peoples National Bank	200,000.00	200,000.00	155,095.71	7,307,853.75	8,053,592.08
Kalamazoo, Mich., First National Bank & Trust Co. (no branches)	600,000.00	200,000.00	451,312.92	8,066,337.40	9,388,839.32
Lansing, Mich., Capital National Bank (operating 1 branch)	600,000.00	600,000.00	523,844.24	10,606,003.17	12,963,647.79
Niles, Mich., City National Bank & Trust Co. (no branches)	150,000.00	100,000.00	53,519.20	1,811,117.19	2,193,386.39
Port Huron, Mich., First National Bank & Trust Co. (no branches)	300,000.00	200,000.00	170,760.29	6,503,868.72	7,322,043.71
Saginaw, Mich., Second National Bank & Trust Co. (operating 1 branch)	1,250,000.00	1,250,000.00	807,130.74	13,324,713.76	17,075,604.16
Total	10,200,000.00	10,050,000.00	4,189,210.70	176,707,176.87	205,977,951.18
STATE BANKS, MEMBERS OF FEDERAL RESERVE					
Dearborn, Mich., Bank of Dearborn (no branches)	200,000.00	50,000.00	10,263.51	1,836,235.11	2,205,452.03
Detroit, Mich., Bank of Detroit (operating 20 branches)	4,000,000.00	1,250,000.00	550,567.83	44,729,872.61	50,463,800.36
Guardian Detroit Bank (no branches)	5,000,000.00	3,000,000.00	1,355,230.12	54,348,410.51	63,844,785.79
Flint, Mich., Union Industrial Bank (operating 9 branches)	2,000,000.00	1,000,000.00	513,809.60	20,851,107.61	26,251,571.87
Highland Park, Mich., Highland Park State Bank (operating 7 branches)	1,000,000.00	2,000,000.00	494,178.04	27,032,722.22	30,561,081.53
Port Huron, Mich., Federal Commercial & Savings Bank (operating 4 branches)	400,000.00	210,000.00	197,448.08	7,085,981.52	8,192,695.54
Total	12,600,000.00	7,510,000.00	3,121,497.18	155,884,329.58	181,519,387.12
STATE BANKS, NONMEMBERS OF FEDERAL RESERVE					
Dearborn, Mich., Bank of Commerce (no branches)	200,000.00	56,000.00	37,247.65	1,698,667.85	1,983,254.91
Union State Bank (operating 2 branches)	200,000.00	203,150.00	35,916.31	3,623,032.01	4,068,104.72
Detroit, Mich., Michigan Industrial Bank (no branches)	500,000.00	125,000.00	57,390.27	1,836,544.59	3,187,022.51
Grosse Pointe Park, Mich., Jefferson Savings Bank (operating 1 branch)	100,000.00	30,000.00	8,858.69	1,029,866.81	1,168,725.50
Hamtramck, Mich., Bank of Hamtramck (no branches)	200,000.00	43,000.00	9,123.96	831,652.97	1,083,776.93
Trenton, Mich., Trenton State Bank (no branches)	50,000.00	35,000.00	10,638.00	1,110,946.39	1,206,694.29
Total	1,250,000.00	492,150.00	159,174.88	10,130,710.62	12,697,578.86

Units in which the Guardian Detroit Union Group (Inc.) holds a controlling interest—Continued

	Capital	Surplus	Undivided profits and reserves	Deposits	Resources
TRUST COMPANIES					
Detroit, Mich.:					
Guardian Trust Co. (no branches)	$1,000,000.00	$1,000,000.00	$1,140,684.69	$20,620,550.40	$23,704,366.20
Union Trust Co. (no branches)	5,000,000.00	2,500,000.00	357,587.47	34,065,779.92	42,496,421.79
Flint, Mich., Union Industrial Trust Co. (no branches)	300,000.00	24,000.00	7,060.78	288,026.56	692,372.31
Grand Rapids, Mich., Grand Rapids Trust Co. (no branches)	750,000.00	800,000.00	68,420.54	1,715,539.50	3,365,383.84
Highland Park, Mich., Highland Park Trust Co. (no branches)	500,000.00	250,000.00	80,224.29	1,428,058.74	5,935,980.91
Total	7,550,000.00	4,574,000.00	1,653,977.77	58,117,955.12	76,194,525.05

Units in which the Guardian Detroit Union Group (Inc.) are interested but holds only 40 per cent stock interest

	Capital	Surplus	Undivided profits and reserves	Deposits	Resources
STATE BANKS, NONMEMBERS					
Blanchard, Mich., Blanchard State Bank	$25,000.00	$5,500.00	$4,567.12	$310,134.73	$345,201.85
Clinton, Mich., State Savings Bank	50,000.00	20,000.00	23,212.24	928,562.10	1,027,672.46
Hudson, Mich., Thompson Savings Bank	100,000.00	50,000.00	56,981.33	1,343,347.05	1,550,328.38
Remus, Mich., State Savings Bank	26,000.00	11,500.00	1,230.60	320,718.58	359,449.18
Six Lakes, Mich., State Bank of Six Lakes	20,000.00	4,000.00	2,458.02	129,934.61	156,392.63
Stanton, Mich., State Savings Bank	40,000.00	11,300.00	5,002.88	422,381.98	503,384.86
Vestaburg, Mich., State Bank of Vestaburg	20,000.00	4,500.00	655.65	129,230.27	154,384.92
Total	281,000.00	106,800.00	94,107.84	3,584,309.32	4,096,815.28

Recapitulation

	Capital	Surplus	Undivided profits and reserves	Deposits	Resources
10 national banks	$10,200,000.00	$10,050,000.00	$4,189,210.70	$176,707,176.87	$205,977,951.18
6 State banks (members Federal reserve system)	12,600,000.00	7,510,000.00	3,121,497.18	155,884,329.58	181,519,387.12
6 State banks (nonmembers Federal reserve system)	1,250,000.00	492,150.00	159,174.88	10,130,710.62	12,697,578.86
5 trust companies	7,550,000.00	4,574,000.00	1,653,977.77	58,117,955.12	76,194,525.05
27	31,600,000.00	22,626,150.00	9,123,860.53	400,840,172.19	476,389,442.21

Corporations the majority of the stock of which is owned by Guardian Detroit Union Group (Inc.)

	Capital stock	Surplus	Undivided profits and reserves	Total resources
Cleveland, Ohio, Ohio-Pennsylvania Joint Stock Land Bank	$770,000.00	$177,500.00	$114,432.68	$14,614,402.24
Detroit, Mich.:				
Bancdetroit Corporation	1,000.00		22,067.13	90,275.13
Guardian Detroit Co	5,000,000.00	1,000,000.00	1,280,573.13	21,893,830.84
Guardian Holding Co	10,000.00	990,000.00	23,937.62	5,595,342.95
Guardian Safe Deposit Co	100,000.00		4,785.24	112,825.74
Keane, Higbie & Co	1,000,000.00		3,086,595.72	7,673,022.21
New Union Building Co	5,000,000.00		[1] 741,216.05	11,398,741.72
Union Co of Detroit	500,000.00		[1] 130,122.40	2,638,305.94
Union Joint Stock Land Co	600,000.00	100,000.00	214,270.50	9,919,642.84
Union Title & Guaranty Co	1,00,000.00		225,752.68	1,636,236.42
Grand Rapids, Mich., Grand Rapids National Co	40,000.00		650.27	133,531.15
Jackson, Mich.:				
Union & Peoples Co	70,000.00	39,729.50	115,353.15	260,082.65
National Union Building Co	1,000.00	854,527.98		855,527.98
Kalamazoo, Mich., F. N. B. Securities Co	150,000.00		36,267.97	186,267.97
Los Angeles, Calif., Guardian Detroit Co	10,000.00		7,827.56	252,173.90
Total	14,252,000.00	3,161,757.48	4,261,175.20	77,260,209.68

[1] Deficiency.

APPENDIX IV

GUARDIAN DETROIT UNION GROUP (INC.)

BASIC POLICIES

President Hoover, in his recent message to Congress, referred to the group banking movement as "a groping for stronger support to the banks and a more secure basis for these institutions." However, he also raised the question as to whether the development of group banking might not "concentrate control of credit" and enunciated as one of the fundamentals of the American credi tsystem that "Credit which is based upon banking deposits should be controlled by persons within those areas which furnish these deposits and thus be subject to the restraints of local interest and public opinion in these areas."

The President has stated, briefly, but completely, the advantages to be sought and the disadvantages to be avoided, in any program of group banking. In this connection, it may be pertinent to quote Article VI of the by-laws of Guardian Detroit Union Group (Inc.):

"Whenever at any meeting of the stockholders of a bank or trust company of which this corporation shall at the time own 75 per cent or more of the outstanding stock, an election of a board of directors is held, the shares of such bank or trust company owned by this company shall be voted in favor of the election of a board of directors of which at least 75 per cent shall consist of directors residing in the municipality where said bank or trust company is located or within a radius of 50 miles thereof."

From its very inception, Guardian Detroit Union Group has, by common consent, stood committed to fundamental policies in full accord with the ideals expressed by the President of the United States. In order that there might be no possibility of misunderstanding in this regard, the board felt that the present was an opportune time to go formally on record in reference to the "control of credit" and also the fundamental basis of the relationship between the Group Co. and a local bank, which is a unit member of the group. It was, therefore,

Resolved, That credit based upon the deposits in a local bank, which is a unit member of Guardian Detroit Union Group (Inc.), shall be controlled wholly by the board of directors and the officers of the local unit bank; and

Resolved, That Guardian Detroit Union Group (Inc.), in its relationships with local banks which are unit members of the group, accepts as its sole

function, responsibility and duty—to provide "stronger support to the banks and a more secure basis for these institutions,"—and the officers and staff of the group be and they hereby are directed to devote their energies and restrict their activities accordingly.

In order to put into effect these broad policies and such other more specific courses of action as may be adopted in conformity thereto, it is necessary to develop a form of organization for the group which will not only allow the greatest possible latitude in the transaction of local business, but will also, by a process of mutual education, make constantly available to each unit all the accumulated knowledge and expert opinion possessed by all the other units.

In considering this subject of the organization and functions of the Group Co., it should be borne in mind that Act No. 66, Public Acts of 1929, State of Michigan, effective April 19, 1929, provides:

"SEC. 14. The affairs of each bank shall be managed by a board of not less than five directors * * *.

"SEC. 15. The board of directors, or a quorum thereof * * * shall meet at least once each month and shall at such meetings examine the loans and investments made by the officers thereof since the last meeting of such board and shall review the other transactions of such bank. It shall cause to be spread upon the records of such bank, in the record book thereof which shall be kept for that purpose, the minutes of such meeting and all its actions thereat, including the approval of all loans required to be approved by the board of directors * * *.

"SEC. 17. The board of directors of each bank shall appoint from its members or stockholders an examining committee, or committees, not including any officer who has active management of the bank, whose duties it shall be to examine the condition of the bank at least once every six months. The examining committee shall report to the board, giving in detail all items included in the assets of the bank which they have reason to believe are not of the value at which they appear on the books and records of the bank, and giving the value of each of such items as in their judgment they may have determined."

From the above paragraphs, it is evident that, in each local bank incorporated or existing under the act referred to, and similarly in each bank chartered under the national banking act, the directors have certain statutory duties, for the satisfactory performance of which they are held personally responsible, and which can not be by them delegated to any other person or persons.

Aside from the bald illegality of any attempt to usurp the functions or hamper the activities of the board of directors of a local unit bank, such a course would run directly counter to prudence, good judgment and common sense. Experience indicates that the bulk of profitable business enjoyed by a given bank is the result of the personal efforts of directors and officers. Hence, any policy which impairs, even in the slightest degree, the prestige and enthusiasm of a local board of directors is a body blow at the growth of the local unit bank, and therefore at the growth and prosperity of the group as a whole.

The deliberate adoption of policies so obviously suicidal is unthinkable; nevertheless, extreme care must be exercised to insure that group management does not perhaps unconsciously, encroach upon the statutory and customary authority and responsibility of the unit bank management. Accordingly, it was deemed advisable to particularly emphasize "the group policy of noninterference with local management," by formal action of the group board of directors. It was, therefore,

Resolved, That the board of directors of each local unit institution in Guardian Detroit Union Group (Inc.), is responsible for the management of the affairs of the institution in question; and that the officers of each unit institution in the group are responsible directly to the board of directors of their own institution and to no other authority, except the law.

In brief, the local banks, trust companies and other unit members of the group are, and should be, considered as enjoying all the rights and accepting all the responsibilities of full partnership in the group, among the advantages of which are:

First. Each separate institution has the backing of resources many times greater than its own, giving the depositor even greater assurance as to the safety of his funds.

Second. The larger local corporations need no longer go to New York or Chicago for such accommodations as they may need in the matter of loans. The group should be able to provide all the funds to which any of the local corporations are entitled.

Third. The depositors will have available to them the credit information and the financial and investment advice of a large organization, including specialists in many lines. A single institution of moderate size could not afford to employ such experts.

Fourth. The depositors are assured of the continuance of capable management of the local institution. The group company must, of necessity, be in a position to furnish capable personnel to any unit member of the group when called upon to do so.

Fifth. The group provides contact with innumerable types of businesses and cooperation in developing new business for clients.

Sixth. The original stockholders of the unit bank, after exchanging their stock for stock of the group company, will have a diversity of risk, dependent not alone on the prosperity of their local community, but supplemented by larger resources with the investment spread over banking institutions located in many cities—in banks serving a wide range of industry and territory.

Seventh. Their new group stock is part of an issue of much greater number of shares, owned by thousands rather than hundreds of investors, giving them a broader and more active market in case they care to buy or sell—a stock recognized as desirable collateral in every large city in the country.

Of course, the advantages referred to above can be obtained only as a result of establishing sound policies uniformly throughout the group; developing unit organizations with the ability to put these policies into effect; and providing a means for measuring the degree in which these policies are effectively applied. The problem is to devise a form of organization which will accomplish these purposes without in any way infringing upon local autonomy.

GENERA FUNCTIONS OF GROUP CO.

It would appear that the board of directors of the Group Co. (upon which practically all units are represented by one or more directors) could, with perfect propriety, announce its belief in the soundness of a given policy, and request the president to bring it, as a "recommended policy" to the attention of the board of directors of all unit member institutions liable to be benefited thereby.

The board of directors of the local unit institution would be at liberty to agree or disagree with the recommendation, but when, as, and if approved by the local board, it would become the "approved policy" of the local unit institution.

Both the board of directors of the local unit institution and that of the group would have, then, a joint interest in seeing that these "approved policies" are put into effect. They also have a natural desire to know the degree of conformity to established policies attained by the local unit in question and how it compares in relative operating efficiency with other units of the group.

Apparently, then, the Group Co. can perform the following useful functions for the local unit institutions without in any way violating the basic policy of encouraging local management to run their own banks, namely:

(*a*) Acting as a clearing house for information bearing upon policies, practices, and results obtained by the various member unit institutions.

(*b*) Systematically making available to all units the practice of the best with a view to enabling all to reach the highest standards of operation and resultant profit.

(*c*) Providing expert advice at minimum cost in regard to tax and insurance matters, and extraordinary legal questions.

(*d*) Providing capable supervision in connection with building construction and management.

(*e*) Coordinating business development activities.

(*f*) Purchasing standard equipment and supplies in quantity.

(*g*) The Group Co. should also provide an independent examining force, in no way responsible for the condition which its examination discloses, to supplement the work of the board of directors of a local unit in connection with the examining responsibilities imposed by statute.

In brief, it should be the principal function of the Group Co. to act in an advisory capacity—recommending to the boards of the local units, policies, practices, economies, etc. The local boards and the local officers of the units must operate their own banks or trust companies. They are better able to know and judge local conditions.

ORGANIZATION OF GROUP COMPANY

In connection with the organization of the group company a tentative organization chart has been drawn up and a copy attached hereto.

The advisory committee is largely a policy-making committee, its membership is comparatively small and includes no active operating officers of any unit. This committee has, and should have, entire freedom in criticizing either the policies or handling of any unit or any department of the associated institutions. Its meetings are not held on stated days, but at irregular intervals upon the call of the chairman. Operating heads of units or departments will, from time to time, be called to confer with this committee as to any questions under consideration.

The following have been elected members of the advisory committee:

Fred T. Murphy, chairman; Henry E. Bodman, Edsel B. Ford, James Inglis, Alvan Macauley, Jerome H. Remick, Murray W. Sales, Roy D. Chapin, Charles H. Hodges, Ernest Kanzler, Charles S. Mott, John R. Russel, Charles B. Warren.

The executive committee includes largely the advisory committee together with other members of the board of directors who are operating men in the organizations in the group. Its duties are much the same as any executive committee, empowered to act on behalf of the board of directors.

The following have been elected members of the executive committee:

H. E. Bodman, chairman; Frank W. Blair, John C. Grier, jr., Carlton M. Higbie, Richard P. Joy, Robert O. Lord, Fred T. Murphy, Phelps Newberry, Henry H. Sanger, James L. Walsh, Harry C. Bulkley, C. H. Haberkorn, jr., Sherwin A. Hill, Ernest Kanzler, Charles S. Mott, Edwin H. Nelson, Murray W. Sales, John N. Stalker.

The operating committee is made up of the operating heads of the various large units in the group. Their funtion is to discuss operating details, new business, and other matters pertaining to direct operations of the various institutions, which would make for better and more economical operation and for the further growth and development of the units in the group. When deemed advisable more than one member from each unit can be included in the membership of this committee.

The following have been elected members of the operating committee:

James L. Walsh, chairman; Frank W. Blair, John C. Grier, jr., Carlton M. Higbie, Charles A. Kanter, Samuel R. Kingston, Robert O. Lord, Duncan McNabb, Phelps Newberry, Bert K. Patterson, Henry H. Sanger, John N. Stalker, Arthur H. Vogt; Frank E. Quisenberry, representing Highland Park; Frank J. Maurice, representing Highland Park; George B. Judson, representing Bank of Detroit; H. S. Reynolds, representing Jackson; George R. Paul, representing Jackson; S. A. Graham, representing Port Huron; H. R. Wilkin, representing Flint; E. R. Morton, representing Battle Creek.

To this committee will be added, from time to time, representatives of other important departments in the above institutions and also representatives of other units which may come into the group.

IMMEDIATE OBJECTIVES

The future success of the Guardian Detroit Union Group is a question of management. The board of directors and such committees of the group as may be appointed can contribute in a large measure. If we are to operate successfully and increase the earnings of the separate units, and of the group company, we must concentrate our efforts upon the following:

1. Increase the deposits of the banks and trust companies.
2. Increase the trust business of the Union Guardian Trust Co. and of the other trust units.
3. Develop the investment business of the Guardian Detroit Co. and of our general distribution through the out-of-Detroit units.
4. Curtail expenses to the greatest possible extent consistent with operating efficiency.

FUNCTIONS OF GROUP OFFICERS

It is believed that the above objectives can be attained without creating a large operating organization in the group company. Such a course would not only be unnecessarily expensive, but would tend in time to weaken the authority, and therefore the sense of responsibility, of the management of local unit institutions.

Instead of setting up a number of departments or divisions in the group company, it is recommended that certain staff officers be appointed to assist the president of the group company in coordinating and stimulating the activities of local unit institutions in accordance with "approved policies."

Referring to the accompanying organization chart, it will be noted that but a single "line of authority" leads from the group board of directors, through the group president, the local board of directors, the president of the local unit institution, to the operating departments of the local bank or trust company. This has been done advisedly.

Nothing is more destructive of morale nor more conducive to confused and ineffective operation than to have every Tom, Dick, and Harry possessing an official title take it upon himself to write letters asking for information—which has perhaps already been furnished; making requests—with the force of demands—for action which may conflict with existing policies; dispensing information or advice—possibly not the most accurate or dependable to be obtained within the group, etc.

A cross-fire of conflicting communications can yield chaos in short order. Hence, the president will sign all the mail, even if the staff officers prepare most of the letters for his signature.

To further insure continuity and consistency of policy, a vice president and general manager has been provided to serve as an "alter ego" for the president, and to coordinate the work of the staff officers, who have been designated and assigned duties as follows:

GENERAL SALES MANAGER

(a) Coordinates and stimulates business development activities of all local units.
(b) Handles public relations for group.
(c) Initiates group advertising.
(d) Harmonizes advertising of local units.
(e) Operates central file showing relationships of all customers of all units in the group.
(f) Supervises technical instruction of business development personnel.

COMPTROLLER GENERAL

(a) Keeps general books of the group.
(b) Prepares group balance sheet and operating statements.
(c) Develops standard operating methods, accounts, and reports.
(d) Develops standard accrual systems and audit procedures.
(e) Analyzes reports of auditing departments of local units.
(f) Supervises technical instruction of accounting and auditing personnel.

GENERAL PURCHASING AGENT

(a) Purchases standardized equipment and supplies on requisition of local units.
(b) Establishes standard stock records and normal inventories.
(c) Salvages surplus property.
(d) Supervises technical instruction of purchasing personnel.

INVESTMENT COUNSEL

(a) Advises local unit management in regard to purchase of securities for investment portfolio.
(b) Supervises technical instruction of investment personnel.

GENERAL TRUST OFFICER

(*a*) Establishes standard trust account records.
(*b*) Reviews investments made for trust accounts.
(*c*) Supervises technical instruction of trust personnel.

GENERAL CREDIT MANAGER

(*a*) Reviews financial programs of all local units.
(*b*) Analyzes characteristics of local deposits and loans.
(*c*) Assists in the development of standard program for conversion of funds.
(*d*) Specifies items for secondary reserve.
(*e*) Tests "turnover" and diversification of loans in unit institutions.
(*f*) Checks "follow-up" of slow and doubtful lines.
(*g*) Establishes standard set-up for credit files.
(*h*) Analyses reports of examination by State or national examiner, or clearing house.
(*i*) Assists, when required, in examination by examining committee of board of directors of local unit.
(*j*) Supervises technical instruction of credit personnel.

SUPERVISOR OF BUILDINGS

(*a*) Assists in the construction and operation of buildings owned by local units.
(*b*) Leases or sells vacant quarters not required by the activities of the group.
(*c*) Supervises technical instruction of building management personnel.

GENERAL COUNSEL

(*a*) Handles all legal matters affecting the group as a whole.
(*b*) Advises local units in the handling of income and personal property taxes.
(*c*) Supervises placing of fidelity, fire and other forms of insurance in connection with the property and business of the local units.

EXTRA COMPENSATION PLAN

Financial incentive has proved most effective in producing results, according to the experience of the larger New York and Chicago banks.

In order to insure that the local management of each local unit shall maintain the keenest possible interest, in the economical operation of the institution entrusted to its direction, as well as contribute to the general welfare and progress of the group as a whole, an extra compensation committee has been established by the board of directors with instructions to recommend, early in 1930, a definite profit-sharing or extra compensation plan for all local units.

The following have been elected members of the extra compensation committee:

Clarence H. Booth, chairman; Roy D. Chapin, Murray W. Sales, Edwin H. Nelson, Hal H. Smith.

TRUST COMPANY ACTIVITIES

In order to provide the highest possible type of investment counsel for the Union Guardian Trust Co., a trust investment committee, composed of directors having an outstanding reputation in the mind of the public for experience and conservatism, none of whom are active operating officers, has been established and will include:

Henry E. Bodman, Walter O. Briggs, Roy D. Chapin, Luman W. Goodenough, Charles H. Hodges, Richard P. Joy, Alvan Macauley, Fred T. Murphy, Ralph H. Booth, Harry C. Bulkley, Edsel B. Ford, Sherwin A. Hill, Hobart Hoyt, Wm. Kales, Charles S. Mott, Hal H. Smith.

STOCKHOLDERS
GUARDIAN DETROIT UNION GROUP
BOARD OF DIRECTORS
CHAIRMAN
ADVISORY COMMITTEE
EXECUTIVE COMMITTEE
OPERATING COMMITTEE
PRESIDENT
VICE-PRES. & GEN. MANAGER
GENERAL SALES MANAGER
COMPTROLLER GENERAL
GENERAL PURCHASING AGENT
INVESTMENT COUNSEL
SECRETARY
TREASURER
GENERAL TRUST OFFICER
GENERAL CREDIT MANAGER
SUPERVISOR OF BUILDINGS
GENERAL COUNSEL
TYPICAL "UNIT" BANK
BOARD OF DIRECTORS
EXECUTIVE COMMITTEE
COMPTROLLER OF OPERATIONS
PRESIDENT
COMPTROLLER OF LOANS
DEVELOPMENT DEPARTMENT
OPERATING DEPARTMENT
ADMINISTRATION DEPARTMENT
INVESTMENT DEPARTMENT
TRUST DEPARTMENT
LOAN DEPARTMENT
AUDITING DEPARTMENT

BUSINESS DEVELOPMENT ACTIVITIES

A central file, based upon the Findex system, has been established in room 777, Penobscot Building, Detroit, Mich. All commercial accounts of all units in the group have been cross-indexed under several different classifications; as to size, borrowing or nonbarrowing, branch or main office, possible related business, etc.

Information in answer to specific inquiries is available to the proper officers of all local units; but, in view of the semiconfidential nature of the data, no complete lists of customers, or other blanket information can be furnished.

The central file is particularly effective in preventing improper solicitation by one unit of a person, firm, or corporation already a customer of some other unit of Guardian Detroit Union Group, Inc. It ought to prove increasingly valuable in helping out-of-Detroit units secure local accounts of corporations controlled in Detroit which are already customers of a Detroit unit.

A business development committee has been organized as a subcommittee of the operating committee with membership as follows:

Alvan Macauley, jr., chairman; John A. Reynolds, L. H. D. Baker, Harry S. Covington, C. M. Beers, William A. Mayberry, Emanuel C. Lindman, R. O. Bisbee, Russell T. Jackson, A. B. Pfeiderer, Herbert H. Gardner, Andrew D. Hotchkiss, Andrew C. Lassen, Charles French.

CREDIT DEPARTMENT ACTIVITIES

A credit committee has been organized as a subcommittee of the operating committee with membership as follows:

Orville L. Hatt, chairman; Frank P. Evans, jr., B. F. Saylor, Charles M. Spinning, Gerald F. Collins, Griswold Adams, Norman H. Moysey, Harry C. Blackman, Russell T. Jackson.

Standardized forms for personal statement, etc.; notes; credit file; analysis sheets; have been determined upon and will be available, upon requisition, in the near future.

BUDGETARY CONTROL

As future meetings of the board serve to crystallize in the minds of the directors certain definite aspirations and ideals for the group, it is believed possible to gradually inaugurate in certain of the local units as system of budgetary control with a view to—

(*a*) Securing increased gross income through the establishment of definite goals or quotas.

(*b*) Locating opportunities for curtailment of expenditures through fixing personal responsibilities therefor.

(*c*) Securing increased net income as a result of economical operation, a more accurately informed management, and a more intelligent and aggressive personnel.

EXPENSES

Our problem to increase earnings is twofold:

1. Increase our volume of business.
2. Cut expenses.

The group as it is now constituted has annual gross revenue of upwards of $30,000,000—it is our job to save for net income just as large a percentage of that gross revenue as possible.

Extravagance and wastefulness on the part of more than 4,000 employees will mean many thousands of dollars of loss in earnings. Every effort should be made to impress upon all officers and employees in the entire organization, the necessity for curtailment of unnecessary expenses.

Probable lower rates for money during 1930 makes the expense question a vital one.

FRANK W. BLAIR, *Chairman.*
ROBERT O. LORD, *President.*

DECEMBER 31, 1929.

PRESENT STATUS OF PROGRAM

Upon the exchange of stock of the Guardian Detroit Union Group (Inc.) for stock of Union Commerce Corporation, the group corporation will own the following financial institutions (either directly or indirectly):

Corporation	Capital outstanding	Capital owned	Par value of shares
Guardian Detroit Bank	$5,000,000	$5,000,000	$100
Guardian Trust Co.	1,000,000	1,000,000	100
Guardian Detroit Co.	5,000,000	5,000,000	[1]
Guardian Safe Deposit Co.	100,000	100,000	100
Guardian Detroit Co. of California	10,000	10,000	100
Bank of Detroit	4,000,000	3,993,600	100
Bank of Dearborn	200,000	200,000	100
Highland Park State Bank	1,000,000	1,000,000	100
Highland Park Trust Co.	500,000	500,000	100
National Union Bank & Trust Co. of Jackson	600,000	600,000	100
Federal Commercial & Savings Bank of Port Huron	400,000	400,000	100
First National Bank & Trust Co. of Port Huron	300,000	300,000	100
Union Trust Co.	5,000,000	5,000,000	100
National Bank of Commerce	5,000,000	5,000,000	100
Union Title & Guaranty Co.	1,000,000	[2] 1,000,000	100
Union Co. of Detroit	500,000	[2] 500,000	100
Union Joint Stock Land & Bank	600,000	600,000	100
Union Savings Bank of Brightmoor	50,000	[3] 50,000	100
New Union Building Co.	3,000,000	[3] 3,000,000	100
Michigan Industrial Bank	500,000	471,000	100
Keane, Higbie & Co.	1,000,000	1,000,000	10
Union Industrial Bank, Flint	1,800,000	[4] 1,793,600	100
Union Industrial Trust, Flint	300,000		100
Ohio-Penn Joint Stock Land Bank	770,000	768,200	100
Bank of Commerce, Dearborn	200,000	187,500	100
Union State Bank, Dearborn	200,000	188,700	100
Jefferson Savings Bank, Grosse Pointe	100,000	91,000	100
Bank of Hamtramck	200,000	[4] 116,500	100
Blanchard State Bank, Blanchard	25,000	[5] 10,600	100
State Savings Bank, Clinton	50,000	[6] 21,000	100
City National Bank & Trust Co. of Battle Creek	600,000	562,640	100
Thompson Savings Bank, Hudson	100,000	[7] 40,000	100
State Savings Bank, Remus	25,000	[8] 10,500	100
State Bank of Six Lakes, Six Lakes	20,000	[9] 8,500	100
State Savings Bank, Stanton	40,000	[10] 15,000	100
Trenton State Bank, Trenton	50,000	[11] 39,000	100
State Savings Bank, Vestaburg	20,000	[7] 8,000	100

[1] No par value.
[2] By Union Trust.
[3] Unified stock.
[4] 58.2 per cent.
[5] 40.2 per cent.
[6] 42 per cent.
[7] 40 per cent.
[8] 40.3 per cent.
[9] 42.5 per cent.
[10] 37.5 per cent.
[11] 78 per cent.

OFFICERS OF GUARDIAN DETROIT UNION GROUP (INC.)

Temporary offices: Room 777 Penobscot Building, Detroit, Mich.
Frank W. Blair, chairman of the board.
Robert O. Lord, president.
Ernest Kanzler, vice president.
Phelps Newberry, vice president.
John N. Stalker, vice president and secretary.
Lewis K. Walker, vice president.
Arthur H. Vogt, assistant treasurer.
A. A. F. Maxwell, assistant secretary.
Henry E. Bodman, chairman, executive committee.
John C. Grier, jr., vice president.
James L. Walsh, vice president.
Henry H. Sanger, vice president.
Bert K. Patterson, vice president and treasurer.
Harry S. Covington, vice president.
Robert C. Lehman, assistant secretary.
George D. Clark, assistant secretary.
Charles B. Marks, assistant secretary.

BOARD OF DIRECTORS

Frank W. Blair, president Union Trust Co., Detroit.
Arthur C. Bloomfield, president National Union Bank & Trust Co., Jackson.
Henry E. Bodman, chairman Guardian Trust Co., Detroit.
Clarence H. Booth, chairman Motor Bankers Corporation, Detroit.
Ralph H. Booth, president Booth Newspapers (Inc.), Detroit.
Walter O. Briggs, chairman and president Briggs Manufacturing Co., Detroit.
Daniel D. Brown, president First National Bank & Trust Co., Port Huron.
Harry C. Bulkley, Campbell, Bulkley & Ledyard, Detroit.
Roy D. Chapin, chairman Hudson Motor Car Co., Detroit.
Harry S. Covington, executive vice president National bank of Commerce, Detroit.
George R. Fink, president Michigan Steel Corporation, Detroit.
William A. Fisher, president Fisher Body Corporation, Detroit.
Edsel B. Ford, president Ford Motor Co., Detroit.
Stephen A. Graham, president Commercial & Savings Bank, Port Huron.
John C. Grier, jr., president Guardian Detroit Co., Detroit.
C. H. Haberkorn, jr., chairman Bank of Detroit, Detroit.
Carlton M. Higbie, chairman Keane, Higbie & Co., Detroit.
Sherwin A. Hill; Warren, Hill & Hamblen, Detroit.
Charles H. Hodges, vice president American Radiator & Standard Sanitary Corporation, Detroit.
James Inglis, president American Blower Corporation, Detroit.
Richard P. Joy, chairman National Bank of Commerce, Detroit.
George B. Judson, president Bank of Detroit, Detroit.
Ernest Kanzler, president Universal Credit Corporation, Detroit.
Jerome E. J. Keane, director Keane, Higbie & Co., Detroit.
Dwight B. Lee, president and treasurer Motor Products Corporation, Detroit.
Robert O. Lord, president Guardian Detroit Bank, Detroit.
Alvan Macauley, president and general manager, Packard Motor Car Co., Detroit.
Francis C. McMath, director Canadian Bridge Co. (Ltd.), Detroit.
Charles S. Mott, vice president General Motors Corporation, Detroit.
Fred T. Murphy, chairman Guardian Detroit Bank, Detroit.
Edwin H. Nelson, president Nelson, Baker & Co., Detroit.
Phelps Newberry, vice president, Guardian Detroit Bank, Detroit.
Jerome H. Remick, president Detroit Creamery Co., Detroit.
Herbert S. Reynolds, president Peoples National Bank, Jackson.
Murray W. Sales, president Murray W. Sales & Co., Detroit.
Henry H. Sanger, president National Bank of Commerce, Detroit.
Hal H. Smith; Beaumont, Smith & Harris, Detroit.
Oscar W. Smith, president Parke-Davis & Co., Detroit.
John N. Stalker, executive vice president, Union Trust Co., Detroit.
James L. Walsh, vice president Guardian Detroit Bank, Detroit.
Charles Beecher Warren; Warren, Hill & Hamblen, Detroit.

APPENDIX V

ANNUAL REPORT OF THE GUARDIAN DETROIT UNION GROUP (INC.), 1929

DIRECTORS

Frank W. Blair, chairman Union Trust Co., Detroit.
Arthur C. Bloomfield, president National Union Bank & Trust Co., Jackson.
Henry E. Bodman, chairman Guardian Trust Co., Detroit.
Clarence H. Booth, chairman Motor Bankers Corporation, Detroit.
Ralph H. Booth, president Booth Newspapers (Inc.), Detroit.
Joseph H. Brewer, president Grand Rapids Trust Co., Grand Rapids.
Walter O. Briggs, chairman and president Briggs Manufacturing Co., Detroit.
Daniel D. Brown, president First National Bank & Trust Co., Port Huron.
Harry C. Bulkley; Campbell, Bulkley & Ledyard, Detroit.
Charles S. Campbell, president First National Bank & Trust Co., Kalamazoo.
Roy D. Chapin, chairman Hudson Motor Car Co., Detroit.
George R. Fink, president Michigan Steel Corporation, Detroit.

William A. Fisher, president Fisher Body Corporation, Detroit.
Edsel B. Ford, president Ford Motor Co., Detroit.
Frank E. Gorman, vice president Capital National Bank, Lansing.
Stephen A. Graham, president Federal Commercial & Savings Bank, Port Huron.
John C. Grier, jr., president Guardian Detroit Co., Detroit.
C. H. Haberkorn, jr., chairman Bank of Detroit, Detroit.
Carlton M. Higbie, chairman Keane, Higbie & Co., Detroit.
Sherwin A. Hill; Warren, Hill & Hamblen, Detroit.
Charles H. Hodges, vice president American Radiator & Standard Sanitary Corporation, Detroit.
James Inglis, president American Blower Corporation, Detroit.
Richard P. Joy, director National Bank of Commerce, Detroit.
George B. Judson, president Bank of Detroit, Detroit.
Ernest Kanzler, president Universal Credit Corporation, Detroit.
Jerome E. J. Keane, director Guardian Detroit Bank, Detroit.
Dwight B. Lee, president and treasurer Motor Products Corporation, Detroit.
Robert O. Lord, president Guardian Detroit Bank, Detroit.
Alvan Macauley, president and general manager Packard Motor Car Co., Detroit.
Francis C. McMath, director Canadian Bridge Co. (Ltd.), Detroit.
George B. Morley, chairman Second National Bank & Trust Co., Saginaw.
Charles S. Mott, vice president General Motors Corporation, Detroit
Fred T. Murphy, chairman Guardian Detroit Bank, Detroit.
Edwin H. Nelson, president Nelson, Baker & Co., Detroit.
Phelps Newberry, vice president Guardian Detroit Bank, Detroit.
Ransom E. Olds, chairman Reo Motor Car Co., Lansing.
Jerome H. Remick, president Detroit Creamery Co., Detroit
Herbert S. Reynolds, president Peoples National Bank, Jackson.
John R. Russel, director Russel Steel Construction Co.
Murray W. Sales, president Murray W. Sales & Co., Detroit.
Henry H. Sanger, president National Bank of Commerce, Detroit.
R Perry Shorts, president Second National Bank & Trust Co., Saginaw.
Hal H. Smith, Beaumont, Smith & Harris, Detroit.
Oscar W. Smith, president Parke Davis & Co., Detroit.
John N. Stalker, president Union Trust Co., Detroit.
James L. Walsh, vice president Guardian Detroit Bank, Detroit.
Charles Beecher Warren, Warren, Hill & Hamblen, Detroit.
Dudley E Waters, chairman Grand Rapids National Bank, Grand Rapids.

OFFICERS

Frank W. Blair, chairman of the board.
Henry E. Bodman, chairman executive committee.
Robert O. Lord, president.
John C. Grier, jr., vice president.
James L. Walsh, vice president.
Henry H Sanger, vice president.
Bert K. Patterson, vice president and treasurer.
C. H. Haberkorn, jr., vice president.
Lewis K. Walker, vice president.
Joel H. Prescott, vice president.
Andrew L. Malott, vice president
A. A. F. Maxwell, secretary.
H. A. Conner, assistant secretary.
Ernest Kanzler, vice president.
Phelps Newberry, vice president.
John N. Stalker, vice president
Arthur H. Vogt, vice president and comptroller.
Samuel R. Kingston, vice president.
Charles A. Kanter, vice president.
Harry S. Covington, vice president.
R. Perry Shorts, vice president.
W. J. Penningroth, assistant treasurer.
O. A. Waldow, assistant comptroller.

Advisory committee: Fred T. Murphy, chairman; James Inglis, vice chairman; Henry E. Bodman, Roy D. Chapin, Edsel B. Ford, Charles H. Hodges, Ernest Kanzler, Alvan Macauley, George B. Morley, Charles S. Mott, Jerome H. Remick, John R. Russel, Murray W. Sales, Charles B. Warren.

Executive committee: Henry E. Bodman, chairman; Frank W. Blair, Harry C. Bulkley, John C. Grier, jr., C. H. Haberkorn, jr., Carlton M. Higbie, Sherwin A. Hill, Richard P. Joy, Ernest Kanzler, Robert O. Lord, Charles S. Mott, Fred T. Murphy, Edwin H. Nelson, Phelps Newberry, Murray W. Sales, Henry H. Sanger, John N. Stalker, James L. Walsh.

Operating committee: James L. Walsh, chairman; Frank W. Blair, Frank M. Brandon, Joseph H. Brewer, Harry S. Covington, Frank E. Gorman, Stephen A. Graham, John C. Grier, jr., Carlton M. Higbie, George B. Judson, Charles A. Kanter, Samuel R. Kingston, Robert O. Lord, Duncan J. McNabb, Frank J. Maurice, E. R. Morton, Phelps Newberry, Bert K. Patterson, George R. Paul, Frank E. Quisenberry, Herbert S. Reynolds, Henry H. Sanger, Earl H. Shepherd, R. Perry Shorts, John N. Stalker, Arthur H. Vogt, Herbert R. Wilkin.

JANUARY 28, 1930.

To the stockholders of Guardian Detroit Union Group (Inc.):

The Guardian Detroit Union Group (Inc.), was organized May 10, 1929. It now has outstanding 1,538,801 shares ($20 par value) of an authorized issue of 2,500,000 shares. The banks, trust companies, and other related institutions now units of the group are as follows:

BANKS AND TRUST COMPANIES

Detroit and the metropolitan district: National Bank of Commerce, Guardian Detroit Bank, Bank of Detroit, Highland Park State Bank, Michigan Industrial Bank, Jefferson Savings Bank, Bank of Hamtramck, Bank of Dearborn, Union State Bank, Dearborn; Bank of Commerce, Dearborn; Trenton State Bank, Trenton; Union Savings Bank, Brightmoor; Union Trust Co., Guardian Trust Co., Highland Park Trust Co.

Battle Creek: City National Bank & Trust Co.

Flint: Union Industrial Bank, Union Industrial Trust Co.

Grand Rapids: Grand Rapids National Bank, Grand Rapids Trust Co.

Jackson: National Union Bank & Trust Co., Peoples National Bank.

Kalamazoo: First National Bank & Trust Co.

Lansing: Capital National Bank.

Niles: City National Bank & Trust Co.

Port Huron: Federal Commercial & Savings Bank, First National Bank & Trust Co.

Saginaw: Second National Bank & Trust Co.

The group company owns all or practically all of the capital stock (except directors' qualifying shares) of the above named banks and trust companies. The company also owns approximately 40 per cent of the stock of the following banks:

Blanchard State Bank, Blanchard.
State Savings Bank, Clinton.
Thompson Savings Bank, Hudson.
State Savings Bank, Remus.
State Bank of Six Lakes, Six Lakes.
State Savings Bank, Stanton.
State Savings Bank, Vestaburg.

The group company owns either directly or indirectly all or substantially all of the capital stock of the following corporations:

SECURITIES COMPANIES

Guardian Detroit Co.
Keane, Higbie & Co.
National Union Co., Jackson.
F. N. B. Securities Co., Kalamazoo.
Grand Rapids National Co., Grand Rapids.
Guardian Detroit Co. of California.
Peoples National Co., Jackson.

JOINT-STOCK LAND BANKS

Union Joint Stock Land Bank, Detroit.
Ohio-Pennsylvania Joint Stock Land Bank, Cleveland.

OTHER AFFILIATED INSTITUTIONS

Union Title & Guaranty Co., Detroit.
New Union Building Co., Detroit.
Guardian Safe Deposit Co.
Guardian Holding Co.
National Union Building Co., Jackson.

PURPOSES

In the past decade, banking like industry has felt the economic pressure toward larger units and closer connection of units. The progress of business has emphasized the interdependence of communities within the same industrial area, and has shown the need for a more comprehensive banking service.

The purpose of the group has been to gather together under unified ownership outstanding banks, trust companies, and financial institutions in the leading industrial and commercial centers of Michigan to the end that—

1. Industry, commerce, and the individual shall be better served, by a strong and progressive group of banking and financial institutions, whose directors and officers have a clear and sympathetic understanding of the needs and problems of business in the vast industrial region of lower Michigan—one of the most important manufacturing districts in the world.

2. There shall be retained for Michigan and for its cities the banking resources and deposits which might otherwise of necessity go in substantial amounts to financial centers outside of the State.

3. Further growth and development in Michigan shall be aided and fostered by Michigan institutions and by Michigan capital.

The practical advantages which the group offers are many. Each unit institution is associated with the group company having aggregate resources many times greater than its own, giving the depositor even greater assurance of the safety of his funds. The larger local corporations need no longer go elsewhere for such loan accommodations as they may need. If individual units of the group do not have sufficient legal loaning capacity to provide for the requirements of the large corporations, the other units of the group should be able to take care of these requirements.

Depositors will have available the credit information and the financial and investment service of a larger organization fully equipped to render such service. The group through its units and through its outside relationships provides contact with innumerable types of business and cooperates in developing new business for customers.

POLICY OF MANAGEMENT

From its inception Guardian Detroit Union Group (Inc.) has stood committed to the fundamental policy of developing the standing and prestige of local management and has placed the responsibility of such management upon the local boards of directors and local officers.

Article VI of the by-laws of the group provides:

"Whenever at any meeting of the stockholders of a bank or trust company of which this corporation shall at the time own 75 per cent or more of the outstanding stock, an election of a board of directors is held, the shares of such bank or trust company owned by this company shall be voted in favor of the election of a board of directors of which at least 75 per cent shall consist of directors residing in the municipality where said bank or trust company is located or within a radius of 50 miles thereof."

To further carry out these policies, the board of directors of Guardian Detroit Union Group (Inc.) adopted the following resolutions:

"*Resolved*, That credit based upon the deposits in a local bank, which is a unit member of Guardian Detroit Union Group (Inc.), shall be controlled wholly by the board of directors and the officers of the local unit bank; and

"*Resolved*, That Guardian Detroit Union Group (Inc.), in its relationships with local banks which are unit members of the group, accepts as its sole

function, responsibility and duty—to provide 'stronger support to the banks and a more secure basis for these institutions'—and the officers and staff of the group be and they hereby are directed to devote their energies and restrict their activities accordingly; and

"*Resolved*, That the board of directors of each local unit institution in Guardian Detroit Union Group (Inc.), is responsible for the management of the affairs of the institution in question; and that the officers of each unit institution in the group are responsible directly to the board of directors of their own institution and to no other authority, except the law."

Subject to the broad policies outlined above, the group company can perform the following useful functions for local unit institutions:

(*a*) Acting as clearing-house for information bearing upon policies, practices, and results obtained by the various member unit institutions;

(*b*) Systematically making available to all units the practice of the best with a view to enabling all to reach the highest standards of operation and resultant profit;

(*c*) Providing expert advice at minimum cost in regard to tax and insurance matters, and extraordinary legal questions;

(*d*) Providing capable supervision in connection with building construction and management;

(*e*) Coordinating business development activities;

(*f*) Purchasing standard equipment and supplies in quantity;

(*g*) The group company should also provide an independent examining force, in no way responsible for the condition which its examination discloses, to supplement the work of the board of directors of a local unit in connection with the examining responsibilities imposed by Statute.

In order to perform the above functions effectively, the following committees have been elected, by the board of directors: Advisory committee, executive committee, operating committee.

The advisory committee is largely a policy-making committee; its membership is comparatively small, and includes no active operating officers of any unit. This committee has, and should have entire freedom in criticizing either the policies or the management of any unit or any department of the associated institutions. Its meetings are not held on stated days, but upon the call of the chairman. Operating heads of units or departments will have the advice and assistance of this committee as to any questions under consideration.

The executive committee includes several members of the advisory committee together with other members of the board of directors who are operating men in the organizations in the group. Its duties are much the same as any executive committee, empowered to act on behalf of the board of directors.

The operating committee is made up of the operating heads of the various large units in the group. Their function is to discuss operating details, new business and other matters pertaining to direct operations of the various institutions, which would make for better and more economical operation and for the further growth and development of the units in the group.

To assist in coordinating and stimulating group activities, the following staff officers have been provided for: Manager business development, comptroller, purchasing agent, chairman bank investment committee, general trust officer, manager department of examinations, supervisor of buildings, general counsel.

RESULTS OF OPERATIONS DURING 1929

The results of operations of the above unit institutions of Guardian Detroit Union Group (Inc.) for the year ending December 31, 1929, were satisfactory in spite of the difficult condition which confronted every banking institution during the last 10 weeks of the calendar year.

Aggregate gross earnings of the units of the group amounted to	$41,847,489.21
From which all expenses (including taxes of all kinds, and depreciation of buildings and equipment) were paid to the amount of	32,435,031.08
Leaving net earnings from operations (after writing off all known losses) in the amount of	9,412,458.13

Or at the rate of 30.58 per cent on outstanding capital stock of 1,538,801 shares of $20 par value.

Of this amount, there was set aside reserves for unforseen contingencies in the amount of	$1,704,732.73
Leaving available for dividends	7,707,725.40
Or at the rate of 25.04 per cent on outstanding capital stock of 1,538,801 shares of $20 par value.	
Of this amount there was paid out in dividends during the year by the group or by the member banks prior to affiliation with the group	4,246,359.04
Leaving for additions to surplus or undivided profits	3,461,366.36

The banks and trust companies, units of the Guardian Detroit Union Group (Inc.) now serve more than 500,000 customers.

Aggregate resources and liabilities of banks and trust companies affiliated with Guardian Detroit Union Group (Inc.) as of December 31, 1929

RESOURCES		LIABILITIES	
Loans and discounts	$227,245,022.82	Capital stock	$31,700,000.00
Bonds and securities	83,216,782.92	Surplus	27,527,400.00
Real estate mortgages	75,996,013.98	Undivided profits	7,600,673.01
Cash and due from banks	78,195,449.90	Reserves	1,432,124.97
Advances to trusts	6,355,536.99	Total invested capital	68,260,197.98
Customers' liability letters of credit and acceptances	851,318.15	Bills payable	21,842,176.33
Customers' securities—Safekeeping	12,594,330.16	Letters of credit and acceptances	857,466.92
First mortgage bonds—trust fund	3,699,193.96	Customers' securities—safekeeping	12,594,330.16
Banking houses, equipment, etc	21,256,041.50	Mortgage bonds	3,770,200.00
Other resources	540,121.85	Repurchase agreements	2,000,000.00
		Circulation	3,226,035.00
		Other liabilities	4,313,076.50
		Deposits	393,086,329.34
	509,949,812.23		509,949,812.23

Invested capital of banks and trust companies as indicated above (including contingent reserves)	68,260,197.98
Invested capital of all other corporations, units of the group, including the proportionate ownership where less than 50 per cent of the capital is owned by Guardian Detroit Union Group (Inc.)	12,777,190.58
Total invested capital	81,037,388.56

The Guardian Detroit Union Group (Inc.) has more than 8,000 stockholders. These stockholders can be of inestimable help in further developing the business of the various units of the group, not only through the use of all facilities offered by the units but also in urging their friends to do likewise. Much of this assistance has already been given by our stockholders for which the management wishes to express appreciation. In asking a further measure of support we are mindful that whatever benefits the units of the group is of direct benefit to the stockholders.

Acknowledgment is made of the loyal support and untiring efforts of all of our directors, officers, and employees during the past year.

By order of the executive committee.

ROBERT O. LORD, *President*.

Statement of condition of National Bank of Commerce, Detroit, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$87,806,901.65
United States bonds	275,000.00
Other bonds and securities	3,407,560.00
Cash and due from banks	18,926,748.85
United States bonds borrowed	3,900,000.00
Banking house and equipment	2,294,332.10
Other real estate	2,245.27
Customers' liability letters of credit and acceptances	440,751.20
Total	117,053,539.07

LIABILITIES

Capital stock	5,000,000.00
Surplus	6,000,000.00
Undivided profits	1,487,157.56
Reserve for interest, taxes, etc	285,100.75
Discount collected not earned	119,022.19
Dividends unpaid	1,822.50
Liability under letters of credit and acceptances	446,899.97
Bills payable	7,900,000.00
Rediscounts	895,000.00
United States bonds borrowed	3,900,000.00
Real estate mortgage and commitments	34,634.87
Deposits	90,983,901.23
Total	117,053,539.07

OFFICERS

Henry H. Sanger, chairman of the board and president.
Samuel R. Kingston, executive vice president and cashier.
Charles A. Kanter, executive vice president.
Harry S. Covington, executive vice president.
L. H. D. Baker, vice president.
Scott Carpenter, vice president.
Harry S Finkenstaedt, vice president.
Orville L. Hatt, vice president.
Charles A. Kinney, vice president.
Charles N. Maycock, vice president.
Robert C. Wandel, vice president.
G. R. Harris, assistant vice president.
W. P. Jacobs, assistant vice president.
Albert P. Voss, assistant vice president.
W. E. Blakeley, assistant cashier.
Walter D. Brown, assistant cashier.
S. A. Clark, assistant cashier.
Leo J. Coleman, assistant cashier.
R. V. Free, assistant cashier.
A. D Freydl, assistant cashier.
George L. Greenup, assistant cashier.
Nels Johnson, assistant cashier.
John W. Johnston, assistant cashier.
S. W. Laird, assistant cashier.
Douglas G. McCracken, assistant cashier.
Charles F. Sawyer, assistant cashier.
Harry Schaefer, assistant cashier.
F. W. Shelton, assistant cashier.
E. Schulz, auditor.
William Fredericks, assistant auditor.
Leo E. Kangas, assistant auditor.

Statement of condition of Bank of Detroit, Detroit, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts		$21,194,274.41
Bonds, mortgages, and securities		17,737,381.49
Securities sold subject to repurchase agreement		2,000,000.00
Federal reserve bank stock		150,000.00
Cash resources:		
Due from Federal reserve bank	$2,002,514.57	
Cash in vault and due from banks	6,567,603.03	
		8,570,117.60
Customers' liability letters of credit		35,817.02
Customers' bonds for safekeeping		2,097,400.00

Bank buildings and equipment	$2,338,623.01
Other real estate	284,833.24
Land contracts receivable	101,599.09
Income accrued receivable (net)	222,608.30
Interest and expenses prepaid (net)	60,471.47
Total	$54,793,125.63

LIABILITIES

Capital stock	$4,000,000.00
Surplus	1,250,000.00
Undivided profits	501,572.38
Dividend checks outstanding	883.85
Customers' bonds for safekeeping	2,097,400.00
Securities sold subject to repurchase agreement	2,000,000.00
Letters of credit	35,817.02
Deposits	44,907,452.38
Total	54,793,125.63

OFFICERS

C. H. Haberkorn, jr., chairman of the board.
Geo. B. Judson, president.
G. Ogden Ellis, vice president.
W. A. Fisher, vice president.
R. B. Gripman, vice president.
F. J. Beyer, vice president.
E. S. Burns, vice president.
C. M. Beers, vice president.
L. C. Van Auken, vice president.
W. R. Laing, cashier.
G. T. Murray, assistant cashier.
C. S. Goddin, assistant cashier.
E. T. McConnell, assistant cashier.
B. F. Saylor, assistant cashier.
A. J. Stocker, assistant cashier.
G. C. Auten, assistant cashier.
M. W. Heyrock, assistant cashier.
N. J. MacDonald, assistant cashier.
T. L. Higgins, auditor.

Statement of Condition of Guardian Detroit Bank, Detroit, Mich., at the Close of Business December 31, 1929

RESOURCES

Loans and discounts		$32,942,649.45
United States bonds and certificates		9,513,335.77
Other bonds		2,451,334.92
Federal reserve bank stock		240,000.00
Cash resources:		
Due from Federal reserve bank	$5,697,350.20	
Cash in vault and due from banks	12,150,777.00	
		17,848,127.20
Customers' liability letters of credit and acceptances		248,719.93
Banking quarters and equipment		1,121,661.49
Total		64,365,828.76

LIABILITIES

Capital stock	5,000,000.00
Surplus	3,000,000.00
Undivided profits	882,092.60
Reserve for interest, taxes, etc	516,736.06
Letters of credit and acceptances	248,719.93
Bills payable	None.
Deposits	54,718,280.17
Total	64,365,828.76

OFFICERS

Fred T. Murphy, chairman of the board.
Robert O. Lord, president.
Ernest Kanzler, vice president.
James L. Walsh, vice president.
John C. Grier, jr., vice president.
Phelps Newberry, vice president.
C. A. Shepardson, vice president.
Arthur H. Vogt, vice president.
Alvan Macauley, jr., vice president.
Frank P. Evans, jr., vice president.
John B. Dew, cashier.
John S. Wells, assistant vice president
John N. Daley, assistant vice president
Norman Rudolph, assistant cashier.
James J. O'Shea, assistant cashier.
Dan P. Caulkins, assistant cashier.
John R. Walsh, assistant cashier.
Maurice D. Watts, assistant cashier.

Guardian Trust Co. of Detroit, statement of condition of at the close of business December 31, 1929

RESOURCES

Cash and due from banks	$1,530,408.71
Collateral loans	12,246,150.35
Real-estate mortgages	6,567,694.47
Real-estate mortgages with State treasurer	213,125.50
Bonds	2,358,138.30
Advances to trusts	412,439.03
Total	23,327,956.36

LIABILITIES

Capital stock	1,000,000.00
Surplus	1,000,000.00
Undivided profits	899,904.57
Reserve for interest, taxes, etc	356,875.66
Trust deposits	20,071,176.13
Total	23,327,956.36

OFFICERS

Henry E. Bodman, chairman of the board.
Robert O. Lord, president.
Lewis K. Walker, vice president and secretary.
John C. Grier, jr., vice president.
Phelps Newberry, vice president.
Andrew L. Malott, vice president.
Rudolph E. Hofelich, vice president.
Arthur H. Vogt, vice president and comptroller.
A. A. F. Maxwell, assistant vice president.
Ernest C. Harris, assistant vice president.
A. B. Pfleiderer, assistant vice president.
John L. Cotter, assistant vice president.
Harold W. Buckheit, assistant vice president.
Charles A. Meyer, trust officer.
Louis J. Ronder, assistant secretary.
Charles B. Marks, assistant secretary.
George D. Clark, assistant secretary.
Wilbur F. Campbell, assistant secretary.

Statement of condition of Union Trust Co., Detroit, Mich., at the close of business December 31, 1929

RESOURCES

Collateral loans	$9,135,009.04
United States Government securities	165,095.52
Bonds, mortgages, etc	23,525,897.22
Cash on hand and in banks	6,529,987.88
Stock of New Union Building Co	3,000,000.00
Stock of Union Title & Guaranty Co	1,000,000.00
Advances to trusts	5,219,062.88

Real estate	$729,769.48
Furniture and fixtures	263,878.80
Accrued receivables, net	1,097,279.45
Total	50,665,980.27

LIABILITIES

Capital stock	5,000,000.00
Surplus	7,500,000.00
Undivided profits	402,133.81
Bills payable	5,232,500.00
United States Government securities borrowed	60,000.00
Other liabilities	15,250.00
Reserve for interest, taxes, etc	73,683.77
Accrued payable, net	461,694.74
Trust deposits	31,920,717.95
Total	50,665,980.27

OFFICERS

Frank W. Blair, chairman of the board.
John N. Stalker, president.
Charles R. Dunn, executive vice president.
Joel H. Prescott, executive vice president.
Andrew L. Malott, executive vice president.
Charles N. Crosman, vice president.
Charles H. Adams, vice president.
Merrill C. Adams, vice president.
Charles E. Clark, vice president.
John A. Reynolds, vice president.
Clinton F. Berry, vice president.
A. Douglas Jamieson, vice president.
Ralph E. Badger, vice president.
E. L. Deacon, vice president.
J. Monroe Roney, vice president.
Lawrence J. Toomey, vice president.
Morse D. Campbell, vice president.
Alvin W. Bond, vice president.
Eugene A. Miller, vice president.
Merrill C. Adams, secretary.
Charles E. Clark, treasurer.
Joseph J. Cavanaugh, trust officer.
Thomas J. Teare, trust officer.
James A. Pierce, trust officer.
George F. Aldrich, trust officer.
C. Stewart Baxter, trust officer.
George E. Parker, jr., trust officer.
Harry Slater, assistant to the president.
Louis H. Charbonneau, assistant vice president.
Herold G. Woodruff, assistant vice president.
John C. Evans, assistant vice president.
Wayne W. Putnam, assistant vice president.
William B. McNally, assistant vice president.
William J. Dickson, assistant vice president.
Wesley J. Carlyle, assistant vice president.
Arthur S. Gilmore, assistant secretary.
Ned W. Andrus, assistant secretary.
William H. Erskine, assistant secretary.
Wayne W. Putnam, assistant secretary.
Millard E. Bowlus, assistant secretary.
Robert T. Flattery, assistant secretary.
Thomas L. Patton, assistant secretary.
Herbert H. Schoenberg, assistant secretary.
Lucius A. Thomas, assistant secretary.
Edward L. Alward, assistant secretary.
E. Arthur Edwards, assistant secretary.
Walter C. Hartwig, assistant treasurer.
Charles H. Adams, manager bond department.
Roy R. Carpenter, manager corporate division, bond department.
Frank P. Keane, manager municipal division, bond department.
Paul D. Corbett, manager of sales, bond department.
E. John Lantz, auditor.
Irving C. Tuttle, assistant auditor.
John A. Reynolds, manager business extension department.
Robert T. Flattery, assistant manager business extension department.
Wilfred C. Dickie, assistant manager business extension department.
H. Raymond Bacon, assistant manager business extension department.

Statement of condition of Highland Park State Bank, Highland Park, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts		$5,197,257.58
Real-estate loans		10,882,703.87
United States bonds and certificates		1,858,334.19
Other bonds		6,314,197.97
Federal reserve bank stock		90,000.00
Cash resources:		
Due from Federal reserve bank	$837,685.59	
Cash in vault and due from banks	1,437,805.61	
		2,275,491.20
Banking houses and equipment		1,111,263.97
Customers' liability letters of credit		10,000.00
Total		27,739,248.78

LIABILITIES

Capital stock	1,000,000.00
Surplus	2,000,000.00
Undivided profits	258,895.22
Reserve for interest, taxes, etc	208,163.92
Letters of credit and acceptances	10,000.00
Bills payable	None
Deposits	24,262,189.64
Total	27,739,248.78

OFFICERS

James T. Whitehead, chairman of the board.
Robert O. Lord, president.
George R. Andrews, chairman of executive committee.
Frank E. Quisenberry, executive vice president.
Frank J. Maurice, executive vice president.
Herbert G. Wood, vice president.
Herbert H. Gardner, vice president.
Charles I. Norman, vice president and bond officer.
William A. Mayberry, assistant vice president.
Lloyd P. Thompson, cashier.
Leo C. Janisse, assistant vice president.
Griswold Adams, assistant cashier.
James H. Helliwell, assistant cashier.
L. F. Merz, manager foreign banking department.
B. Pesciarelli, assistant manager foreign banking department.

Statement of condition of Highland Park Trust Co., Highland Park, Mich. at the close of business, December 31, 1929

RESOURCES

Cash and due from banks	$168,707.12
Collateral loans	611,973.81
Real-estate mortgages	395,504.00
Bonds with State treasurer	205,562.53
Bonds	593,385.70
Advances to trusts	89,903.80
First mortgage bond trust fund	3,699,193.96
Furniture, fixtures, etc	19,949.01
Total	5,784,179.93

LIABILITIES

Capital stock	500,000.00
Surplus	250,000.00
Undivided profits	75,562.36
Reserve for interest, taxes, etc	95,588.37
First-mortgage bonds outstanding	3,686,500.00
Trust deposits	1,176,529.20
Total	5,784,179.93

OFFICERS

Robert O. Lord, chairman of the board.
Frank E. Quisenberry, president.
George R. Andrews, chairman of executive committee.
Frank J. Maurice, vice president.
Herbert H. Gardner, executive vice president and trust officer.
Charles I. Norman, vice president and bond officer.
Alfred Zahrn, secretary.
Herbert G. Wood, treasurer.
Leonard F. Betts, assistant trust officer.
William A. Mayberry, assistant secretary.
Lloyd J. Thompson, assistant secretary and assistant treasurer.
Leo C. Janisse, assistant treasurer.

Statement of condition of Michigan Industrial Bank, Detroit, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$3,202,454.18
Cash on hand and in banks	31,701.61
Furniture and fixtures	13,306.66
Other assets	77.30
Total	3,247,539.75

LIABILITIES

Capital stock	500,000.00
Surplus	125,000.00
Undivided profits	59,843.42
Interest received unearned	80,260.47
Reserve for interest, taxes, etc	21,296.70
Repayments on loans	1,110,200.03
Savings deposits	575,730.12
Bills payable	775,000.00
Other liabilities	209.01
Total	3,247,539.75

OFFICERS

Allan A. Templeton, president.
George B. Yerkes, vice president
Harold L. Wadsworth, vice president.
C. S. Fitzpatrick, executive vice president.
A. E. Betteley, vice president.
Carl M. Heck, vice president and treasurer.
S. P. King, secretary.

Statement of Condition of Trenton State Bank, Trenton, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$380,311.17
Real estate mortgages	328,408.61
Bonds	237,872.38
United States bonds carried as reserve	66,150.00
Cash and due from banks	64,986.88
Premium account	609.27
Banking house and equipment	44,697.68
Other real estate	3,365.00
Customers' bonds in safekeeping	1,250.00
Accrued interest paid	198.19
Total	1,127,789.18

LIABILITIES

Capital stock	$50,000.00
Surplus and undivided profits	42,196.88
Bills payable	25,000.00
Customers' bonds in safekeeping	1,250.00
Deposits	1,009,342.31
Total	1,127,789.18

OFFICERS

Austin Church, chairman of the board.
Nicholas A. Mans, president.
F. A. Lautenschlager, vice president and cashier.
Margaret Stone, assistant cashier.
Karl Fust, assistant cashier.

Statement of condition of Bank of Commerce, Dearborn, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$507,958.75
Bonds and mortgages	923,566.37
Cash and due from banks	251,094.40
Banking house and equipment	123,000.00
Interest accrued receivable	18,511.12
Total	1,824,130.64

LIABILITIES

Capital stock	200,000.00
Surplus	50,000.00
Undivided profits	40,081.10
Dividends unpaid	330.00
Deposits	1,533,719.54
Total	1,824,130.64

OFFICERS

Oren O. Otis, vice president and cashier.
William O. Gierk, assistant cashier.
Henry H. Sanger, president.
S. R. Kingston, vice president.

Statement of condition of Bank of Dearborn, Dearborn, Mich., at the close of business, December 31, 1929

RESOURCES

Loans and discounts	$675,020.13
Real estate loans	245,546.22
Other bonds	673,963.50
Federal reserve bank stock	7,500.00
Cash and due from banks	176,667.47
Banking house and equipment	163,804.72
Other resources	10,759.69
Total	1,953,261.73

LIABILITIES

Capital stock	200,000.00
Surplus	50,000.00
Undivided profits	9,931.70
Reserve for interest, taxes, etc	17,663.89
Deposits	1,675,666.14
Total	1,953,261.73

OFFICERS

Clarence H. Booth, president.
Frank E. Quisenberry, vice president.
Frank J. Maurice, vice president.
Emanuel C. Lindman, cashier.
Walter H. Bell, jr., assistant cashier.

Statement of condition of Union State Bank, Dearborn, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$2,087,661.65
Bonds and mortgages	799,944.04
Banking house and branches	197,692.28
Furniture and fixtures	20,446.56
Cash and due from banks and bankers	838,811.33
Total	3,944,555.86

LIABILITIES

Capital stock	200,000.00
Surplus	203,150.00
Undivided profits	25,999.69
Dividends unpaid	6,486.40
Deposits	3,508,919.77
Total	3,944,555.86

OFFICERS

Joseph Henn, chairman.
W. J. Rachow, president and cashier.
Frank W. Blair, vice president.
Howard O. Wells, vice president.
Percy J. Wines, assistant cashier.
Joseph A. George, assistant cashier.
F. C. Krusell, assistant cashier.
Hal H. Smith, attorney.
Victor Tinerean, manager foreign department.
C. H. Gates, manager new business department.

Statement of condition of Jefferson Savings Bank, Grosse Pointe Park, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$173,816.46
Real estate loans	335,994.85
Bonds	365,401.77
Cash and due from banks	207,719.51
Banking houses and equipment	56,079.00
Total	1,139,011.59

LIABILITIES

Capital stock	100,000.00
Surplus	30,000.00
Undivided profits	7,533.94
Reserve for interest, taxes, etc	1,000.00
Deposits	1,000,477.65
Total	1,139,011.59

OFFICERS

Jul. W. Berns, president.
W. Lloyd Webster, vice president and cashier.
S. Willard Hosking, assistant cashier.
Henry C. De Yonker, assistant cashier.

Statement of condition of Bank of Hamtramck, Hamtramck, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$361,850.24
Bonds and mortgages	402,521.20
United States bonds	42,500.00
Cash on hand and in banks	103,672.98
Banking house and equipment	152,843.85
Bonds left for safe keeping	9,450.00
Total	1,072,898.27

LIABILITIES

Capital stock	200,000.00
Surplus	43,000.00
Undivided profits	5,775.57
Dividends unpaid	6,000.00
Bonds left for safe keeping	9,450.00
Deposits	808,672.70
Total	1,072,898.27

OFFICERS

John F. Koenig, president.
Edwin R. Monnig, vice president.
W. E. Dingman, cashier.
J. J. Putera, assistant cashier.

Statement of condition of City National Bank & Trust Co., Battle Creek, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$4,713,445.30
Bonds	1,219,809.39
United States bonds to secure circulation	600,000.00
Banking house and equipment	1,198,650.49
Cash on hand and in banks	683,583.60
Stock in Federal reserve bank	39,000.00
Redemption fund	30,000.00
Total	8,484,486.78

LIABILITIES

Capital	600,000.00
Surplus	700,000.00
Undivided profits	57,542.27
National bank circulation	600,000.00
Bills payable and rediscounts	385,472.28
Deposits	6,141,472.23
Total	8,484,486.78

OFFICERS

Charles C. Green, president.
Edwin R. Morton, vice president and cashier.
Frederick A. Allwardt, vice president.
Nelson E. Hubbard, vice president.
Glenn Van Denbergh, assistant cashier.
Joseph P. Burgie, assistant cashier.
Earle J. Lee, manager West End Branch.

Statement of condition of Union Industrial Bank, Flint, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$10,136,565.64
Real estate mortgages	8,119,313.90
United States bonds and certificates of indebtedness	1,323,013.38
Other bonds	5,409,441.97
Federal Reserve Bank Stock	90,000.00
Due from Federal Reserve Bank	706,983.41
Cash and due from other banks	1,464,319.46
Banking quarters and equipment	1,125,876.70
Other resources	278,282.02
Total	28,653,796.48

LIABILITIES

Capital	2,000,000.00
Surplus	1,000,000.00
Undivided profits	152,256.98
Reserve for taxes and contingencies	267,641.73
Bills payable	3,350,000.00
Deposits	21,883,888.77
Total	28,653,796.48

OFFICERS

C. S. Mott, president.
H. R. Wilkin, executive vice president and cashier.
John E. Storer, vice president.
N. H. Moysey, vice president.
C. F. Barth, vice president.
Robert T. Longway, vice president.
A. M. Davison, vice president.
W. E. Fellows, vice president.
Herbert J. Strasler, auditor.
Earl F. Johnson, assistant cashier.
D. W. Chambers, assistant cashier.
Edward Holmes, assistant cashier.
E. C. Reid, assistant cashier.
Charles J. French, assistant cashier.

Statement of condition of Union Industrial Trust Co., Flint, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$112,708.42
Real estate mortgages	216,675.80
Municipal and other bonds	172,850.00
Cash on hand and in banks	228,782.98
Banking house and equipment	20,027.29
Advance to trusts	667.84
Accrued interest receivable	111.41
Investment account for sinking fund and interest reserve	54,411.99
Total	806,235.73

LIABILITIES

Capital stock	300,000.00
Surplus	24,000.00
Undivided profits	6,662.87
Reserve for interest	1,538.19
Sinking fund—first mortgage certificates	57,912.42
First mortgage certificates payable	83,700.00
Deposits	330,516.41
Other liabilities	1,905.84
Total	806,235.73

OFFICERS

Charles S. Mott, chairman of the board.
John N. Stalker, president.
S. S. Stewart, vice president.
A. M. Davison, vice president.
W. E. Fellows, vice president.
Lloyd G. Kirby, executive vice president, secretary, treasurer, and trust officer.
Allen T. Smith, assistant vice president and assistant trust officer.

Statement of condition of Grand Rapids National Bank, Grand Rapids, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts, bonds and mortgages		$15,918,028.52
Banking house and equipment, main office	$1,906,450.60	
Less deferred payment on bank-building site	200,000.00	
		1,706,450.60
Banking house and equipment branch offices		254,867.37
Five per cent redemption fund		45,000.00
Cash and due from banks		5,457,210.05
Other assets		187,780.24
Customers' liability, letters of credit and travelers' checks		108,755.00
Total		23,678,091.78

LIABILITIES

Capital	1,000,000.00
Surplus and undivided profits	855,558.20
Circulation	869,220.00
Rediscounts	473,000.00
Bills payable	None.
Unearned discount	10,420.19
Travelers' checks and letters of credit	108,755.00
Deposits	20,361,138.39
Total	23,678,091.78

OFFICERS

Dudley E. Waters, chairman of the board.
Joseph H. Brewer, president.
Charles H. Bender, vice president.
Alvah D. Crimmins, vice president and cashier.
J. D. Farr, assistant vice president.
Benjamin de Graaf, assistant vice president.
B. Vander Meulen, assistant cashier.
John Larson, assistant cashier.
Mahlon A. Smith, assistant cashier.
A. T. Edison, assistant cashier.
Harry Lundberg, assistant cashier.
A. K. Gibson, assistant cashier.
F. I. Card, auditor.
John R. Schermer, manager bond department.

Statement of condition of Grand Rapids Trust Co., Grand Rapids, Mich., at the close of business December 31, 1929

RESOURCES

Mortgage loans in office	$156,525.56
Mortgage loans with State treasurer	214,425.00
Other loans	131,571.54
Bonds in office	990,287.09
Cash due from banks and in transit	383,876.72
Advances to trusts	339,983.39
Banking house, vaults, furniture, and fixtures	1,052,685.90
Other assets	18,734.67
Total	3,288,089.87

LIABILITIES

Capital stock	$750,000.00
Surplus	800,000.00
Undivided profits and reserves	74,106.30
Dividends unpaid	29,388.00
Bills payable	295,000.00
Interim certificates	24,600.39
Deposits	1,314,995.18
Total	3,288,089.87

OFFICERS

Joseph H. Brewer, president.
Lee M. Hutchins, vice president.
Alex W. Hompe, vice president.
Paul Frederick Steketee, vice president.
James R. Hooper, vice president and trust officer.
Frank G. Deane, vice president.
Elmer F. Birdsall, vice president.
Peter D. Kline, vice president.
Henry C. Worfel, treasurer.
Arthur E. Wells, secretary.
Joseph B. Ware, assistant secretary.
Frank V. Burrows, assistant trust officer.
Frank W. Schmidt, assistant treasurer.
C. Leo Van Frank, auditor.
Fred A. Worden, manager real estate department.
Lee W. Finch, manager bond department.

Statement of condition of Peoples National Bank, Jackson, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$4,368,239.49
United States bonds and other securities	1,646,899.11
Real estate and fixtures	171,393.93
Cash and due from banks	2,331,626.24
Total	8,518,158.77

LIABILITIES

Capital stock	200,000.00
Surplus and undivided profits	367,231.71
Circulating notes	200,000.00
Deposits	7,750,927.06
Total	8,518,158.77

OFFICERS

Bradley M. De Lamater, chairman of the board.
Herbert S. Reynolds, president.
Hiram C. Blackman, vice president.
Jay F. Clark, cashier.
Clyde H. Edgar, assistant cashier.
Arthur J. Whitney, assistant cashier.
S. Clark Beise, trust officer.

Statement of condition of National Union Bank & Trust Co. (and East Side Affiliated Bank), Jackson, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts		$6,672,472.82
United States bonds and certificates		405,872.00
Other bonds		951,864.82
Federal reserve bank stock		27,150.00
Cash resources:		
Due from Federal reserve bank	$600,408.89	
Cash in vault and due from banks	1,464,379.91	
		2,064,788.80
Banking house and equipment		653,781.54
Total		10,775,929.98

LIABILITIES

Capital stock	$600,000.00
Surplus	307,250.00
Undivided Profits	222,123.78
Reserve for interest, taxes, etc	18,207.46
Circulation	382,960.00
Deposits	9,245,388.74
Total	10,775,929.98

OFFICERS

Main office:
Arthur C. Bloomfield, president.
Clarence B. Hayes, vice president.
Rollin O. Bisbee, vice president.
G. E. Paul, vice president.
Charles M. Spinning, vice president.
Frank H. Newkirk, vice president.
Henry A. Reece, cashier.
Clarence F. Logan, assistant cashier.
Albert R. Johnson, assistant cashier.
Edmund J. Tobin, jr., assistant cashier.
John W. Knight, assistant cashier.
Daniel C. Haefner, assistant cashier.
Trust and bond department:
George E. Paul, vice president and trust officer.
Albert C. Brown, assistant trust officer.
East side branch:
Rudolph L. Kantlehner, advisory officer.
Carl W. Spiegel, manager.

Statement of condition of First National Bank & Trust Co., Kalamazoo, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$6,233,535.22
Bonds and securities	1,038,537.76
United States bonds and certificates of indebtedness	845,500.00
Stock, Federal reserve bank	24,000.00
Cash and due from banks	1,267,820.72
Banking house and equipment	368,859.50
Real estate	2,200.00
With United States Treasurer	2,500.00
Total	9,782,953.20

LIABILITIES

Capital	600,000.00
Surplus and profits	570,304.83
Reserved for interest	46,310.36
Reserved for bond account	47,972.32
Circulation	48,860.00
Bills payable and rediscounts	244,700.30
Deposits	8,224,805.39
Total	9,782,953.20

OFFICERS

C. S. Campbell, president.
C. H. Stearns, vice president.
E. H. Shepherd, vice president.
H. B. Allen, vice president.
S. A. Pratt, assistant vice president.
R. G. Rye, cashier.
J. H. Tolhuizen, assistant cashier.
C. C. Boers, assistant cashier.

Statement of condition of Capital National Bank, Lansing, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$7,034,250.91
Bonds, securities, etc	4,374,046.49
Cash and due from banks	2,281,971.50
Redemption fund with United States Treasurer	30,000.00
Interest earned but not collected	7,672.47
Building and equipment	540,227.35
Total	14,268,168.72

LIABILITIES

Capital	$600,000.00
Surplus	600,000.00
Undivided profits	505,232.12
Unearned interest	54,253.34
Circulation	600,000.00
Rediscounts and bills payable	931,503.75
Deposits	10,977,179.51
Total	14,268,168.72

OFFICERS

Ransom E. Olds, president.
Arthur C. Stebbins, vice president.
Frank E. Gorman, vice president and cashier.
Bruce Anderson, vice president.
Albert A. Elsesser, vice president.
Marshall Westfall, assistant cashier.
Miles D. Grant, assistant cashier.
J. Harold Sessions, assistant cashier.
Ralph H. Parker, assistant cashier.

Statement of condition of City National Bank & Trust Co., Niles, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$937,453.21
Bonds and securities	578,778.00
United States bonds	35,000.00
Mortgages	269,268.00
Cash and due from banks	234,245.73
Stock in Federal reserve bank	7,500.00
Due from United States Treasury	1,250.00
Bank building and fixtures	72,000.00
Total	2,135,494.94

LIABILITIES

Capital stock	150,000.00
Surplus	100,000.00
Undivided profits and reserves	61,497.35
Circulation	25,000.00
Bills payable	100,000.00
Deposits	1,698,997.59
Total	2,135,494.94
Assets of trust department	384,662.37
Combined resources	2,520,157.31

OFFICERS

Frank M. Brandon, president.
Matthew Stoll, vice president.
Charles E. White, vice president.
Thomas C. Hance, cashier and trust officer.
Fred E. Powell, auditor.
Alfred E. Zordel, assistant cashier and assistant trust officer.

Statement of condition of Federal Commercial and Savings Bank, Port Huron, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$5,679,919.68
United States bonds and certificates	679,550.00
Other bonds	741,013.59
Federal reserve bank stock	18,300.00

Cash resources—		
Due from Federal reserve bank	$178,571.21	
Cash in vault and due from banks	585,396.85	
		$763,968.06
Banking quarters and equipment		475,966.30
Customers' bonds left for safekeeping		157,984.29
Total		8,516,701.92

LIABILITIES

Capital stock	400,000.00
Surplus	210,000.00
Undivided profits	175,985.70
Reserve for interest, taxes, etc.	42,589.49
Bills payable	125,000.00
Customers' bonds left for safekeeping	157,984.29
Deposits	7,405,142.44
Total	8,516,701.92

OFFICERS

Albert D. Bennett, chairman of the board.
Stephen A. Graham, president.
Louis A. Weil, vice president.
Samuel L. Boyce, vice president.
William D. Smith, vice president.
Russell T. Jackson, cashier.
Frank C. Wellman, assistant cashier.
Harry W. Maitland, assistant cashier.
Edward N. Branagan, assistant cashier.
Loy R. Morton, assistant cashier.
Howard M. Thomas, assistant cashier.

Statement of condition of First National Bank & Trust Co., Port Huron, Mich., at the close of business December 31, 1929

RESOURCES

Loans and discounts	$2,486,801.24
Bonds	450,700.00
United States, municipal, and other bonds	2,572,393.01
Federal reserve bank stock	14,250.00
Cash and due from banks	701,659.15
Banking house and equipment	192,150.00
Total	6,417,953.40

LIABILITIES

Capital stock	300,000.00
Surplus and undivided profits	313,183.54
Bills payable	360,000.00
Circulation	149,995.00
Deposits	5,294,774.86
Total	6,417,953.40
Trust department resources	2,523,529.31
Combined resources	8,941,482.71

OFFICERS

Daniel D. Brown, president.
Frank E. Beard, vice president.
David MacTaggart, vice president.
Andrew C. Lassen, cashier.
Alex D. Adams, assistant cashier.
Gerald F. Collins, assistant cashier.
Ira Bricker, Trust Officer.

Second National Bank & Trust Co., Saginaw, Mich., statement of condition of at the close of business December 31, 1929

RESOURCES

Loans and discounts	$9,098,123.85
United States securities	2,405,761.31
Other bonds	2,738,483.92
Cash and due from banks	1,585,416.38
Bonds deposited with State treasurer for account trust department	200,000.00
Stock in Federal reserve bank	75,000.00
Banking houses and office building	1,435,000.00
Other real estate	35,943.83
Due from United States Treasurer	17,500.00
Total	17,591,228.39

LIABILITIES

Capital stock	1,250,000.00
Surplus fund	1,250,000.00
Undivided profits and reserves	762,928.30
	3,262,928.30
National bank notes outstanding	350,000.00
Bills payable	750,000.00
Deposits	13,228,300.09
Total	17,591,228.39

OFFICERS

George B. Morley, chairman of the board.
R. Perry Shorts, president.
W. H. Wallace, vice president.
Albert H. Morley, vice president.
Ray T. Maynard, vice president and cashier.
Emil A. Tessin, vice president and trust officer.
Alfred H. Perrin, vice president.
Mervyn E. Curran, assistant cashier.
Thomas M. Morley, assistant cashier.
John J. Spencer, assistant cashier.
John A. Stewart, assistant cashier.

GUARDIAN DETROIT CO.

OFFICERS

Carlton M. Higbie, chairman of the board.
John C. Grier, jr., president.
Robert O. Lord, vice president.
Ernest Kanzler, vice president.
Robert C. Lehman, vice president.
Howard M. Smith, vice president.
Andrew D. Hotchkiss, vice president.
Pelham C. Wilmerding, vice president.
E. P. Kimbrough, vice president.
Percival J. Steindler, vice president.
Philip K. Watson, vice president.
Frederick W. Pritchard, comptroller.
Gerald E. Miller, secretary.
G. T. Marshall, jr., assistant vice president.
Leslie A. Morgan, assistant vice president.
Wesley L. Murray, assistant vice president.
Kenneth K. Martin, assistant vice president.
Archibald B. Morrison, assistant vice president.
Joseph D. Frost, assistant vice president.
Edgar R. Thom, assistant vice president.
Harold J. Lauver, assistant secretary.
Prosser M. Watts, assistant secretary.
L. J. Ronder, assistant treasurer.
S. McKim Rusk, assistant treasurer.

GUARDIAN DETROIT CO. OF CALIFORNIA

OFFICERS

John C. Grier, jr., president.
Robert O. Lord, vice president.
Ernest Kanzler, vice president.
E. Price Kimbrough, vice president.
Harvey Roney, vice president.
Milton F. Steindler, vice president.
W. F. Wickman, assistant vice president
Robert C. Lehman, secretary.
Frederick W. Pritchard, treasurer.
Gerald E. Miller, assistant secretary.

KEANE, HIGBIE & CO.

OFFICERS

Carlton M. Higbie, chairman of the board.
Duncan J. McNabb, president and treasurer.
N. Bradley Higbie, jr., vice president.
Henry S. Morgan, vice president.
Muir B. Snow, vice president.
Millard H. Pryor, vice president.
Frederick W. Pritchard, comptroller.
Robert C. Lehman, secretary.

CORPORATE CONNECTIONS OF THE DIRECTORS IN THE GUARDIAN DETROIT UNION GROUP

Charles H. Adams, Detroit; vice president Union Trust Co., vice president and director Union Joint Stock Land Bank, director Bank of Hamtramck.

Merrill C. Adams, Detroit; vice president and secretary Union Trust Co.; secretary-treasurer New Union Building Co., secretary and director Union Joint Stock Bank, secretary Union Title & Guaranty Co., director Wm P. Ternes Co.

George A. Alderton, Saginaw; director Second National Bank & Trust Co., president G. A. Alderton & Co., president Melze, Alderton Shoe Co.

H. B. Allen, Kalamazoo; vice president and director First National Bank & Trust Co.

F. A. Allwardt, Battle Creek; vice president and director City National Bank & Trust Co.

D. M. Amberg, Grand Rapids; director Grand Rapids National Bank, vice president and director Imperial Furniture Co., vice president and director Grand Rapids Chair Co.

Dr. Edward Ames, Kalamazoo; director First National Bank & Trust Co., physician.

Bruce Anderson, Lansing; vice president and director Capital National Bank, director Industrial Bank, director Loan & Deposit State Bank, Grand Ledge, director Hill-Diesel Engine Co., president and director Lansing Oldsmobile Co., vice president and director R. E. Olds Co., treasurer and director Lansing Community Hotel Corporation, treasurer and director Hotel Olds Operating Co.

John A. Anderson, Port Huron; director Federal Commercial & Savings Bank, president and treasurer Harrington Hotel.

Wendell W. Anderson, Detroit; director Guardian Detroit Bank, director Highland Park State Bank, director Highland Park Trust Co., secretary-treasurer Anderson & Gardner (Inc.), treasurer and director Bundy Tubing Co., treasurer and director Saunders Michigan Stores (Inc.), director Clarence Saunders Stores (Inc.), director Detroit & Canada Tunnel Co., director Cadillac Aircraft Corporation.

Frank W. Andreae, Port Huron; director First National Bank & Trust Co., president Yale Woolen Mills, director Excello Aircraft & Tool Corporation, director Duro Wood Products (Inc.).

George R. Andrews, Detroit; chairman executive committee and director Highland Park State Bank, chairman executive committee and director Highland Park Trust Co., director Bank of Detroit, director Bank of Dearborn.

Roger M. Andrews, Detroit; director Bank of Detroit, president Times Publishing Co., publisher the Detroit Times, publisher and owner the Menominee Herald-Leader, Menominee.

Thomas Jackson Anketell, Detroit; director Union Joint Stock Land Bank, president Gratiot Lumber & Coal Co., president Anketell Lumber & Coal Co.

F. N. Arbaugh, Lansing; director Capital National Bank, director Industrial Bank, president and manager the F. N. Arbaugh Co., president Capital Electric Supply Co., vice president Barker Fowler Electric Co., vice president Standard Real Estate Co., treasurer Dall Steel Products Co., director Arctic Dairy Products Co., director Lansing Oldsmobile Co.

Frederic G. Austin, Detroit; director Union Trust Co., vice president, general manager and director Whitney Realty Co. (Ltd.), director General Brass Co.

Paul F. Bagley, Detroit; director Union Trust Co., president and director Woodmere Cemetery Association, director Bagley Land Co. (Ltd.).

George L. Bahl, Detroit; director Highland Park State Bank, director Highland Park Trust Co., general agent Penn Mutual Life Insurance Co., vice president Hutto Engineering Co., director Central West Casualty Co.

Hollis S. Baker, Grand Rapids; director Grand Rapids National Bank, president and general manager Baker Furniture Co.

L. H. D. Baker, Detroit; vice president National Bank of Commerce, director Michigan Industrial Bank, director Jefferson Savings Bank, Gross Pointe Park, director Husted Safety Wheel Co.

Ralph W. Ballantine, Lansing; director Capital National Bank, director First National Bank of Dearborn, president and director Michigan Mortgage-Investment Corporation, secretary, treasurer and director Community Land Co., director Lansing Community Hotel Corporation.

J. M. Barringer, Flint; director Union Industrial Bank, president General Foundry & Machine Co.

Charles F. Barth, Flint; vice president and director Union Industrial Bank, director Union Industrial Trust Co., vice president and general production manager Chevrolet Motor Co.

Frank E. Beard, Port Huron; vice president and director First National Bank & Trust Co., president Beard, Campbell Co., chairman St. Clair County Road Commissioners.

Charles H. Bender, Grand Rapids; vice president, chairman executive committee and director Grand Rapids National Bank, director Union Joint Stock Land Bank, Detroit, secretary, treasurer and director Hackley Phelps Bonnell Co., director Central West Casualty Co., director Ruggles & Rademaker Co.

Albert D. Bennett, Port Huron; chairman and director Federal Commercial & Savings Bank.

Frank T. Bennett, Jackson; director National Union Bank & Trust Co., president Bennett-McQuillan (Inc.), trustee F. D. Bennett estate.

Jul. W. Berns, Detroit; president and director Jefferson Savings Bank, Grosse Pointe Park; vice president Lochmoor State Bank, vice president Windisch-Commercial Bindery (Inc.), vice president Stanley Furnace Corporation.

Frank K. Berry, Battle Creek; director City National Bank & Trust Co., president A-B Stove Co., president Marshall Furnace Co.

Charles A. Bigelow, Saginaw; director Second National Bank & Trust Co., director Peoples Commercial & Savings Bank, Bay City; president Kneeland-Bigelow Co.

Charles Binder, Battle Creek; director City National Bank & Trust Co., R. Binder Co., director Margalexom Oil Co.

Rollin O. Bisbee, Jackson; vice president and director National Union Bank & Trust Co., director Peoples State Savings Bank of East Jordan, president Bankers Investment Co., president Fidelity Corporation of Michigan.

Arthur G. Bishop, Flint; director Union Trust Co., Detroit; director Union Joint Stock Land Bank, Detroit; president and director Genesee County Savings Bank, Flint; director First Trust & Savings Bank, Flushing; vice president and director General Motors Corporation, New York; director Durant Hotel Co.

M. R. Bissell, jr., Grand Rapids; director Grand Rapids Trust Co., vice president and director Bissell Carpet Sweeper Co.

Judge Edward D. Black, Flint; director Union Industrial Bank, director Union Industrial Trust Co., president Industrial Realty Co.

Hiram C. Blackman, Jackson; vice president and director Peoples National Bank, vice president Peoples National Co., director Jackson Citizens Finance Co.

Frank W. Blair, Detroit; chairman and director Guardian Detroit Union Group (Inc.), chairman and director Union Trust Co., president and director Union Joint Stock Land Bank, president Ohio-Pennsylvania Joint Stock Land Bank, president and director New Union Building Co., director Guardian Detroit Co., vice president and director Standard Savings & Loan Association, director National Bank of Commerce, director Union Title and Guaranty Co., director Keane, Higbie & Co., director Union State Bank of Dearborn, director Michigan Bell Telephone Co., director Central West Casualty Co., director Russel Steel Construction Co., director Detroit Bevel Gear Co., director Clawson State Savings Bank, director Wabash Portland Cement Co., director Michigan Steel Corporation, director National Grocer Co., director American Life Insurance Co., director Clayton and Lambert Mfg. Co., director National Steel Corporation, director Republic Gear Co.

Arthur L. Blakeslee, Kalamazoo; director First National Bank & Trust Co., president Kalamazoo Stove Co., director Industrial Finance Co.

Arthur C. Bloomfield, Jackson; director Guardian Detroit Union Group (Inc.), president and director National Union Bank & Trust Co., vice president National Union Co., vice president Longyear Mesaba Land & Iron Co.

Anthony Bodde, Detroit; director Michigan Industrial Bank, director Consolidated Brass Co., president and director Beaver Realty Co., secretary and director Detroit Metal Spinning Co., treasurer and director Detroit Steel Corporation, director Norton Hotel Co.

Henry E. Bodman, Detroit; chairman executive committee and director Guardian Detroit Union Group (Inc.), chairman and director Guardian Trust Co., director Guardian Detroit Bank, director Guardian Detroit Co., vice president and counsel Packard Motor Car Co., director Detroit City Gas Co., director Pennsylvania, Ohio & Detroit Railroad, director National Investors Corporation.

Carl W. Bonbright, Flint; director Union Industrial Bank, director Union Industrial Trust Co., vice president and director General Foundry & Machine Co., member advisory board American Industries Corporation.

Howard Bonbright, Detroit; director Guardian Detroit Bank, director Guardian Trust Co., president General Securities Corporation, special partner Nicol-Ford & Co.

Clarence H. Booth, Detroit; director Guardian Detroit Union Group (Inc.), director Guardian Detroit Bank, director Highland Park State Bank, director Highland Park Trust Co., president and director Bank of Dearborn, chairman Motor Bankers Corporation, president and director Gladwin Park Realty Co., vice president and director Detroit Ecorse Land Co., director Booth Newspapers (Inc.)

Ralph H. Booth, Detroit; director Guardian Detroit Union Group (Inc.), director Guardian Detroit Bank, director Guardian Trust Co., director Union Joint Stock Land Bank, president Booth Newspapers (Inc.), president Ralph H. Booth Corporation, president Detroit Ecorse Land Co., vice president Gladwin Park Realty Co., director Selected Securities Corporation.

Samuel L. Boyce, Port Huron; vice president and director Federal Commercial & Savings Bank.

George H. Boyd, Saginaw; director Second National Bank & Trust Co., chairman Saginaw Lumber Co., president Wyandotte Lumber Co., Wyandotte, president Boyd & Horine Lumber Co., Detroit, director Allington & Curtis Manufacturing Co.

Judson Bradway, Detroit; director Guardian Trust Co., president Judson Bradway Co., president Detroit & Canada Tunnel Co., president Bloomfield Village Corporation, president Maple-Cranbrook Corporation, president Eclipse Interchangeable Counterbore Co.

Frank M. Brandon, Niles; president and director City National Bank & Trust Co.

Joseph H. Brewer, Grand Rapids; director Guardian Detroit Union Group (Inc.), president and director Grand Rapids National Bank, president and director Grand Rapids Trust Co., president and director Pantlind Hotel Co., president and director Grand Rapids Hotel Co., director Grand Rapids Railway Co., director Grand Rapids Creamery Co., director Detroit Creamery Co.

Will A. Brewer, Saginaw; director Second National Bank & Trust Co., president Brewer Nienstedt Lumber Co., vice president and director Bancroft Hotel Co., treasurer and director Grant Grocer Co.

Walter O. Briggs, Detroit; director Guardian Detroit Union Group (Inc.), director Guardian Detroit Bank, director Guardian Trust Co., chairman and president Briggs Manufacturing Co., president Briggs Commercial & Development Co., president Briggs Bond & Investment Co.

Ralph Briscoe, Trenton; director Trenton State Bank.

Daniel D. Brown, Port Huron; director Guardian Detroit Union Group (Inc.), president and director First National Bank & Trust Co., director Port Huron Loan & Building Association.

George D. Brown, Detroit; director Highland Park State Bank, director Highland Park Trust Co.

David H. Brown, Grand Rapids; director Grand Rapids National Bank, treasurer Century Furniture Co.

Lewis J. Brown, Battle Creek; director City National Bank & Trust Co., president and director Nichols & Shepard Co., general manager Kellogg Co., director Kellogg Inn Co., Director Calhoun Savings & Loan Association.

Roy E. Brownell, Flint; director and attorney Union Industrial Bank, director and attorney Union Industrial Trust Co.

John A. Bryant, Detroit; director Union Trust Co., treasurer Bryant & Detwiler Co., vice president Feno Stamping & Manufacturing Co., director Detroit Motor Bus Co., director Wolverine Stone Co.

Fred Buck, Saginaw; director Second National Bank & Trust Co.; president, general manager, and director the Lufkin Rule Co., second vice president and director the Michigan Mutual Liability Co., Detroit.

Harry C. Bulkley, Detroit; director Guardian Detroit Union Group (Inc.), director Union Trust Co., director National Bank of Commerce, director Union Joint Stock Land Bank, director Detroit Legal News Co.

John K. Burch, Grand Rapids; director Grand Rapids National Bank, president, treasurer, and director A. F. Burch Co., president and director Division Avenue Realty Co.

George L. Burrows, Saginaw; director Second National Bank & Trust Co.

Charles J. Butler, Detroit; director Highland Park State Bank, director Highland Park Trust Co., president Morgan & Wright.

W. F. Butler, Trenton, director Trenton State Bank, Wayne County road commissioner, secretary Wayne County Park Board.

Charles S. Campbell, Kalamazoo; director Guardian Detroit Union Group (Inc.), president and director First National Bank & Trust Co., president F. N. B. Securities Co., president Fidelity Building & Loan Association, vice president Gilmore Bros., secretary George W. Taylor Clothing Co., treasurer Merchants Publishing Co., treasurer Kalamazoo Vegetable Parchment Co.

Douglas Campbell, Detroit; director Union Joint Stock Land Bank, secretary Baker, Simonds & Co., director Universal Products Co., director River Rouge Improvement Co., director Home Properties Corporation, director Russel Woods Co., director Woodlawn Cemetery Association.

Frederick Carlisle, Saginaw; director, Second National Bank & Trust Co.; president and treasurer F. W. & F. Carlisle Co.

Dan P. Caulkins, Detroit; director, Bank of Dearborn; assistant cashier, Guardian Detroit Bank.

Roy D. Chapin, Detroit; director, Guardian Detroit Union Group (Inc.); director, Guardian Detroit Bank; director, Guardian Trust Co.; chairman Hudson Motor Car Co.; member advisory board, Investment Co. of America; director, Detroit Garages (Inc.); director, Detroit Aircraft Corporation; director, North American Aviation (Inc.); director, Curtiss Airports Corporation; director, National Garages (Inc.).

Jay F. Clark, Jackson; cashier and director, Peoples National Bank; vice president, People National Co.; director, Commander Lighting Co.

Edgar B. Clarkson, Jackson; director, Peoples National Bank.

Austin Church, Trenton; chairman and director, Trenton State Bank; president Church Land Co.

Charles E. Clark, Detroit; vice president, Union Trust Co.; director, Jefferson Savings Bank, Grosse Pointe Park; director, Trenton State Bank, Trenton; vice president and director, Society for Savings; director, Clawson State Savings Bank, Clawson; vice president and director, Union State Bank, Dearborn; director, Crowley Milner & Co.

Leon T. Closterhouse, Grand Rapids; director, Grand Rapids Trust Co.; treasurer Grand Rapids Mutual Building & Loan Association; director, Globe Knitting Works.

Bernard C. Cobb, New York; director, Peoples National Bank, Jackson; chairman Commonwealth & Southern Corporation; president Central Illinois Light Co.; president Commonwealth Power Corporation; president Consumers Power Co.; president Grand Rapids Railroad Co.; president Illinois Power Co.; president Northern Ohio Power & Light Co.; president Ohio Edison Co.; president Penn-Ohio Edison Co.; president Southern Indiana Gas & Electric Co.; president Southern Michigan Light & Power Co.; president Tennessee Electric Power Co.

Howard E. Coffin, Detroit; director, Guardian Detroit Bank; director, Guardian Detroit Co.; vice president and director, Hudson Motor Car Co.; chairman and director, National Air Transport (Inc.); president Realty Investments (Inc.); chairman Sea Island Co.; director, Montauk Beach Development Co.; director, Transcontinental Air Transport; director, National Aviation Corporation (Inc.); director, North American Aviation (Inc.); director, Curtiss Airports (Inc.); director, Curtiss Flying Service (Inc.).

William A. Comstock, Detroit; director, Union Joint Stock Land Bank.

Frank C. Cook, Detroit; director, Michigan Industrial Bank; assistant treasurer and director, Detroit National Fire Insurance Co.; secretary, treasurer, and director, Oakland Theater Co.; secretary and director, Detroit Rendering Co.; director, Schroeder Paint & Glass Co.; director, Gratiot View Land Corporation.

George W. Cook, Flint; director, Union Industrial Bank; director, Union Industrial Trust Co.; Cook, Sheppard & Stipes.

George R. Cooke, Detroit; director Guardian Detroit Bank, director Guardian Trust Co., president George R. Cooke Co., president Cooke Asphalt Paving Co., vice president Detroit & Canada Tunnel Co., vice president A. J. Dupuis Co.

Edgar L. Cooley, Lansing; director Capital National Bank, director Industrial Bank, secretary, treasurer, and director Michigan Supply Co.

Lawrence Cornelius, Grand Rapids; director Grand Rapids National Bank, vice president and general manager Wolverine Brass Works.

Louis A. Cornelius, Grand Rapids; director Grand Rapids Trust Co., president and director Wolverine Brass Works, president and director Wolverine Co. (Inc.), New York City.

E. J. Cornwell, Saginaw; director Second National Bank & Trust Co., president and treasurer E. J. Cornwell Lumber Co., secretary-treasurer Cornwell Lumber Co., director the Schust Co., director Johannesberg Manufacturing Co., director Molalla Lumber Co.

Lambert B. Cowley, Jackson; director Peoples National Bank, Cowley's Shoe Store.

Frank Couzens, Detroit; director Bank of Detroit, director Guardian Trust Co., president Frank Couzens, Inc.

Harry S. Covington, Detroit; executive vice president and director National Bank of Commerce, director Union Industrial Bank, Flint; director National Tool Salvage Co., director Industrial Morris Plan Bank.

Lyman J. Craig, Detroit; director Bank of Detroit, director Bank of Dearborn, trustee James Craig Estate.

William W. Crapo, Saginaw; director Second National Bank & Trust Co., director Consolidated Coal Co.

William R. Craven, Cleveland, Ohio; director Ohio-Pennsylvania Joint Stock Land Bank, chairman Dayton Savings & Trust Co., vice president W. H. Kiefaber Co.

Alvah D. Crimmins, Grand Rapids; vice president, cashier, and director Grand Rapids National Bank.

Charles A. Cumings, Flint; director Union Industrial Bank, director Union Industrial Trust Co., secretary, treasurer, and director Cumings Bros.

Edward M. Cumings, Flint; director Union Industrial Bank, director Union Industrial Trust Co., president and director Cumings Bros., secretary and director Bendlecrest Corporation.

Thomas F. Daigle, Detroit; director Michigan Industrial Bank, president and treasurer Daigle Iron Works, president and treasurer Daigle Investment Corporation, president and treasurer Airmount Sign Service, second vice president Inyo Chemical Co., director Union Agency Corporation.

Ernest I. Dail, Lansing; director Capital National Bank, director Industrial Bank, president and general manager Dail Steel Products Co., director Capitol Savings & Loan Co.

Murray Dalziel, Jackson; director National Union Bank & Trust Co., president Collins, Hahn & Dalziel.

Arthur M. Davison, Flint; vice president and director Union Industrial Bank, vice president and director Union Industrial Trust Co., president Mount Morris State Bank, first vice president Capitol Theater Building Co., president Windiate-Pierce-Davison Co., partner A. M. Davison Co., director Cumings Bros., director City Ice & Fuel Co.

Mathew Davison, Flint; director Union Industrial Bank, director Union Industrial Trust Co., director R. B. Alling Co., director Cumings Bros., director Mount Morris State Bank.

Clarence M. Day, Jackson; director National Union Bank & Trust Co., general manager Jaxon Steel Products Co. Division General Motors Corporation.

Frank G. Deane, Grand Rapids; vice president and director Grand Rapids Trust Co.

Louis A. DeHayes, Detroit; director Jefferson Savings Bank, Grosse Pointe Park, president and treasurer Sterling Coal Co., treasurer Detroit Coal Exchange.

Bradley M. DeLamater, Jackson; chairman and director Peoples National Bank.

Paul H. Deming, Detroit; director Union Trust Co., director and president Mackinac Island State Bank, director Copeland Products (Inc.), chairman and director The George Washington Co., Cleveland.

Aaron DeRoy, Detroit; director Union Trust Co., director Michigan Industrial Bank, president and director Aaron DeRoy Management Corporation, president and director Aaron DeRoy Motor Car Co. of Detroit, president and director Aaron DeRoy Motor Car Co. of Pittsburgh, president and director Automobile Discount Co., president and director Si-Roy Properties Corporation.

Ward A. Detwiler, Detroit; director Bank of Detroit, president Bryant & Detwiler Co.

Victor F. Dewey, Detroit; director Highland Park State Bank, director Highland Park Trust Co., president and general manager Detroit Steel Products Co., vice president and director Fenestra Construction Co., director Ames Shovel & Tool Co.

C. W. Dickerson, Detroit; director Michigan Industrial Bank, vice president and secretary Timken Detroit Axle Co., vice president and director Michigan Mutual Liability Co.

Bartlett C. Dickinson, Kalamazoo; director First National Bank & Trust Co., treasurer Sutherland Paper Co., commissioner city of Kalamazoo.

Hon. Gerrit J. Diekema, Grand Rapids; United States Minister of the Netherlands, director Grand Rapids Trust Co., director Grand Haven State Bank, president Lokker Rutgers Co., president De Pree Co., director Michigan Bell Telephone Co., director Buss Machine Co.

William E. Dingman, Detroit; cashier and director Bank of Hamtramck.

Fred J. Dixon, Port Huron, director First National Bank & Trust Co., real estate.

Clayton N. Doty, Flint; director Union Industrial Bank.

J. Walter Drake, Detroit; director Union Trust Co., director Hupp Motor Car Corporation, director Detroit Gear & Machine Co., director Norge Corporation.

Martin J. Dregge, Grand Rapids; director Grand Rapids National Bank, president and director Luce Furniture Shops, president and director Luce Furniture Co., president and director Michigan Chair Co., president and director Furniture Shops of Grand Rapids, president and director Grand Rapids Duplex Divan Lumber Co., secretary, treasurer, and director Nichols & Cox Lumber Co.

Landon A. Dudley, Battle Creek; director City National Bank & Trust Co., district manager Northwestern Mutual Life Insurance Co

Charles R. Dunn, Detroit; executive vice president and director Union Trust Co., secretary, treasurer, and director Marion County Land Co., vice president and director Florida-Michigan Realty Co., vice president and director Newberry Lumber & Chemical Co., director Hubbard Realty Co.

Cady B. Durham, Flint; director Union Industrial Bank, director Union Industrial Trust Co.

Rudolf Eckert, Flint; director Union Industrial Bank, vice president and director Home Dairy Co., director International Foxes & Furs (Inc.), director Moffatt Grocer Co.

D. S. Eddins, Lansing; director Capital National Bank, vice president and general sales manager Olds Motor Works, member Board of Light and Water Commissioners.

G. Ogden Ellis, Detroit; vice president and director Bank of Detroit, publisher The American Boy.

Albert A. Elsesser, Lansing; vice president and director Capital National Bank, director Industrial Bank, vice president and director Mills Supplies Corporation.

Anthony M. Esper, Detroit; director Union State Bank of Dearborn, councilman City of Dearborn.

Henry T. Ewald, Detroit; director Bank of Detroit, president Campbell-Ewald Co.

Frank D. Ewen, Saginaw, director second National Bank & Trust Co.

Alonzo P Ewing, Detroit; director Bank of Detroit.

John A. Fead, Port Huron; director Federal Commercial & Savings Bank, secretary J. L. Fead & Sons.

Lawrence G. Fell, Battle Creek; director City National Bank & Trust Co., vice president and treasurer Michigan Carton Co.

William E. Fellows, Flint; vice president and director Union Industrial Bank, vice president and director Union Industrial Trust Co., director Flint Mortgage Co., director Guaranty Title & Mortgage Co., director Superior Felt Products, (Inc.).

Hugh J. Ferry, Detroit; director Jefferson Savings Bank, Grosse Pointe Park, treasurer Packard Motor Car Co.

Leonard H. Field, jr., Jackson, director National Union Bank & Trust Co., architect.

George R. Fink, Detroit; director Guardian Detroit Union Group (Inc.), director National Bank of Commerce, director Union Trust Co., director Guardian Detroit Co., director Keane, Higbie & Co., president Michigan Steel Corporation, president National Steel Corporation, director Wilcox-Rich Corporation, director Square D Co.

Harry S. Finkenstaedt, Detroit; vice president and director National Bank of Commerce, director Peoples National Bank, Jackson, director Troyoak Land Co.

John W. Finkenstaedt, Detroit; director Union Trust Co., Partner Harris Small & Co.

Adolph Finsterwald, Detroit; director Union Trust Co., president The Fintex Corporation, president Finsterwald Investment Co., vice president Banker Securities Co., director Ray Jewelry Co., director Michigan Lafayette Building Co.

William A. Fisher, Detroit; director Guardian Detroit Union Group (Inc.), vice president and director Bank of Detroit, director Guardian Trust Co., president Fisher Body Corporation.

Burch Foraker, Detroit; director Union Trust Co., director National Bank of Commerce, president and director Michigan Bell Telephone Co.

Edsel B. Ford, Detroit; president Ford Motor Co., director Guardian Detroit Union Group (Inc.), director Guardian Detroit Bank, director Guardian Trust Co., director National Bank of Commerce.

Joseph W. Fordney, Saginaw; director Second National Bank & Trust Co.

J. Richard Francis, Flint; director Union Industrial Bank, director Union Industrial Trust Co., senior vice president, member of finance committee and of executive committee, and director Borg-Warner Corporation, Chicago, president, general manager, and director Marvel Carburetor Co., vice president and director Wheeler-Schebler Carburetor Co., Indianapolis, vice president and director Groble Gas Regulator Co., Anderson, Ind., vice president and director National Bronze & Aluminum Foundry Co., Cleveland, Ohio, director Johnson Co., Detroit, director Mechanics Universal Joint Co., Rockford, Ill., director Warner Gear Co., Muncie, Ind.

D. H. Frazer, jr., Battle Creek; director City National Bank & Trust Co., secretary and director National Gas & Electric Corporation, secretary and director National Gas & Power Corporation, secretary and director Swingle Oil & Gas Co., secretary and director Hopewell Fuel & Gas Co., secretary and director Industrial Gas Co., secretary and director Gas Producing Co. of Ohio, secretary and director Consumers Utilities Co., secretary National Utilities Co. of Michigan, secretary and director Greeley Gas & Fuel Co., assistant secretary National Utilities Co. of Georgia, secretary, assistant treasurer, and director National Utilities Co. of South Carolina, secretary, assistant treasurer, and director National Utilities Co. of North Carolina, secretary and assistant treasurer National Utilities Co. of Missouri, secretary National Utilities of Alabama, secretary and director City Gas Co., secretary and director Reedy River Power Co., secretary and director Sullivan Power Co., assistant secretary-treasurer and director Battle Creek Gas Co., assistant secretary-treasurer American Gas & Power Co.

D. H. Frazer, Battle Creek; director, City National Bank & Trust Co.; president and director, Battle Creek Gas Co.; vice president and director, National Gas & Electric Corporation; vice president, National Gas & Power Corporation; director, American Gas & Power Co.

Frederick W. Freeman, Cleveland, Ohio; director, Ohio-Pennsylvania Joint Stock Land Bank; director, Ohio Finance Co., Columbus, Ohio; director, Hughes-Peters Electric Corporation, Columbus, Ohio.

Leonard Freeman, Flint; director, Union Industrial Bank; director, Union Industrial Trust Co.; president and director, Freeman Dairy Co.; vice president and director, Durant Hotel Co.

John H. French, director, Union Trust Co.; director, National Bank of Commerce; director, Michigan Industrial Bank; director, Union Title & Guaranty Co.; president and director, French Mortgage & Bond Co.; president and director, Mortgage & Bond Fidelity Corporation; president and director, Clinton View Greenhouses; director, Production Forging Co.; director, Briggs Manufacturing Co.; director, Dominion Forge & Stamping Co.

Edward Frensdorf, Detroit; vice president and director, Union Joint Stock Land Bank; president Peoples State Bank, Britton; president Tecumseh State Savings Bank, Tecumseh; president Bankers Bond & Mortgage Co., Hudson; president the Cutler-Dickerson Co., Adrian; president the State Land Realty Co.; president the Island Land Co.; vice president, First State Savings Bank, Hillsdale; director, Grange Life Insurance Co.; Lansing; director, the Hardie Manufacturing Co., Hudson; director, the Western Shoe Co., Toledo, Ohio; director, State Land Corporation, Pontiac; director, Hudson Milling Co.

Herbert H. Gardner, Detroit; executive vice president, director, and trust officer Highland Park Trust Co.; vice president, Highland Park State Bank.

George J. Genebach, Battle Creek; director, City National Bank & Trust Co.; director, Calhoun Savings & Loan Association; director, Battle Creek Citizens Loan & Investment Co.; president United Steel & Wire Co.; vice president, H. C. King & Sons; president, Margalexom Oil Co.; president Trenton Crude Oil & Gas Co.; director, Michigan Metal Products Co.

Donald S. Gilmore, Kalamazoo; director, First National Bank & Trust Co.; secretary Gilmore Bros.

Daniel Goldberger, Flint, director, Union Industrial Bank.

Grover C. Good, Grand Rapids; director, Grand Rapids National Bank; secretary, treasurer, and director, Globe Knitting Works; director, Malloch Knitting Mills; director, C. & D. Co.; director, World's Star Knitting Co., Bay City.

Luman W. Goodenough, Detroit; director, Guardian Detroit Bank; director, Guardian Trust Co.; director, Union Title & Guaranty Co.; Goodenough, Voorhies, Long & Ryan; president Gray Estate Co.; president, the Mortgage & Contract Co.

Theoron H. Goodspeed, Grand Rapids; director, Grand Rapids Trust Co.; president and director, Citizens Industrial Bank; president and director, American Box Board Co.; president and director, American Ply-Wood-Case Co; president and director, Kent Storage Co.; president and director, Goodspeed Real Estate Co.; president and director, Industrial Service Co.

Frank E. Gorman, Lansing; director guardian Detroit Union Group (Inc.), vice president, cashier, and director Capital National Bank, director Central Trust Co.

O. P. Gossard, Detroit; vice president and director Union Joint Stock Land Bank, vice president and director Ohio-Pennsylvania Joint Stock Land Bank, Cleveland, Ohio, director Central Discount Co.

Stephen A. Graham, Port Huron; director guardian Detroit Union Group (Inc.), president and director Federal Commercial & Savings Bank.

Charles C. Green, Battle Creek; president and director City National Bank & Trust Co., vice president and director Lubricating Devices (Inc.), vice president and director Michigan Metal Products Co., director Marshall Furnace Co.

L. H. Green, Detroit; director Bank of Detroit; president and director Automotive Materials Corporation, president and director Textileather Corporation of Ohio, president and director Standard Cotton Products Corporation of Flint, director Michigan Life Insurance Co., director Newcombe Separator Co. of America, director Union Steam Pump Co.

John M. Greissell, Flint; director Union Industrial Bank, director Union Industrial Trust Co.

L. R. Greusel, Battle Creek; director City National Bank & Trust Co., secretary and manager Central Electric Co., director American Finance Corporation.

John C. Grier, jr., Detroit; vice president and director Guardian Detroit Union Group (Inc.), president and director Guardian Detroit Co., vice president and director Guardian Detroit Bank, vice president and director Guardian Trust Co. of Detroit, director Keane, Higbie & Co., director National Investors Corporation, director United States & Overseas Corporation.

John A. Grosfield, Detroit; director Bank of Hamtramck, president Grosfield Investment Co.

Fred H. Haas, Trenton; director Trenton State Bank, vice president and director Michigan Foundation Co.

C. H. Haberkorn, jr., Detroit; vice president and director Guardian Detroit Union Group (Inc.), chairman and director Bank of Detroit, director Guardian Trust Co., president C. H. Haberkorn & Co.

Robert W. Hamilton, Detroit; director Highland Park State Bank, director Highland Park Trust Co., treasurer Gregory, Mayer & Thom, treasurer National Lithograph Co.

Thomas C. Hance, Niles; cashier, trust officer, and director City National Bank & Trust Co.

Esbern Hanson, Saginaw; director Second National Bank & Trust Co., treasurer and director Salling-Hanson Co., president and director Grayling Box Co., director Johannesburg Manufacturing Co.

A. B. C. Hardy, Lansing; director Capital National Bank, director Central Trust Co., director Union Trust Co., Detroit, director Union Joint Stock Land Bank, Detroit, director Title & Trust Co., Detroit; president Lansing Industrial Finance Corporation, director Detroit Motorbus Co., Detroit.

Jessel Hardy, Flint; director Union Industrial Bank, vice president Mount Morris State Bank, director Hardy Baking Co.

Walter A. Hardy, Flint; director Union Industrial Bank, director Flint Citizens Loan & Investment Co., president Hardy Baking Co., director Liberty Baking Corporation, New York.

J. Frederick Hartz, Detroit; director Highland Park State Bank, director Highland Park Trust Co., chairman J. F. Hartz Co., chairman C. M. Hall Lamp Co., director Charles W. Warren & Co.

Albert S. Harvey, Saginaw; director Second National Bank & Trust Co., president United States Graphite Co.

Orville L. Hatt, Detroit; vice president National Bank of Commerce, Director Bank of Commerce, Dearborn, treasurer and director National Tool Salvage Co., president and director Tool Salvage (Ltd.) of Canada, Walkerville.

Clarence B. Hayes, Jackson; vice president and director National Union Bank & Trust Co., director Kelsey-Hayes Wheel Co., director Lefree Forge & Machine Co.

Edward A. Haynes, Port Huron; director First National Bank & Trust Co., vice president Port Huron Sulphite & Paper Co., vice president North Shore Transit Co.

Frederick J. Haynes, Detroit; director Michigan Industrial Bank, president and director Durant Motors (Inc.), vice president and director Detroit National Fire Insurance Co., director Chateau Voyageurs.

Max P. Heavenrich, Saginaw; director Second National Bank & Trust Co., director Heavenrich Brothers & Co.

George K. Hebb, Detroit; director National Bank of Commerce, treasurer and director Evans-Winter-Hebb (Inc.), secretary, treasurer, and director Anchor Building Co., director, Anchor Press (Inc., director United Typothetae of America.

Richard C. Hedke, Trenton; director Trenton State Bank, vice president, general manager, and director Eaton-Clark Co., Detroit.

Joseph Henn, Detroit; chairman and director Union State Bank.

A. B. Herpolsheimer, Grand Rapids; director Grand Rapids National Bank, president Herpolsheimer Co., president Herpolsheimer Realty Co., vice president Wheeler-Van Label Co.

Parmely W. Herrick, Cleveland, Ohio; director Ohio-Pennsylvania Joint Stock Land Bank, director Society for Savings, Cleveland, president the Winch Co., president the Cuyahoga Co., vice president the Crawford Realty Co., director Union Trust Co., Cleveland, director Harriman National Bank, New York, director National Surety Co., New York, director Guarantee Title & Trust Co., Cleveland, director North American Aviation Corporation, New York.

John G. Hibbard, Cleveland, Ohio; secretary, treasurer, and director Ohio-Pennsylvania Joint Stock Land Bank.

E. K. Hibsman, Cleveland, Ohio; director Ohio-Pennsylvania Joint Stock Land Bank, director New York Joint Stock Land Bank, Rochester, N. Y.

Carlton M. Higbie, Detroit; director Guardian Detroit Union Group (Inc.), chairman and director Keane, Higbie & Co., chairman and director Guardian Detroit Co., director National Bank of Commerce, director Guardian Trust Co., vice president and director Kalamazoo Stove Co., vice president and director Brown Fence & Wire Co., director Reo Motor Car Co., director Wilcox-Rich Corporation, director Murray Corporation of America, director Square D Co., director Kingston Products Co., director General Brass Co., director Federated Publication (Inc.), director F. Burkhart Manufacturing Co., director Standard Steel Spring Co., director Penberthy Injector Co., director Mesta Machine Co., director National Steel Co.

Harley G. Higbie, Detroit; director Guardian Trust Co., treasurer and director Hugo Scherer Estate (Inc.), secretary and director Scherer & Co., secretary and director St. Clair Rubber Co.

N. Bradley Higbie, jr., Detroit; vice president and director Keane, Higbie & Co., director Pittsburgh Forging Co.

Phil Higer, Port Huron; director Federal Commercial & Savings Bank, proprietor L. Higer & Son.

Sherwin A. Hill, Detroit; director guardian Detroit Union Group, (Inc.), director Guardian Detroit Bank, director Guardian Trust Co., director Guardian Detroit Co., director Bank of Commerce, Dearborn, Warren, Hill & Hamblen, director Graham-Paige Motors Corporation, director Michigan Sugar Co., director Nicholson Universal Steamship Co., director Nicholson Terminal & Dock Co., director Wilcox-Rich Corporation, director Detroit & Canada Tunnel Co.

Fred M. Hodge, Kalamazoo; director First National Bank & Trust Co., president Kalamazoo Paper Co.

Charles H. Hodges, Detroit; director Guardian Detroit Union Group (Inc.), director Union Trust Co., director National Bank of Commerce, first vice president and director American Radiator & Standard Sanitary Corporation, first vice president, member of executive committee, and director American Radiator Co., chairman and director Detroit Lubricator Co., director American Blower Co., director Grand River Avenue Development Co., director American Industries Corporation.

C. H. Hodges, jr., Detroit; director Bank of Commerce, Dearborn, vice president Detroit Lubricator Co.

T. H. Hogsett, Cleveland, Ohio; vice president and director the Ohio-Pennsylvania Joint Stock Land Bank, director United Banking & Trust Co., director The Northern Ohio Power & Light Co., director The Lage Shore Electric Railway Co., director The Ohio Varnish Co.

Addison E. Holton, Detroit; director Michigan Industrial Bank, president and director Holton & Co., secretary and director Lewiston Oil & Refining Co., treasurer and director Sommerville & Co., secretary and director Century Oil Co., secretary and director Blackstone Oil Co., secretary and director Northern States Oil Co., director Anaconda Wire & Cable Co., director Regal Oil Co. (Ltd.).

A. W. Hompe, Grand Rapids; vice president and director Grand Rapids Trust Co., vice president Grand Rapids Furniture Co., director Macey Co., director John Widdicomb Co.

James R. Hooper, Grand Rapids; vice president, trust officer, and director Grand Rapids Trust Co.

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Hobart B. Hoyt, Detroit; director Union Trust Co., director Union Title & Guaranty Co., vice president and director Michigan Steel Casting Co.

N. E. Hubbard, Battle Creek; vice president and director City National Bank & Trust Co., president Hubbard Electric Co., vice president Morton Investment Co.

Caspar B. Hughes, Detroit; director Union State Bank of Dearborn, secretary-treasurer Wayne Acres Land Co.

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James Inglis, Detroit; director Guardian Detroit Union Group (Inc.), director National Bank of Commerce, director Union Trust Co., president American Blower Corporation, president Canadian Sirocco Co. (Ltd.), Windsor, director American Radiator Co., New York, director Michigan Mutual Liability Corporation, advisory committee American Industries Corporation.

Fred F. Ingram, Jackson; director National Union Bank & Trust Co., president L. H. Field Co., president Field-Ingram Co.

Earl S. Irwin, Grand Rapids; director Grand Rapids National Bank, president Macey Co., president Steel Furniture Co., treasurer Robert W. Irwin Co., vice president C. J. Farley Co.

Glenn R. Jackson, Flint; director Union Industrial Bank, director Union Industrial Trust Co., president Continental Department Stores (Inc.), director Merchants & Mechanics Bank.

Edward Jenkins, Saginaw; director Second National Bank & Trust Co.

W. Lee Jenks, Port Huron; director First National Bank & Trust Co. attorney, president Moak Machine & Tool Co., vice president Moak Realty Co., president Port Huron Terminal Co.

Almon O. Jones, Battle Creek; director City National Bank & Trust Co., president United States Register Co., president Lubricator Devices (Inc.), director Simmons-Leedle Furnace Co., Marshall.

James B. Jones, Detroit; director National Bank of Commerce, vice president and general manager Crowley Milner & Co., director Better Business Bureau of Detroit (Inc.), director Detroit Shopping News, director Business Property Association of Detroit.

Richard P. Joy, Detroit; director Guardian Detroit Union Group (Inc.), director National Bank of Commerce, director Union Trust Co., president and director La Salle County Carbon Coal Co., director Packard Motor Car Co., director Grace Harbor Lumber Co.

George B. Judson, Detroit; director Guardian Detroit Union Group (Inc.), president and director Bank of Detroit, director Bank of Dearborn.

Albert Kahn, Detroit; director Guardian Detroit Bank, president Albert Kahn (Inc.), director Truscon Steel Co., director Electro-Master Co., director Congress Investment Co.

William R. Kales, Detroit; director Union Trust Co., director Michigan Industrial Bank, vice president Whitehead & Kales Co., president Kales Stamping Co., secretary-treasurer Kales Realty Co., vice president Jefferson Terminal Warehouse Co., director Central West Casualty Co.

Charles A. Kanter, Detroit; executive vice president and director National Bank of Commerce, director Union Industrial Bank, Flint.

Rudolph L. Kantlehner, Jackson; director National Union Bank & Trust Co., president R. L. Kantlehner (Inc.), advisory officer East Side National Union Branch, director Jackson Community Finance.

Ernest Kanzler, Detroit; vice president and director Guardian Detroit Union Group (Inc.), vice president and director Guardian Detroit Bank, vice president and director Guardian Detroit Co., director Guardian Trust Co., president Universal Credit Corporation.

Joseph M. Karmann, Detroit; director Union State Bank of Dearborn.

Jerome E. J. Keane, Detroit; director Guardian Detroit Union Group (Inc.), director Guardian Detroit Bank, director Guardian Trust Co., director Sutherland Paper Co.

Ernst C. Kern, Detroit; director Bank of Detroit, The Ernest Kern Co.

William Kersjes, Kalamazoo; director First National Bank & Trust Co., president Wheeler Blaney Co.

A. Earl Kettle, Kalamazoo; director First National Bank & Trust Co., president Edwards & Chamberlin Hardware Co.

Samuel R. Kingston, Detroit; executive vice president, cashier, and director National Bank of Commerce, vice president and director Bank of Commerce of Dearborn, director First State Savings Bank of Birmingham, director Lochmoor State Bank, director Baker Land Co., director National Tool & Salvage Co.

Charles A. Kinney, Detroit; vice president and director National Bank of Commerce, director City National Bank & Trust Co., Battle Creek.

Lloyd G. Kirby, Flint; executive vice president, secretary and director Union Industrial Trust Co., director Union Industrial Bank.

George H. Klein, Detroit; director Union Trust Co., director National Bank of Commerce, director Union Title & Guaranty Co., secretary and director Detroit City Service Co., secretary and director Executives Trading Corporation, director Long Manufacturing Co.

Reinhard Kleinpell, Flint; director Union Industrial Bank, director Union Industrial Trust Co., treasurer, manager, and director Flint Lumber Co., vice president and director Veit & Davison Lumber Co., vice president and director Herman Hughes Lumber Co., president and director Flushing Lumber Co., chairman and director Flint Structural Steel Co., president and director Woodcroft Estates, president and director Burgess Realty Co., president and director Flint Savings Association, treasurer and director Flint Die & Tool Co., director Superior Felt Products Co., director Durant Hotel Co.

Albert Koegel, Flint; director Union Industrial Bank, director Union Industrial Trust Co., president A. Koegel & Co., director Sunset Hills Association.

John F. Koenig, Detroit; president and director Bank of Hamtramck, president and director Koenig Coal & Supply Co., president and director Koenig Transportation Co., treasurer and director Trombly Brick Co.

Rudolph F. Kompass, Niles; director City National Bank & Trust Co.

Leopold Koscinski, Detroit; director Bank of Hamtramck.

Arthur J. Lacy, Detroit; director Bank of Detroit, Anderson, Wilcox, Lacy & Lawson.

Charles F. Lambert, Detroit; director National Bank of Commerce, president, general manager, and director Clayton & Lambert Manufacturing Co., director Rhodes Metallic Packing Co.

Frederick Larkin, Flint; director Union Industrial Bank, president Realty Construction Co.

F. A. Lautenschlager, Trenton; vice president, cashier, and director Trenton State Bank.

Dwight B. Lee, Detroit; director Guardian Detroit Union Group, Inc., director Union Trust Co., director National Bank of Commerce, president, treasurer, and director Motor Products Corporation, director Kelvinator Corporation, director Dome Mines, Ltd., of Canada, director Black River Ranch.

T. Fred Lee, Detroit; director Michigan Industrial Bank, director Detroit National Fire Insurance Co.

Ernest G. Liebold, Detroit; director Bank of Dearborn, general secretary to Henry Ford.

Arnold Lenz, Saginaw; director Second National Bank & Trust Co., manager Chevrolet Motor Co., Grey Iron Foundry.

Murray D. Lincoln, Cleveland, Ohio; director Ohio-Pennsylvania Joint Stock Land Bank, general manager Ohio Farm Bureau Corporation, secretary-treasurer Ohio Farm Bureau Service Co., secretary-treasurer Farm Bureau Mutual Automobile Insurance Co., secretary Ohio Farm Bureau Federation, director Auxiliary Board First Citizens Trust Co., Columbus.

Edwin H. Lindow, Detroit; president and director Union Title & Guaranty Co.

Robert T. Longway, Flint; vice president and director Union Industrial Bank, director Union Industrial Trust Co., vice president Buick Motor Co.

Robert O. Lord, Detroit; president and director Guardian Detroit Union Group (Inc.), president and director Guardian Detroit Bank, president and director Guardian Trust Co., vice president and director Guardian Detroit Co., director Bank of Detroit, president and director Highland Park State Bank, chairman and director Highland Park Trust Co., director Universal Credit Corporation, director National Investors Corporation, director Keane, Higbie & Co.

W. H. Loutit, Grand Rapids; director Grand Rapids Trust Co., president and director Wm. H. Keller, Inc., chairman Michigan Conservation Commission.

Richard H. Loveland, Jackson; director Peoples National Bank; director Jackson Citizens Finance Co.

William B. Lowe, Detroit; director Highland Park State Bank, director Highland Park Trust Co., managing director Detroit Free Press, treasurer and director Free Press Photogravure Co., director Free Press Realty Co.

Albert B. Lowrie, Detroit; director Bank of Dearborn, director Michigan Industrial Bank, secretary-treasurer Lowrie-Robinson Lumber Co.

Alvan Macauley, Detroit; director Guardian Detroit Union Group, Inc., director Guardian Detroit Bank, director Guardian Trust Co., director Guardian Detroit Co., director National Bank of Commerce, president, general manager

and director Packard Motor Car Co., president and director National Automobile Chamber of Commerce.

Alvan Macauley, jr., Detroit; vice president Guardian Detroit Bank; director Bank of Dearborn.

James C. MacGregor, M. D., Flint; director Union Industrial Bank, director Union Industrial Co.

David MacTaggart, Port Huron; vice president and director First National Bank & Trust Co., president David MacTaggart Co., President MacTaggart-Hoffman Co.

James M. MacTaggart, Port Huron; director First National Bank & Trust Co., secretary-treasurer Port Huron-Sarnie Ferry Co.

Andrew L. Malott, Detroit; vice president and director Guardian Trust Co., executive vice president Union Trust Co., director Union Title & Guaranty Co.

Nicholas A. Mans, Trenton; president and director Trenton State Bank, director Wyandotte Industrial Bank, president N. A. Mans & Sons, vice president O'Connor Properties Corporation, director A. R. Reno Drug Co., director Warren Park Land Co.

George K. March, Detroit; director Michigan Industrial Bank.

Howard R. Marsh, Jackson; director National Union Bank & Trust Co.

Henry Marx, Port Huron; director Federal Commercial & Savings Bank.

A. G. Masters, Detroit; director Union Joint Stock Land Bank of Detroit.

Frank J. Maurice, Detroit; executive vice president and director Highland Park State Bank, vice president and director Highland Park Trust Co., vice president and director Bank of Dearborn.

Ray T. Maynard, Saginaw; vice president, cashier, and director Second National Bank & Trust Co., director Saginaw Financing Corporation.

W. B. Mayo, Detroit; director Bank of Commerce of Dearborn, chairman and vice president Detroit Motorbus Co., vice president Stout Air Services (Inc.), vice president Stout Metal Airplane Co., vice president Hooven, Owens & Rentschler Co., vice president Aircraft Development Corporation (division Detroit Aircraft Corporation), president Hamilton Moulding Sand Co., director Pratt & Whitney Aircraft Corporation, director Dexter-Carpenter Coal Co., director General Machinery Corporation, director Maddux Airlines (Inc.), director New York, Rio & Buenos Aires Lines (Inc.), director Transcontinental Air Transport (Inc.), director Coast Range Steel Corporation, director United Aircraft and Transport Corporation, director United Aviation Corporation, director Sky View Lines (Inc.), director Northwest Airways (Inc.), director Towle Aircraft Corporation, director Detroit Aircraft Corporation, director Aviation Credit Corporation.

Norman McClave, Grand Rapids; director Grand Rapids National Bank, president Sligh Furniture Co.

Samuel L. McCune, Cleveland, Ohio; vice president and director Ohio-Pennsylvania Joint-Stock Land Bank.

Fred J. McDonald, Detroit; director Michigan Industrial Bank, president McDonald Coal & Brick Co.

J. C. McHannan, Cleveland, Ohio; director Ohio-Pennsylvania Joint-Stock Land Bank, vice president and director Central National Bank, treasurer Prospect-37th Co., treasurer and director Cleveland Rubber (Inc.), vice president and director Birkett L. Williams Co., treasurer Cleveland Industrial Exposition Co.

William S. McKay, Cleveland, Ohio; director Ohio-Pennsylvania Joint-Stock Land Bank, president and director First National Bank, Greenville, Pa., secretary and trustee Grove City College, Grove City, Pa., secretary, treasurer, and director Turner McKay Co., Grove City, Pa., secretary, treasurer, and director Hillcrest Realty Co., Grove City, Pa., chairman Agricultural Committee Pennsylvania Bankers Association.

John M. McKerchey, Detroit; director Michigan Industrial Bank, president Acacia Park Cemetery, president Woodward Avenue Improvement Association.

Francis C. McMath, Detroit; director Guardian Detroit Union Group (Inc.), director Union Trust Co., director National Bank of Commerce, president Essex Real Estate Co., director New Union Building Co., director Essex Terminal Railroad, Walkerville, Ontario, director Canadian Bridge Co. (Ltd.), Walkerville, Ontario.

Duncan J. McNabb, Detroit; president and treasurer Keane, Higbie & Co., director Guardian Detroit Co., director Union Joint Stock Land Bank, director Ohio-Pennsylvania Joint Stock Land Bank, director Kalamazoo Stove Co., Kalamazoo, director Wilcox-Rich Corporation, Saginaw.

George W. Mechem, Battle Creek; director City National Bank & Trust Co., director Battle Creek Gas Co.

Louis Mendelssohn, Detroit; director Guardian Trust Co.

Frank W. Merrick, Detroit; director Union Joint Stock Land Bank, director Ohio-Pennsylvania Joint Stock Land Bank, Cleveland, president and director State Savings Bank, Gladwin, vice president and director Pigeon State Bank, Pigeon, vice president and director Oscoda State Savings Bank, Oscoda, vice president and director Owendale Bank, Owendale, vice president Twining Bank, Twining, vice president Mikado Bank, Mikado, vice president Lincoln Bank, Lincoln, president and director Michigan Bean Co., Saginaw, director Lake City State Bank, Lake City, director Muncie Malleable Foundry Co., Muncie, director R. W. Babcock (Inc.), Detroit.

Mark Merriman, Jackson; director Peoples National Bank.

Edward Miller, Detroit; director Union State Bank, Dearborn.

R. Verne Mitchell, Cleveland, Ohio; director Union Trust Co., director Ohio-Pennsylvania Joint Stock Land Bank, vice president and general manager R. V. Mitchell & Co., president and director Harris-Seybold-Potter Co., director Continental Shares (Inc.), director General Printing Ink Corporation, New York, director, The Bonnot Co., Canton, Ohio, director the Buyers Machine Co., director City National Mortgage Co., Canton, Ohio, director Dill Manufacturing Co., director Haughton Elevator Co., Toledo, Ohio, director James Leffel & Co., Springfield, Ohio, director the Kaynes Co., director Investment Trust of New York (Inc.), New York, director Piqua Hosiery Co., Piqua, Ohio, director Reliance Manufacturing Co., Massillon, Ohio, director Thompson Products Co., director Union Metal Manufacturing Co., Canton, Ohio.

W. Ledyard Mitchell, Detroit; director Guardian Detroit Bank, director Guardian Trust Co., vice president and director Chrysler Corporation, vice president the Robert Mitchell Manufacturing Co., chairman Chrysler Export Corporation.

Edwin R. Monnig, Detroit; vice president and director Bank of Hamtramck.

Charles M. Montague, Niles; director City National Bank & Trust Co.

Charles E. Moon, Niles; director City National Bank & Trust Co.

Fred T. Moran, Detroit; director Union Trust Co., director Union Title & Guaranty Co., president Peninsular Stove Co.

Albert H. Morley, Saginaw; vice president and director Second National Bank & Trust Co.

George B. Morley, Saginaw; director Guardian Detroit Union Group (Inc.), chairman and director Second National Bank & Trust Co.

Ralph C. Morley, Saginaw; director Second National Bank & Trust Co., president and director Morley Bros., chairman and director Morley Murphy Co., president and director American Logging Tool Co., vice president and director Saginaw Timber Co.

S. A. Morman, Grand Rapids; director Grand Rapids National Bank, partnership S. A. Morman & Co., vice president and director American Box Board Co.

Benjamin F. Mortenson, Detroit; director Michigan Industrial Bank, president Mortenson Michelson Co., owner Benj. F. Mortenson Co.

Edwin R. Morton, Battle Creek; vice president, cashier, and director City National Bank & Trust Co.; director Union Joint Stock Land Bank, Detroit; president and director American Finance Corporation, president and director B. & M. Real Estate Co.; president and director Morton Investment Co.

W. E. Moss, Detroit; director Union Joint Stock Land Bank, director W. E. Moss & Co., director Greenfield Investment Corporation.

Charles S. Mott, Detroit; director Guardian Detroit Union Group (Inc.), president and director Union Industrial Bank, Flint, chairman and director Union Industrial Trust Co., Flint, director National Bank of Commerce, director Union Trust Co., director Guardian Detroit Co., vice president General Motors Corporation, director Detroit Aircraft Corporation, director Michigan Copper & Brass Co.

Oscar B. Mueller, Port Huron; director Federal Commercial & Savings Bank, president Mueller Brass Co., treasurer Mueller Investment Association.

William K. Muir, Detroit; director Guardian Trust Co., superintendent Detroit & Cleveland Navigation Co., secretary Stout-Detroit & Cleveland Air Lines (Inc.).

C. Hayward Murphy, Detroit; diector Bank of Detroit; director Guardian Trust Co., secretary Simon J. Murphy Co.

Fred T. Murphy, Detroit; director Detroit Guardian Union Group (Inc.), chairman and director Guardian Detroit Bank, director Guardian Trust Co.,

director Guardian Detroit Co., trustee Murphy Family Trusts, vice president Pacific Lumber Co.

Joseph Murphy, Cadillac; director Grand Rapids Trust Co., vice president Cadillac-Soo Lumber Co., vice president Grand Rapids Lumber Co., director Cadillac State Bank.

James R. Murray, Detroit; director Guardian Trust Co., president The Forging & Casting Corporation, president Standard Tube & Manufacturing Co., president Murray-Ross Corporation, president Pontiacres (Inc.), vice president Conductors' Protective Assurance Co., director Murray-Ohio Manufacturing Co., director Field-Jerome Laboratories (Inc.).

Joseph Neckel, Detroit; director Union State Bank of Dearborn.

Henry H. Neesley, Jackson; director National Union Bank & Trust Co.

Edwin H. Nelson, Detroit, director Guardian Detroit Union Group (Inc.), director Union Trust Co., director National Bank of Commerce, director Bank of Commerce of Dearborn, president and director Nelson, Baker & Co.

Phelps Newberry, Detroit; vice president and director Guardian Detroit Union Group (Inc.), vice president and director Guardian Detroit Bank, vice president and director Guardian Trust Co., director Guardian Detroit Co., director Highland Park State Bank, director Highland Park Trust Co., vice president Newberry Estate (Inc.), treasurer Tanglefoot Co., director Detroit Steel Casting Co., director Buhl Aircraft Co.

Elliott S. Nichols, Trenton; director Trenton State Bank, vice president and director Plymouth Road Development Corporation, director Maple Cranbrook Co.

Aaron E. Noble, Detroit; director Michigan Industrial Bank.

Robert Oakman, Detroit; director Union Trust Co., president and director Robert Oakman Land Co.

R. E. Olds, Lansing; director Guardian Detroit Union Group (Inc.), president and director Capital National Bank, director Union Trust Co., Detroit, president and director R. E. Olds Co., chairman and director Chateau Voyageurs, Detroit, chairman and director Ideal Power Lawn Mower Co., chairman and director Lansing Community Hotel Corporation, chairman and director Reo Motor Car Co., chairman and director Hill Diesel Engine Co., director Atlas Drop Forge Co., director Detroit Aircraft Corporation, Detroit, director National Automobile Chamber of Commerce, director Central Trust Co.

O. O. Otis, Detroit; vice president, cashier and director Bank of Commerce of Dearborn.

Edwin Owen, Grand Rapids; director Grand Rapids Trust Co., chairman and director Owen Ames Kimball Co., secretary, treasurer, and director Highland Park Association, director Michigan Hardware Co., director Stow Davis Furniture Co.

Felix Pagenstecher, Kalamazoo, director First National Bank & Trust Co., president and manager Bryant Paper Co., vice president Kalamazoo Citizens Loan & Investment Co.

Albert B. Parfet, Port Huron; director Federal Commercial & Savings Bank, president and treasurer Albert S. Parfet Co.

Frank E. Parker, Detroit; director Michigan Industrial Bank, vice president and general manager Merchants Credit Bureau (Inc.), director Michigan Credit Bureau (Inc.)

Harry B. Parker, Albion, director Peoples National Bank, Jackson, director Commercial & Savings Bank, vice president and general manager Albion Malleable Iron Co.

James Parkhill, Flint; director Union Industrial Bank, manager Armstrong Spring Co. division of General Motors Corporation.

William S. Paterson, Flint; director Union Industrial Bank, director Union Industrial Trust Co.

George E. Paul, Jackson, vice president, trust officer, and director National Union Bank & Trust Co., president National Union Co., vice president Bankers Investment Corporation.

Charles F. Pears, Niles; director City National Bank & Trust Co.

Andrew J. Peoples, Detroit; director Bank of Detroit, director Bank of Dearborn, director Michigan Industrial Bank, manager the American Brass Co., Detroit branch, director Michigan Mutual Liability Co.

James B. Peter, Saginaw; director Second National Bank & Trust Co., director Consolidated Coal Co.

J. Alfred Pip, Detroit; director Michigan Industrial Bank, president and treasurer Anderson & Pip Co., vice president Beaver Realty Co., treasurer

Eagle Faint Works, treasurer Eagle Properties Corporation, director Detroit Steel Corporation, director Detroit Concrete Receptacle Co.

Francis J. Plym, Niles; director Guardian Detroit Bank, president Kawneer Co., Niles, President Kawneer Manufacturing Co. of California, president Star Manufacturing Co., vice president and director Niles Hotel Co., director American Industries, Detroit, director First National Bank, South Bend.

Ferdinand Porath, jr., Detroit; director Union State Bank of Dearborn.

Drury L. Porter, Lansing; director Capital National Bank, vice president, treasurer, and director Motor Wheel Corporation.

Ray Potter, Lansing, director Capital National Bank, vice president, treasurer, and director Michigan Screw Co., director Federal Screw Works, Detroit, director Superior Screw & Bolt Manufactuing Co., Cleveland, director Motor Wheel Corporation, director Dail Steel Products Co., director Lansing Co.

Joel H. Prescott, Detroit; executive vice president and director Union Trust Co., president and director Palms Realty Co.

Frank E. Quisenberry, Detroit; executive vice president and director Highland Park State Bank, president and director Highland Park Trust Co., vice president and director Bank of Dearborn.

W. J. Rachow, Detroit; president, cashier, and director Union State Bank, Dearborn.

H. H. Rackham, Detroit; director Bank of Detroit.

John H. Rademaker, Grand Rapids; director Grand Rapids Trust Co., vice president and director Manistee County Savings Bank, president Anderson Lumber Co.

Ellis W. Ranney, Grand Rapids; director Grand Rapids Trust Co., president Ranney Refrigerator Co., Greenville, vice president Moore Plow & Implement Co., Greenville, vice president Commercial State Savings Bank, Greenville, director Michigan Surety Co., Lansing.

Austin B. Read, Kalamazoo; director First National Bank & Trust Co.

Jerome H. Remick, Detroit; director Guardian Detroit Union Group (Inc.), Union Trust Co., Grand Rapids Creamery Co., president and director Detroit Creamery Co., president and director Detroit Creamery Realty Co., vice president and director Parke, Davis & Co., Detroit Symphony Society.

Charles N. Remington, Grand Rapids; director Grand Rapids National Bank, Grand Rapids Trust Co., president Grand Rapids Mutual Building & Loan Association, director Grand Rapids Gas Light Co.

I. J. Reuter, Lansing; director Capital National Bank, president Olds Motor Works, vice president General Motors Corporation, managing director Opel Motor Co., Germany.

Herbert S. Reynolds, Jackson; director Guardian Detroit Union Group (Inc.), president and director Peoples National Bank, president Peoples National Co., director Sparks Withington Co.

Wiley R. Reynolds, Jackson; director Peoples National Bank, American Trust Co., New York, Calhoun State Bank, Homer, General Leather Co., Newark, N. J., DeForest Radio Co., Jersey City, N. J., chairman and director Reynolds Spring Co., president and director W. R. Reynolds & Co.

George W. Ritchie, Kalamazoo; director First National Bank & Trust Co.; retired capitalist.

Theodore J. Richter, Detroit; director Bank of Hamtramck.

C. J. Rouser, Lansing; director Capital National Bank, president C. J. Rouser Drug Co.

George Bagg Russel, Detroit; director Union Trust Co., vice president National Surety Co.

John R. Russel, Detroit; director Guardian Detroit Union Group (Inc.), National Bank of Commerce, Union Trust Co., Union Joint Stock Land Bank, vice president and director Clayton & Lambert Manufacturing Co., director Russel Steel Construction Co., Commercial Reproducing Co.

Murray W. Sales, Detroit; director Guardian Detroit Union Group (Inc.), Union Trust Co., National Bank of Commerce, president Murray W. Sales & Co., Sales Realty Co.

Henry H. Sanger, Detroit; vice president and director Guardian Detroit Union Group (Inc.), chairman, president, and director National Bank of Commerce, director Guardian Detroit Bank, Union Trust Co., president Bank of Commerce, Dearborn, vice president Union Joint Stock Land Bank, director Ohio-Pennsylvania Joint Stock Land Bank, Cleveland, director Keane, Higbie & Co., Whitman & Barnes (Inc.), Michigan Sugar Co., Saginaw.

Arnold Augustus Schantz, Detroit; director Union Trust Co., director Michigan Industrial Bank, director Detroit Convention & Tourist Bureau, president Detroit & Cleveland Navigation Co., president Ashley & Dustin Steamer Line, president Stout D. & C. Air Lines (Inc.), vice president Saunders of Ohio (Inc.), vice president Detroit Creamery Co., vice president Detroit Marine Aero Engine Co., vice president National Rivers and Harbors Congress, chairman Inland Water Lines Association, vice president Detroit Fire Commission, director White Star Navigation Co., director Detroit Creamery Realty Co., director Greater Detroit Committee, director Aviation Consolidated (Inc.), New York, director National Vending Corporation.

Stuart M. Schram, Jackson; director Peoples National Bank, president Central Automobile Co.

Dickson S. Scoffern, Niles; chairman and director City National Bank & Trust Co.

Edmund Secrest, Cleveland, Ohio; director Ohio-Pennsylvania Joint-Stock Land Bank, State forester, State of Ohio, associate director Ohio Agricultural Experiment Station.

Arthur H. Seibig, Cleveland, Ohio; director Ohio-Pennsylvania Joint-Stock Land Bank, director New York Joint-Stock Land Bank, president United Banking & Trust Co., vice president Cleveland Securities Corporation, treasurer Cleveland Automobile Club, director Guarantee Title & Trust Co., director Cleveland Builders Supply & Brick Co., director Cleveland Welding Co.

Edgar M. Sergeant, Kalamazoo; director First National Bank & Trust Co., president Sergeant Coal Co., commissioner city of Kalamazoo.

Alger Shelden, Detroit; director Guardian Trust Co., president Shelden Land Co.

Allan Shelden, Detroit; director National Bank of Commerce, director Guardian Trust Co., H. D. Shelden's Sons.

Earl H. Shepherd, Kalamazoo; vice president and director First National Bank & Trust Co., vice president F. N. B. Securities Co., vice president Martin Exchange Bank, Martin, director Kalamazoo Poper Box Co., director American Sign Co.

R. Perry Shorts, Saginaw; vice president and director Guardian Detroit Union Group (Inc.), president and director Second National Bank & Trust Co., vice president and director C. K. Eddy & Sons, secretary-treasurer Mitts & Merrill.

Albert E. Sleeper, Detroit; director Union Joint-Stock Land Bank, president State Savings Bank, Bad Axe, president Commercial State Bank, Murlette, president First National Bank, Yale, director State Bank, Croswell, director State Bank, Sandusky, director Nunica Malleable Foundry Co., director Michigan Surety Co.

Cramer Smith, Pontiac; president and director Pontiac Commercial & Savings Bank, Pontiac, president and director Pontiac Trust Co., Pontiac, director Union Trust Co., director National Grocer Co.

Hal H. Smith, Detroit; director Guardian Union Group (Inc.), director Union Trust Co., director National Bank of Commerce, director Union State Bank, Dearborn, president Central West Casualty Co., vice president Federal Motor Co.

Oscar W. Smith, Detroit; director guardian Detroit Union Group (Inc.), director National Bank of Commerce, director Union Trust Co., president and director Parke, Davis & Co., director American Drug Manufacturers Association.

Roger W. Smith, Jackson; director National Union Bank & Trust Co., president Smith-Winchester Co., vice president Alloy Steel Spring Co.

William D. Smith, port Huron; director Federal Commercial & Savings Bank, Smith Bros.

Muir B. Snow, Detroit; vice president and director Keane, Higbie & Co., director Whitman & Barnes (Inc.), director Canadian Detroit Twist Drill Co. (Ltd.).

Clifford M. Sparks, Jackson; director Peoples National Bank, vice president Sparks-Withington Co., vice president Cardon-Phonocraft Corporation.

Harry G. Sparks, Jackson; director National Union Bank & Trust Co., vice president and general manager Cardon-Phonocraft Corporation, vice president Sparks-Withington Co.

William Sparks, Jackson; director Peoples National Bank, president Cardon-Phonocraft Corporation, president Sparks-Withington Co.

William R. Spencer, Jackson; director National Union Bank & Trust Co., proprietor W. R. Spencer Grocery Co., president Hayes Hotel Co., president Jackson Storage & Trucking Co., president Luna-Manganese Co.

J. Ben Sperry, Port Huron; director Federal Commercial & Savings Bank, president J. P. Sperry Co.

Charles M. Spinning, Jackson; vice president and director National Union Bank & Trust Co., president National Union Building Co.

John N. Stalker, Detroit; vice president and director Guardian Detroit Union Group (Inc.), president and director Union Trust Co., president and director Union Industrial Trust Co., Flint, chairman and director Union Title and Guaranty Co., treasurer and director Union Joint Stock Land Bank, vice president and director New Union Building Co., director National Bank of Commerce, director Industrial Morris Plan Bank, director Ohio-Pennsylvania Joint Stock Land Bank, director Detroit City Service Co., director Long Manufacturing Co.

Clare H. Stearns, Kalamazoo; vice president and director First National Bank & Trust Co., attorney, director Merchants Publishing Co., director Kalamazoo Vegetable Parchment Co.

A. C. Stebbins, Lansing; vice president and director Capital National Bank, vice president and director Capital Savings & Loan Co., vice president and director Young Bros, Realty Co.

Dan C. Steketee, Grand Rapids; director Grand Rapids National Bank, Paul Steketee & Sons.

Paul Frederick Steketee, Grand Rapids; vice president and director Grand Rapids Trust Co, partner Paul Steketee & Sons.

B. F. Stephenson, Detroit; director Union Trust Co., president, treasurer, and director Troyak Land Co.; secretary, treasurer, and director Robert E. Barber Land Co.; president, treasurer, and director McCordie Construction Co.; secretary, treasurer, and director Seven Oak Land Co. and Eight Oak Land Co.; president, treasurer, and director Stephenson Land Co.; president, treasurer, and director Stephenson Leland Co.

H. LeRoy Stevens, Port Huron; director First National Bank & Trust Co., attorney and director Dunn Sulphite Paper Co.

S. Sidney Stewart, Flint; director Union Industrial Bank, vice president Union Industrial Trust Co., president and treasurer the W. F. Stewart Co., director Superior Felt Products Co., director Flint Citizens Loan & Investment Co.

Matthew Stoll, Niles; vice president and director City National Bank & Trust Co.

John E. Storer, Flint; vice president and director Union Industrial Bank.

Edward T. Strong, Flint; director Union Industrial Bank, director Union Industrial Trust Co., president, general manager, and director Buick Motor Co.; vice president General Motors Corporation, president and director Modern Housing Corporation and General Motors Institute of Technology.

Louis W. Sutherland, Kalamazoo; director First National Bank & Trust Co., president Sutherland Paper Co., American Sign Co., and Kerston Radio Co.

John W. Symons, jr., Saginaw; director Second National Bank & Trust Co., president and director Symons Bros. & Co.

Louis J. Taber, Cleveland, Ohio; director Ohio-Pennsylvania Joint Stock Land Bank, president Eastern Ohio Publishing Co., vice president Farmers & Traders Life Insurance Co., director National Grange Liability Co., New York Joint Stock Land Bank, and National Grain Corporation.

B. E. Taylor, Detroit; director Union Trust Co., real estate.

Seneca V. Taylor, Detroit; director Michigan Industrial Bank, president and director Concrete Steel Fireproofing Co., vice president and director All-Steel Products Co. and Seminole Properties Corporation.

James M. Teahen, Detroit; director Michigan Industrial Bank, treasurer and director Detroit National Fire Insurance Co.

William W. Tefft, Jackson; director National Union Bank & Trust Co., vice president Fargo Engineering Co., president board of trustees Albion College.

Allan A. Templeton, Detroit; president and director Michigan Industrial Bank, vice president and director Detroit National Fire Insurance Co., and Acacia Park Cemetery Association; director Society for Savings, Michigan Mutual Liability Co., and Title & Trust Co.

Emil A. Tessin, Saginaw; vice president, trust officer, and director Second National Bank & Trust Co.

John R. Thompson, Detroit; director Union Joint Stock Land Bank; president and director Coldwater National Bank, Coldwater; director Wolverine Portland Cement Co., Coldwater; and director and trustee Investment Corporation, Coldwater.

John H. Tigchon, Detroit; director Jefferson Savings Bank of Grosse Pointe Park.

John M. Toolin, Detroit; director Union Trust Co., president The Great Atlantic & Pacific Tea Co., central western division, director The Great Atlantic & Pacific Tea Co. of America (and subsidiaries).

Charles Trankla, Grand Rapids; director Grand Rapids National Bank, managing partner Charles Trankla & Co.

C. W. Treadwell, Detroit; director Jefferson Savings Bank of Grosse Pointe Park, owner C. W. Treadwell Co., owner and director Lincoln Park Development Co.

George W. Trendle, Detroit; director Union Trust Co. and Motion Pictures Theater Owners of Michigan; vice president, general manager, and director Kunsky Theaters Corporation; vice president, secretary, and director Madison Realty Co.; vice president, secretary, and director Strand Theater (Inc.), Columbia Theater (Inc.), Adams Theater Co., and Cooperative Booking offices (Inc.).

Luther S. Trowbridge, Detroit; director Guardian Trust Co. and Union Title & Guaranty Co., and Trowbridge, Lewis & Watkins.

Charles B. Tuttle, Detroit; director Union Trust Co. and National Bank of Commerce; treasurer and director S. S. Kresge Co., S. S. Kresge Co. (Ltd.), and Kresge Realty Co.; president and director Great Miami Realty Co.; director Mount Clemens Pottery Co., Mortenson Mickelson Co., Detroit City Service Co., and Universal Cooler Co. (Ltd.).

Paul J. Ullrich, Mount Clemens; director Union Joint Stock Land Bank, Detroit, and Ullrich Savings Bank, president Macomb County Savings Bank, treasurer Mount Clemens Bath Co., director Detroit Fidelity & Surety Co.

C. J. Van Etten, Grand Rapids; director Grand Rapids Trust Co., secretary-treasurer Blodgett Co. (Ltd.).

Sam L. Vreeland, Trenton; director Trenton State Bank and Farmers Mutual Fire Insurance Co.

Harold L. Wadsworth, Detroit; vice president and director Michigan Industrial Bank, treasurer and director Lewistown Oil & Refining Co., president and director Wadsworth-Campbell Box Co. and Thermal Engineering Corporation; vice president and director Holton & Co., American Box Supply Co., and Somerville & Co.; treasurer and director C. W. Toles & Co., Century Oil Co., and Northern States Oil Co.; director Regal Oil Co.

Harrington E. Walker, Detroit; director Union Trust Co. and National Trust Co. (Ltd.) Toronto, president Huron Manufacturing Co., Garden Court Realty Co., Walkerville & Detroit Ferry Co., Walkerville Land & Building Co. (Ltd.), Walkerville; Walkerville Securities (Ltd.), Walkerville; Walkerville Lumber Co. (Ltd.), Walkerville; Yorkshire Securities (Ltd.), Walkerville; and Border Construction Co. (Ltd.), Walkerville; vice president Walkerside Dairy (Ltd.), Walkerville; Walkerville Water Co. (Ltd.), Walkerville; Walkerville Construction Co. (Ltd.), Walkerville; and New Era Dredge Co. (Ltd.), Walkerville; director, General Engineering Co., and Northward Mines (Ltd.), Toronto.

Hiram H. Walker, Detroit; director, Guardian Trust Co. and Guardian Detroit Co.; president Hoskins Manufacturing Co., Walkerville Water Company (Ltd.), and Walkerside Dairy (Ltd.); vice president Walkerville Land & Building Co., Prince Edward Hotel Co., Walkerville-Detroit Ferry Co., and Walkerville Lumber Co., and director, Garden Court Realty Co.

Lewis K. Walker, Detroit; vice president Guardian Detroit Union Group (Inc.); vice president, secretary, and director, Guardian Trust Co.; and director, Union Title & Guaranty Co.

William H. Wallace, Saginaw; vice president and director, Second National Bank & Trust Co.; president and director, Michigan Sugar Co.; president Wallace & Morley, Bad Axe Grain Co., Wallace Stone Co., and Bay Port Fish Co.

James L. Walsh, Detroit; vice president and director, Guardian Detroit Union Group (Inc.) and Guardian Detroit Bank; director, Bank of Detroit, Highland Park State Bank, Union Industrial Bank, Flint; Bank of Dearborn, McGraw-Hill Publishing Co. (Inc.), Railway & Utilities Investing Corporation, and Cowan & Dengler (Inc.).

Charles Beecher Warren, Detroit; director, Guardian Detroit Union Group (Inc.), National Bank of Commerce, Union Trust Co., and Warren, Hill & Hamblen.

Arthur T. Waterfall, Detroit; director, Union Trust Co.; capitalist; president Redford Development Corporation and O'Donnell Land Co.; vice president and

director, Farfall Industries (Inc.) and Parker Auto Sales Corporation; and director, Stout Air Services.

Dudley E. Waters, Grand Rapids; director, Guardian Detroit Union Group (Inc.); chairman and director, Grand Rapids National Bank; vice president and director, Union Joint Stock Land Bank, Detroit; director, Detroit Creamery Co.; president and director, Klingman Furniture Co., Hackley-Phelps-Bonnell Co., and Furniture Exhibition Building Co.; vice president and director, Michigan Bell Telephone Co., Hayes Body Corporation, and Grand Rapids Creamery Co.; and director, Grand Rapids Railway Co.

Dudley H. Waters, Grand Rapids; director Grand Rapids National Bank.

W. Lloyd Webster, Detroit; vice president, cashier, and director Jefferson Savings Bank, Grosse Pointe Park, director Lochmoor State Bank, treasurer and director Stanley Furnace Corporation.

Louis A. Weil, Port Huron; vice president and director Federal Commercial & Savings Bank, vice president and treasurer Times-Herald Co.

Fred J. Weiss, Flint; director Union Industrial Bank, Union Industrial Trust Co.

Arthur E. Wells, Grand Rapids; secretary and director Grand Rapids Trust Co.

Charles E. Wetherald, Flint; director Union Industrial Bank, Union Industrial Trust Co., assistant manufacturing manager Chevrolet Motor Co., director Flint Citizens Loan Co.

W. A. Wheeler, Detroit; director Michigan Industrial Bank, secretary Paige Sales Co.

Charles E. White, Niles; vice president and director City National Bank & Trust Co.

Stuart B. White, Niles; director City National Bank & Trust Co.

James T. Whitehead, Detroit; chairman and director Highland Park State Bank, director Guardian Detroit Bank, Highland Park Trust Co., Bank of Dearborn, president Whitehead & Kales, Kales Realty Co., director Wider Woodward Land Co.

Justin R. Whiting, Jackson; director National Union Bank & Trust Co., counsel and director Michigan Electric Shares Corporation and affiliated companies, Frost Gear & Forge Co., Riverside Forge & Machine Co.

Rolland J. Whiting, Flint; director Union Industrial Bank, plant manager Fisher Body Corporation.

Matthew B. Whittlesey, Detroit; director Union Trust Co., president Detroit & Marquette Land Co., director National Grocer Co., Michigan Fire and Marine Insurance Co., governor Detroit Stock Exchange.

Rollin A. Wilbur, Cleveland, Ohio; director Ohio-Pennsylvania Joint Stock Land Bank, director Central National Bank, vice president and director The Herrick Co., president and director Sun Investing Co., New York City; director The Crawford Realty Co.

Clarence E. Wilcox, Detroit; director Highland Park State Bank; Highland Park Trust Co., Bank of Dearborn, corporation counsel for the City of Detroit, Anderson, Wilcox, Lacy & Lawson, trustee Children's Fund of Michigan, vice president Kales Stamping Co.

Herbert R. Wilkin, Flint, executive vice president, cashier, and director Union Industrial Bank.

Herbert J. Williams, Detroit; director Jefferson Savings Bank, Grosse Pointe Park, president Dautrick Co., president and treasurer Herbert J. Williams (Inc.)

William J. Willson, Port Huron; director First National Bank & Trust Co., real estate.

H. C. Wilmarth, Grand Rapids; director Grand Rapids National Bank, secretary-treasurer and director Grand Rapids Store Equipment Corporation, secretary and director, Tri-Art Printing Co., vice president and director, the Measuregraph Co., St. Louis, Mo.

Lewis T. Willmarth, Grand Rapids; director, Grand Rapids Trust Co.

C. E. Wilson, Detroit; director, Union Trust Co., vice president, General Motors Corporation, director, Bendix Aviation Corporation, director Fokker Aircraft Corporation of America.

LeRoy S. Wilson, Port Huron; director, First National Bank & Trust Co., vice president, Wilson Ice Cream Co., subsidiary of the Detroit Creamery Co.

William Robert Wilson, Detroit; director, Bank of Detroit, director, Guardian Trust Co., chairman, Copeland Products Co., chairman, Great Lakes Air-

craft Corporation, president, Allied Motor Industries (Inc.), chairman, American Cirrus Engines (Inc.).

John G. Windiate, Flint; director, Union Industrial Bank, Union Industrial Trust Co., Mount Morris State Bank, treasurer, Windiate-Pierce-Davison Co., vice president and director, Flint Mortgage Co., Guaranty Title & Mortgage Co., president, Mount Morris Building Co.

Dallas E. Winslow, Flint; director, Union Industrial Bank, Union Industrial Trust Co., secretary-treasurer General Parts Corporation, president, Dallas E. Winslow (Inc.).

Benjamin Wolf, Grand Rapids; director, Grand Rapids Trust Co., secretary Northland Lumber Co.

James P. Wood, Cleveland, Ohio; director, Ohio-Pennsylvania Joint Stock Land Bank.

Harvey T. Woodfield, Jackson; director, National Union Bank & Trust Co., secretary-treasurer and general manager, Hartwick-Woodfield Co., secretary Wildwood Apartment Co.

Clarkson C. Wormer, jr., Detroit; director Guardian Detroit Bank, director Guardian Trust Co., president Wormer & Moore.

James T. Wylie, Saginaw; director Second National Bank & Trust Co., president Bliss & Van Auken Lumber Co., director Batchelor Timber Co.

W. H. Yeasting, Cleveland, Ohio; director Ohio-Pennsylvania Joint Stock Land Bank, president the Commercial Savings Bank & Trust Co., Toledo, Ohio, director State Savings Bank, Woodville, Ohio, director Morris Plan Bank, Toledo, Ohio, director National Bank of Port Clinton, Port Clinton, Ohio, president the Commercial Building Co., Toledo, Ohio, president State Savings Bank, Maumee, Ohio, treasurer Toledo Travelers Life Insurance Co., Toledo, Ohio, trustee Flower Hospital, Toledo, Ohio.

George B. Yerkes, Detroit; vice president and director Michigan Industrial Bank, Universal Products Co., president Burton Building Co., vice president Palmer-Woods Co., director Eureka Vacuum Cleaner Co., director Houseman-Spitzley Corporation, director Chester Heights Realty Co., director Burton Abstract & Title Co., director C. E. Jamieson & Co.

Mark V. Yost, Trenton; director Trenton State Bank.

L. A. Young, Detroit; director Union Trust Co., director National Bank of Commerce, president and director L. A. Young Spring & Wire Corporation, L. A. Young Co., Lay Improvement Corporation, Tiffany Stahl Products (Inc.), L. A. Young Investment Co., Southwick Young Corporation, Star Service Hanger Co.

Smith G. Young, Lansing; director Capital National Bank, president Young Bros. Realty Co., Young Bros. & Daley, the Ballantine Co., Lansing Warehouse Co., Community Land Co., director Lansing Community Hotel Corporation.

The CHAIRMAN. I want to compliment you, Mr. Lord, on your presentation of the case to the committee. I think it covers the situation quite thoroughly.

Mr. Luce, do you desire to ask any questions?

Mr. LUCE. Just a few.

A paragraph on page 17 attracts my attention. It is about two-thirds of the way down the page:

> The chairman suggested that it was entirely possible that certain recommended policies might be applicable to certain member-unit institutions and obviously applicable to others.

Would you go into that a little further to give us some illustrations of certain policies?

Mr. LORD. Mr. Luce, the average city bank loans an individual on an unsecured basis very rarely. The country bank must do it. There is an example of a policy which would apply in Detroit which would not apply in a smaller community.

Mr. LUCE. Would that extend to the charging of different rates of discount?

Mr. LORD. Our unit banks determine their rates and other policies for themselves. We have never attempted to direct them as to rates. They fix them themselves as though they were unit banks.

Mr. LUCE. Would not the system of branch banking present a different situation?

Mr. LORD. I think it would. I think branch banking would materially reduce the rates of interest charges in the smaller communities. In our own group we have no very small communities.

Mr. LUCE. Then we will set that down on the credit side for branch banking?

Mr. LORD. Yes, sir.

Mr. LUCE. Is the same statement applicable to the rate of interest paid to depositors on balances?

Mr. LORD. In our group we have some banks that pay 4 per cent on savings and some that pay only 3. We have never disturbed their old-established rates. There are some cities known as 4 per cent cities and some as 3 per cent cities, throughout Michigan.

Mr. LUCE. Is there any justification for that difference?

Mr. LORD. I think where they are 4 per cent cities the customers, in borrowing, pay the difference.

Mr. LUCE. I notice in the pamphlet, the annual report for 1929, that there are listed, as a part of this organization, seven securities companies. What is their function? That will be found on page 6 of the annual report.

Mr. LORD. Their function, Mr. Luce, is the purchase and sale of investment securities. The reason there are so many is that some of the existing units had their own securities company.

The Bank of Detroit had its securities company.

The Grand Rapids National Bank had its securities company.

The National Union Bank of Jackson had its securities company.

The First National Bank of Kalamazoo had its securities company.

We have left those securities companies as small local institutions tied into the parent institution.

Mr. LUCE. Am I to understand that the securities institution has no other function than to buy and sell bonds and securities?

Mr. LORD. Yes, sir.

Mr. LUCE. And that covers corporation notes?

Mr. LORD. Yes, sir.

Mr. LUCE. Is it not an economic waste to have seven different organizations doing that?

Mr. LORD. I should say it is.

Mr. LUCE. It has been alleged that securities companies affiliated with banking institutions result at times in the purchase of—well, I do not want to say "questionably," but less valuable securities than would otherwise be bought, by reason of the fact that if offerings are not taken up no more offerings are made. How about that?

Mr. LORD. Applying it to our own group, Mr. Luce, we do not force any of our securities offerings on any unit in the group. They can either take them or reject them. There is no question of pressure whatsoever brought upon them.

Mr. LUCE. Supposing your group comes to the conclusion that some industry or some locality is particularly promising in the way of investment. Does this set-up warp their judgment at all in that matter?

Mr. LORD. I do not think so, Mr. Luce. We do not lend money to our securities companies except on the same basis as outsiders; and, in fact, I think we are a little bit harder boiled with them.

Mr. LUCE. There is that possibility, however, that the judgment may be biased in this or that direction?

Mr. LORD. There is that possibility.

Mr. LUCE. There is the further criticism—and I am not advancing these criticisms as indicating the amount of weight that I am attaching to them, but simply to fortify myself in answering questions—the general criticism is (the one that arouses the most apprehension among most of the Members of Congress and in certain parts of the country) that both of these systems, group and branch banking, tend to drain the money out of the smaller communities and take it into the larger centers where more profit is to be made of its use. How do you answer that?

Mr. LORD. I would answer that in this way, that we have several cases where industries in such cities as Kalamazoo and Port Huron must, at certain times of the year, borrow more money than all the banks in those cities can give them. Instead of the Guardian Detroit Union Group draining the funds from those cities, they are loaning those industries money, rather than have them go to New York or Chicago and centralize their business there.

Mr. LUCE. Won't you explain a bit about the mechanism of doing that under a group system where you have maintained the individual units? Supposing more money is needed in Kalamazoo, for instance: How is it secured—by recourse to a single bank in Detroit?

Mr. LORD. By recourse, in this case, to the Guardian Detroit Bank. We have a loaning capacity, under the State banking laws, in the Guardian Detroit Bank, of $1,600,000, which is more than any industry in Kalamazoo needs at one time.

Mr. LUCE. Frankly, to a layman, this looks like a cumbersome form of organization which would not stand the test of time. Do you think you can hold out against branch banking?

Mr. LORD. We have both branch and group banking, Mr. Luce. We have 72 branches within our group right now. I think we can hold out, if we keep them as units, against branch banking.

Mr. LUCE. It looks to an outsider as though branch banking is a simpler way to meet the situation.

Mr. LORD. It is.

Mr. LUCE. And, of course, the simpler and cheaper form, in the long run, wins out. Is it possible that you may look upon group banking as a step toward branch banking?

Mr. LORD. I think it is.

Mr. LUCE. That is all.

Mr. WINGO. I have been somewhat interested in the practical benefits of your set-up. As I gather, you have three different provisions in your holding company, through which the benefits of your holding company are extended to individual units; that is, your advisory and your executive committee and operating committee. That is true, is it?

Mr. LORD. Yes, sir.

Mr. WINGO. What do you understand are the benefits which your set-up affords which can not be furnished by the individual unit

banker or which your set-up can afford to a greater degree, both in volume and in safety?

Mr. LORD. As against the unit bank?

Mr. WINGO. Yes.

Mr. LORD. I think the greatest example that we have had in our experience of the benefit of a group organization came when 20 or 22 employees of the Union Industrial Bank at Flint stole a total of $3,600,000 from that bank. We were fortunate in having as the head of that bank Mr. Charles S. Mott, vice president of the General Motors Corporation. Mr. Mott immediately put up the funds to take care of that defalcation. Had he not done it, the group company would have done it. The day after the defalcation was discovered, we had 35 bank officers, tellers, and clerks in there running that bank, and without such support that bank would probably have closed.

Mr. WINGO. That was but a repetition of what has been done more than once by the Federal reserve bank at Kansas City in that territory.

Mr. LORD. The Union Industrial of Flint is a State bank.

Mr. WINGO. Mr. Mott did take care of it.

Mr. LORD. Yes.

Mr. WINGO. And he was the president of a unit bank, and he took care of it.

Mr. LORD. He was the chairman of the board.

Mr. WINGO. But he was the head?

Mr. LORD. Yes, sir.

Mr. WINGO. The responsible head of the institution. But what I was thinking about was a general benefit. Of course, the benefits of a banking system are twofold: One is the service that is afforded to the depositors and borrowers in the community in which it operates, and the other is the means of profit to the stockholders. Now, measured by that, do you think that your set-up affords a larger measure and a greater degree of safety, both to the depositors and to the borrower in the communities in which your units operate?

Mr. LORD. Yes, sir.

Mr. WINGO. Aside from furnishing a larger reservoir of capital. I am wondering if the benefits you have in mind include the advisory and operating group benefits.

Mr. LORD. I think they do.

Mr. WINGO. As I understand your advisory group in your holding corporation, that is the group that gives direct study to the general policies?

Mr. LORD. Broad policies.

Mr. WINGO. Broad policies, not only of your own holding corporation, but the broad policies that shall aid and insure the security and the prosperity of each unit in the group?

Mr. LORD. Yes, sir.

Mr. WINGO. And necessarily they have to consider the peculiar problems that concern each unit bank?

Mr. LORD. Yes, sir.

Mr. WINGO. And they, as well as the operating committee, have to consider the operations of each unit; do they not?

Mr. LORD. The advisory committee do not go into the detailed operations of the separate units. That is done by the operating committee.

Mr. WINGO. You stated that your advisory committee concerned itself only with the consideration of the broad questions which affect the policy of the group as a whole. I interpreted that statement to refer not to your holding corporation but to the individual units that compose your group, and you used the word "group." It concerns itself, then, with the broad questions which affect the policy of each unit of your group?

Mr. LORD. Yes, sir.

Mr. WINGO. You further stated that the executive committee is limited in its activities to functioning in lieu of the board during the intervals between regular quarterly meetings for the purpose of what I was discussing with you, but there is no use to pursue that further. In other words, it functions in the absence of your full board.

Mr. LORD. We have a board of 48 members, and it sometimes is difficult to get 48 men together.

Mr. WINGO. In other words, in the absence of the board, it simply performs the ordinary functions of an executive committee?

Mr. LORD. That is right.

Mr. WINGO. And it takes authority to act within the broad confines of the general, well-known policy?

Mr. LORD. Yes, sir.

Mr. WINGO. And then you went on and said that the operating committee is intended to be the instrumentality to which the operating heads of the various unit members bring their day-to-day operating problems. I presume, then, that your operating committee is your real committee?

Mr. LORD. Yes, sir.

Mr. WINGO. And your real agency whereby your local units and your local communities are benefited by your organization, other than through that reservoir of capital?

Mr. LORD. Yes, sir.

Mr. WINGO. We will just eliminate that broad benefit which you claim through a larger reservoir of capital, and we will now speak of the other benefits. I take it that the operating committee is the one that really has the practical working out of the extension of these benefits, and I am interested in how that can be demonstrated as being true other than in theory, so I want to ask you this: You say that they bring to that committee their day-to-day operating problems; do you mean that they confine their advice, assistance, direction and discussion with the local directors to the policies of that local unit, or do they go into a discussion with them in order to aid them and advise them in reference to the actual detailed operations of the bank?

Mr. LORD. More the detailed operations, and, in explanation of that statement, one of the first things that the operating committee undertook was to educate the unit banks as to a proper credit file and investigation of credit. If you have ever been in a country bank and tried to find a credit file, you have probably found out that it is usually on the cuff of the president of the bank, and when the personnel changes, it is almost impossible for a new officer to have a complete and satisfactory understanding of the demands of the credit situation, and so they had a committee made up of various members from the units, who studied the question of credit files,

form of unsecured notes, and form of collateral notes, and that committee turned its recommendations in to the operating committee and the units were given the privilege of accepting this information and studying it, and I think most of them did.

Mr. WINGO. That is what you might call the mechanics of your credit agency?

Mr. LORD. Yes, sir.

Mr. WINGO. In other words, advising them how they could maintain accurate information, readily available, with reference to any depositor or borrower?

Mr. LORD. Yes, sir.

Mr. WINGO. Is that all? Do you not give any greater benefit? Let us assume that here is a board of local directors that is dealing with a local manufacturing concern, and a board of local directors are not satisfied as to their judgment with reference to the line of credit to give to that particular established manufacturing concern; would your operating committee or your advisory committee confer with your local board or with your local officers that are managing the bank in fixing the amount of credit to be given to this manufacturer?

Mr. LORD. I should say that the operating committee would secure the information and data on that industry and on the particular company, and it would be sent back to the local bank and the local board of directors would then decide whether or not their bank should lend this company money; and if so, how much.

Mr. WINGO. That is your hypothetical opinion. In actual experience, has your operating committee ever rendered any such service or assistance to a local unit?

Mr. LORD. The operating committee as such has not, but our own credit department has frequently done so for the unit.

Mr. WINGO. Here is the thought I had in mind: Here is your active vice president, or your cashier, or maybe the whole board, in some local bank that is considering whether or not they shall extend a certain line of credit to, say, the ABC Stepladder Co., located in their town. Do you know whether or not, in a case like that, the local bank, either through its cashier or managing vice president or other officer or its board, consults with your holding corporation, or the advisory committee or the operating committee?

Mr. LORD. For the sake of speed I would say they would come direct to the Guardian Detroit Bank and its credit department.

Mr. WINGO. I am talking about your opinion about what might happen; I am asking you whether or not you have any knowledge in actual operation of such benefits as you contend in theory might flow from your set-up to the local unit, whether or not such benefits have been extended or such service has been rendered to them.

Mr. LORD. It has, many times.

Mr. WINGO. Well, do you recall whether or not where a new business was being started the question came up whether or not this local unit should undertake to meet their credit needs, or whether or not they would undertake to send the request to a larger bank in the parent bank city or somewhere else, or whether or not they would undertake to act as their agents in procuring the larger line of credit for them? Has such a situation as that, to your knowledge, practically arisen and been passed upon by your group or organization

and, if so, has it been the advisory board or the operating committee that passed on it and extended help?

Mr. LORD. To my knowledge it has not happened in the case of a new industry, but it has happened frequently in the case of established industries.

Mr. WINGO. What benefit is your operating committee to the local cashier or the local loan committee, say, of your board in determining whether or not the line of credit that they already had extended or the line of credit that they contemplate extending to a given customer is wise?

Mr. LORD. The operating committee is not necessarily made up of credit experts. If the question came up of the credit of a corporation, it would immediately be referred to the credit department either in the Guardian Detroit Bank or the National Bank of Commerce or the Bank of Detroit, or all of them, to find out and assemble all available information on that corporation. It would be referred immediately to credit experts rather than to operating men.

Mr. WINGO. I do not know whether I have made myself clear. I am not trying to get into any argument with you, but you have given the theory and I want the answer, if you have any as a result of your practical experience. Here is a little unit bank in one of your communities, and here is a proposed and particular loan of a particular borrower; do you know whether or not that bank has ever had the practical benefit of the assistance of the holding company on any such particular loan?

Mr. LORD. They have had the practical benefit and assistance of other members of the group on those loans.

Mr. WINGO. I am not talking about a particular industry, such as the automobile industry, or the plow industry, as to whether it is prosperous or not, but what I am talking about is this: When Bill Jones comes into the local bank, has the question of Bill Jones's loan and whether it is wise or unwise ever been considered at all by any part of your holding company?

Mr. LORD. There is a paper company in Kalamazoo that has need at different times in the year for as much as half a million dollars or more in money, and it comes to one of our units, the First National Bank & Trust Co. That bank has a loaning limit of less than $125,000, and we have loaned this paper company $250,000 for the benefit of our unit in Kalamazoo.

Mr. WINGO. You say "we"?

Mr. LORD. The Guardian Detroit Bank.

Mr. WINGO. But it is not your holding corporation?

Mr. LORD. No; the holding company is not in the banking business.

Mr. WINGO. Here is what I am trying to find out: In actual operation—not in theory—what practical benefit is there here to strengthen the local unit bank, by advice, say, in particular cases—and not in connection with general credit policies or the maintenance of a credit file but in actual everyday operation—that either makes or breaks a bank or determines the extent to which it will serve the community in which it is operating? In other words, wherein does your concern in actual practice help the local unit; and is that help in actual practice, according to your experience and not your theory, extended through the advisory committee or through the operating committee?

Mr. LORD. What is your question?

Mr. WINGO. Here is what I am trying to get at: I want you to forget the theory; I want your experience. Has your holding corporation ever been of any practical benefit to your local unit bank in exercising its judgment and passing upon any particular loan?

Mr. LORD. It has been of very considerable benefit in handling for the local banks, through other members in the group, loans for an amount larger than that which the local bank could handle.

Mr. WINGO. I see. Do you do that through your operating committee or advisory committee?

Mr. LORD. That goes through another unit in the group. You asked about the benefits; if the Kalamazoo bank were not a member of the Guardian Detroit Union Group, the Guardian Detroit Bank would feel no obligation whatever to take the excess amount of this paper in.

Mr. WINGO. But it would if it were a correspondent, would it not?

Mr. LORD. Not necessarily. It might take it if it were a correspondent, but it would be under no obligation to do so.

Mr. WINGO. My little touch with a few banks has shown me that sometimes there are correspondents that are competing for business of that kind which comes from the local banks.

Mr. LORD. But the first duty of the metropolitan bank is to its own customers.

Mr. WINGO. Then that operation does not go through your holding company?

Mr. LORD. No, sir. The holding company is not in the banking business.

Mr. WINGO. Your thought is that by reason of the fact that both of them are controlled by your holding corporation, naturally one of them goes to the other when it wants a larger loan handled than the smaller bank can handle?

Mr. LORD. A request for the handling of a loan might come to me as president of the holding corporation. I happen also to be president of the Guardian Detroit Bank. It goes to the holding corporation in that way, but it ends up in one of the unit banks, because the holding corporation does not lend money. It is not in the banking business; it is merely a vehicle by which these banks in the group are gathered in association together.

Mr. WINGO. So that is the service that your corporation has rendered where the local unit bank had an application for a larger line of credit than it was permitted to handle. But let us take a situation where the local bank is permitted to handle the loan. Let us say that I am located in one of these small communities where you have the unit banks, and that I am a customer of that unit bank and I walk up and ask for a loan of $10,000, which is within the limit of that bank. The only question to be determined is whether or not it is safe, whether or not they should give me that accommodation. In your experience, has your holding corporation ever given that local unit any benefit or assistance in determining the course of the local bank in that situation?

Mr. LORD. The local bank would make its own loan; make its own decision on the loan.

Mr. WINGO. We have been told and we have found by observation and some of us by experience that local banks are wrecked through

improvident loans and not through corrupt practices or fraud. Now, your set-up offers no protection whatever to the local community against the wrecking of a unit bank by improvident loans, does it?

Mr. LORD. Yes; it does. We have two examinations a year.

Mr. WINGO. The presumption is that the examining authorities are efficient; that is a presumption of law, as you know, but, of course, they are not, and the same presumption of efficiency goes to your examiners, but in practice you will find that your examinations will sometimes fail and not be 100 per cent efficient. However, aside from that examining supervision, there is nothing in your set-up that will give any assistance to the local community against the danger of it being injured by the failure of a bank by reason of improvident loans, is there?

Mr. LORD. The holding company does not guarantee the deposits of the local banks.

Mr. WINGO. That is not my question.

Mr. LORD. How can we give other assistance except management assistance and advice as to the amount that they should loan on real estate or on other class of security?

Mr. WINGO. You just said that you did not give them any assistance other than on the broad general policies, that on the individual loans you give them absolutely no assistance. You just said that you did not.

Mr. LORD. The examinations point out the poor loans, just as the national bank examination points them out, and the group company, through its examining department, follow the criticized loans of their own report to see that they are taken care of.

Mr. WINGO. Who supervises that, the operating committee or the advisory committee?

Mr. LORD. An officer of the group company, Mr. Patterson.

Mr. WINGO. Neither of the committees exercises control over him?

Mr. LORD. He is accountable only to the board of directors.

Mr. WINGO. You have a more cumbersome set-up than I thought you had.

Now, you say that you are absolutely not engaged in the banking business?

Mr. LORD. No, sir.

Mr. WINGO. You have nothing to do with the operation of a local unit bank except as to the broad policies, broad advice, and the inquisitorial and supervisory powers over your examiners?

Mr. LORD. Yes, sir.

The CHAIRMAN. You are speaking now of the holding company?

Mr. WINGO. Of the holding company, yes.

That brings me down to this question: You were saying that you were not doing a banking business, that you are simply a stock-holding company?

Mr. LORD. Yes, sir.

Mr. WINGO. Then what is the justification for all of the expense of this extensive set-up, if you do nothing more than to give broad general advice and have these examinations?

Mr. LORD. There is no additional expense except the expense of examination and the license tax of our corporation.

Mr. WINGO. Do you not have any employees of your operating committee?

Mr. LORD. Outside of Mr. Patterson and his examining corps and the secretary of the company there are no salaries paid by the group company.

Mr. WINGO. You have no clerical force for the operating company?

Mr. LORD. No, sir. The talent that makes up the operating committee is contributed by the various units, and they are paid by their own institutions. They are not drawing a salary from the holding company.

Mr. WINGO. Then your operating committee does not have any unit of operation, with a stenographer, say, and a file, or anything else; it is just made up of these different gentlemen who are the heads of your larger banks, and they get together at intervals and discuss the situation? Is that what your operating committee is?

Mr. LORD. Putting it broadly, it is more or less of an educational committee to bring to the units the best practice, the best methods, both as to operations and as to the acquisition of business, and questions of investment of trust funds, questions as to income taxes, personal and property taxes, and the operation of the buildings owned by the banks. It is more of an advisory committee.

Mr. WINGO. I am wondering how they do it. If at any of these little gatherings a question of income-tax liability comes up, you refer that to an attorney, do you not?

Mr. LORD. I was speaking of the make-up of the return.

Mr. WINGO. All right. Do you furnish employees to help the local unit banks in making up their returns?

Mr. LORD. Yes; Mr. Patterson's department, or the comptroller of one of the banks.

Mr. WINGO. But Mr. Patterson's department is a department of the holding company, is it not?

Mr. LORD. That is correct.

Mr. WINGO. And it must have some stenographers and files?

Mr. LORD. Yes.

Mr. WINGO. So that you do have some expense there, do you not?

Mr. LORD. Yes.

Mr. WINGO. You are very careful to keep yourself in a position of not doing a banking business—I refer to your holding company?

Mr. LORD. We do not have the right under our charter to do it.

Mr. WINGO. I am wondering if there is anything else besides that. Have you any other reasons why in the statement which you read you were so careful to avoid any suggestion that you are engaged in the banking business? Is it because you do not want to violate the corporation laws of Michigan? Is that the sole reason?

Mr. LORD. Under the laws of Michigan, state-wide branch banking is not permitted, and our corporation was organized solely for the purpose of owning the capital stock of banks and trust companies and other corporations, and we propose and expect to live within the powers of our charter.

Mr. WINGO. I notice you have the opinion of the Attorney General that you are not performing any of the functions of a bank. Have you any other legal opinion as to the legal status of a holding corporation such as yours?

Mr. LORD. We, of course, had our own counsel's opinion before we went into it.

Mr. WINGO. You are not an attorney yourself, are you?

Mr. LORD. No, sir.

Mr. WINGO. And I assume you do not know whether he has any further opinions, but the real test, you can understand, as a layman, is not what you say you are but whether in reality you discharge any of the functions of banking.

Mr. LORD. Yes, sir.

Mr. WINGO. Your idea of the functions of banking is the everyday routine such as the discount of notes, the paying of checks, and such as that. The General Motors Corporation is not in the motor-car business, according to your theory, is it?

Mr. LORD. I do not recall the exact corporate set-up. They have several units.

Mr. WINGO. The General Motors Co., according to my understanding—and if I am wrong in this there are gentlemen here who will correct me—is a holding corporation that controls different corporations, like the Buick Co., and that Buick Co. with its own set-up engages in manufacturing. So, according to your theory, the General Motors Co. itself is not engaged in the manufacturing of automobiles.

Mr. LORD. I think that is correct.

Mr. WINGO. It is purely a holding corporation?

Mr. LORD. I think that is correct.

Mr. WINGO. It is no more engaged in the motor-car business than your corporation is engaged in the banking business. Do you not think that that would be news to Mr. Raskob and these other gentlemen, that they are not in the motor-car business?

Mr. LORD. I do not believe that the United States Steel Corporation is in the steel business.

Mr. WINGO. In other words, according to your theory, taking the banking business, the motor-car business, the steel business, and the dairy business—and, taking the Southern Dairy, I think they have a holding corporation—none of them is engaged in business excepting as holding and controlling and directing? Is not the greater part of the function of a bank the directing of that bank by the directors and the directing officers? They are the ones that engage in banking in my town; it is not the bookkeeper; it is not the paying teller; it is not the note teller. We, the officers and the directors, in my part of the country, are under the delusion or illusion that we are engaged in the banking business, not these employees of ours; and for all practical purposes your unit banks are nothing but employees of your holding corporation in carrying out a general policy in actual banking in their particular communities.

Mr. LORD. The unit banks are no more employees of the holding corporation in our group than any unit bank is an employee of its stockholders.

Mr. WINGO. So they are absolutely free to do as they please?

Mr. LORD. Absolutely. If you lived in Kalamazoo and had done your business with the First National Bank & Trust Co. of Kalamazoo, so far as the conduct of your business before and after the acquisition of the stock of that bank there was concerned, you would not know that the group existed.

Mr. WINGO. What is your definition of a trade area?

Mr. LORD. I have covered it in this way:

We feel at this time that group or branch banking should, so far as our own activities are concerned, be confined to an area which, by the very nature of its business and industries, is more or less dependent upon Detroit.

Mr. WINGO. Take the case of a wholesale dry-goods company at Kansas City; what is its trade area? Would you regard Texas as its trade area? I think Texas is its biggest area of distribution.

Mr. LORD. I should say that the trade area of such a concern should be where the major part of its business is transacted. I do not know whether a wholesale dry-goods business in Kansas City would go into Texas, but I should say, offhand, that Dallas would take a piece out of that trade area.

Mr. WINGO. You have other people right in Detroit to take something out of your trade area inside the city; that would not be the test as to whether you had an absolute monopoly?

Mr. LORD. No; but, following your statement, the trade area of Detroit is the world, because their motor cars are shipped all over the world.

Mr. WINGO. That is the point I wanted to get at. A trade area is rather a difficult thing to define, is it not?

Mr. LORD. I think it is very difficult.

Mr. WINGO. You could not define it in a statute, could you? It would necessarily have to be left to a supervisory board or an official?

Mr. LORD. I would think so, unless you, instead of designating trade areas, want to take the Federal reserve districts. I think it must be made flexible and left to a supervisory board.

Mr. WINGO. What would you do with a district like mine? Parts of my district is or was in a Federal reserve district different from that in which most of the rest of my State is located, as well as my capital city.

Mr. LORD. I think there might have to be permission to overlap.

Mr. WINGO. My district runs right along the State line, with the State line as an arbitrary dividing line. You see where you get. You have never heard of any business—banking or dry goods or groceries or anything else—that followed arbitrary political lines?

Mr. LORD. No.

(Thereupon the committee went into executive session, to resume its hearing at 2.30 o'clock p. m.)

AFTER RECESS

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

The ACTING CHAIRMAN (Mr. Strong in the chair). The committee will come to order.

STATEMENT OF ROBERT O. LORD—Resumed

Mr. STRONG. You stated that the laws of your State do not permit State-wide branch banking?

Mr. LORD. Yes, sir.

Mr. STRONG. Is that the reason you organized the holding company?

Mr. LORD. Yes, sir.

Mr. STRONG. Then you purposely intended to do indirectly what the law prohibited your doing directly, to quote a gentleman here present?

Mr. LORD. I do not think so.

Mr. STRONG. Well, your laws prohibited it and you say you created the group to evade the law. Now, is not that a correct statement?

Mr. LORD. We created this holding company and gathered together this aggregation of banks which serve or feed into Detroit.

Mr. STRONG. But you said you did it because you can not indulge in State-wide branch banking?

Mr. LORD. I also stated that if we could do state-wide branch banking, I doubt if all the units would be taken in as branch banks.

Mr. STRONG. But you got up this organization because you can not indulge in state-wide branch banking?

Mr. LORD. We got it up in order to own the Highland Park State Bank, and we had to do that to have a holding company.

Mr. STRONG. In order to evade the law of your State. How many banks were in the original group?

Mr. LORD. Our original group before there was a holding company constituted the Guardian Detroit Bank, the Guardian Trust Co., and a securities company, the Guardian Detroit Co.

Mr. STRONG. Three?

Mr. LORD. Yes, sir.

Mr. STRONG. And you exchanged your stock for the stock of the holding company?

Mr. LORD. Yes, sir.

Mr. STRONG. Who passed upon that exchange of stock?

Mr. LORD. Our counsel, Mr. Henry E. Bodman.

Mr. STRONG. I mean the value of one stock for the other—who passed upon the number of shares of stock of the holding company you would give for the stock transferred to it?

Mr. LORD. Are you speaking of the original group?

Mr. STRONG. I am speaking of the original group; yes, sir.

Mr. LORD. The board of directors of the banks.

Mr. STRONG. When you take in another bank, who passes upon that?

Mr. LORD. The board of directors of their bank and the board of directors of the group company.

Mr. STRONG. They do not have an opportunity to pass upon the number of shares they shall receive for the number of shares they are to contribute to the holding company from the banks without the consent of your group, then?

Mr. LORD. No, sir; it is by mutual agreement. However, no stockholder, by any action of the board of directors in the unit bank, can be forced to exchange his stock. It is a purely voluntary act on the part of the stockholders.

Mr. STRONG. They can not be forced?

Mr. LORD. No, sir; he can retain the stock.

Mr. STRONG. And not take stock in the holding company?

Mr. LORD. Absolutely.

Mr. STRONG. How does he become a member of the group?

Mr. LORD. By consent of the stockholder, voluntarily. In the case of the Bank of Detroit, there have been 12 shares never exchanged.

In the case of the Grand Rapids National Bank, there were 25 shares.

In the case of the First National Bank & Trust Co., of Kalamazoo, there are 109 shares outstanding.

Mr. STRONG. But the majority of the shares were taken in?

Mr. LORD. Yes, sir.

Mr. STRONG. And if you control the majority of the shares, you control the bank?

Mr. LORD. But the stockholder has the same rights as before, if he does not want to exchange the stock.

Mr. STRONG. Even if he does not want to exchange the stock, enough have exchanged the stock to make a majority and that is control?

Mr. LORD. Yes, sir.

Mr. STRONG. You do not need the odd shares?

Mr. LORD. That is correct.

Mr. STRONG. What did you do to induce the other banks—how many are in the group now?

Mr. LORD. Twenty-seven.

Mr. STRONG. Have they any branches?

Mr. LORD. Included in those 27 banks are 102 places of business. That would leave 75 branches.

Mr. STRONG. There are 102 banks or places for business in your group?

Mr. LORD. Yes, sir.

Mr. STRONG. What inducement was held out, if any, to get them to join?

Mr. LORD. The offer of shares of the group company stock.

Mr. STRONG. Are any banks ever coerced?

Mr. LORD. No, sir.

Mr. STRONG. The reason I am asking you these questions is because I received a letter in the morning's mail from the Minneapolis Council of Agriculture. The writer says, in referring to a like statement made by Mr. Wakefield and Mr. Decker:

> It is the opinion of the writer that if an investigation was made and an examination held into the methods used by the First National Bank and the Northwestern National Bank in acquiring control of various banks now constituting their group, that red-blooded American citizens, having pride in the honesty of the banking institutions of the country, would bow their heads in shame.

Mr. WINGO. What is the gentlemon reading from?

Mr. STRONG. I am reading from a statement, something sent to the committee by the Minneapolis Council of Agriculture.

This indicates that the group banks of Minneapolis and St. Paul forced some of the smaller banks in their territory to join their system. Was anything of that kind done in your group?

Mr. LORD. No, sir.

Mr. STRONG. Mr. Wingo was asking you a line of questions, and your answers indicated you did not think the holding company was in the banking business?

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

Mr. STRONG. If any investments were made by any units in your group that caused the examiner to report that they were irregular and not in line with proper banking, would the officers of your group be called upon to explain them?

Mr. LORD. I would say not. The officers of the particular institution would be called upon to explain. No officer of our group has ever been called on to explain or discuss, by a State or National bank examiner, any report.

Mr. STRONG. Have some of the examiners called upon your banks to make explanations of loans and investments?

Mr. LORD. Of our unit banks?

Mr. STRONG. Yes.

Mr. LORD. Yes, sir; certainly.

Mr. STRONG. But your holding company took no part?

Mr. LORD. We were not called upon by the examiner.

Mr. STRONG. And they took no part?

Mr. LORD. No, sir.

Mr. STRONG. But you could imagine there might be cases?

Mr. LORD. If a serious situation arose, I imagine the group company might be called upon to help.

Mr. STRONG. Why, if they were not in the banking business, could they be called upon?

Mr. LORD. In time of trouble, I think every agency should be called in to help.

Mr. STRONG. An agency not connected with the banking business would not be called upon?

Mr. LORD. Frequently other banks are called upon to help when a bank is failing.

Mr. STRONG. They might be called upon to take some paper and put up some money, but they are not called upon for an explanation of the loans and investments?

Mr. LORD. That is correct.

Mr. STRONG. But you think your group might be so called upon?

Mr. LORD. To explain investments?

Mr. STRONG. Yes.

Mr. LORD. No, sir; I think the local directorates are responsible.

Mr. STRONG. But you will admit that the Comptroller of the Currency might ask your group for an explanation?

Mr. LORD. I do not know what he might do, but we would be glad to help out if we could.

The CHAIRMAN. Is there any difference between your group, as a stockholder, and the individual as a stockholder?

Mr. LORD. Not the slightest that I can see.

The CHAIRMAN. The same relationship exists between your group as exists between the stockholder and any bank?

Mr. LORD. Yes, sir; absolutely.

Mr. STRONG. But there is this difference, that the group holds control of the shares of the banks?

Mr. LORD. Yes, sir; that is true.

Mr. STRONG. And can dominate them?

Mr. LORD. Yes, sir; can dominate them.

Mr. STRONG. You still think they are not in the banking business?

Mr. LORD. No, sir.

Mr. WINGO. I forgot to ask you one question. Mr. Strong, will you ask him this question at this point—what business do you contend you are in; what classification would you give it, if you had to answer some of these census or other comparable queries?

Mr. LORD. We are operating under the general corporation laws of the State of Michigan as a holding company.

Mr. FENN. There are some of us, Mr. Chairman, who are waiting to ask questions.

Mr. WINGO. I will withdraw the other question I had in mind.

Mr. STRONG. Do you also accept in your group only, such banks as are making money?

Mr. LORD. Up to date, we have accepted only such banks as are making money. We have had innumerable banks come to us and ask to be taken into the group.

Mr. STRONG. Then, your group banking does not provide a way to do away with the weak banks of the country. The statement has been made here that branch banking will eliminate the weak banks of the country. Your group banking does not propose to do that?

Mr. LORD. If all of the banks of the State of Michigan were in strong groups or strong banks, I would say that the weak banks would be eliminated.

Mr. STRONG. But you will not let the weak banks into your organization. That being so, how are you going to take care of the weak ones? You say you are only taking in those that make money?

Mr. LORD. That is correct.

Mr. STRONG. And the weak bank has no chance to get into the system?

Mr. LORD. Unless we want to take them in.

Mr. STRONG. That argument, then, does not apply to group banking—that it will help the weak bank?

Mr. LORD. It applies to the community in which we are operating and to the institutions we own. We can not own all of the banks.

Mr. STRONG. You say you did not admit any except those that make money. The weak banks have no haven of refuge in your group?

Mr. LORD. Do you think they should have?

Mr. STRONG. Do you not think some system should be devised where the people in the country should be served with banking facilities and should have such facilities?

Mr. LORD. I do not think there should be any law requiring a strong bank to take in a failing institution, whether a bank or otherwise.

Mr. STRONG. Do you think we should allow banking to fall only into the hands of the strong institutions and the weak banks be left out in the cold so that there would be people with no banking service?

Mr. LORD. After all, in any kind of business, it is the survival of the fittest and the weak ones will fail, whether they are in the automobile business, in the dry goods business, or in the banking business.

Mr. STRONG. Then you think there is no difference between the Government's charge of banking and the automobile business?

Mr. LORD. So far as the weak and strong are concerned.

Mr. STRONG. You think the Government ought to sit idly by and let you form strong groups and fail to take in the small communi-

ties of the country that need banking, and build up your groups, and let the others fail?

Mr. LORD. I think the Government should allow the strong groups to go into communities where there are weak banks, so that the communities can do business with the strong banks.

Mr. STRONG. Is there any one interfering with your taking over the weak banks? You do not let them in your system.

Mr. LORD. We do not want them.

Mr. STRONG. You control the clearing house in your city, do you not?

Mr. LORD. Our group?

Mr. STRONG. Yes.

Mr. LORD. No, sir; the Detroit Bankers Co. have greater resources than we.

Mr. STRONG. Are they also a banking group?

Mr. LORD. Yes, sir.

Mr. STRONG. What are the little banks in the small communities going to do if your groups control the banks in the city? They are pretty nearly forced out of business, or have to join your group, are they not?

Mr. LORD. There are small independent banks in Detroit making money.

Mr. STRONG. But in the small communities, are they not embarrassed because you control the banking in Detroit?

Mr. LORD. No, sir; the little bank would not get any business in Detroit any way if they are out from Detroit, whether we have a group or whether the Detroit Bankers Co. have a group.

Mr. STRONG. You do not think the little bank out from Detroit would be embarrassed in any way from the fact that, in Detroit and in the other cities of your State, your different groups control the banking business?

Mr. LORD. Not the slightest.

Mr. STRONG. How many banks in this group of yours are branch banks?

Mr. LORD. Do you want me to read them or count them? The City National Bank & Trust Co. of Battle Creek has 1 branch.

The National Bank of Commerce of Detroit has 20.

The Grand Rapids National Bank has 8.

The National Union Bank & Trust Co. of Jackson has 1.

The Capital National Bank of Lansing has 1.

The Second National Bank & Trust Co. of Saginaw has 1.

The Bank of Detroit, of Detroit, has 20.

The Union Industrial Bank of Flint has 9.

The Highland Park State Bank has 7.

The Federal Commercial & Savings Bank of Port Huron has 4.

The Union State Bank of Dearborn has 2.

The Jefferson Savings Bank of Grosse Pointe has 1.

Mr. STEVENSON. That totals 75

Mr. LORD. Yes, sir.

Mr. STRONG. Are there any chain banks in your group?

Mr. LORD. How do you define a chain bank?

Mr. STRONG. Where one or two men own a bank. They may join your group?

Mr. LORD. No, sir.

Mr. STRONG. I think that is all.

The CHAIRMAN. Mr. Brand, it is your turn.

Mr. BRAND. I yield to Mr. Fenn.

Mr. FENN. I have only one or two questions to ask. You said, Mr. Lord, that Michigan did not allow branch banking?

Mr. LORD. Not state-wide but within the municipality.

Mr. FENN. Yes. Now, you said to Mr. Strong, in reply to the interrogatories he directed to you—it seemed to me your rather agreed to his statement, as I listened to your answer—that you had formed this group in order to evade the laws of the State of Michigan?

Mr. LORD. I did not agree to that statement. He took it for granted. We have never intended to evade that law.

Mr. FENN. I took your answer the same as you have explained it. Let me ask you a little about the stockholders of this organization of yours. Is the stock in these banks which make up your association owned by the stockholders of the respective banks or owned by the association?

Mr. LORD. Owned by the Guardian Detroit Union Group (Inc.), except the directors' qualifying shares.

Mr. FENN. Just the directors' qualifying shares?

Mr. LORD. Yes, sir.

Mr. FENN. When you make an issue of stock—I understand you are capitalized at $50,000,000, but you have issued $32,000,000——

Mr. LORD. Between thirty and thirty-one million.

Mr. FENN. In what way, if you see fit to issue that treasury stock balance that is in your treasury—the unissued stock—how do you get that out? Is that issued for the purpose of taking in other banks as you see fit, or issued to the general public?

Mr. LORD. It may be issued for the purpose of taking in other banks, in which case, upon a three-fourths affirmative vote of the board of directors of the group company, it can be so issued without offering it to our stockholders.

If it be issued for cash and the cash should be used for any other purpose, or buying other banks for cash, then it is necessary for us to offer the stock first to our own stockholders.

Mr. FENN. By your own stockholders, do you mean individuals or banks?

Mr. LORD. Individuals.

Mr. FENN. Then it does go to individuals?

Mr. LORD. Absolutely. I thought you were speaking of the unit bands. The stock of the group company is owned largely by individuals.

The CHAIRMAN. You spoke this morning of the stockholders of the holding group agreeing to the double liability.

Mr. LORD. Yes, sir; it is in the certificate.

The CHAIRMAN. So when your group owns the stock of a national bank, for instance, your holding group assumes the double liability that is provided for?

Mr. LORD. It is not only in the certificate, but in the charter.

Mr. LETTS. Not the holding group?

Mr. LORD. The holding company.

Mr. LETTS. I understand from this, your stockholder has a pro rata liability, according to the liability for the entire holdings of the holding company?

Mr. LORD. That is correct.

Mr. FENN. May I pursue my interrogation, Judge Letts.

In your list of stockholders given, there is a schedule of percentages and number of stockholders, we will say, of New York. I presume that applies to New York City.

Mr. LORD. Yes, sir.

Mr. FENN. And then there is the eastern part of the country, and other sections. You have given it all very clearly in your history there. So I take it that these are individual stockholders of the group company?

Mr. LORD. Yes, sir.

Mr. FENN. Then, can that stock be bought and sold on the exchanges, or disposed of by the individual owner as he sees fit and when he sees fit?

Mr. LORD. At any time.

Mr. FENN. This is a little different from the northwestern and the other banking group in Minneapolis. There the banks making up that group, as I understood it, transferred their stock to the group center, and the group center owned the thing, and there were no private stockholders or personal stockholders or individual stockholders. But in your case the individual stockholders own their stock and can transfer or sell it or dispose of it as they see fit.

Mr. LORD. Of the group company, and the group company, in turn, owns all or practically all of the stock of the unit banks.

Mr. FENN. And gets it in that way?

Mr. LORD. Yes, sir.

Mr. FENN. What would be your course in case one of your banks became unfortunate, either through bad investments or lack of proper management, or for any other reason, and, in the phrase of the street, fell down? What would you do in that case if you had a bank of that kind that was going to smash or had gone to smash?

Mr. LORD. The group company would put up cash to make it good.

Mr. FENN. Would put up the cash to make it good?

Mr. LORD. Yes, sir.

Mr. FENN. Is that provided for in your articles of incorporation?

Mr. LORD. It is not provided for, but that is the law of self-preservation.

Mr. FENN. I see that you have a couple of joint-stock land banks in your group ownership.

Mr. LORD. Yes, sir.

Mr. FENN. Are they subject to the same surveillance and supervision that your other units are?

Mr. LORD. They certainly are.

Mr. FENN. How did you happen to go into the joint-stock land banks?

Mr. LORD. The Union Joint Stock Land Bank——

Mr. FENN. There is another bank of that name in Cleveland?

Mr. LORD. Yes, sir.

It was organized by the Union Trust Co. of the Detroit group. That bank has been in existence for a great many years, and has been operated and controlled by the same crowd.

Mr. FENN. In this double liability of yours, does that apply to State banks the same as national banks?

Mr. LORD. Yes, sir.

Mr. FENN. Is that the law of Michigan?

Mr. LORD. Yes, sir.

Mr. FENN. I ask that question because some States do not have double liability for their State organizations.

Mr. LORD. Michigan has.

Mr. FENN. I think that is all.

Mr. STEVENSON. I only want to ask one or two questions along the line Mr. Fenn was speaking about. When a bank of your group, that he was asking about, goes bad, you say it is up to the group corporation to make it good? There is no legal obligation to make it good?

Mr. LORD. None except the double liability of a stockholder.

Mr. STEVENSON. Any stockholder owes double liability?

Mr. LORD. Yes, sir.

Mr. STEVENSON. In your argreement I understand that liability is assumed by the stockholder in the holding company?

Mr. LORD. Yes, sir.

Mr. STEVENSON. You take it out of the stockholder in the group company and put it over in the till of the weak bank?

Mr. LORD. Mr. Stevenson, before an assessment would be levied on the stockholder of the group company, the resources of the group company would be used.

Mr. STEVENSON. Of course.

Mr. LORD. To protect any failing bank.

Mr. STEVENSON. At least you would go far enough to see if it was necessary to levy an assessment?

Mr. LORD. Yes, sir.

Mr. STEVENSON. The assessment would be levied by the State authorities on the stockholders of the group company?

Mr. LORD. Yes, sir; or by the national authorities in the case of a national bank.

Mr. STEVENSON. Have you any authority for levying the assessment, or is it merely a matter of contract between the stockholder and the group company?

Mr. LORD. I should say it is a matter of contract with the stockholder of the group company, inasmuch as that provision is a part of the stockholder's certificate.

Mr. STEVENSON. It is part of the contract; yes, but it is purely a contractual and not a statutory liability.

Mr. LORD. That is the way I understand it.

Mr. STEVENSON. The liability on the holding company, however, is a statutory liability in Michigan, as I understand it.

Mr. LORD. The holding company takes the place of the individual stockholder and there is the further protection that the stockholder of the holding company assumes that liability.

Mr. STEVENSON. That is all.

Mr. WINGO. While I think of it, is there anything in the record to show what State your corporation is incorporated under?

Mr. LORD. Under the laws of Michigan.

The CHAIRMAN. Mr. Beedy, you are next.

Mr. BEEDY. Of course, I can not ask any questions, because I did not hear the original statement.

The CHAIRMAN. Mr. Letts, you are next.

Mr. LETTS. Mr. Lord, can you tell us how many banks you have in the State of Michigan?

Mr. LORD. We have 27 banks and/or trust companies.

Mr. LETTS. I do not mean your group.

Mr. LORD. How many there are altogether?

Mr. LETTS. Yes.

Mr. LORD. I can not answer that question.

Mr. LETTS. Do you happen to know how many national banks there are?

Mr. LORD. No; I do not know. I can give you the total resources, but not the number of banks themselves.

Mr. LETTS. Then tell me how many banks there are, State and national, in the city of Detroit, including branches. How many banking places or banking offices are there in the city of Detroit?

Mr. LORD. I can not tell you that; they have been closing branches so rapidly.

Mr. LETTS. You can approximate it, of course.

Mr. LORD. I should say that there are, including our own group, between 250 and 275 places doing a banking business; probably nearer 300.

Mr. LETTS. How many banks do you have in your group in the city of Detroit?

Mr. LORD. We have the Guardian Detroit Bank, National Bank of Commerce, Bank of Detroit, Michigan Industrial Bank, Union Trust Co., and the Guardian Trust Co.; and the Guardian Trust Co. and Union Trust Co. have been consolidated into the Union Guardian Trust Co., a single institution.

Mr. LETTS. Are there other banks there as large and as strong as these?

Mr. LORD. Yes, sir. In the metropolitan district of Detroit, the Guardian Detroit Union group represents deposits of about $290,000,000; the Detroit bankers group represents deposits of approximately $560,000,000; and miscellaneous banks represent deposits of approximately $165,000,000.

Mr. LETTS. I notice in your statement that on March 27 just past, your group controlled 2 joint-stock land banks, 9 security companies, and 1 title guaranty company, as well as 2 building companies and 1 safety deposit company. Tell us what these security companies are.

Mr. LORD. The security companies are the Bancdetroit Corporation, which was a subsidiary of the Bank of Detroit, having a capital stock of $1,000; the Guardian Detroit Co., which is a securities company, having a capital stock of $5,000,000; the Guardian Holding Co., which has a present capital of $1,000,000; Keene-Higbie & Co., having a capital of $1,000,000; Grand Rapids National Co., having a capital of $40,000; Union & Peoples Co. of Jackson, with a capital of $70,000; the F. N. B. Securities Co., Kalamazoo, with a capital of $150,000; and the Guardian Detroit Co. of California, with a capital of $10,000.

Mr. LETTS. Were all of these security companies in existence at the time your group was started?

Mr. LORD. Yes, sir.

Mr. LETTS. Were they affiliated with some of these companies that are now in your group?

Mr. LORD. They were all affiliated when our group was put together.

Mr. LETTS. With some one or other?

Mr. LORD. With one or another.

Mr. LETTS. What is the nature of the business done by these companies?

Mr. LORD. The purchase and sale of bonds and investment stocks.

Mr. LETTS. Now, coming to the title guaranty company, is that the only title guaranty company in Detroit?

Mr. LORD. No, sir.

Mr. LETTS. How many are there?

Mr. LORD. There are two.

Mr. LETTS. Is this a strong company, or an old company?

Mr. LORD. Yes, sir; it has been in business for quite a number of years.

Mr. LETTS. You mentioned two building companies. What business do they engage in?

Mr. LORD. Those corporations are merely corporations for the purpose of owning the bank buildings, which are office buildings.

Mr. LETTS. They do not deal in real estate?

Mr. LORD. No, sir.

Mr. LETTS. I suppose that this safety-deposit company does the kind of business that its name indicates?

Mr. LORD. Yes, sir.

Mr. LETTS. Do you see a possibility of controlling many lines of business that are not banking in nature?

Mr. LORD. I do not see any possibility of controlling them; no. These securities companies are in business to buy and sell investments.

Mr. LETTS. I see on page 13 of your statement that you mention as one of the advantages to be gained by the group system the fact that the group provides contact with innumerable types of business and cooperation in developing new business for clients.

Just what do you mean by that?

Mr. LORD. We have on the books of the Guardian Detroit Bank a great many accounts of steel corporations all over the country. They want contact with the manufacturer and the users of steel, and we can give them that contact. We can not sell their goods, but we can open doors for them.

Mr. LETTS. Can you close doors for them? That is the thing I am interested in. Do you see any real danger that groups may close the doors of industry?

Mr. LORD. No, sir.

Mr. LETTS. In other words, one of the fears that I have is that the groups may become so strong that it may be practically impossible for men going single handed and alone to finance their affairs unless they submit to the will of those that control the banking policies of the community.

Mr. LORD. Mr. Letts, I do not know of any bank, in the years I have been in them, that has not been willing to loan to an individual or a corporation where that individual or corporation is entitled to credit. A bank must prosper on service to its customers.

Mr. LETTS. Is there such a thing as favoritism at times?

Mr. LORD. Not in our institutions.

Mr. LETTS. Very often there is quite distinct rivalry between enterprises in the same line of business, and it is quite conceivable that one might prosper because of the favoritism that is extended to him by those in control of banking, to the detriment of the other. That is true; is it not?

Mr. LORD. It is possible, but not probable. We can not in the banking business take sides, favoring one customer as against another, so long as our relationship with both customers has been a satisfactory one.

Mr. LETTS. In reading a prospectus of, I think, the Transamerica Corporation, or perhaps it was a statement by the Los Angeles Board of Trade in a report that they had made covering the state of the operations of that corporation and its possibilities, it was said that they would have the opportunity to divert large quantities of business to their companies, and illustrated that by saying that they could divert tremendous amounts of insurance to their insurance company, which is one of the industries that they further. Do you see any danger in that policy?

Mr. LORD. There might be, although I am not close enough to that to know.

Mr. LETTS. You have been in existence about 10 months?

Mr. LORD. As a group; yes.

Mr. LETTS. As a holding company?

Mr. LORD. Yes, sir.

Mr. LETTS. Directing the policies of the banks under your control?

Mr. LORD. Advising with the banks.

Mr. LETTS. Yes, of course; but you expect that advice to be accepted?

Mr. LORD. It is not always accepted.

Mr. LETTS. But it is natural that it would be?

Mr. LORD. It is listened to.

Mr. LETTS. Yes, of course; it ought to be.

Well, 10 months is not a very long time; and, yet, no doubt, because of the success with which you have met, you are looking ahead. Are you thinking of other possibilities than banking? Have you ever considered the possibility of an insurance company—fire, life, or accident?

Mr. LORD. We have, and discarded it.

Mr. LETTS. Why did you discard it?

Mr. LORD. Because it is quite apart from the banking business.

Mr. LETTS. It was said in this report of the Los Angeles Board of Trade that the Transamerica Corporation expected to handle real-estate transactions in the State of California. I do not pretend to quote from it, but I think that is the substance of it; and they do have a company that depends upon commissions from the sale of real estate and on making trades.

Have you thought of a possibility of that kind?

Mr. LORD. We have, and we felt that the outside broker can do it better than we can when it comes to the sale of real estate, and the only real estate we own (except our buildings) is what we may have to take under foreclosure.

Mr. LETTS. Is it your policy, then, to limit your operations to the holding of bank stocks and the developing of banking policies?

Mr. LORD. Yes, sir; so far as the group company is concerned.

Mr. LETTS. I am speaking of the group company.

Mr. LORD. Yes, sir.

Mr. LETTS. You say that yours is a mixed condition, group and branch?

Mr. LORD. It is a group of branch banking institutions.

Mr. LETTS. But not entirely?

Mr. LORD. Not entirely; no. There are some without branches.

Mr. LETTS. Now, I suppose that Detroit is the banking center of your State?

Mr. LORD. Yes, sir.

Mr. LETTS. And naturally you have an interest in the smaller communities of the State; you would like to see the smaller communities provided with suitable banking facilities?

Mr. LORD. Yes, sir.

Mr. LETTS. I understand that it is your judgment that those facilities can be furnished best by going to the branch system?

Mr. LORD. Yes, sir.

Mr. LETTS. In other words, you think that the strong banks which form your group could render a better service to the varied communities of your State if they were permitted to establish in those communities branches which would approximate the needs of the communities?

Mr. LORD. Yes, sir.

Mr. LETTS. Do you feel that this policy is one which will destroy individual initiative?

Mr. LORD. No, sir. Are you speaking of the person or the corporation?

Mr. LETTS. I am speaking of persons now.

Mr. LORD. Far from it.

Mr. LETTS. Can it do other than to encourage initiative within your group? It would destroy competition without the group, would it not?

Mr. LORD. I think it would encourage initiative within the group. Banking talent, banking brains, are scarce, and the opportunities are greater in an organization such as this than they ever can be in small unit banks.

So far as discouraging competition is concerned, as long as the banking business can be done safely and at a profit there is going to be competition. Neither you nor I nor anyone else can keep it out.

Mr. LETTS. Did you have bad times in Michigan, comparable in any way with those we experienced in Iowa?

Mr. LORD. No, sir.

Mr. LETTS. Did you lose any of your banks up there?

Mr. LORD. I believe the record shows that 66 banks failed during the period covered by Mr. Pole's testimony, in nine years.

Mr. LETTS. Do you now have more banks than are needed throughout the State, would you say?

Mr. LORD. In some communities, yes; and there is a very considerable duplication of branches throughout the city of Detroit. There may be three and four different branches within two blocks.

Mr. LETTS. How many groups have you in the State of Michigan?

Mr. LORD. I can not recall. Mr. Pole's testimony shows it, I think.

Mr. LETTS. How many do you have in Detroit?

Mr. LORD. There are three so-called groups in Detroit.

Mr. LETTS. There are some not located in Detroit up there, are there?

Mr. LORD. I believe so.

Mr. LETTS. Is there harmony among the three Detroit groups, or is there competition in a live sense?

Mr. LORD. There is very keen competition.

Mr. LETTS. The feeling, I suppose, is good, however?

Mr. LORD. Entirely friendly; but take the other fellow's business if you can get it.

Mr. LETTS. There is just one other thing that I had in mind. You have acquired the stocks that you possess largely by transferring the stock of the holding company in exchange?

Mr. LORD. Yes, sir.

Mr. LETTS. At what value did you exchange the stock of the holding company for the stock of the unit banks?

Mr. LORD. It depended on the bank itself, but in general we matched actual value of group shares for actual value of unit bank shares, and our earnings against their earnings. In other words, our examiners would go into a unit bank prior to our proposal of exchanging stock and make a careful examination of the bank and set up reserves that the examiners considered were necessary to show the actual value of the shares of that bank.

Mr. LETTS. You tried to maintain a parity, I suppose, as to the value that you sought to get?

Mr. LORD. Yes, sir.

Mr. LETTS. What was that? Was it approximately $20 par, or more?

Mr. LORD. No. The actual value of the group company shares was somewhere between $55 and $56 per share of $20 par value.

Mr. LETTS. Now, in your own bank——

Mr. LORD. The Guardian Detroit Bank.

Mr. LETTS (continuing). How did you arrive at the ratio of exchange in that instance? That, I suppose, was the first one or one of the first?

Mr. LORD. That was the first. The Guardian Detroit Bank stock carried with it, for each share of bank stock, as a part of the certificate itself, one-fifth of a share of stock of the trust company and one share of stock of the securities company. The book value of that Guardian Detroit Bank share, carrying with it the other two interests, when it was $100 par value, was approximately $280. That was exchanged for five shares of group stock, $20 par value.

Mr. LETTS. And that was arrived at by just figuring values?

Mr. LORD. It made no difference to the stockholder; he held exactly what he held before, so far as proportionate interest is concerned.

Mr. LETTS. I want to ask you as to your judgment as to whether or not it is a wholesome thing for the country that banks are connect-

ing with their institutions security companies, trust companies, and that sort of thing?

Mr. LORD. Yes, sir.

Mr. LETTS. They are largely doing the trust business of the country. Do you think that that is a wholesome thing?

Mr. LORD. I do, sir. I think they are better qualified to do it than the average individual.

Mr. LETTS. Do you see any danger incident to the policies that prevail throughout the country in managing securities companies?

Mr. LORD. No, sir.

Mr. LETTS. Have you solicited the banks that you connected with your group, or have they come to you?

Mr. LORD. We have solicited some, and some have come to us.

Mr. LETTS. How many have applied to you for affiliation with your group?

Mr. LORD. It is pretty hard to answer that. Many have applied to us that we have not taken in. In fact, we have had an entire group apply to us.

Mr. LETTS. Do you find that often it is desired that someone from Detroit, somebody connected with the holding company, should go on the board of directors or take a position as an official in the unit banks?

Mr. LORD. Some of them have insisted upon it; they wanted the help of an operating officer and asked to have that officer on the board.

Mr. LETTS. I believe that in your set-up, 75 per cent of the members of the board must be local?

Mr. LORD. Must be local, or must reside within 50 miles, the same as under the national bank law.

Mr. LETTS. Why is that necessary?

Mr. LORD. It would be necessary in our national bank units under the law. In our State bank units it would not be necessary, but we wanted to keep the local units local so far as possible.

Mr. LETTS. Well, leaving out of consideration the requirements of the law, is it desirable?

Mr. LORD. I think it is.

Mr. LETTS. Why would you think it is desirable?

Mr. LORD. Because we want the interest of the local people kept in the banks.

Mr. LETTS. And you think you get that better by having it known as their bank?

Mr. LORD. I do, sir.

Mr. LETTS. Rather than a Detroit bank?

Mr. LORD. I do. I think I would like to state in passing that the boards of directors of the local units banks, far from being dummy directors, are taking greater interest in the operation of their banks than they did before the banks were members of the group.

Mr. LETTS. Mr. Lord, have you been approached to become a part of some larger plan than yours?

Mr. LORD. No, sir.

Mr. LETTS. Or a plan that might cover the country?

Mr. LORD. No, sir.

Mr. LETTS. And extend through other States than Michigan?

Mr. LORD. No, sir.

Mr. LETTS. You have not had any such contact?

Mr. LORD. That is, not by a group or corporation that would take us over; no. We have been approached by other banks and other smaller groups that wanted to come into our system.

Mr. LETTS. Yes; I understand that, but I meant by an interest larger than yours that would like to associate you with other groups comparable in size and strength with yours?

Mr. LORD. No, sir.

Mr. LETTS. That is all.

The CHAIRMAN. Mrs. Pratt.

Mrs. PRATT. Mr. Chairman, Mr. Lord's statement is so comprehensive that I find that many of the questions that have arisen in my mind have been answered as he read his statement, but I would like to get this clearly in mind: Mr. Lord, your holding company, I think you mave made very clear, is not a bank, does not do any banking business, and is not in a parent position, is it, to the banks in that group? You do not attempt to control?

Mr. LORD. Only own them; not control them or operate them.

Mrs. PRATT. Have you formed sort of a liaison between the different unit banks?

Mr. LORD. Yes.

Mrs. PRATT. Would you attempt, for instance, to advise the transfer of funds from one bank to the other, or, rather, transfer the credits if you knew that one bank in your group could not meet the borrowing that it was called upon to meet of some depositor or other person? You would be in position to advise them that some other bank in your group could help them, would you not?

Mr. LORD. We would.

Mrs. PRATT. And you would do that?

Mr. LORD. We have done it many times.

Mrs. PRATT. Have you attempted in any way to control the type of security?

Mr. LORD. No; they buy their own securities.

Mrs. PRATT. I meant the security that the borrower must give.

Mr. LORD. Not through the group company. Each bank prescribes its own collateral.

Mrs. PRATT. In your position as more or less of an adviser, would you feel that you are in position to criticize certain types of collateral?

Mr. LORD. We would feel entirely free to criticize any type of security and advise the unit bank as to our opinion of such security.

Mrs. PRATT. And you would feel that your advice should prevail if they did not agree with you as to what was considered suitable?

Mr. LORD. If they thought they knew more about it than we, that would be their party.

Mrs. PRATT. Do you feel that your system of group banking is meeting the necessity for sounder banking facilities in the smaller communities?

Mr. LORD. We do not go in very small communities. Ionia and Niles, Mich., are the smallest communities in which we are located, of about 10,000 people.

Mrs. PRATT. Then you do not really cover the Federal reserve district?

Mr. LORD. No. We are in the seventh district, and that includes Chicago, Milwaukee, and quite a substantial number of large cities. We do not go outside of the State of Michigan, so far as our banks and trust companies are concerned.

Mrs. PRATT. Do you anticipate any further merging of groups in your communities——

Mr. LORD. I hope not.

Mrs. PRATT (continuing). Where you would ultimately be in control of the banking business?

Mr. LORD. No. We have had numerous opportunities in some of the communities in which we own units to buy all of the stocks of banks in the community, but we did not want it; we want competition

Mrs. PRATT. I think you said that in Detroit there were two other large groups.

Mr. LORD. We are the second in size; not the first.

Mrs. PRATT. And there is a third?

Mr. LORD. There is a third and smaller group.

Mrs. PRATT. You have no thought in mind of those large groups merging into one great monopoly?

Mr. LORD. I think not. If that were done, there would immediately start up in Detroit new banks that would compete.

Mrs. PRATT. I think that is all.

The CHAIRMAN. Mr. Busby.

Mr. BUSBY. In order to follow up the questions that Mr. Letts asked, I want to make this statement which I gathered from Governor Young's testimony, that there are 109 banks in Michigan that belong to groups or chains which do not operate branches, 26 banks belonging to groups or chains which operate 353 branches, as well as 36 banks that do not belong to groups or chains but which operate 86 branches. There are also 572 additional independent banks, making a total of 1,182 banks in your State.

Now as to your statement of a moment ago that you had not gone into cities of less than 10,000 inhabitants—

Mr. LORD. Except the seven small banks that are mentioned in the report, in agricultural communities.

Mr. BUSBY. Do you find that it is not desirable under your system to go into those places that are smaller than 10,000 in population?

Mr. LORD. I do not believe that a bank can survive in a small town over a period of years.

Mr. BUSBY. Do you believe that a bank will survive reasonably well in a town smaller than 10,000 people?

Mr. LORD. It will have in my opinion to have exceptionally able management.

Mr. BUSBY. What would be your suggestion in the way of affording banking facilities to places having a population smaller than 10,000?

Mr. LORD. Branch banking.

Mr. BUSBY. Do you think branch banking would be the desirable method of furnishing banking service to practically all places with a population of less than 10,000 inhabitants?

Mr. LORD. Yes.

Mr. BUSBY. You spoke awhile ago of the method that your holding company followed in transacting its business, and the manner in

which it dealt with the several banks in your system, and your statement made this morning uses the term "recommended policy" that is arrived at by one certain group of your managers under the owning company.

What do you mean specifically by "recommended policy"?

Mr. LORD. This might be a recommended policy that a bank should not have over 50 per cent of its assets or loanable funds in securities based upon real estate, and we might have one, two, or three units that went above that percentage.

Mr. BUSBY. Is your "recommended policy" so worked out that it applies to the several banks individually, or is it a class action?

Mr. LORD. I think each unit would have to be taken into consideration, and the nature of the business in that community would have to be considered.

Mr. BUSBY. Then your board that defines the recommended policy would take up each individual unit in your system and adopt a recommended policy for that banking institution, if I understand you?

Mr. LORD. Yes, sir.

Mr. BUSBY. Now, are your examiners acquainted with the recommended policies for these several banks?

Mr. LORD. Probably the recommended policies are based upon the examination of the examiners.

Mr. BUSBY. I know, but when your examiners go out from the holding corporation to a unit bank are they made acquainted with the recommended policy for the handling of the business in that bank so that they can, in the light of that policy, better make a true and proper examination of the bank?

Mr. LORD. Yes, sir.

Mr. BUSBY. What happens if the directors of that bank refuse to follow the recommended policy for the bank as declared by the board that promulgated that policy, after an inspection has been made and it is disclosed that the directors of this local institution have refused to adopt the recommended policy?

Mr. LORD. They never have refused.

Mr. BUSBY. They never have refused? That is what I was getting at.

Mr. LORD. Because the recommended policies are based upon sound banking.

Mr. BUSBY. I understand that, of course.

Now, the trouble about the whole situation is that you have an ironclad method of doing business with each one of these several banking institutions through a recommended policy and your system of examination, do you not?

Mr. LORD. Mr. Busby, we do not have an ironclad fist or anything of that nature. For instance, one of the banks in the group has shown that it can operate its own bank as it pleases; it uses one of our competitors in Detroit as its principal Detroit correspondent, rather than us.

Mr. BUSBY. What do you assign as a reason for that?

Mr. LORD. Because they happen to have done business with that bank for a great many years and there is a certain sentiment attached to it, and if they want to continue it, it is all right with us.

Mr. BUSBY. You have no recommended policy for that bank along that line, have you?

Mr. LORD. We have not recommended a policy for that bank.

Mr. BUSBY. But if you recommended a policy to the contrary they would not dare to do that, would they?

Mr. LORD. We would not recommend it for a reason like that, because that is sound banking whether they take us or our competitor in Detroit as the correspondent.

Mr. BUSBY. This morning you stated that you were more "hard boiled" with your trust subsidiaries——

Mr. LORD. Securities companies.

Mr. BUSBY. Yes, securities companies—then you were with some disconnected security company that came to your bank for credit?

Mr. LORD. Yes.

Mr. BUSBY. Who does that act of being "hard boiled"?

Mr. LORD. I do.

Mr. BUSBY. You do?

Mr. LORD. Yes, now.

Mr. BUSBY. As the president of the holding company?

Mr. LORD. As the president of the Guardian Detroit Bank and of the holding company.

Mr. BUSBY. Suppose that they did not come to your bank but went to one of your other independent units; you would likely hear about it, would you not?

Mr. LORD. I know where the securities companies are borrowing their money. That is my business to know.

Mr. BUSBY. And you would certainly hear about that?

Mr. LORD. Yes

Mr. BUSBY. And yet you are the president of the holding company and not the manager of the banks; is that right?

Mr. LORD. Yes, sir.

Mr. BUSBY. But the fact is that you are indirectly the manager of all of these banks when it comes to making big transactions and putting out loans that are of unusual size, are you not?

Mr. LORD. No; I think I am merely the adviser.

Mr. BUSBY. Adviser?

Mr. LORD. Yes, sir.

Mr. BUSBY. With more than the usual emphasis upon that word, though, are you not?

Mr. LORD. I do not think so.

Mr. BUSBY. I find that while there are 610 banks in your State, a few of which are not in the area in which you operate, that are connected with the chain, group, and branch banking activities with yourself and others, there are 572 banks that are running and operating independently of any group, branch, or chain system. You say it is not your purpose to take over any more of those small banks?

Mr. LORD. No; I did not say that.

Mr. BUSBY. The fact is, that you have not taken any banks in small places, is it not?

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

Mr. BUSBY. You said that it was not your purpose to take over and that you had not taken over any except those that are making money. You said that, did you not?

Mr. LORD. That was the idea.

Mr. BUSBY. Well, they did not particularly need your protection, did they? They were making money and on a sound basis.

Mr. LORD. We did not take them over for their protection.

Mr. BUSBY. What did you take them over for?

Mr. LORD. To help build them up.

Mr. BUSBY. Did you not take them over to help you build up a strong banking institution in that section of the country, with which to make dividends?

Mr. LORD. Maybe; that may have been one of the reasons, yes.

Mr. BUSBY. Your institution is not so altruistic that it is going out for any other purpose than to make dividends, to make money, is it?

Mr. LORD. We can not prosper unless we do operate on a more or less altruistic basis so far as service to the customer at proper rates is concerned.

Mr. BUSBY. You have to show a certain amount of consideration to the trade, or the trade will not patronize you. I grant that.

Mr. LORD. Certainly.

Mr. BUSBY. But the ultimate purpose is the one I asked about?

Mr. LORD. Yes, sir.

Mr. BUSBY. You say that these banks, unless there is an unusual condition, can not make money in cities or towns of less than 10,000 population, and yet you do not think it is feasible for you—and, of course, you would not think it was feasible for others in the same line of operation that you are engaged in—to take them over. So what do you see left for them to do but to liquidate?

Mr. LORD. There are many communities in which the Guardian Detroit Union Group would be glad to establish branches.

Mr. BUSBY. Then you would not have all of those 572 banks go broke, or any appreciable number of them, because they were left out in the cold by the group organizations?

Mr. LORD. No.

Mr. BUSBY. What solution do you have for those particular cities, and how would you take care of them?

Mr. LORD. Branch banking would solve it.

Mr. BUSBY. Are you asking that a system be established that will compel branch banking in the field in competition with you?

Mr. LORD. No; that it be permitted, not compelled.

Mr. BUSBY. What if they did not take to it any more than you have taken to it?

Mr. LORD. You mean, to the communities?

Mr. BUSBY. To the smaller banks, the 572 that are operating independently of any branches.

Mr. LORD. Mr. Busby, a bank of limited size could be profitably operated as a branch, whereas it might not be possible to make even expenses operating it as a separate unit.

Mr. BUSBY. But you certainly would not think that a system which would continue 572, or even half that number of independent banks, especially those in towns of 5,000 or 6,000 people, as banking institutions on an independent basis, was feasible, would you?

Mr. LORD. If branch banking were permitted——

Mr. BUSBY. I am not asking you that.

In other words, your knowledge of banking operations would not lead you to, say, that independent banks in towns of 4,000, 5,000, 6,000,

or 7,000 people should be encouraged to continue as they have done in the past? That is what I gathered from your statement.

Mr. LORD. I think that the record of failures in towns of that size would indicate that they can not continue on and continue profitably.

Mr. BUSBY. Your State has not such a bad record for failures, has it?

Mr. LORD. My State has an unusually good record.

Mr. BUSBY. In 1921 it had eight failures.

Mr. LORD. Yes.

Mr. BUSBY. And in 1922 it had 4; in 1923 it had 3; in 1924 it had 7; in 1925 it had 5; in 1926 it had 3; in 1927 it had 7; in 1928 it had none; and in 1929 it had 9—66 in all.

Mr. LORD. Why should it have had nine failures in 1929? With branches or group banking or a combination of the two, there should have been no failures in Michigan.

Mr. BUSBY. One reason is that which you spoke of awhile ago—somebody stealing $1,200,000—and, of course, the bank would have gone broke had it not been for the intervention which followed. Then, they will go broke for the same reason as that reported in to-day's paper in connection with a Texas bank, involving a steal by officers of the bank of over $1,000,000.

Dishonesty and bad management are reasons for the failure of banks.

Mr. LORD. A strong group, properly supervised, could protect the community against failure, even against a defalcation of that size.

Mr. BUSBY. But you will admit that 66 failures is a very small percentage, considering the fact that Michigan had 1,182 banks?

Mr. LORD. It has had a very wonderful record.

Mr. BUSBY. Why, then, do you make your statement that they can not safely operate as independent banks?

Mr. LORD. I did not say safely; I said profitably.

Mr. BUSBY. You say profitably?

Mr. LORD. Yes, sir.

Mr. BUSBY. Do you think the depositors are reasonably safe in those banks?

Mr. LORD. If the bank is reasonably well managed, yes.

Mr. BUSBY. Now, your investment companies, as you call them——

Mr. LORD. Yes.

Mr. BUSBY (continuing). Are engaged in buying and selling bonds, and in the general financial investment business?

Mr. LORD. Yes, sir.

Mr. BUSBY. Is that a more hazardous financial business for the institution than straight banking?

Mr. LORD. No; I do not think so. Their earnings may fluctuate up and down more than the ordinary banking or trust business.

Mr. BUSBY. If I recall, Mr. Wakefield seemed to express himself that it was much more hazardous, and Mr. Decker stated positively that it was much more hazardous than the ordinary banking business. What is your view on the subject?

Mr. LORD. I do not see why it should be.

Mr. BUSBY. It is only in recent years that that class of business has been coupled with banking, is it not?

Mr. LORD. Banks have had investment departments for many, many years. I worked for a bank in Chicago when I went to work

in 1906, where the biggest part of its business was the investment business.

Mr. BUSBY. It has all grown up in the last 25 or 30 years, practically. Does it not appear to you that that type of banking activity, where the work is done under high pressure, is tending largely to place many investment bonds and securities in the field to-day?

Mr. LORD. Banks have certainly a very large distribution of investment securities; yes.

Mr. BUSBY. Does your holding company have any syndicates for the underwriting of security issues?

Mr. LORD. The securities companies have; not the holding company.

Mr. BUSBY. Well, they are owned by the holding company, are they not?

Mr. LORD. Yes, sir; just as the banks and trust companies are owned by the holding company.

Mr. BUSBY. Do you not think that that all tends to greatly inflate the credit of the country beyond the actual commercial needs of the country?

Mr. LORD. Why should it? If the banks——

Mr. BUSBY. To answer you, it has. Now, why did it?

Mr. LORD. If the banks do not supervise and handle securities and advise their customers independent so-called investment houses are going to sell to those customers. Would you not rather have the public get advice from the banker than perhaps some other advice?

Mr. BUSBY. Do you think that the advice of the bankers and of the officers of trust and investment companies has helped the public in the last two or three years?

Mr. LORD. Yes, sir; I do.

Mr. BUSBY. Do you not think that the banks and underwriting syndicates, with their agents going up and down these corridors and into every nook and corner where they thought they could interest somebody in buying a security or a stock, and by selling to many people who knew nothing about the stocks or the securities but who hoped that the stock market would go up and that they could sell at a better price than that at which bought, have done a great injury to the finances of this country in the last two or three years?

Mr. LORD. I do not think that the banks, generally speaking, advised the public to go in and buy stocks, either for cash or on margin, during the past two years or at any time.

Mr. BUSBY. Do you not know that the underwriting syndicates employ high-powered stock salesmen to go among the people everywhere they think they can sell stocks, and that these solicitors do not carry with them the knowledge that the bank possesses concerning the validity or the desirability of those securities?

Mr. LORD. Are you speaking of securities companies affiliated with their banks?

Mr. BUSBY. Yes.

Mr. LORD. Or independent brokers and security dealers?

Mr. BUSBY. I refer to the securities companies affiliated with their banks.

Mr. LORD. I think, generally speaking, that securities companies affiliated with banks or trust companies are very conscientious about what they are recommending for investment by the public.

Mr. BUSBY. Do they not employ agents to go out and solicit individuals?

Mr. LORD. Yes.

Mr. BUSBY. How do you expect these solicitors to carry all of this expert information to the individual?

Mr. LORD. Before the securities company connected with the bank buys securities for sale, the salesmen do not examine the securities and purchase them, but the heads of the organization pass on them as to their value and safety, and the salesman is the one who goes out to sell them.

Mr. BUSBY. And he is not very particular about giving the purchaser inside information, is he, or anything except a glowing account of the possibility of the stock?

Mr. LORD. I do not know that banks use the high-pressure method that you are speaking about, or bank securities companies. We do not.

Mr. BUSBY. But you employ agents to go out among the people, do you not?

Mr. LORD. Salesmen; yes.

Mr. BUSBY. I believe that is all.

The CHAIRMAN. Mr. Dunbar.

Mr. DUNBAR. Mr. Lord, on page 3 of your statement you say that your stockholders of the Guardian Detroit Bank have the same number of shares of stock in that bank as in the Guardian Detroit Co., and that they have one-fifth of the number of shares in the Guardian Trust Co. Is the Guardian Trust Co. larger than the other two companies?

Mr. LORD. Mr. Dunbar, that was the original corporate set-up of the Guardian Detroit Co., Guardian Trust Co., and Guardian Detroit Bank. It does not apply to the present organization, or what we term the group company.

Mr. DUNBAR. I know, but do you have a larger number of stockholders or a larger capital stock in the Guardian Trust Co. than you have in the other two?

Mr. LORD. No, sir. The Guardian Trust Co. had $1,000,000 capital and $1,000,000 surplus. The Guardian Detroit Bank had $5,000,000 capital and $3,000,000 surplus; and the Guardian Detroit Co. had 50,000 shares originally of no par value stock, $35 per share, paid in.

Mr. DUNBAR. But the shares of stock in all three of them so allocate themselves that a man can have an equal number of shares in the Guardian Detroit Bank, the Guardian Detroit Co., and one-fifth of the stock in the Guardian Trust Co.?

Mr. LORD. They could have before those three institutions became affiliated with the present group company. You could not separate one from the other.

Mr. DUNBAR. Now, in answer to a question by Mr. Letts, you said that there was a keen competition between these companies. I do not see how you could have keen competition.

Mr. LORD. He asked about the other companies in Detroit, Mr. Dunbar, the other banks.

Mr. DUNBAR. But there is no keen competition.

Mr. LORD. Between our own companies?

Mr. DUNBAR. Yes.

Mr. LORD. No, sir.

Mr. DUNBAR. That is what I thought. I did not see why there should be.

On page 6 of your statement I note that 75 per cent of the directors of one of your unit banks must come from the municipality in which that bank or trust company is located.

Mr. LORD. Yes, sir; or within 50 miles of it.

Mr. DUNBAR. They are all stockholders in the parent company, are they?

Mr. LORD. They are also stockholders in the old, original unit.

Mr. DUNBAR. In the selection of these people you dictate to them, do you not?

Mr. LORD. We never have changed the boards from the way they came to us.

Mr. DUNBAR. But you decide their reelection?

Mr. LORD. As a majority owner of the stock.

Mr. DUNBAR. To what extent do you dictate to them in managing the bank? I understood you to say you did not dictate to them.

Mr. LORD. We do not.

Mr. DUNBAR. Suppose that you got hold of a wild set of directors?

Mr. LORD. We would get a new set.

Mr. DUNBAR. How would you get them? They are elected for a year, are they not?

Mr. LORD. At a special stockholders' meeting.

Mr. DUNBAR. You could depose them, could you?

Mr. LORD. Yes, sir.

Mr. DUNBAR. This is not in the nature of a criticism, but, with the consent of your directors, are you not really the czar of the whole system?

Mr. LORD. I do not think so.

Mr. DUNBAR. Do you think that any of these directors in any of these other banks would dare to disobey your wish?

Mr. LORD. They have, in some instances.

Mr. DUNBAR. Did it turn out that they were right?

Mr. LORD. Sometimes.

Mr. DUNBAR. Then you are a wise person, one who, when anyone disagrees with you and they turn out to be right, does not "hop" them for it; do you?

Mr. LORD. Sometimes.

Mr. DUNBAR. Now, suppose that you got all wrong; then the whole system is going to be all wrong; is it not?

Mr. LORD. If I go all wrong, the board of directors of the group company would have me out before I could go very far wrong.

Mr. DUNBAR. But suppose that you are elected for a year; they could not put you out before a year?

Mr. LORD. Yes; they could. We have a directors' meeting every three months, and a special meeting could be called and I could be thrown out in two days.

Mr. DUNBAR. Well, the point I was trying to bring out is this, that it is a bad thing for this country when you find its people being driven for a living, when they have to bow and to get upon their knees. I do not know what is going to become of us; in-

dividuality is going away. That is my principal objection to your system, that individuality and personality are being developed less and less, and after awhile people will not have minds of their own because they will be depending on the dictators above them.

Mr. LORD. I do not think so, in this country.

Mr. DUNBAR. All right. I hope you are right.

Now, suppose that you owned a bank in Wyandotte that went broke; all of the depositors would be secured under your system, would they not?

Mr. LORD. To the extent of the resources of the group company, and, in turn, the assessment that might be levied upon the stockholders of the company.

Mr. DUNBAR. Not any more?

Mr. LORD. Unless they kept on levying 100 per cent assessments.

Mr. DUNBAR. You would not, as a group head, assist them in any way?

Mr. LORD. We certainly would.

Mr. DUNBAR. In what way would you assess them?

Mr. LORD. Putting up the money.

Mr. DUNBAR. Then, getting back to my question, would the depositors in that bank be secure?

Mr. LORD. Mr. Dunbar, it would depend upon the size of the bank, but a bank in Wyandotte would be so small that it would be very easy to take care of the depositors.

Mr. DUNBAR. But your depositors in a group bank would not have very much more assurance of receiving their money than if they were in a unit bank?

Mr. LORD. They would have $81,000,000 back of it as against the $500,000 or whatever the capital might be of the Wyandotte bank.

Mr. DUNBAR. You say that the capital of the Wyandotte bank is $85,000,000?

Mr. LORD. Wait a minute. I do not know what the capital is.

Mr. DUNBAR. Let us suppose that you have a bank in Chicago that has a capital of $85,000,000, and it fails. To what extent would you in Detroit help them?

Mr. LORD. To the extent of our ability.

Mr. DUNBAR. What is the size of your largest bank?

Mr. LORD. The largest bank we have has a capital of $5,000,000, a surplus of $6,000,000, and undivided profits of about $1,500,000.

Mr. DUNBAR. What bank is that?

Mr. LORD. The National Bank of Commerce.

Mr. DUNBAR. You mentioned $85,000,000. Suppose that you had a branch bank at Lansing, with $500,000 capital?

Mr. LORD. Yes, sir.

Mr. DUNBAR. And that it had $2,000,000 on deposit, and it failed. Your double liability would not amount to nearly $2,000,000. After selling your assets, there might be a deficiency of $1,000,000. Would there be any hope of those people getting money from your system?

Mr. LORD. We could not afford, from the standpoint of the standing of the group, to allow any bank to fail.

Mr. DUNBAR. You would pay the $1,000,000, would you?

Mr. LORD. Probably would.

Mr. DUNBAR. Then you practically, although you do not specifically say so, guarantee the deposits of any bank that might fail?

Mr. LORD. To the extent of our financial ability to do so.

Mr. DUNBAR. But suppose that you did not have that financial ability?

Mr. LORD. We would still have the 100 per cent assessment available.

Mr. DUNBAR. Which is the same as all other banks of the country?

Mr. LORD. Yes.

Mr. DUNBAR. You do not go into cities of less than 10,000 population, do you?

Mr. LORD. Approximately that.

Mr. DUNBAR. Now, then, if all of our failures, or at least 95 per cent of them, occur in banks having less than $25,000 capital and in towns of 1,000 population and less, you do not run any risk by not going into that kind of a community, do you?

Mr. LORD. Not without being allowed to do branch banking.

Mr. DUNBAR. But you do do branch banking?

Mr. LORD. In the big communities.

Mr. DUNBAR. You are growing into a branch banking system, are you?

Mr. LORD. Modestly.

Mr. DUNBAR. The impression you gave us is that branch banking must take care of the business in these small towns, and you want to take the cream, as it were?

Mr. LORD. It is the best way to take care of it, in my opinion.

Mr. DUNBAR. I am asking for information more than anything else. Now, in these smaller towns you believe that we should have branch banking?

Mr. LORD. Yes, sir.

Mr. DUNBAR. Do you think you will engage in it?

Mr. LORD. To a reasonable extent; yes, sir.

Mr. DUNBAR. Then, the branch banks in those cases would be subsidiaries of the holding company?

Mr. LORD. No, sir. If branch banking were permitted, and we went into branch banking, there would be no holding company; there would merely be a single bank with branches constituting our present group.

Mr. DUNBAR. I notice that some of your banks are not members of the Federal reserve system.

Mr. LORD. Yes, sir.

Mr. DUNBAR. What do you think about the Federal reserve system?

Mr. LORD. I am for it.

Mr. DUNBAR. Why do you not make these other banks members, then?

Mr. LORD. They are so small that they could get no advantage from being members. They were not members before they came into our group.

Mr. DUNBAR. We have a bank in our town that has a capital of $100,000 and a surplus of $125,000 and undivided profits of $50,000, which is not a member of the Federal reserve system because they say that they can have dealings with some bank that is a member and get all the benefits which might accrue to them. That is not right, is it?

Mr. LORD. That is true that they can.

Mr. DUNBAR. But that is not right, is it?

Mr. LORD. For a small bank, they can.

Mr. DUNBAR. Do you think that that bank is justified in not being a member of the Federal reserve system?

Mr. LORD. It make so much difference in their earnings, Mr. Dunbar, that they can not afford to join the Federal reserve system. The reserves that they would be required to carry in the Federal reserve system against their deposits, and upon which they would receive no interest, would be a great handicap to them.

Mr. DUNBAR. How much is that reserve?

Mr. LORD. It depends——

Mr. DUNBAR. There are other advantages that they get that enable the country bank to carry on its banking business, so that I think they ought to be members of the Federal reserve system and I think you ought to require your banks to be members, and the question is how many banks are going to permit members of their system not to be members of the Federal reserve system.

Mr. LORD. That question has not come up.

Mr. DUNBAR. These questions I have asked are largely for information.

Mr. LORD. We have no thought of the present members of the Federal reserve system resigning.

Mr. FORT. I hope I will not cover other matters that have been covered. I had another committee meeting this morning. If I do cover matters that have already been covered, will you please advise me, Mr. Chairman?

Mr. Lord, in looking over your statement I notice that you have a by-law that directors—75 per cent of the directors of every bank—must be residents of the community or within 50 miles of the bank.

Mr. LORD. Yes, sir.

Mr. FORT. Of course, that 50-mile limit, on the bulk, if not all of the banks of the group, permits the directors to come from Detroit?

Mr. LORD. No, sir.

Mr. FORT. Not the major part?

Mr. LORD. It would eliminate Jackson, Kalamazoo, Battle Creek, Niles, Saginaw, Flint, and Grand Rapids. It would eliminate most of them because they are more than 50 miles from Detroit.

Mr. FORT. You feel, from your own information, that, in the proper management of a group system, the directorate should be local?

Mr. LORD. Mr. Fort, I feel it so strongly that in case we were doing a branch-banking business in Michigan we would retain the board as an advisory committee for that district.

Mr. FORT. If we, here, considering this thing as a national problem, should be inclined directly or indirectly to authorize branch banking, we would be wise to insist upon the maintenance of the local directors?

Mr. LORD. I think so.

Mr. FORT. Have you ever considered the propriety, in group banking, of permitting minority stockholding interests to be represented on the directorate?

Mr. LORD. Mr. Fort, in effect, the minority has a directorate in our group.

Mr. FORT. Except, I take it, all the directors are stockholders in the Guardian Stockholding Corporation?

Mr. LORD. Yes, sir.

Mr. FORT. What I am getting at is there are some States that, in corporations, call for cumulative voting, in order to insure minority representation on the board of directors.

Mr. LORD. Yes, sir.

Mr. FORT. Can you see any objection to a thing of that sort, if we are going to authorize group banking?

Mr. LORD. Not the slightest.

Mr. FORT. Now, as a part of your organization, do your group banks loan on the stock of the holding company as collateral?

Mr. LORD. Yes, sir.

Mr. FORT. Do you approve of that?

Mr. LORD. In reasonable amounts; yes, sir.

Mr. FORT. What is a reasonable amount?

Mr. LORD. We would not allow any bank—that is, the Guardian Detroit Bank, of which I am president, would not lend an unreasonable amount on General Motors stock, Packard Car stock, or United States Steel stock. In theory, I think they should not loan on that stock.

Practically, I think it is quite safe. In a period of two years, we will have every such loan out of the group banks, as a matter of policy.

Mr. FORT. But those things which seem to you, perhaps, as good policy, had we not better regard as a matter of law for protection against unscrupulous banks?

Mr. LORD. I think you should.

Mr. FORT. Do you see any reason why trust companies and others exercising fiduciary powers should have any different rules applied to their fiduciary relations than those which apply to individual trustees under like instruments?

Mr. LORD. Mr. Fort, what——

Mr. FORT. For example, an individual trustee may make directly or indirectly no profit whatever out of his handling of the trust, other than the legal commissions.

Mr. LORD. Yes, sir.

Mr. FORT. Should the bank, acting as a fiduciary, have any greater power?

Mr. LORD. Our company makes no profit except the fee.

Mr. FORT. Does it bank funds?

Mr. LORD. It banks them separately and the trust receives the interest.

Mr. FORT. You think that is sound?

Mr. LORD. Yes, sir.

Mr. FORT. However, in that group organization, Mr. Lord, it might, of course, accomplish the same purpose by banking with other members of the group.

Mr. LORD. I think it is perfectly proper they should bank with other members of the group, providing the interest received is in keeping with interest they would receive from other outside banks.

Mr. FORT. You think there is no psychological danger in withholding the investment of funds in time of high interest rates on money?

Mr. LORD. No, sir.

Mr. FORT. You think such an organization, doing a trust business, should be allowed to buy securities from itself or affiliated organizations?

Mr. LORD. Without profit; yes, sir.

Mr. FORT. Would you include a securities organization owned by the group holding company?

Mr. LORD. Yes, sir.

Mr. FORT. Have you been asked any questions about the segregation of savings deposits?

Mr. LORD. No, sir.

Mr. FORT. Have you any views on the propriety or impropriety of requiring savings deposits in ordinary commercial banks to be segregated as to investments and preferred as creditors?

Mr. LORD. The laws of Michigan require that we segregate our bank deposits and segregate certain assets against them.

Mr. FORT. And you approve of that?

Mr. LORD. I do not think it is necessary, provided the bank has proper supervision—I mean Government or State.

Mr. FORT. However, you have had remarkably few failures in Michigan.

Mr. LORD. Yes, sir.

Mr. FORT. Do you object to the law?

Mr. LORD. I do not object to it; no.

Mr. FORT. One of our committee members one day made reference in a very fine way, I thought, to Gresham's law, relating to the driving out by the baser metals of the better.

Mr. LORD. Yes, sir.

Mr. FORT. His reference was in reference to the tendency of banks to shift from the more rigorous code of law to the lesser.

Mr. LORD. Referring to the national system as against the State system?

Mr. FORT. Yes.

Mr. LORD. Yes, sir.

Mr. FORT. Do you feel that it is desirable, from a national viewpoint, that where possible we should bring the national code to the highest possible point of wise banking legislation, and then use our best efforts to make the States measure up to it?

Mr. LORD. I do. If we, to-day, could operate as a branch-banking system under the national system, we would prefer it to the State system. We welcome any supervision that makes banking better.

Mr. FORT. Do you approve of banking regulations that permit of the investment by banks in stocks?

Mr. LORD. We do not invest in any stocks, and therefore I do not approve of it, except stocks of building companies, or something that goes with it.

Mr. FORT. Necessary affiliations?

Mr. LORD. Yes, sir.

Mr. FORT. In regard to branch banking, I take it from your statement and from the few questions I have had the privilege of hearing you answer, you believe that branch banking is a necessity for the small communities?

Mr. LORD. Yes, sir; I do.

Mr. FORT. If we are going to authorize branch banking, do you feel we should authorize the establishment of branches in communities where they would come in competition with local unit banks?

Mr. LORD. Mr. Fort, I think that the establishment of new banks, whether they be unit banks or branch banks, should, in some way, be controlled so there does not exist or come to pass a situation where neither of several banks are able to make any money in a community. Whether that control comes from the Federal reserve bank or system or through the comptroller's department makes no difference, but I think it should be accomplished, because three banks in a community that might be making no money, certainly can not be as good for a community as one bank that is prosperous or two banks that might be prosperous.

Mr. FORT. But, of course, if branch banking were permitted concurently with unit banking, assuming, as would normally be the case in all but the larger cities, the branch was a branch of a far stronger bank than the local bank, would not the tendency be for the larger bank, with the branch, provided it maintained its contracts, to drive the unit bank out?

Mr. LORD. I do not think so. Banking is largely a question of acquaintance and contracts, so far as securing business is concerned.

Mr. FORT. And credit facilities.

Mr. LORD. And if the unit bank has the proper capital and surplus or proper loaning capacity, it should certainly retain a proper share of the business of the community.

Mr. FORT. Some of us who have been thinking on this branch banking question, are wondering whether, if we should decide to permit it at all, we should not handle the matter in some way so as to prevent the larger metropolitan city banks from going out into the branch banking business into the country, and hold that down so that the branches would be those of nonmetropolitan cities. Have you any views on that?

Mr. LORD. In other words, do you mean you would not want a bank in New York City to be able to acquire banks or groups in other centers?

Mr. FORT. Yes—branches I am speaking of and not groups.

Mr. LORD. Through separate institutions?

Mr. FORT. Through branches—not groups.

Mr. LORD. I think the extension of branches should be limited to trade areas as Mr. Pole suggests.

Mr. FORT. For example, he used an illustration here of St. Louis—and Detroit as well, perhaps. Some of us have had the thought that the St. Louis trade area, being quite extensive, it might be preferable to say that St. Louis might not go out through its entire trade area, which would spread to Little Rock on one side and Des Moines on the other, but that Des Moines should be permitted to have branches out through its area in order to prevent the aggregation of banking control and resources in the major cities.

Mr. LORD. I should think that the better way would be for St. Louis to be allowed to be the center of a trade area and Little Rock the center of a trade area and Des Moines also. There might be an overlapping of the trade areas with centers at Des Moines, St. Louis, and Little Rock, but there certainly would be competition, and cer-

tainly St. Louis would not gobble up all the business if that were allowed.

Mr. FORT. You at least agree with those of us who are not necessarily committeed to it but think along that line, that in any way we do it we should be sure to preserve competition?

Mr. LORD. Competition will be there whether we try to preserve it or not, in my opinion.

Mr. FORT. Not if adequate facilities are there without competition.

Mr. LORD. In the small communities probably not, because one bank only could live; but in the sizable communities there will be competition whether there is unit or branch banking in that city.

Mr. FORT. You see no hazard in permitting an aggregation of financial resources under a single management as long as there is service?

Mr. LORD. I do not see any danger.

Mr. FORT. I think that is all, Mr. Chairman.

The CHAIRMAN. This morning, Mr. Lord, some one questioned you about the scope of your plan. I understood you to say that your scope was confined to your trade area?

Mr. LORD. Yes, sir.

The CHAIRMAN. You consider your trade area Detroit and the State of Michigan?

Mr. LORD. I should think, Mr. Chairman, that our trade area would also include Toledo, which does feed into Detroit. Toledo is 60 miles from Detroit. We have not gone into Ohio at any time, nor do we contemplate doing it.

The CHAIRMAN. When was your plan declared operative?

Mr. LORD. December, 1929.

The CHAIRMAN. What brought about that consolidation? Was it the fact that you had joint owners in the group?

Mr. LORD. No, sir.

The CHAIRMAN. There was no affiliation between you?

Mr. LORD. No, sir; it was brought about purely by negotiation.

The CHAIRMAN. Was it purely a banking negotiation, or did it arise from business conditions?

Mr. LORD. Banking conditions.

The CHAIRMAN. The whole development sprang from a banking situation?

Mr. LORD. Yes, sir.

The CHAIRMAN. There has been no demand for it from the public?

Mr. LORD. I would not think so. It is pretty hard to allocate the reasons, Mr. Chairman.

The CHAIRMAN. You felt it was the logical thing to do to serve your trade area and improve your banking institutions?

Mr. LORD. In Detroit, if you know the city, the industries are pretty well scattered around the city, and, in order for us to serve the industries that wanted to bank with the Guardian Detroit Bank, we had either to build our own branches and develop them or take in some institutions that had branches.

The CHAIRMAN. You have stated that you do not think under present conditions, unit banks in small towns can continue to make sufficient profits to exist?

Mr. LORD. I think the majority of the banks are unable to make a profit.

The CHAIRMAN. For a number of years, we have had a system of unit banks in the country and they have apparently succeeded up until the last few years.

Mr. LORD. Yes, sir.

The CHAIRMAN. Have we reached a condition in this country where unit banks can no longer exist?

Mr. LORD. In the small communities; yes, sir.

The CHAIRMAN. What is responsible for that change?

Mr. LORD. There are a great many factors, as I see it; in the first place, the banks used to make quite a profit through real estate or farm mortgages. They used to make a profit from the collection of checks. At the present time, Mr. Chairman, the expenses of operating a bank have increased, just as the expenses in your own household or living costs, and yet the rates of interest do not increase, and the margin between the gross income and expenses is getting narrower and narrower.

The CHAIRMAN. In other words, these unit banks have been deprived of previous sources of income and there has been an increase in expenses?

Mr. LORD. Yes, sir.

The CHAIRMAN. You would not attribute that to improper management?

Mr. LORD. I think many failures are traceable to that.

The CHAIRMAN. You are speaking of the country as a whole?

Mr. LORD. Yes, sir.

The CHAIRMAN. There are certain States where unit banks continued uninterrupted by failures, like Vermont and Connecticut. There was not a failure in Vermont.

Mr. LORD. You have a situation there that does not exist in other States. You have a diversity of risk which is unusual. I think that is one of the reasons, Mr. Chairman, Michigan has such a good record; but going back to the question of management, take, for instance, Florida, in Miami: The First National Bank there shrank in its resources from $72,000,000 to twenty million dollars and odd almost over night, yet it survived. I call that good management. Plenty of other banks went down.

The CHAIRMAN. I do not want to detain you too long, but in connection with your statement this morning showing a list of your stockholders and where the stock is held, is control of your holding companies lodged in the hands of any group?

Mr. LORD. It is lodged in the hands of residents of Detroit. The largest single holding, I think, is 3 per cent of the total stock.

The CHAIRMAN. Is there any pooling of the control of the stock?

Mr. LORD. No, sir; absolutely free.

The CHAIRMAN. No understanding about control?

Mr. LORD. No, sir.

The CHAIRMAN. The control is in the hands of the management only so far as successful management prevails?

Mr. LORD. Yes, sir.

The CHAIRMAN. Is there a large amount of stock of your holding company in the officers of the banks and directors?

Mr. LORD. Yes, sir.

The CHAIRMAN. What per cent of the holding company's stock would be in the control of officers and directors?

Mr. LORD. Mr. Chairman, I could not tell you. I can get you that information. I should say that all directors and presidents of unit banks are substantial stockholders.

The CHAIRMAN. Your stock of the holding companies is all one class of stock?

Mr. LORD. Yes, sir; $20 par.

The CHAIRMAN. Any inducement to management offered to any institution in the way of distribution of profit sharing, and so forth?

Mr. LORD. We are working on a profit-sharing plan which has not been put into effect, because it has not been completed. We do, in some communities, have group insurance, pensions, and so forth, which are inducements, but as far as regular profits are concerned there is no plan in force.

The CHAIRMAN. In Mr. Luce's questions this morning he was referring to interest charges paid by your bank. You stated, I believe, that was optional with the banks themselves.

Mr. LORD. Yes, sir.

The CHAIRMAN. Does the change in the Federal reserve rates or rates on commercial paper or bills change the rates of interest paid or charged by any of your banks?

Mr. LORD. It changes the rate of interest charged more than that paid.

The CHAIRMAN. You do vary that charge in accordance with the fixed money rates?

Mr. LORD. Yes, sir.

Mr. Chairman, we have in Detroit to meet to a great extent the New York and Chicago rates.

The CHAIRMAN. You spoke during the day here of closing many branches in Detroit. That was brought about through the consolidation of groups?

Mr. LORD. Of the other group, particularly. When the other group got together it had approximately 200 branches. I believe they expected to close quite a substantial number where they competed in adjacent locations.

The CHAIRMAN. You mean the commerce group that joined with you?

Mr. LORD. No, sir; the Detroit Bankers Co. The Peoples Wayne County Bank had about 100 branches.

The Peninsula State Bank had 30 or 40 branches.

The First National Bank had about the same number and the Bank of Michigan also. When they were all put into the Detroit Bankers Co. the combined picture showed about 200 branches, and in many locations there were two and three and four competing with each other within an area of two blocks.

The CHAIRMAN. The consolidation of these two groups in Detroit will result in closing a number of branches?

Mr. LORD. Over a period of two years, by the time it takes to adjust it, they would close, I would say, from 30 to 40 branches.

The CHAIRMAN. Does your holding company or your banks own as investments, stocks in other banks than those which form your group?

Mr. LORD. The Securities Co. may have some moderate holdings in other banks that do not amount to anything. They may be trading for customers.

The CHAIRMAN. They own no stock except of the group of banks and companies affiliated, of which you put a list in the hearing?

Mr. LORD. Yes, sir.

The CHAIRMAN. Some groups that have been developing have seen fit to take over banks in New York; for instance, the Marine Midland group who have taken over the Commercial Fidelity of New York. Have you an institution of that kind there?

Mr. LORD. No, sir; and I think we do business with almost every big bank in New York. We have no interest in banks in New York.

The CHAIRMAN. Your investment companies do maintain an office in New York?

Mr. LORD. Yes, sir; the Guardian Detroit Co.

The CHAIRMAN. Your group company owns no other stocks except the stock of institutions referred to by you as part of your group?

Mr. LORD. That is correct.

The CHAIRMAN. It is purely a stockholding company?

Mr. LORD. Some of the subsidiaries may own other stocks, but the group company does not. It owns only the banks and institutions mentioned.

The CHAIRMAN. You referred to the fact that you did not take over any banks that did not pay. Could you not take over many small banks that are now operated at a loss because of poor management and high operating costs that you could operate at a profit?

Mr. LORD. As units?

The CHAIRMAN. As units; yes. From your statement I presume you would say "yes" if you could operate them as branches.

Mr. LORD. If we could operate them as branches; there are many, but not as units.

The CHAIRMAN. Under your plan of operating units, you could not do that?

Mr. LORD. I would not want to do that as a business proposition. In the first place, we want to retain the local management and the same management as far as possible, so as not to disturb the local situation and, with that in mind, we have endeavored to select banks operating satisfactorily.

The CHAIRMAN. As I understood you to say, it would be very difficult for the small banks, in small communities, to exist in the future?

Mr. LORD. Yes, sir.

The CHAIRMAN. What would you recommend to this committee to furnish banking facilities to those communities? Would you recommend branch banking nation-wide, state-wide, or trade area?

Mr. LORD. Trade area.

The CHAIRMAN. You think the trade area would cover every community in the United States that is now being served?

Mr. LORD. Yes, sir.

The CHAIRMAN. In other words every part of the United States, you believe, would be included in some particular trade area?

Mr. LORD. Yes, sir.

The CHAIRMAN. Do any of your banks or your holding company buy and sell stocks in your banks or companies; in other words, do you maintain a market on any of your stock?

Mr. LORD. We maintain a market for the holding company stock only for the accommodation of our stockholders.

The CHAIRMAN. That is to say one of your companies buys and sells your holding company stock and maintains a market on it?

Mr. LORD. We do not support the market unduly. We maintain a market so that proper distribution will be given to the shares of that company; for instance, we would rather have a shareholder come to the Guardian Detroit Co. when he wants to buy or sell shares of the group company than go to some broker with the stock.

The CHAIRMAN. Your holding company maintains a market for individual people in the country who want to buy stocks?

Mr. LORD. No sir; we do not have enough to sell, often.

The CHAIRMAN. In the fiasco last fall, it was shown some affiliated companies were selling stocks of banks and recommending them to investors. You do not pursue that policy with your organization?

Mr. LORD. We want to create local interest in the group company and we try to select, in Kalamazoo or Jackson or Grand Rapids, or in communities where we have a unit, people that we think can do our institution good from the standpoint of business contact and we do try to place stock with such people, but the stock is quoted on the exchanges and sold at the current market price.

The CHAIRMAN. In reply to Mr. Fort's questions in regard to profits on trust business, you said they were never carried on at a profit. What would you consider a profit in a trust transaction?

Mr. LORD. We do not sell to our own trusts either mortgages or bonds except at our cost to the securities company and as I said to Mr. Fort, where there are funds in those trusts, they are deposited with other institutions and the trust receives exactly the same rate of interest we receive.

The CHAIRMAN. Where these various trusts have been invested in other stocks that are local and they have gone up in value and in the management of those securities you sell them, do you give the trust whatever profit may have accrued on those investments?

Mr. LORD. Yes, sir.

The CHAIRMAN. You were speaking a few moments ago in regard to the consolidation of one, two, three, or more banks in small communities, and I think you said it was better to have one well-managed and conservatively operated money-making bank in the community than to have three. Is it a voluntary proposition as to whether those banks get together?

Mr. LORD. Yes, sir.

The CHAIRMAN. Do you not think it advisable to authorize the Comptroller of the Currency, the Federal Reserve Board, or the supervisor of banks to determine whether there are too many banks in those towns and whether those banks should consolidate?

Mr. LORD. I do not believe it would be wise to force them to consolidate, but I believe that the comptroller or the State banking commissioner could advise with them with the result that there would be consolidations that would benefit the community. I do not see how you could force them to consolidate if they did not choose to.

The CHAIRMAN. Under the premise that the bank was not making money and that there were too many banks in that area, could not the supervising function of one of those officers be applied so that it would become apparent that it was necessary to consolidate in order to facilitate the banking business in that community?

Mr. LORD. I do not know how you could do it by law, but I know that the banks always listen with open ears to the comptroller or the State banking commissioner.

The CHAIRMAN. I am jumping from one thing to another here, Mr. Lord, but in the last few years we have had a change in the method of financing industries; in other words, many industries are now financing themselves through the sale of stock issues and building up their treasuries that way. How has that affected banking business generally?

Mr. LORD. Take our own situation, Mr. Chairman; it has necessitated our carrying in the Guardian Detroit Bank—and I am using that because I know that bank more intimately than any other—between 20 and 25 per cent of our deposits in Government bonds because we have insufficient eligible paper.

The CHAIRMAN. That plan of financing tends to decrease the amount of eligible paper in banks.

Mr. LORD. Yes.

The CHAIRMAN. And, because of that, you, just the same as many of the other large banks there, utilize Government securities as the most convenient means of going to the Federal reserve bank, if you have to?

Mr. LORD. As practically the only other way we can go to the Federal reserve bank.

The CHAIRMAN. Do you not think that that is a situation that requires very careful study in connection with any change in our banking system?

Mr. LORD. I do, sir.

The CHAIRMAN. Particularly when, in these days, we are hearing a lot of talk about the amount of brokers' loans and all that, do you not think that the changed conditions are a factor to be considered?

Mr. LORD. I think that should be recognized.

The CHAIRMAN. And before we deal with it we should know to what use that money is put before we attempt to regulate it?

Mr. LORD. Yes.

The CHAIRMAN. I am not going to keep you any longer.

Mr. LORD. Go right on.

Mr. FORT. May I ask one question I omitted, or, rather, two small ones?

Mr. Lord, we have a 10 per cent limit on individual borrower's loans under the law. Do you think we should have any limit on the amount that might be loaned on the identical collateral by a bank,

now that loans are made on collateral rather than on name in so many cases?

Mr. LORD. No; I do not think so. I do not think it is necessary.

Mr. FORT. In many towns, is not the major type of frozen loans that the banks get on local securities?

Mr. LORD. Yes; but I think that situation is always called to the attention of the bank of the examiner.

Mr. FORT. But he has no power to force them to do anything.

Mr. LORD. He has no power, except that his comments on the condition of the bank, in my experience, are always recognized by the board and by the officers. So far as our bank is concerned, we keep a running record of how much is in General Motors stock and how much in Packard stock, and so forth, in connection with all our loans.

Mr. FORT. Last week Mr. Wakefield, of the First Bank Stock Corporation, offered to furnish the committee his views as to the type of regulatory legislation which might be proper for the committee to recommend in regard to group and branch banking. Would you be willing to do the same thing?

Mr. LORD. I would be willing to do anything you want me to that might be helpful.

Mr. FORT. I think we would be very glad to have them. We would get more help from you gentlemen who have had this experience in running these institutions as to the hazards we ought to guard against in connection with inefficient and incompetent management than we can devise out of our own heads, and perhaps we would annoy you less if we got intelligent aid first.

Mr. LORD. I do not know that I can add anything to it, but I would be glad to do anything I can.

Mr. FORT. I think the committee would be very glad to get a statement from all of you gentlemen as to what regulations you may regard as wise or necessary if the expansion of group banking is to be permitted.

Mr. LORD. Have you in mind merely group banking, or the whole subject of group, branch, and chain banking?

Mr. FORT. Anyone of them. I think we would be glad to have the views of any of these witnesses—don't you, Mr. Chairman?

The CHAIRMAN. I certainly do.

Mr. FORT. On essential regulation.

The CHAIRMAN. After all, Mr. Lord, this committee is trying to deal constructively with this situation. Some of us are more or less familiar with banking conditions throughout the country, but there are men like you and the others who are in the midst of these undertakings who can give us very good information, and we would appreciate it as a committee if you men who are appearing before this committee would take it upon yourselves to make any suggestion to us which might be helpful to us in solving this whole problem.

After all, this is a study of the whole situation; we are looking for light.

I want, on behalf of the committee, to express to you our sincere appreciation of the statement which you have given us. I am sure it has been very helpful, but I am also of the opinion that, upon your

return to Detroit, other things may occur to you that will be helpful to us, and we would like to hear further from you and receive any suggestions which you may care to make.

Mr. WINGO. I think, in making suggestions in response to the request of Mr. Fort, he should not confine himself alone to suggestions with respect to restrictive legislation, but if he thinks that there is any restriction that now exists that could be liberalized or removed, we would like to have that also. In other words, feel free to offer such suggestions as to legislation which, if you were sitting in our place on the committee, would occur to you as being wise and important.

Mr. LORD. I will be very glad to give you whatever may occur to me in that connection.

(Thereupon, at 4.50 o'clock p. m., the committee went into executive session, following which it adjourned until Thursday morning, April 24, 1930, at 10.30 o'clock.)

BRANCH, CHAIN, AND GROUP BANKING

THURSDAY, APRIL 24, 1930

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

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

The CHAIRMAN. The committee will come to order.

Before we hear from Mr. Rand, I would like to insert in the record here a communication which has come to the committee from the Minneapolis Council of Agriculture, under date of April 18, 1930, and another letter from Stanchfield & Co., St. Paul, Minn., under date of April 22, 1930.

Unless there is objection, these letters will be placed in the record at this point.

(There was no objection, and the letters are reproduced below.)

MINNEAPOLIS COUNCIL OF AGRICULTURE,
Minneapolis, Minn., April 18, 1930.

COMMITTEE ON BANKING AND CURRENCY,
House of Representatives, Washington, D. C.

GENTLEMEN: C. T. Jaffray, president Soo Line, former president and now director First National Bank, Minneapolis; Joseph Chapman, affiliated with Northwestern National Bank, and manager L. S. Donaldson Co.; F. M. Prince, First National Bank; W. H. Brammer, receiver Minneapolis & St. Louis Railroad; C. D. Mills, Midland National Bank & Trust Co.; L. E. Wakefield, First National Bank; F. B. Wells, Peavy Grain Co.; E. W. Decker, Northwestern National Bank, joined in a telegram sent to the then President Coolidge, signed by 20 in opposition to bill for the relief of agriculture, from which the following is quoted:

"FEBRUARY 15, 1927.

"As a result of our five years' diversified-farming program, the indebtedness of member banks to the Ninth Federal Reserve Bank has been reduced from $115,000,000 to $3,500,000. Paper from closed banks acquired by the Ninth Federal Reserve Bank have been reduced from $14,000,000 to $1,800,000. Loans borrowed by banks from the War Finance Corporation have been reduced from $60,000,000 to $2,000,000. Total bank deposits in the Northwest now are the same as in 1920.

"We believe, with the proper methods of farming and application of sound business principles to our agriculture, almost every northwest acre can produce a gross profit of more than $25 annually.

"During the past five years hundreds of thousands of dollars have been spent annually by northwest business leaders, representing railroads, banks, manufacturers, newspapers, and many others, on educational work with the northwest farmers for the promotion of diversified farming."

Again, in Minneapolis Tribune, January 26, 1927, Roy A. Young reports deposits of district reached total held in 1920.

"The sound financial position of the inland Northwest and its banking institutions is indicated by the fact that the loans of the Federal Reserve Bank of

Minneapolis to its members now are around $3,500,000, as compared with $115,000,000 seven years ago," Roy A. Young, governor of the bank, told members of the Northwest Shippers Advisory Board, and so forth, in his report as chairman of the board's committee on finance and credit.

"That the operating member banks in Montana on December 22, 1926, owed the Helena branch of the Federal reserve bank but $23,033; on August 31, 1921, the banks' advances in Montana totaled $13,601,000.

"As further indication of the Northwest's improved financial situation, the banks of the ninth district to-day hold about the same total of deposits as in 1920, when inflation was at its peak, although the number of banks has been reduced considerably.

"Borrowing on a sound basis is legitimate and benefits the community of the bank which does it."

According to press dispatches under date of April 6, 1930, L. E. Wakefield, president First National Bank, Minneapolis, is quoted as having told the House Banking and Currency Committee: "Since 1920, the Northwest has been the scene of a constant struggle, political and economic, to reestablish the foundation of its basic financial structures which were rudely jarred by the consequences of the war."

Developments which resulted in a group banking movement, he said, included: "The increase in production costs, due to sharp uptrend in output during the war years and the general price level decline in 1920.

"PRIOR TO 1920

"The banks cooperated fully with the agricultural population by the extension of new credits which were reflected in tremendously increased deposits. A large equity in these newly developed farms was represented in second mortgages held by banks as collateral for note loans.

"With the advent of 1920, the general price level took a sharp decline and the reaction followed throughout the entire credit structure.

"Much money from outside territory which was on deposit, attracted by the high rate of interest, was withdrawn.

"The pressure of the Federal reserve and trade associations against the charging of exchange, deprived rural banks of another of their sources of income.

"In reaching our decision to embark upon the group-banking program we were prompted solely by the necessity of some form of practical reorganization of the rural banking structure if the territory as a whole was to recover from the effects of the deflation.

"To correct the situation we felt that we would create an advisory organization, properly manned, and with sufficient banking experience to offer to individual units making up the chain, expert advice and assistance in the management of their local banks, that there would be no question as to the benefits which would accrue.

"We can expect that within a few years the farm mortgage will be restored as a liquid instrument."

Mr. E. W. Decker, of the Northwest Bancorporation, Northwestern National Bank, Minnesota Loan & Trust Co., on the same date is quoted: "The average small bank has been unable to earn a profit or even to pay the overhead in some cases. It can readily be seen that a bank operating on such a small margin would not be in a position to take care of such losses when they came, necessitating the closing of its doors.

"They retain local officers and directors consisting of men intimately identified with local systems under the systems of group banking. Each State has the advantage of personal property taxes. In 1927 such taxes for Minnesota, the Dakotas, and Montana amounted to over $3,000,000.

"The bank that can not make money should not be in business."

The attitude of Mr. Decker and Mr. Wakefield in 1927 seems to have been that there was nothing wrong with the Northwest—that there was no economic problem, and it would seem to be substantiated by their message to President Coolidge.

From the statement of Mr. Young, it is found that during the 5-year period prior to 1927, the indebtedness of member banks in the ninth Federal reserve district has been reduced by a total of $111,500,000, and paper from closed banks acquired by the Federal reserve bank, had been reduced $12,200,000. Add to this, loans borrowed by banks from War Finance Corporation, which

were reduced $58,000,000, thus, according to Mr. Young's statement, during this period of deflation, the residents of the ninth Federal reserve district had paid a total of $181,700,000 of obligations.

Bear in mind that this payment was forced—that is, the Federal reserve bank refused agricultural paper for rediscount—and during this period, agriculture had no credit in the ninth Federal reserve district, this amount had to be paid out of its savings and current earnings, and during all of this period they had to pay the ever increasing tax burden, and all other obligations, other than strictly Federal reserve and War Finance Corporation indebtedness.

Then again, Mr. Wakefield and Mr. Decker in that telegram state in effect that with proper methods of farming and application of sound business principles to our agriculture almost every Northwest acre can produce a gross profit of more than $25 annually. It would seem from this that the method of farming and the unsound business principles used in the operation of the farming industry in the ninth Federal reserve district for the 5-year period prior to 1927 resulting as it did in the payment of $181,700,000 indebtedness to these two creditors, was brought about by improper methods of farming and the application of unsound principles in the business of our agriculture.

These gentlemen now tell the committee that owing to the political and economic struggle to reestablish the foundation of its (Northwest) basic financial structures a movement developed which resulted in group banking, and yet the facts are, according to the statement of these gentlemen, that the group banking movement is about a year old, so all of this has developed, if you believe their statements in the telegram to Mr. Coolidge, since 1927.

In view of the now admitted unsound financial structure according to their statements, what is the meaning of Governor Young's statement as of January 26, 1927, that the sound financial position of the inland Northwest and its banking institutions is indicated by the fact that the loans of the Federal Reserve Board to its members have been reduced, and so forth? It does appear to the writer that these gentlemen in 1927 were in accord with Mr. Young, and at that time agreed that the financial position of the Northwest and its banking institutions was sound. Their statement to Mr. Coolidge in the telegram that during the past five years hundreds of thousands of dollars have been spent annually by Northwest business leaders representing railroads, banks, manufacturers, newspapers, and many others, on educational work with the Northwest farmers for the promotion of diversified farming is another indication that these gentlemen believed in the soundness of the financial structures up to 1927, and the only flaw they found in the agricultural situation in the Northwest was improper farming methods and lack of diversification. Bear in mind that at this time in 1927, according to the statement of Governor Young, "total bank deposits in the Northwest now are the same as in 1920," and the peak of deposits for that inflated war period was in 1920.

Now, in view of the contradictory statements given to the President in 1927, with those statements given to the Committee on Banking and Currency in 1930, have these gentlemen qualified as being competent to advise the agricultural Northwest as to sound agricultural business and methods. In all history I do not recall as ever having heard such an ill-advised and impossible statement as that they make when they say that every Northwest acre can produce a gross profit of more than $25 annually.

Mr. Wakefield says in a statement to your committee, "With the advent of 1920 the general price level took a sharp decline." Again he says, "The pressure of the Federal reserve and trade associations against the charging of exchange deprived rural banks and others of another source of income."

It is true that there was pressure from the Federal reserve. In May, 1920, the Federal Reserve Board, in session at Washington, singled out the agricultural industry for deflation, and the instructions went to the various Federal reserve district banks to refuse agricultural paper for rediscount purposes, so that as far as the agricultural section is concerned in the district of which Mr. Wakefield and Mr. Decker speak, the Federal reserve bank failed to function for the purposes for which it was created, and when you bear in mind that in addition to this $181,700,000 of obligations paid through the Federal reserve bank and the War Finance Corporation, and vastly larger sums of obligations that must of necessity have been discharged in the other avenue of finance, it is a wonder that the condition in the Northwest is as favorable as it is. None but a people of the hardy pioneer type, with a territory rich in natural resources, as this territory is, could have survived.

You will bear in mind in this connection that Mr. Wakefield and Mr. Decker probably seconded and helped shape the policy of the Federal reserve bank with reference to agricultural paper at this time. Mr. Young came to the Ninth District Federal Reserve Bank as assistant to the then Governor Wold and upon Mr. Young's selection as governor of the Ninth Federal Reserve District Bank, Mr. Wold became affiliated with the Northwestern National Bank, of which Mr. Decker is the controlling factor.

Mr. Wakefield further states to your committee, "In reaching our decision to embark upon the group-banking program we were prompted solely by the necessity of some form of practical reorganization of the rural banking structure if the territory as a whole was to recover from the effects of farm deflation." Is this an admission on the part of Mr. Wakefield that the Federal reserve bank, as it functions, is a failure, and can not aid a territory in recovering from the effects of deflation brought about by causes beyond their control, and the responsibility for this deflation rests, as Mr. Wakefield places it—upon the consequences of the war, he might well add that the evil consequences following this were augmented and enlarged by the action of the Federal reserve system in denying this depressed territory the aid of credit through the Federal reserve system. Not only denial of aid and credit but the ruthless demand for the immediate payment of all agricultural paper.

"Prompted solely by the necessity of some form of practical reorganization of rural banking structure"—the first evidences of spreading out, or a group control, was when the First National Bank and the Northwestern National Bank of Minneapolis acquired control of various other banks in the city of Minneapolis and in direct violation of what I believe was the law attempted to operate them as branches, and this was long before they felt the prompting of the reorganization of the rural banking structure. They state that they felt they "could create an advisory organization properly manned and with sufficient banking experience to offer to individual units making up the chain expert advice and assistance in the management of their local banks."

Who are these supermen who have advised agriculture through these periods of depression and who have now, that they are displacing the community banker, the community center, and forming a channel through which they can control the entire flow and line of credit and money to every community in the Northwest—is there anything in history of either of these men or the institutions that they are connected with which, if carefully examined, would justify the least efficient farmer or business man in placing his future and his prosperity in their hands? It is the opinion of the writer that if an examination was made and an investigation held upon the methods used in the distribution of funds through the Northwest Agricultural Credit Corporation and, if you please, in the methods used by the First National Bank and the Northwestern National Bank in acquiring control of various banks now constituting their group, that red-blooded Americans, proud of the liberties and honesty of its countrymen, would bow their heads in shame.

Your committee can not expect to secure from these gentlemen any admission that they used anything but the very kindliest persuasion to get banks into their group, neither can you expect a small community banker, with his very healthy bank, who is still independent, to come before your committee and tell you of the means and methods employed to indicate to him the necessity of his joining one group or other or finding himself possibly without means of establishing a clearing, or a correspondent in either Minneapolis or St. Paul. It is likely that a few independent bankers will appear before your committee and give testimony along this line but for the most part they will not care to incur the displeasure of a clearing house in Minneapolis and St. Paul, which is necessary for them in order to serve their customers. Minneapolis banks no longer are in competition to secure correspondent accounts from the country banker and the independent banker is finding it harder and harder to comply with the regulations required for carrying an account in these banks through which to clear. In fact, it will be found to be true, I believe, that the group banker is now analyzing personal accounts and a small account that is active is being analyzed to determine whether there is a profit sufficient in the handling of the account to warrant their extending that convenience to some of their customers and perhaps shortly the edict will go out that accounts that do not carry a daily balance of $500 or perhaps $1,000 are not desired.

Your committee is undoubtedly familiar with the earnings of the Federal reserve bank in the ninth Federal reserve district covering the territory discussed by Mr. Decker and Mr. Wakefield. I merely want to call your atten-

tion to the earnings for the year 1921, in which occurred this sudden and drastic deflation, and I believe it will be found that the Federal Reserve Bank of Minneapolis earned 126 per cent on its capital. There is something wrong when a banking institution, at a time of distress felt in every home throughout the district, can earn such an exorbitant income upon its capital invested and a continuation of such a process is sure to absorb the entire production of wealth and savings of any community wherein an institution of this character is permitted to exist.

The inadvertent use of the word "chain" by Mr. Wakefield must not go unnoticed. Evidently he is having the same difficulty in differentiating between group bank, branch bank, and chain bank that Mr. Pole, Comptroller of the Currency, experienced in his efforts and explanation to your committee.

In Mr. Pole's examination by your committee, the statement was made that Canadian failures were rare, yet those failures are more far-reaching and but for the Dominion Government coming to the rescue of the Canadian Bank of Commerce, one more failure might have been added, and we all know of the collapse of the Home Bank, and I venture to make the statement that if there were no bank examinations and regulations in the State of Minnesota, 90 per cent of the State banks closed would be still operating.

When Mr. Decker states "The bank that can not make money should not be in business," he gives you an insight into the workings of his mind, mayhap, indicating that the controlling factor with him is—will I make money. It may be that the Northwestern National Bank's business has been very profitable during this time when desolation, abandonment of homes, misery, and want stalked throughout the district, that his institution should serve. Speaking of taxes, it may be that the statement, the States of Minnesota, the Dakotas, and Montana taxes amounting to over $3,000,000 is true, but he does not say that this amount was paid, nor does he say that the national banks went into the courts in Minnesota in an endeavor to pay a lesser amount, and they are now paying taxes in Minnesota under a "Gentlemen's agreement."

The unit bank and the banking system in operation for so long in the United States, has adjusted itself to the rapid growth and development of the greatest nation on earth, and until the Federal reserve system was adopted, no valid indictment of our banking system would stand, so that it would appear that the functioning of the Federal reserve bank, or its failure to function, as anticipated, has hindered, or obstructed America's banking system from adjusting itself to meet the conditions that have arisen since the adoption of the Federal reserve system, or perhaps more rightly, since it began to force deflation beginning in 1920.

And it seems to the writer that the outstanding conclusion that can be drawn from our banking experience is that to no small group of men, however patriotic they may be, can be given the control of money and credits when such control, exercised for other than the common good of the whole people, might result in profit or advantage to some group or section and to the disadvantage, necessarily, of some other group industry, or section, and perhaps to the personal gain of the group controlling the flow of moneys and credits.

Respectfully submitted.

JOHN MEYER, *Secretary.*

STANCHFIELD & CO.,
St. Paul, Minn., April 22, 1930.

COMMITTEE ON BANKING.

GENTLEMEN: I wish to protest against any legislation in favor of group or branch banking. Rather, I urge action which will absolutely prevent action, as I firmly believe it will nullify all good features of the reserve system.

Mr. Wakefield's testimony on April 16 was remarkable for what he did not tell you.

He did not tell you that his 150 banks are controlled absolutely by the credit department of the parent institution and the old officers are merely puppets. The local paper is examined by and absolutely controlled by a traveling credit man, who can have and has no interest in local affairs.

He did not tell you that through his trust companies and subsidiaries he probably holds an amount of bad farm paper proportionate to any rural bank.

He did not tell you that increased money power will enable him to make large speculative loans in which his sole interest is large underwriting profits.

The greatest hindrance to the development of Canada has been its banking system. In a rural town the only logical man to increase its prosperity is

the banker, for he is in a sense the partner of every borrower and mutual success is vital.

The group bank is merely a safe-deposit vault, and it is the consensus of opinion of business men of this territory that group banking spells the ultimate ruin of the rural town. Too much centralization of money power is probably the cause of our nation-wide depression; in part, at least.

Any favorable legislation toward group or branch methods will simply be another nail in the coffin of the Grand Old Party, a coffin which, since the war, has been almost totally completed.

The opinion of an individual citizen will probably reach only the waste-basket, but all the people can not be fooled all the time, as the Whig Party discovered.

Respectfully,

GEO. F. STANCHFIELD.

The CHAIRMAN. We have before the committee this morning Mr. George F. Rand, president of the Marine Midland Corporation of Buffalo, N. Y.

Mr. Rand asks that he be permitted to make his statement without interruption until he has completed it. So, if you will, Mr. Rand, proceed in your own way.

STATEMENT OF GEORGE F. RAND, PRESIDENT MARINE MIDLAND CORPORATION, BUFFALO, N. Y.

Mr. RAND. Mr. McFadden and gentlemen of the committee, I think that my statement will cover our corporation pretty well, and after I have completed it I will be glad to answer any questions you ask if I am able to.

INTRODUCTION

While the term "group banking" is of comparatively recent origin, the need for such a relationship between the larger city banks and the smaller town banks has become increasing evident to us for years past.

The traditional American banking system functioned for many years, before the era of the automobile, good roads, radio, consolidations in industry, etc., quite successfully. Changing business methods have, however, made it increasingly difficult to transact business in the smaller towns profitably as heretofore. Where formerly there were possibly 15 or 20 small or moderate-sized manufacturing concerns or jobbers in a city of 25,000, there are now perhaps 4 or 5 big companies. If these operate as branches of a parent corporation, the bank balance which they carry in that community is probably reduced to petty cash or pay-roll accounts. If, on the other hand, they are the head offices of large corporations, their credit requirements are probably in excess of the available bank credit in that community, and if they have large bank balances, these are probably carried in the larger metropolitan banks either for the purpose of assuring adequate lines of credit or possibly as a matter of safety. These conditions apply even in cities the size of Niagara Falls, Troy, and Rochester, the population of which ranges from 80,000 to 250,000.

We have had small banks come to us to sell or rediscount either secured or unsecured paper which they are unable to handle on account of certain definite limitations, perhaps because of insufficient resources. They have come to us pledging bonds other than Government securities, usually when bond prices are low and money is in demand in their local communities. They have even been forced to sell securities at times when they have had to take losses of a substantial character.

On the other hand, occasionally, lacking a sound local market for their funds, in order to keep their money in use, we have seen such banks take unsound credit risks locally or purchase investments in an inexperienced way, being unduly influenced by the prospective yield. From our experience we might cite instances where credit has not been granted to local enterpises because the amounts involved were not within the ability of the local bank to loan. The same local enterprises have found it difficult to obtain credit

under the correspondent banking system because the granting of such credit involved an intimate knowledge of the company's management. Under the system of group banking such credit is extended, because through the local unit in the group there exists the necessary intimate knowledge of the company's affairs and the resources of the entire group are thereby made available to it.

The management of the Marine Trust Co. of Buffalo has for years had an interest in a small city bank (the First Trust Co., of Tonawanda). Through its affiliation this local bank has been able to keep its funds safely and profitably invested and to supply the credit requirements of its community so adequately that although it is in a city of 15,000 population, no other bank has been started there, every other bank having failed years ago. Because of its relationship with the Marine Trust Co., this bank has experienced few of the difficulties which beset the management of the average small bank operating alone.

Our experience with these conditions and knowledge of these facts prompted us to form the Marine Midland group.

BACKGROUND

The Marine Trust Co. of Buffalo is the direct successor of the Marine Bank, a New York State corporation, organized in 1850. In 1902 it became the Marine National Bank of Buffalo and absorbed the Buffalo Commercial Bank, which had been organized in 1836, so that it can now trace its corporate existence over a period of 94 years.

Branch banking in Buffalo started in 1916 when Bankers Trust Co. of Buffalo (merged into the Marine Trust Co. in 1919) organized by George F. Rand, sr., opened its Cold Spring branch. After it had absorbed the Central National Bank, it continued to operate the office of that institution as a branch, thus opening the first two branch banks established in the city of Buffalo.

George F. Rand, sr., who was at that time president of the Marine Trust Co. of Buffalo, was the first advocate in that city of branch banking. He inaugurated the definite policy of developing branch banks in all of the more important community centers within the city for the purpose of bringing banking facilities within easy reach of all the retail business and residential centers, thereby encouraging greater use of such facilities, educating the public in the various branches of banking service which were available for their use, and inducing the removal of hoarded savings from chimneys, socks, and mattresses to the vaults of a financially responsible bank.

In carrying out this policy the Marine Trust Co. of Buffalo has continued to open branches, with the approval of the State superintendent of banks, at various central locations, until it now has some 34 of such branches within the city of Buffalo, operating to the mutual advantage of the public and the trust company.

Concurrently with the development of branch banking within the limits of the city of Buffalo, Mr. Rand, sr., began laying the foundation of the present Marine Midland group of banks, through extending the influence of the Marine Trust Co. outside the city of Buffalo. He had started his banking career in Tonawanda and was a substantial stockholder in the First Trust Co. of Tonawanda at the time he became president of the Marine Trust Co. This Tonawanda bank, therefore, as stated above, was closely affiliated with the Marine Trust Co., and the officers of the latter institution, as directors or advisers, played a very important role in guiding the policies and extending the development of the smaller bank.

It was largely as a result of this experience, referred to above, and of the realization of the mutual advantages to be derived from such relationships that the officers of the Marine Trust Co. began systematically to build up a group of banks affiliated with their larger institution through closer cooperation, some common stockholders, and a growing acquaintance and friendship among the officers and directors.

The group so built up comprised, prior to the organization of Marine Midland Corporation in September, 1929, the following banks:

The Marine Trust Co. of Buffalo.
Union Trust Co. of Rochester.
Niagara Falls Trust Co.
First Trust Co. of Tonawanda.

State Trust Co. of North Tonawanda.
Lackawanna National Bank.
Niagara County National Bank & Trust Co. (Lockport).
Peoples Trust Co., Binghamton.
Workers Trust Co. of Johnson City.
Union Trust Co. of Jamestown.
Bank of East Aurora.
Bank of Snyder.

MARINE MIDLAND CORPORATION

On September 23, 1929, Marine Midland Corporation was incorporated under the laws of the State of Delaware, with an authorized capital consisting of 10,000,000 shares of the par value of $10 a share, for the express purpose, among other things, of acquiring a controlling interest in the stock of various banks and trust companies in the State of New York. Certified copies of its certificate of incorporation and by-laws are attached hereto, marked "Schedule 1 and 2," respectively.

Offers were made to the stockholders of all of the banks listed above, and also to the stockholders of the manufacturers National Bank of Troy, Cortland Trust Co., Orleans County National Bank and Bank of LaSalle (Niagara Falls) to exchange their stock for stock of the new corporation. The ratio of exchange was in each instance worked out between officers of the new corporation and officers and stockholders of the respective banks, giving due consideration to the earning power, liquidating value and market value of these bank stocks, and taking the stock of Marine Midland Corporation at $60 a share. Concurrently with this offer, underwriting agreements were entered into for the sale for cash of 1,000,000 shares at $60 a share, less commissions to the underwriters.

The formal offer of exchange was made to the stockholders of all these banks on September 24, 1929. They were given until October 7, 1929, to deposit their stock. On October 17, 1929, the necessary number of shares having been deposited, the underwritten stock was taken up by the bankers for cash, and 1,025,055 shares of stock were issued in exchange for stock of all of the banks other than the Marine Trust Co. of Buffalo. On October 21, 1929, 2,816,430 shares were issued in exchange for stock of the Marine Trust Co. of Buffalo.

On October 25, 1929, an agreement similar to those made with the first 16 banks and trust companies was made with the stockholders of the Power City Bank of Niagara Falls, and on November 30, 1929, 140,328 shares were issued in exchange for stock of that bank.

On February 28, 1930, an agreement was entered into with the stockholders of Fidelity Trust Co., of New York, similar to the agreement previously entered into with the stockholders of the other banks and trust companies for the acquisition of stock of that bank. In this case, however, stockholders of Fidelity Trust Co. were offered the option of exchanging their stock either for 1¾ shares of Marine Midland stock, or for 1 share of Marine Midland stock and $40 in cash in exchange for each share of their stock carrying one share of stock of Fitrust Corporation, an affiliated securities company.

This was the only instance in which cash was paid by Marine Midland for stock of its affiliated banks, except a small amount paid for adjustment of fractional shares.

Under this agreement, on March 29, 1930, 274,893 shares of Marine Midland stock and $8,498,360 in cash were delivered in exchange for 248,169 shares of the capital stock of the Fidelity Trust Co. of New York, and the same number of shares of stock of Fitrust Corporation.

PRESENT BANK HOLDINGS OF MARINE MIDLAND CORPORATION

Additional stock of all the banks was deposited and accepted for exchange after the deposit date until as of April 9, 1930, Marine Midland Corporation held stock of the various banks which, with directors' qualifying shares retained by the directors, constituted over 97 per cent of the aggregate number of shares of the 18 banks and trust companies.

Attached hereto, marked "Schedule 5," is a statement showing in detail the number of shares of stock of each bank and trust company authorized and outstanding, the number held by the directors as qualifying shares, the number of shares exchanged and held by Marine Midland Corporation, the combined percentage, and the number of shares remaining available for exchange held by nondepositing stockholders.

DIRECTORS OF MARINE MIDLAND CORPORATION

Attached hereto, marked "Schedule 3," is a list of the directors of Marine Midland Corporation as of this date, showing the principal business occupation of each.

DESCRIPTION OF BANKING INSTITUTIONS CONTROLLED

Attached hereto, marked "Schedule 4," is a statement as of March 31, 1930, of each of the banking institutions controlled by Marine Midland Corporation, showing its name, location, capital, surplus, deposits, and total resources; whether it is national or State; and which of the State institutions are not members of the Federal reserve system.

CORPORATIONS OTHER THAN BANKS CONTROLLED BY MARINE MIDLAND CORPORATION

It is the policy of Marine Midland Corporation to own the stock of banking corporations only. However, in the case of two of the banks acquired there were affiliated securities corporations controlled by the stockholders, the stock of the securities corporation being transferred with the stock of the bank. Therefore in acquiring majority interests in the stock of these banks Marine Midland also acquired a controlling stock interest in these two securities corporations, viz, Security Properties Co. (Inc.), affiliated with Manufacturers National Bank, of Troy, and Fitrust Corporation, affiliated with Fidelity Trust Co., of New York.

METHOD OF ACQUIRING BANKS

Generally speaking, the policy of Marine Midland Corporation is to acquire its holdings of bank stocks through the issuance of its own stock in exchange therefor, but this policy will not prevent it from using cash for part or all of the purchase price if that means will be helpful in any given case.

CAPITAL STRUCTURE AND STOCK DISTRIBUTION

As already stated, the capital structure of Marine Midland Corporation is extremely simple, there being only one class of stock authorized, consisting of 10,000,000 shares of the par value of $10 each.

The extent and method of stock distribution may be considered under two heads. The stock issued in exchange for bank stocks was, of course, distributed among the stockholders of the various banks who deposited their stock under the several plans and agreements and received Marine Midland stock in exchange therefor when the requisite amount of stock had been so deposited, and the transactions were closed. In addition to this stock, 1,000,000 shares were underwritten and offered to the public at $60 a share. This public offering was made by Stone & Webster and Blodget (Inc.), White, Weld & Co., Chas. D. Barney & Co., Schoellkopf, Hutton & Pomeroy (Inc.), and Marine Union Investors (Inc.), and 75,000 shares underwritten without commission by certain individuals were sold to the management at the same price paid by the public. The total number of stockholders of the corporation is now somewhat over 20,000. The complete statement as to the distribution of stock in all Marine Midland cities is as follows:

Place	Number of stockholders	Total shares
New York:		
Buffalo	6,505	2,891,844
New York City	2,667	877,911
Rochester	1,555	249,067
Troy	534	102,650
Niagara Falls	967	231,297
Binghamton	184	31,788
Tonawanda	194	115,455
North Tonawanda	169	84,210
Lockport	372	62,315
Johnson City	80	11,457
Lackawanna	57	1,535
Jamestown	120	16,653
East Aurora	83	8,664
Cortland	126	8,296
Albion	47	1,864
Snyder	116	3,458
Total Marine Midland cities	13,776	4,698,464
411 other communities in New York State	2,191	287,778
Total, New York State, 427	15,967	4,986,242

NOTE.—There are many communities tributary to Marine Midland cities whose figures are not included in Marine Midland cities totals.

Marine Midland stockholders are distributed through 45 States, Canada, England, Hawaii, and the West Indies.

In many cases where, under the unit system, one individual or a group of two or three controlled the bank and the number of stockholders in the community was comparatively small, now there is a much wider distribution of Marine Midland stock throughout the same community and the percentage of customers who are stockholders has been and is being substantially increased.

MARINE MIDLAND GROUP (INC.)

Marine Midland Corporation is purely a holding corporation, organized under the laws of Delaware and transacting no business in the State of New York. For the purpose of affording the various banks in the group the benefits of centralized supervision, cooperative buying and selling of securities, stabilization of methods of operation, cooperative purchasing and advertising and the other advantages which naturally accrue from group organization, the above corporation was organized under the laws of New York as a management company.

This company has only a nominal capitalization and all of its stock is owned by the trust companies or officials of the banks comprising the group. It has its head office in Buffalo and a board of directors comprising representatives from all of the banks in the group. Under management contracts with each bank, its expenses are prorated quarterly among the various banks in proportion to their deposits at the beginning of the quarter. This company has adopted a very carefully worked out program covering the service which it renders and will render to the members of the group, which may be analyzed as follows:

1. *Supervision and examinations.*—An expert examiner, who was formerly a chief bank examiner of the New York State banking department, has been secured to head this department. He, with his associates, and with the assistance of auditors drawn from other banks than the one being examined, will conduct frequent examinations of the various member banks, thus insuring that they will be maintained in excellent condition, that their methods will be up to date and standardized according to the best accounting practice, and that any weaknesses will be promptly discovered. The best methods developed in any one bank will be made available for all in the group. This we conceive to be the most important service rendered available by the group system, and one which will inevitably tend to weed out incompetent officials and doubtful loans, build up the standards of each separate bank, and give to the smallest institution the same high character of supervision otherwise available only to the larger institutions.

2 *Advertising and new business.*—Through the management company a national publicity campaign is being carried on which has certain unique features. Each advertisement has reference specifically to one of the communities in which the Marine Midland Group operates and features that city and the particular bank located there, Batten, Barton, Durstine & Osborn have been retained as publicity counsel, and a comprehensive program is being worked out by which all the banks will benefit from the publicity of each and the development of the local community in which each is operating will be consistehtly advocated.

Representatives of this department will also be constantly on the alert to obtain new business for the various member banks. This department will furnish a clearing house where all information regarding business developments which offer opportunity for banking service will be noted and followed up. Through having the combined resources of all the member banks at their disposal, representatives of this department will be able to offer lines of credit and other banking service commensurate with the needs of the largest corporate enterprises in the country.

3. *Bonds and Investments.*—One of the important divisions of this management corporation is that which will analyze the investments of the various banks and assist them in making changes in their portfolios. The highest class of investment service will thus be available for each bank and information possessed by any one will be open to all. Experts have been at work for months analyzing the portfolios of the various banks and recommending changes in the investments tending to strengthen the list and increase the rate of return. Their advice will always be obtained before any changes are made, and they will likewise call the attention of the several banks to opportunities for profitable and safe investments as they arise.

4. *Central credit file.*—A central credit file is being inaugurated which will contain credit information regarding customers or prospects whose principal offices are located outside the immediate territory served by the group. This will be of great value to any member considering increasing lines to such customers or extending lines to new prospects. In addition, the credit files of each bank will, of course, be at the disposal of all the members.

5. *Central purchasing bureau.*—As standardized forms and equipment are introduced throughout the group, economies will be effected through the employment of the services of this department in making purchases in larger quantities and on better terms than otherwise possible.

6. *Trust departments.*—One of the most important services will be that pertaining to the trust departments of the various institutions. Here, especially, the smaller banks are lacking in the experience and facilities which would enable them to develop trust business in their communities. Efficient trust officers will be at the disposal of all the members of the group, so that the internal organizations of their trust departments will be standardized, enlarged, and improved, and their external relations with the community correspondingly developed.

7. *Miscel aneous.*—In addition to the services outlined above, this company will be in position to help the member banks in many other ways, as for instance in developing their travel departments, their foreign departments, their real-estate and mortgage departments, and in all the other branches of banking.

One which should perhaps receive special mention is that of industrial survey and financial advice. The company will supply experts to study the business methods and conditions of customers who are not making good, and to give advice regarding changes in business methods or capital structure, by means of which results advantageous to the banks and customers alike may be obtained.

GEOGRAPHICAL AREA

The Marine Midland Group is the normal development of affiliated banks throughout a territory closely bound together by common ties of industry, commerce, and finance. This development started in the so-called Niagara frontier, including the cities of Buffalo, Niagara Falls, the Tonawandas, Lockport, and Lackawanna, as well as the smaller communities of East Aurora, Albion, and Snyder, and the territory immediately adjacent to the Niagara frontier extending as far south as Jamestown and as far east as Rochester. All of these communities are united by close trade relations, and the territory which they cover may properly be described as a "trade area" in the restricted use of that term. By a normal extension three banks in the adjacent territory, known as the southern teir, were added to the group in Binghamton, Johnson City, and Cortland. Also in recognition of the fact that the commerce of western and central New York normally flows largely along the route of the Erie Canal and the New York Central Railroad a representative bank in the manufacturing city of Troy was added to the group. Finally, to round out the territory served and pursuant to the plan originally adopted, which recognized the necessity of a New York City connection because of the very large volume of trade, commerce, and finance between all of these communities and that city, the Fidelity Trust Co. of New York was acquired by the group. For generattions all the so-called "up-State" banks and industries in New York have had close business and financial relations with New York City.

The entire territory served by the Marine Midland Group may, therefore, properly be regarded as a "trade area." The rural communities in the southern tier send their dairy and farm products to New York City. Grain, pig iron, flour, and many other commodities originating in western New York are shipped to New York City by rail or water transportation.

The State of New York is an economic unit bound together by a community of trade, transportation systems, uniform business customs, and the same laws. It is also a financial unit comprising substantially the entire New York Federal reserve district.

At the present time we do not contemplate the acquisition of any additional banks outside this territory, as we feel that we should first coordinate the banks which we have acquired and such additional ones within these limits as we may acquire in the near future before considering the possibility of extending our investment beyond these lines. As a matter of principle, however, it would appear reasonable that a group of banks controlled by one corporation need not of necessity be confined to the limits of any one State

or Federal reserve district. Certainly, where a recognized trade area overlaps such lines the group of banks might well be likewise extended.

If the group is to be confined to one trade area, the definition of trade area should not be too limited or narrow, but should be broad enough to include sufficient diversification so that if one locality is going through a business depression the others will be far enough removed not to be affected by such a purely local condition.

Such a condition of trade area has been repeatedly recognized as applicable to New York State and contiguous territory. The United States Government census figures and all official reports divide the country into standard sections, one of which is the Middle Atlantic division, comprising the States of New York, Pennsylvania, and New Jersey.

The Federal reserve district No. 2 comprises all of New York State, Fairfield County in Connecticut, and the northern section of New Jersey as far as Mercer and Ocean Counties.

In the Market Data Handbook of the United States, published by Batten, Barton, Durstine & Osborn in 1929 as the result of an exhaustive field study and statistical analysis covering several years of work, a trading-area map of the United States is presented which includes as a "major area" New York State, 5 counties in Connecticut, 14 counties in northern New Jersey, and a portion or all of 9 northern counties of Pennsylvania. This so-called "major trade area" has been adopted as the basis for sales promotion programs by a number of large corporations, including, among others, Armstrong Cork Co., Atwater Kent, Johnson & Johnson, Zellerbach, Clicquot, and General Electric Co. This last-named company in its bulletin, Sales Office Territories, published January 1, 1930, prints a map showing its New York sales territory to be exactly that of the "major New York area" described above. International Magazine Co. has issued a study of trading areas called Trading Area System of Sales Control, copyrighted 1929. In this a marketing map of New York State is published including, in addition to New York State, a portion of Connecticut, northern New Jersey, and five counties in northern Pennsylvania. The same territory is shown on a map published by the Chicago Tribune Book of Facts issued in 1927, except that the last named includes all of the State of New Jersey instead of only the northern part.

From all these references it is clear that both logically and by recognized governmental and business authorities the territory served by the Marine Midland Banks is well within a recognized major trade area.

Whether or not any geographical limitation upon the group is wise depends largely upon each particular case, and until experience has given us more information upon which to base a judgment in this regard we prefer to remain open minded.

GENERAL COMMENTS—RELATION TO GOVERNMENTAL OFFICIALS

Marine Midland voluntarily offered to permit the New York State superintendent of banks to examine its business, affairs, and records at any time as fully as though it were subject by law to such an examination. Later, the New York Legislature amended the banking law so as to extend the jurisdiction of the banking department to corporations affiliated with State banks or trust companies, and the governor has approved this bill. In my opinion this is a proper arrangement. We are equally willing to submit to examination by the Comptroller of the Currency, since some of our banks are national banks and others are members of the Federal reserve system.

STOCKHOLDERS' LIABILITY FOR ASSESSMENTS

Under both Federal and State laws, the stockholders of banks and trust companies are liable to an assessment for the benefit of creditors in an amount equal to the par value of the stock owned by them. Bank holding corporations have sometimes been criticized on the ground that they constitute an evasion of this liability. I feel that the contrary is the case, and that such a corporation, properly organized and conducted, makes the stockholders' liability much more readily enforceable.

Experience has demonstrated that under the ordinary unit banking conditions less than 50 per cent of such liability is in practice actually collected. Contrast this with our own situation. It is almost inconceivable that a condition could arise among our banks where the stockholders' liability could not

be enforced 100 per cent. The total authorized capital stock of all our banks is $28,025,000, which is, therefore, the extent of stockholders' liability, if all the banks should fail so badly as to make the maximum assessments necessary. Against this, Marine Midland Corporation has over $45,000,000 in cash, outside its investment in bank stocks, and it is our policy to keep at all times an amount in cash or its equivalent equal to our aggregate stockholders' liability on the bank stocks owned by us. It is, however, beyond the bounds of probability that any such situation as the failure of all the banks should arise. If it did, it could only be as the result of such a cataclysmic financial debacle as would render the ordinary individual stockholders' liability actually unenforceable to any extent.

Experience has demonstrated that in nearly all cases it is the smaller banks which get into difficulties requiring resort to assessments against the stockholders. When we remember that the total surplus and undivided profits of our banks combined is $42,134,389.72, as of March 31, 1930, or half again as much as their total authorized capital, and that the Marine Midland Corporation owns substantially all of this surplus and undivided profits in other banks (in addition to its other resources) it is readily seen that payment of an assessment by any one bank in full is assured. Certainly, therefore, the depositors have vastly stronger protection than in cases where the stock of a bank is widely scattered among individual holders of every variety of type, business, and financial responsibility.

If a holding company were organized to own only the stock of a single bank, and no other assets, then it might properly be said to constitute an evasion of the stockholders' liability. But where, as in our case, the holding company owns the stock of a large group of banks, located in many different communities, and serving widely varying industries, and has also a substantial worth outside of such bank stocks, there can be no possible conclusion but that the stockholders liability becomes a much more readily enforceable and valuable asset of each separate bank. Moreover, the actual obligation of the holding company to protect every bank in its group is far greater than the legal requirements represented by its stockholders' liability. It would be fatal for it to permit any single bank controlled by it to fail for any cause whatever. Its moral responsibility goes far beyond its legal obligations as a stockholder.

GROUP BANKING THE NATURAL RESULT OF MODERN ECONOMIC TENDENCIES

During the past 10 years the methods of conducting business in this country have been revolutionized. As stated by Comptroller Pole in his testimony before this committee: "The economic movement away from a large number of independent local utility and industrial operating units towards a stronger and more centralized form of operation in the large cities has curtailed the opportunities of the country bank for diversity and extension of business while broadening those opportunities for the large city bank. * * * The expenses of operating banks have been materially—very materially—increased. The opportunities of the country banks have diminished in that the small town has become less of a factor by reason of the improvement in roads and the quick transportation which takes people to the cities to do their business and their banking frequently instead of doing it in the small town. Heretofore in years gone by a community has been more or less independent, with its locally operated utilities, its light plants, ice plants, and wagon factories, etc., all of which have been removed and those things have gone to the cities and now are controlled by large corporations and those opportunities have been removed.

"There has been a change in corporate financing within the last 10 years. Heretofore large corporations, and small corporations similarly, would borrow seasonably, whereas now they have financed themselves through reorganization of their capital structures. That has removed the opportunities from the banks and such things as that have made it very difficult for a bank to stay on an even keel. * * * Banks in small communities have to be satisfied with small local loans and real-estate loans, which, frequently, are slow and unsatisfactory, resulting in a greater percentage of loss than in years gone by."

The banking system has not kept pace with all these changes. On the contrary, it tried to continue unchanged the traditional American ideal of the small, independent banker operating in thousands of small communities. The changed business conditions, as well as the agricultural depression, cut off the former sources of profit for such bankers, so that thousands failed, and other thousands have been on the verge of failure.

In the 10 years from 1920 to 1929, inclusive, about 750 national banks and 4,900 State banks, mostly small in size, failed. It is a ghastly record. About 10 per cent of the national banks and 20 per cent of State banks closed their doors. In the current year 1930, the Comptroller of the Currency has testified before this committee that from January 1 to February 21, 1930, 155 more banks failed, or at the rate of 1,140 a year. These failures have not only caused tremendous losses to the depositors and the stockholders, but they have virtually paralyzed business in whole sections of the country. The remaining banks have been afraid to make loans even well within their capacity, feeling that they must retain sufficient liquid assets to meet a run which might be caused at any time by the suspension of a neighboring institution.

Moreover, the vastly increased banking and financial needs resulting from so many consolidations and mergers rendered the resources of banks which had been large enough 10 years ago inadequate to meet these new demands.

As a result of these two tendencies in industrial development, two distinct movements have become manifest in our banking structure, first the stupendous increase in the size and decrease in the number of the metropolitan banks through huge mergers and consolidations, and, second, the rapid development of group banking throughout the country.

Unlike manufacturers or retailers, bankers could not establish branches except to a very limited extent. Branch banking, except within city limits, is, generally speaking, prohibited by the national bank act and by the laws of most States. The ownership of stock control of one bank by another is likewise forbidden. Therefore, to accomplish the same results that industry had reached by means of consolidations and branches, group banking developed almost overnight, as an entirely new form of banking development.

GROUP BANKING V. CHAIN BANKING

As generally understood, "group banking" implies the ownership by a holding company managed by bankers of a controlling stock interest in a group of banks or trust companies. It is a banking system whereby a number of corporately independent financial institutions, retaining their own identity, capital, personnel, and management, are coordinated through majority stock control, by a supervising holding company, operated by the banking interests of the territory which it serves. The stock of this holding company is widely distributed among a large number of stockholders.

"Chain banking" as the expression is commonly used, refers to the ownership of stock control of a number of banks, directly or indirectly, by one or more individuals who may be bankers, but are more often business men who have acquired or operate the banks as adjuncts of their business interests. Ultimate stock control is usually lodged in one, or at most, in a very few individuals.

GROUP BANKING V. BRANCH BANKING

We were compelled to carry out our plans by the method of "group banking" because as already intimated, the laws of New York State and the national bank act both prohibit branch banking beyond city limits. It is, therefore, somewhat academic for me to try to compare one system with the other, when only one was open to us. However, in view of the suggestion that the national bank act may be amended in such a way as to permit at least state-wide branch banking, I have given considerable thought to the question as to which form of operation would be preferable in our case.

Obviously certain advantages of branch banking can not be realized fully by group banking. For instance, more economies may be effected, both in operating costs and in overhead. Administration, also, would be more direct and simple. The corporate set-up is less complicated, the resources of the system more closely integrated, and authority more concentrated.

On the other hand, there appear to be certain advantages which group banking possesses over the branch system.

Ernest T. Clough in Barrons for April 14, 1930, in an article on "Group Banking Sweeps the Country," summarizes these advantages as follows:

"Banking facilities broadened: In many ways, the group-banking movement offers advantages to American business, to individuals in the community, and to the depositors and stockholders of the numerous unit banks. Banking operations are thereby broadened, the ability to handle the credit requirements of large corporate enterprises in the various territories is improved, sounder

investment advice is being given, individuals are offered opportunities of trust department and safekeeping facilities never before available, and advantages in the financing of foreign trade and in the obtaining of letters of credit for travel abroad are given the community served such as they are not able to secure in any other way under the present system of banking. At the same time, the local banking personnel is handling the problems of each community, which means that local requirements are fully understood and given sympathetic consideration. Depositors continue to have a feeling of pride in the institution as one which reflects the financial strength of the community, and the ability to maintain this close kinship between the depositor and his bank is unquestionably one of the strongest factors of strength in group banking."

Group banking is a compromise between the British, continental, and Canadian systems of branch banking, and the traditional unit-bank system of the United States. Possibly it is only a transitional stage. But for the present, at least, the retention of local interest and contacts, through independent boards of directors and real local autonomy, seem very real advantages. Local pride and rivalry are stimulated. Cooperation rather than centralization is stressed. In the numerous meetings we have had of the officers and directors of the different banks, a splendid esprit de corps was developed, with much friendly emulation as to the relative merits, efficiency, and progress of their respective institutions. It is hard to conceive of such a spirit—at least under present conditions—in a convention of branch managers. However, we are open-minded on the subject, and I am frank to confess that our experience has been too short to justify forming any final judgment as to the respective ultimate advantages of group versus branch banking. Nevertheless, I can and do heartily indorse the statement made by Mr. Wakefield of the First Bank Stock Corporation in his testimony before this committee, in which he said:

"The group system of banking is sound because it rests on these foundations: First, cooperation of resources; second, diversification of resources; third, ownership spread throughout the territory; fourth, creation and management by bankers."

ADVANTAGES COMMON TO GROUP AND BRANCH BANKING

Through its affiliations with the other Marine Midland banks, The Marine Trust Co. in February was able to become the successful bidder for an entire issue of $50,000,000 of the United States Government certificates. This fact attracted widespread notice and much favorable newspaper comment. It was stated to be the first time that such a large Government issue had been taken up by a bank outside of New York City. This is one illustration of the many ways in which bigger things can be done under the group or branch system.

The Orleans County Trust Co. is one of our smallest banks, being located at Albion, N. Y., in the midst of a farming community. Most of the farms are already mortgaged, and the farmers are having a hard time to make them pay. Through its affiliation with the Marine Midland group, this little trust company has been able to secure the services of an expert on farm loans, who is now studying the situation there and advising the farmers how they may so improve their methods or refinance their operations as to turn failure into prosperity and gradually liquidate their loans. This is an illustration of a very different way in which advantages may result from a coordinated banking system.

Another real gain from an organization viewpoint is the greatly enlarged opportunity afforded to every officer and employee in the whole group. Here we can learn much from the experience of Canadian bankers, where they are able to try a man out in a small branch and promote him or shift him around until he has broadened his experience and developed his abilities and become a seasoned, well-trained banker. The chance for advancement is multiplied many times. Good men are bound to be discovered and given promotion in their own or some other bank. A messenger in one of the country banks may some day become president of The Marine Trust Co. or of the Marine Midland Corporation.

RELATION TO OTHER INDEPENDENT BANKS

The Marine Midland banks number among their correspondents hundreds of independent unit banks. It is the policy of Marine Midland to work with these banks and serve their requirements as conscientiously and ably as it does its own member banks as far as it lies within its power so to do.

Whatever power and influence the joining of this group of banks into the Marine Midland group has given will never be used to force or coerce a smaller independent bank either into joining the Marine Midland group or into taking action detrimental to its own best interests.

Rather Marine Midland will use its power and influence to first protect its depositors' moneys, build up and assist local enterprise, better in so far as it can local banking conditions, develop the communities which it serves to the end that by serving others efficiently and well it also best serves itself. Local independent banks will find Marine Midland helpful, aggressive for business but only on a fair and profitable basis. Several times at the request of the New York State banking department the Marine Trust Co. has aided in saving smaller banks from failure each time at no gain to itself. A bank that is not a profitable bank is a poor bank. The Marine Midland Corporation desires its member banks to be profitable ones. We desire our employees and officers to receive a living wage. Too often the wages and salaries paid bank employees are a temptation to dishonesty.

CONCLUSION

Industrial and economic progress in the past 20 years has improved the standards of living and contributed to the happiness and welfare of the greater bulk of the people. Most of this progress has resulted from developments in transportation and communication which have broken down barriers and prejudices and changed methods of transacting business both in manufuacturing and distribution.

In this progress, up to the present time, banking organization has lagged behind. To-day, however, group banking is the logical means by which the two basic functions of a bank, the protection of its depositors' money, and the sound constructive extension of credit can be most effectively exercised.

Marine Midland Corporation, as an exponent of modern banking structure, definitely benefits the public, 350,000 depositors, and over 20,000 stockholders. These advantages may be summarized as follows:

ADVANTAGES TO THE DEPOSITORS

1. Greater protection for their deposits in a member bank through the availability of greater resources in money and experienced management as applied both to operations and the handling of the bank's investments.

2. Greater mobility of credit. (Example: The manufacturer in a small community who needs more credit than has been available to him through an isolated unit bank may now, through a group bank in his own home town, make arrangements for his requirements with greater facility.)

Group banking will benefit many communities by furnishing the assurance that credit is extended on the basis of sound business judgment rather than prejudice. (Example: Many times the president of a small bank, because of prejudice, will refuse to meet the legitimate needs of his customers or will often use the bank for his own personal ends.)

Certain small town banks with little paper to rediscount have been unable to take care of the legitimate matters of their individual borrowers. To such banks, members of Marine Midland, we are sending funds.

3. More complete financial service: The isolated country bank, while professing to have trust and investment departments, has been unable to afford competent officers along such lines. Now through any Marine Midland member bank there is available to the public such service through the part time of men who are experienced in their respective fields.

4. More efficient service. (Example: Through the extensive contacts of the Marine Midland group member banks are able to secure better and quicker credit information for their customers.)

In some instances readjustment of operating practice will improve the service at tellers windows and necessitate less waiting in line on the part of the public.

5. Financial advice: Manufacturers, jobbers, and merchants have a right to expect advice from their bank on many problems of a semibanking or business nature. If the officers in any particular Marine Midland bank can not from their own experience contribute constructive advice, such counsel is more directly available to the inquiring business man by virtue of the fact that the bank is a member of the group.

6. Development of communities and areas served by the group: The Marine Midland Corporation is not a bank and can profit only as the communities in the area which it serves themselves grow and prosper. With this in mind a national advertising campaign pointing out the advantages of Marine Midland cities and New York State from a manufacturing and sales distribution standpoint is being run in national publications.

We are also preparing a marketing survey of New York State designed to point out the opportunities in New York State.

None of these things which in the last analysis should tend to build up these communities could be attempted or carried out by the average small or moderate size unit bank.

ADVANTAGES TO THE STOCKHOLDERS

1. Safety of investment: The value of stock in an isolated unit bank is subject to depreciation, which might come from a business depression affecting that particular community or even from a single credit loss. An investment in stock, such as that of Marine Midland Corporation, owning as it does 17 banks, has the advantage of safety through diversification of risk.

A change in management necessitated, perhaps, through the death of the chief executive of a small country bank might be detrimental to the value of stock in such a single institution. On the other hand, under group banking continuity of good management in any single bank is more readily assured.

2. Opportunity for normal increase in value: Economies in operation and greater efficiency in management go hand in hand with group banking. Furthermore group banking furnishes opportunities for increased earnings through the ability to extend trust and investment facilities to a greater number of people.

3. Greater marketability: Stock in the Marine Midland Corporation is listed and affords the investor an opportunity to liquidate at any time if he needs to do so. Oftentimes the holder of stock in a small bank finds it almost impossible to dispose of his holdings without sacrifice.

The sole basis of profit, so far as Marine Midland Corporation is concerned, is the growth and development of the banks in Marine Midland cities. In each of these there is aggressive normal competition. Our banks' opportunity therefore lies chiefly in better serving the public.

In advocating group banking I do not deprecate the accomplishments and ability of the banker in a small city or town. Changes in business methods, however, are making it more difficult for him to operate a safe and profitable bank playing a lone hand. As outlined above, group banking retains all that is good in the unit and contributes much in resources and management which is of benefit to the public and through them of benefit to the bank in the small town.

We look forward to the future with confidence. We welcome cooperation with both State and governmental authorities and will furnish them every opportunity to examine our affairs. Our directors and officers have the confidence of the communities in which we do business, and we are equally proud of the character of our customers. At the same time we are not unmindful of the great responsibility resting upon us, especially in being one of the pioneers in this new field of American banking, and we are determined to do our utmost to serve faithfully and efficiently our 20,000 stockholders, our 350,000 customers, and every community, both the smallest and the largest, in which a Marine Midland bank is operating.

CERTIFICATE OF INCORPORATION OF MARINE MIDLAND CORPORATION

First: The name of this corporation is Marine Midland Corporation.

Second. Its principal office in the State of Delaware is located at No. 7 West Tenth Street, in the city of Wilmington, county of New Castle. The name and address of its resident agent is the Corporation Trust Co. of America, No. 7 West Tenth Street, Wilmington, Del.

Third. The nature of the business and the objects and purposes proposed to be transacted, promoted, and carried on are to do any or all of the things herein mentioned as fully and to the same extent as natural persons might or could do in any part of the world, as set forth below. (Wherever used in this article 3, the expression "evidence of indebtedness" or "evidences of indebt-

edness" shall mean and include, without limiting its generality, any and all bonds, debentures, notes, coupons, mortgages, commercial paper, and/or any other instruments evidencing indebtedness, however created, issued, or granted, and whether fully paid or subject to further payments; and the expression "certificate of interest" or "certificates of interest" shall mean and include, without limiting its generality, any and all certificates or shares of stock, scrip, interim receipts, participation certificates, voting trust certificates, subscription warrants, option warrants, and/or any other instruments evidencing interest in share capital or other property, however created, issued, or granted, and whether fully paid or subject to further payments.)

(1) To acquire by purchase, subscription, contract, or otherwise, hold for investment or otherwise, own, sell, exchange, mortgage, pledge, or otherwise dispose of, and generally deal in and with evidences of indebtedness, and/or certificates of interest issued or created in any and all parts of the world by banks, trust companies, financial institutions of every kind and description, corporations, associations, partnerships, firms, trustees, syndicates, individuals, governments, States, municipalities, or other political governmental divisions or subdivisions, or by any combinations, organizations, or entities whatsoever, irrespective of their form or the name by which they may be described, and to issue in exchange therefor or in payment thereof, in any manner permitted by law, its own evidences of indebtedness, and/or certificates of interest, or to make payment therefor by any other lawful means of payment whatsoever; and to exercise any and all of said powers, either on its own account, or with or as agent for other persons, firms, corporations, or organizations.

(2) To receive, collect and dispose of interest, dividends, and income upon, of and from any evidence of indebtedness or certificate of interest and any other property held or owned by it, and to exercise any and all rights, powers and privileges of individual ownership or interest in respect of any and all such evidences of indebtedness or certificates of interest, including the right to vote thereon for any and all purposes.

(3) To indorse or guarantee the payment of principal and/or interest or dividends upon, and to guarantee the performance of sinking fund or other obligations of, any evidences of indebtedness or certificates of interest, and to guarantee the performance of any of the contracts or other undertakings in which the corporation may otherwis ebe or become interested, or any corporation, association, partnership, firm, trustee, syndicate, individual, Government, State, municipality, or other political or governmental division or subdivision, domestic or foreign, in so far as may be permitted by law to a corporation of this character.

(4) To enter into, make, perform, and carry out or cancel and rescind contracts relating to or underwritings of evidences of indebtedness or certificates of interest, of any corporation, association, partnership, firm, trustee, syndicate, individual, Government, State, municipality, or other political or governmental division or subdivision, domestic or foreign, or of any combination, organization, or entity, domestic or foreign, and to act as manager of any underwriting or purchasing or selling syndicate.

(5) To lend money, whether or not secured by mortgages or other liens on real estate or personal property, and to negotiate and make, either as principal or broker or agent, contracts or other agreements in connection therewith.

(6) To borrow money with or without security, to make, accept, indorse, guarantee, execute, and issue evidences of indebtedness and to secure the same by a mortgage, pledge, deed of trust, other lien, or otherwise, upon all or any part of the property of the corporation, wherever situated.

(7) To act as agent or representative of individuals, firms, and corporations, and as such to develop and extend the business interests of individuals, firms, and corporations.

(8) To purchase, hold, sell, and transfer the shares of its own capital stock, provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital, and provided that shares of its own capital stock belonging to it shall not be voted upon, directly or indirectly, but nothing in this subdivision shall be construed as limiting the exercise of the rights given by section 27 of the general corporation law of the State of Delaware.

(9) To take, lease, purchase, or otherwise acquire and to own, use, hold, sell, convey, lease, exchange, mortgage, improve, develop, cultivate, and otherwise handle, deal in, and dispose of real estate, real property, and, any interest or right therein.

(10) To purchase, manufacture, acquire, hold, own, mortgage, pledge, lease, sell, assign, and transfer, and to invest, trade, deal in and with goods, wares, merchandise, patents, trade-marks, rights, privileges, franchises, grants, and property of every kind and description; to carry on any of the above businesses or any other business connected therewith, wherever the same may be permitted by law, and to the same extent as the laws of this State will permit and as fully and with all the powers that the laws of this State confer upon corporations and organizations under the general corporation law of the State of Delaware.

(11) To acquire and take over as a going concern and/or carry on the business of any person, firm, association, or corporation engaged in any business which this corporation is authorized to carry on.

(12) To render service, assistance, counsel, and advice to any person, firm, association, or corporation in the conduct of his or its business.

(13) To do all and everything necessary, suitable, and proper for the accomplishment of any of the purposes or the attainment of any of the objects or the furtherance of any of the powers hereinbefore set forth, either as principal or agent, either alone or associated with other corporations or with firms or individuals, and either directly or indirectly through one or more subsidiary company or companies organized or utilized for the purpose, and to do any other act or acts, thing or things, incidental or pertaining to, or growing out of, or connected with the aforesaid business or powers, or any parts thereof, provided the same be not inconsistent with the law under which this corporation is organized.

(14) The business or purpose of the corporation is from time to time to do any one or more acts and things herein set forth; and it may conduct such business in all its branches or any part thereof either within or outside the State of Delaware, and in other States and Territories and dependencies of the United States and in foreign countries.

The foregoing enumeration of specific powers shall not be deemed to limit or restrict in any manner the general powers of the corporation and the enjoyment and exercise thereof as conferred by the laws of the State of Delaware upon corporations formed under the general corporation law of said State and the doing of any or all the things hereinbefore set forth to the same extent as natural persons might or could do; but this corporation shall not by any implication or construction be deemed to possess the power of issuing bills, notes, or other evidences of debt for circulation as money, or the power of carrying on the business of receiving deposits of money, or the business of buying gold and silver bullion or foreign coins.

Fourth. The total number of shares of stock which the corporation shall have authority to issue is 10,000,000, and the par value of each of such shares is amounting in the aggregate to $100,000,000.

Fifth. The minimum amount of capital with which the corporation will commence business is $1,000.

Sixth. The names and places of residence of each of the incorporators are as follows: C. S. Peabbles, Wilmington, Del.; L. E. Gray, Wilmington, Del.; H. E. Grantland, Wilmington, Del.

Seventh. This corporation is to have pepetual existence.

Eighth. The private property of the stockholders shall not be subject to payment of corporate debts to any extent whatsoever.

Ninth. The holders of the stock of this corporation shall have a preemptive or preferential right to be exercised upon such terms and conditions (including a determination of what disposition shall be made of fractional shares resulting from a pro rata offering to stockholders) as the board of directors in its discretion may from time to time fix and determine, to subscribe to any shares of stock or obligations convertible into stock of this corporation, issued for cash: *Provided*, That such right of subscription shall not apply to any shares of stock issued upon the organization of this corporation or within 90 days thereafter: *Provided also*, That such right of subscription shall not apply to any shares issued to any director, officer, or employee of the corporation, not exceeding 25,000 shares in the aggregate, at such price or prices, not less than $60 per share, as the board of directors may from time to time determine, but no shares issued upon the organization of this corporation or within 90 days thereafter shall be deemed to be issued out of said 25,000 shares; but no holder of stock of this corporation shall have any preemptive or preferential right of subscription to any shares of stock of this corporation or to any obligations convertible into stock of this corporation issued for any consideration

other than cash. As used in this paragraph, the term "obligations convertible into stock" shall include any notes, bonds, or other evidences of indebtedness which by their terms are convertible into shares of stock of this corporation or with which are issued warrants (either in attached or detached form) or other rights to purchase for cash shares of stock of this corporation.

Tenth. Subject to the provisions of law and in furtherance and not in limitation of the powers conferred by law, the board of directors of the corporation is hereby empowered by resolution or resolutions:

1. Subject to the provisions of article 9 hereof, to provide for the issuance from time to time of its shares of stock of any class, whether now or hereafter authorized, and securities convertible into shares of its stock of any class, and/or securities whether now or hereafter authorized carrying a privilege to subscribe for or receive shares of its stock of any class, for such considerations and upon such terms and conditions as the board of directors may fix from time to time.

2. To determine that only a part of the consideration which shall be received by the corporation in excess of the par value of its shares of capital stock or any thereof, which it shall issue from time to time shall be capital.

3. Without the consent of the stockholders of any class, to authorize the issuance and sale from time to time of evidences of indebtedness (as defined in article 3 hereof) of the corporation for such consideration as it may deem advisable, to provide that such evidences of indebtedness be issued in such series, in such denomination or denominations, and with such interest rate or rates, redemption price or prices, and maturing at such time or times and otherwise varying as it may determine; and likewise without such consent to mortgage, pledge, and/or hypothecate all or any part of the corporation's property, real, personal, or mixed (except its corporate franchises), and its rents, revenues, and income, whether now owned or hereafter acquired, and to authorize the execution, delivery, filing, and recording of all mortgages, deeds of trust, or other indentures, in such form as shall be determined by it, to secure the payment of all or any of such evidences of indebtedness, the principal and interest thereof, the premium, if any, thereon, and any and all other amounts or sums payable in respect thereof or in connection therewith.

4. To make, alter, amend, change, add to, or repeal the by-laws of this corporation without any action on the part of the stockholders.

5. By resolution passed by a majority of the whole board, to designate two or more of its number to constitute an executive committee, which committee, so far as is provided in said resolution or in the by-laws of this corporation, shall have and may exercise the powers of the board of directors in the management of the business and affairs of this corporation and have power to authorize the seal of this corporation to be affixed to all papers which may require it.

6. When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding to sell, lease, or exchange all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part evidences of indebtedness and/or certificates of interest (as defined in article 3 hereof) as its board of directors shall deem expedient and for the best interests of the corporation.

7. From time to time, to determine whether and to what extent and at what times and places and under what conditions and regulations the accounts and books of this corporation (other than the stock ledger) or any of them shall be open to the inspection of stockholders; and no stockholder shall have any right of inspecting any account, book, or document of this corporation, except as conferred by statute, unless authorized by resolution of stockholders or directors.

8. To set apart out of any of the funds or assets of this corporation, available for dividends, a reserve or reserves for any proper purpose, and to abolish any such reserve or reserves. Against any such reserve or reserves and/or surplus so established, there may be charged losses at any time incurred by this corporation, also dividends or other distribution upon stock. Such reserve or reserves and/or surplus may be reduced from time to time by the board of directors by transfer from such reserve or reserves and/or surplus to capital account.

9. Subject to the provisions of article ninth hereof, at any time or from time to time to create and issue (without any action by the stockholders of

the corporation), whether or not in connection with the issue and sale of any shares of stock or other securities of the corporation, rights or options entitling the holders thereof to purchase from the corporation shares of its capital stock, such rights or options to be evidenced by or in such instrument or instruments as shall be approved by the board of directors. The terms upon which, the time or times, which may be limited or unlimited in duration, at or within which, and the price or prices at which any such shares may be purchased from the corporation upon the exercise of any such right or option shall be such as shall be fixed and stated in a resolution or resolutions adopted by the board of directors providing for the creation and issue of such rights or options, and set forth or incorporated by reference in the instrument or instruments evidencing such rights or options.

Eleventh. The number of directors which shall constitute the whole board shall be such from time to time as shall be fixed by the by-laws, but in no case shall the board be less than three (3). In case of any increase in the number of directors, such additional directors shall be chosen by the directors or stockholders at the time entitled to vote, as may be prescribed in the by-laws of this corporation. Directors need not be stockholders. This corporation may in its by-laws confer powers upon its directors in addition to those conferred in this certificate of incorporation and in addition to the powers and authorities expressly conferred upon them by statute.

Twelfth. The corporation shall be entitled to treat the person in whose name any share is registered as the owner thereof for all purposes, and shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not the corporation shall have notice thereof, save as expressly provided by the laws of the State of Delaware.

Thirteenth. Both stockholders and directors shall have power, if the by-laws so provide, to hold their meetings and to have one or more offices within or without the State of Delaware and to keep the books of this corporation (subject to the provisions of the general corporation law of said State) outside the State of Delaware, at such places as may be from time to time designated by the board of directors.

Fourteenth. All the powers of this corporation in so far as the same may be lawfully vested by this certificate of incorporation in the board of directors, are hereby conferred upon the board of directors of this corporation, provided, however, that by resolution of the board of directors adopted either by a quorum disinterested in the subject matter of the resolution or interested therein, as the case may be, any matter concerning the management of the corporation or its affairs may be referred to the stockholders of the corporation for decision and in such cases such matters may be authorized by vote adopted by the majority of a quorum of the stockholders entitled to vote at a meeting thereof duly held.

Fifteenth. A director of the corporation shall not in the absence of fraud be disqualified by his office from dealing or contracting with the corporation either as a vendor, purchaser, or otherwise, nor in the absence of fraud shall any transaction or contract of the corporation be void or voidable or affected by reason of the fact that any director, or any firm of which any director is a member, or any corporation or association of which any director is an officer, director, or stockholder, is in any way interested in such transaction or contract; provided that at the meeting of the board of directors or of a committee thereof having authority in the premises, authorizing or confirming said contract or transaction, the existence of an interest of such director, firm, corporation, or association is disclosed or made known (or shall have been disclosed and spread upon the records at a previous meeting at which a quorum was present) and there shall be present a quorum of the board of directors or of the directors constituting such committee, and such contract or transaction shall be approved by a majority of such quorum, which majority shall consist of directors not so interested or connected. Nor shall any director be liable to account to the corporation for any profit realized by him from or through any such transaction or contract of the corporation ratified or approved as aforesaid, by reason of the fact that he or any firm of which he is a member, or any corporation or association of which he is an officer, director, or stockholder, was interested in such transaction or contract. Anything herein contained to the contrary notwithstanding, all or any of the directors of the corporation, in connection with the organization of this corporation and the issuance of its stock for cash and/or properties, may vote to approve and authorize plans and agreements for the acquisition by this corporation, through the issuance of its own stock in exchange therefor, of stock in banks and/or trust companies of which said directors, or

any of them, may be stockholders, directors, or officers, and to approve and authorize an underwriting agreement or agreements for the sale of stock of this corporation, in which they or any of them may be interested, with the same force and effect as though not so interested. Directors so interested may be counted when present at meetings of the board of directors or of such committee for the purpose of determining the existence of a quorum. Any contract, transaction, or act of the corporation or of the board of directors or of any committee thereof (whether or not approved or ratified as hereinabove provided) which shall be ratified by a majority in interest of a quorum of the stockholders entitled to vote at any annual meeting or any special meeting called for such purpose or approved in writing by a majority in interest of the stockholders entitled to vote without a meeting, shall be as valid and as binding as though ratified by every stockholder of the corporation.

Sixteenth. This corporation reserves the right to amend, alter, change, or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed by statute, and all rights conferred on officers, directors, and stockholders herein are granted subject to this reservation.

We, the undersigned, being each of the incorporators hereinbefore named for the purpose of forming a corporation to do business both within and without the State of Delaware, and in pursuance of the general corporation law of the State of Delaware, being chapter 65 of the Revised Code of Delaware, and the acts amendatory thereof and supplemental thereto, do make and file this certificate, hereby declaring and certifying that the facts herein stated are true, and accordingly have hereunto set our hands and seals this 23d day of September, 1929.

C. S. PEOBLES [L. S.]
L. E. GRAY [L. S.]
H. E. GRANTLAND [L. S.]

In the presence of:
Albert L. Miller.

STATE OF DELAWARE,
County of New Castle, ss:

Be it remembered that on this 23d day of September, 1929, personally came before me, Albert L. Miller, a notary public for the State of Delaware, C. S. Peobles, L. E. Gray, and H. E. Grantland, all parties to the foregoing certificate of incorporation, known to me personally to be such, and severally acknowledged the said certificate to be the act and deed of the signers respectively, and that the facts therein stated are truly set forth.

Given under my hand and seal of office the day and year aforesaid.

[SEAL.] ALBERT L. MILLER, *Notary Public.*

STATE OF DELAWARE,
OFFICE OF SECRETARY OF STATE.

I, Charles H. Grantland, secretary of state of the State of Delaware, do hereby certify that the above and foregoing is a true and correct copy of certificate of incorporation of the Marine Midland Corporation, as received and filed in this office the 23d day of September, A. D. 1929, at 11 o'clock a. m.

In testimony whereof I have hereunto set my hand and official seal, at Dover, this 23d day of September in the year of our Lord 1929.

[SEAL.] CHARLES H. GRANTLAND,
Secretary of State.

BY-LAWS OF MARINE MIDLAND CORPORATION (AS AMENDED TO OCTOBER 1, 1929)

OFFICES

1. The principal office shall be in the city of Wilmington, county of New Castle, State of Delaware, and the name of the resident agent in charge thereof is the Corporation Trust Co. of America.

2. The corporation may also have offices at such other places, within or without the State of Delaware, as the board of directors may from time to time appoint or the business of the corporation may require.

SEAL

3. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization, and the word "Delaware." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise represented.

STOCKHOLDERS' MEETINGS

4. Meetings of the stockholders shall be held at the principal office of the corporation in Wilmington, Del.

5. An annual meeting of stockholders, after the year 1929, shall be held on the first Wednesday after the first Tuesday in February in each year if not a legal holiday, and if a legal holiday, then on the next day following that is not a legal holiday, at 12 o'clock m., when they shall elect by a plurality vote, by ballot, a board of directors and transact such other business as may properly be brought before the meeting.

6. The holders of a majority of the stock issued and outstanding, and entitled to vote thereat, present in person, or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by law, by the certificate of incorporation or by these by-laws. If, however, such majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person, or by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented any business may be transacted which might have been transacted at the meeting as originally notified.

7. At any meeting of the stockholders every stockholder having the right to vote shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder and bearing a date not more than three years prior to said meeting, unless said instrument provides for a longer period. Each stockholder shall have one vote for each share of stock having voting power, registered in his name on the books of the corporation, and except where the transfer books of the corporation shall have been closed or a date shall have been fixed as a record date for the determination of its stockholders entitled to vote, no share of stock shall be voted on at any election for directors which shall have been transferred on the books of the corporation within twenty days next preceding such election of directors.

8. Written notice of the annual meeting shall be mailed to each stockholder entitled to vote thereat at such address as appears on the stock book of the corporation, at least 10 days prior to the meeting.

9. A complete list of the stockholders entitled to vote at the ensuing election, arranged in alphabetical order, with the residence of each, and the number of voting shares held by each, shall be prepared by the secretary and filed in the office where the election is to be held, at least 10 days before every election, and shall at all times, during the usual hours for business, and during the whole time of said election, be open to the examination of any stockholder.

10. Special meetings of the stockholders, for any purpose, or purposes, unless otherwise prescribed by statute, may be called by the president or by resolution of the board of directors, and shall be called by the president or secretary at the request in writing of a majority of the board of directors, or at the request in writing of three or more stockholders owning at least 10 per cent in amount of the entire capital stock of the corporation issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

11. Business transacted at all special meetings shall be confined to the objects stated in the call.

12. Written notice of a special meeting of stockholders, stating the time and place and object thereof, shall be mailed, postage prepaid, at least 10 days before such meeting, to each stockholder entitled to vote thereat at such address as appears on the books of the corporation.

DIRECTORS

13. The property and business of this corporation shall, except as otherwise provided in the certificate of incorporation, be managed by its board of directors, 20 in number. Directors need not be stockholders. They shall be elected at the annual meeting of the stockholders, and each director shall be elected to serve until his successor shall be elected and shall qualify. In case of any increase in the number of directors, such additional directors shall be chosen by the directors.

14. The directors may hold their meetings and have one or more offices, and keeep the books of the corporation ,except the original or duplicate stock ledger, outside Delaware, at such office of the corporation as they may from time to time determine.

15. If the office of any director or directors becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, or otherwise, a majority of the remaining directors, though less than a quorum, shall choose a successor or successors, who shall hold office until the next annual election and until a successor or successors have been duly elected, unless sooner displaced.

16. In addition to the powers and authorities by these by-laws expressly conferred upon it, the board of directors may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

EXECUTIVE COMMITTEE

17. There shall be an executive committee of the board of directors consisting of five directors in addition to the president, ex officio which shall be designated by resolution or resolutions, passed by a majority of the whole board. The members of such committee shall serve for a period of one year and until their successors are elected and have qualified. The board of directors may also in the same manner designate an alternate for each such member. In the event that any member of the committee is unable to attend any meeting or meetings, his alternate may act thereat in his stead. Vacancies in alternate membership shall be filled in the same manner as vacancies in the membership of the committee.

18. In the event of a vacancy occurring in the executive committee, the board of directors shall, by resolution passed by a majority of the whole board designate a successor to fill the vacancy for the unexpired term.

19. Subject to such limitations and regulations as may be prescribed by law or these by-laws or by the board of directors, the executive committee shall have and exercise all the powers of the board of directors in the intervals between the meetings of the board, and shall have power to authorize the seal of the corporation to be affixed to all papers which may require it.

20. Regular meetings of the executive committee shall be held on such days, at such hours and at such place or places as the committee may by resolution appoint.

21. No notice shall be required to be given of any regular meeting of the executive committee.

22. Special meetings of the executive committee may be called at any time by any two members of the committee and may be held at any place and at any time designated in the notice thereof.

23. Notice of each special meeting of the executive committee, stating the time, place, and purpose or purposes thereof, shall be given by the president or by the secretary or by any member of the committee to each member of the committee not less than three days by mail or one day by telegraph or telephone prior to the meeting. Special meetings of the executive committee may also be held at any place and time, without notice, provided all the members are present at such meeting or the members absent shall waive notice.

24. At any meeting of the executive committee a majority of the entire committee shall constitute a quorum and, except where otherwise provided by law or by these by-laws, a majority of such quorum shall decide any question that may come before the meeting. A majority of the members present at any regular or special meeting, although less than a quorum, may adjourn the same from time to time, without notice other than announcement at the meeting, until a quorum is present. At such adjourned meeting at which a quorum

shall be present any business may be transacted which might have been transacted at the meeting as originally called.

25. The chairman of the executive committee shall be designated by the board of directors and shall preside at all meetings of the committee. The secretary of the corporation shall act as secretary of the executive committee. In the absence of the chairman or of the secretary, the committee shall appoint a chairman or secretary of the meeting as the case may be. The committee shall keep a record of its acts and proceedings and report thereon to the board of directors at its next regular meeting.

ADDITIONAL COMMITTEES OF DIRECTORS

26. The board of directors may, by resolution or resolutions passed by a majority of the whole board, designate one or more committees in addition to the executive committee, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in said resolution or resolutions, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors.

27. Said committees shall keep regular minutes of their proceedings and report the same to the board when required.

COMPENSATION OF DIRECTORS

28. Directors, as such, shall not receive any stated salary for their services, but by resolution of the board, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the board: *Provided*, That nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

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

MEETINGS OF THE BOARD

30. Any member of a newly elected board of directors may call a meeting of such board, to be held at such place either within or without the State of Delaware, and at such time as shall be stated in the notice to be given in the same manner as for special meetings.

31. Regular meetings of the board may be held without notice at such time and place either within or without the State of Delaware as shall from time to time be determined by the board.

32. Special meetings of the board of directors may be called at any time by the president or any three members of the board and may be held at any time and place designated in a notice thereof given by the president or by the secretary or by the members calling such meeting to each member of the board not less than three days by mail or one day by telegraph or telephone prior to the meeting.

33. At all meetings of the board one-third of the total number of the board but not in any case less than two directors shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum, shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation or by these by-laws.

ADVISORY BOARD

34. The board of directors of the corporation may, in its discretion, at any time and from time to time make, constitute, and appoint an advisory board of the corporation, consisting of such persons as the board of directors of the corporation shall from time to time designate, under such rules and regulations as the board of directors of the corporation may adopt. Such advisory board shall be for the purpose of enabling the board of directors of the corporation to obtain counsel and advice with respect to such matters as may be from time to time referred by it to such advisory board for such purpose.

OFFICERS

35. The officers of the corporation shall be chosen by the directors, and shall be a chairman of the board, a president, vice president, secretary, and treasurer. The board of directors may also choose additional vice presidents, assistant secretaries, and assistant treasurers. The secretary and treasurer may be the same person, but a vice president may not hold at the same time the office of secretary or treasurer.

36. The board of directors at its first meeting after each annual meeting of stockholders shall choose a chairman of the board and a president from their own number, and one or more vice presidents, a secretary, and a treasurer, who need not be members of the board.

37. The board may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

38. The salaries of all officers and agents of the corporation shall be fixed by the board of directors.

39. The officers of the corporation shall hold office until their sucessors are chosen and qualify in their stead. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the whole board of directors. If the office of any officer or officers becomes vacant for any reason, the vacancy shall be filled by the board of directors.

THE CHAIRMAN OF THE BOARD

40. The chairman of the board shall preside at all meetings of the stockholders and of the board of directors, and shall be entitled to vote upon all questions. In thet absence of the president, the chairman of the board shall exercise the power and perform the duties of the president. He shall also perform such other duties as the board of directors or the executive committee may from time to time prescribe.

THE PRESIDENT

41. The president shall be the chief executive officer of the corporation and shall, under the control of the board of directors and of the executive committee, have the general management of its affairs and shall perform all duties and exercise all powers incident to his office.

42. In the absence of the chairman of the board, the president shall preside at all meetings of the stockholders and of the board of directors. He shall have power to employ and discharge all employees, and to fix their salaries from time to time. He shall have power to fix and from time to time to change the salaries of all officers whose salaries shall be at the rate of less than $10,000 per annum. He shall execute bonds, mortgages, and other contracts requiring a seal under the seal of the corporation. He shall also perform such duties and be vested with such powers as shall be assigned to him from time to time by the board of directors and by the executive committee, and shall be ex officio a member of all committees authorized by these by-laws or created by the board of directors. He may, from time to time, in his discretion, compensate any director who does not receive a salary from the corporation, for any special service rendered by said director, at his request, not exceeding, however, in amount for any day's service, the amount paid to a director for attending a regular meeting of the board.

VICE PRESIDENTS

43. The vice presidents shall, in the absence or disability of the president, perform the duties and exercise the powers of the president and shall perform such other duties as the board of directors shall prescribe.

THE SECRETARY AND ASSISTANT SECRETARIES

44. The secretary shall attend all sessions of the board and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose; and shall perform like duties for the standing committees when required. He shall, if requested, give, or cause to be given, notice of all meetings of the stockholders and of the board of directors, and

shall perform such other duties as may be prescribed by the board of directors or president, under whose supervision he shall be. He shall keep in safe custody the seal of the corporation, and when authorized by the board affix the same to any instrument requiring it, and when so affixed it shall be attested by his signature or by the signature of the treasurer or an assistant secretary. He shall be sworn to the faithful discharge of his duty.

45. The assistant secretaries may, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board of directors shall prescribe.

THE TREASURER AND ASSISTANT TREASURERS

46. The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation, and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors.

47. He shall disburse the funds of the corporation for proper corporate purposes, taking proper vouchers for such disbursements, and shall render to the president and directors, at the regular meetings of the board, or whenever they may require it, an account of all his transactions as treasurer and of the financial condition of the corporation.

48. The treasurer and the assistant treasurers shall, respectively, give the corporation a bond if required by the board of directors in a sum and with one or more sureties satisfactory to the board for the faithful performance of the duties of his office in such form as the president or board of directors shall approve.

49. The assistant treasurers may, in the absence or disability of the treasurer, or at his request, perform the duties and exercise the powers of the treasurer, and shall perform such other duties as the board of directors shall prescribe.

DUTIES OF OFFICERS MAY BE DELEGATED

50. In case of the absence of any officer of the corporation, or for any other reason that the board may deem sufficient, the board may delegate, for the time being, the powers or duties or any of them, of such officer to any other officer, or to any director.

CERTIFICATES OF STOCK

51. The certificates of stock of the corporation shall be numbered and shall be entered in the books of the corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed by the president or a vice president and the treasurer or an assistant treasurer, or the secretary or an assistant secretary. If the corporation has a transfer agent or an assistant transfer agent or a transfer clerk acting on its behalf and a registrar the signature of any such officer may be facsimile. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the corporation, such certificate or certificates may nevertheless be adopted by the corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signatures shall have been used thereon had not ceased to be such officer or officers of the corporation.

TRANSFERS OF STOCK

52. Transfers of stock shall be made on the books of the corporation only by the person named in the certificate or by attorney, lawfully constituted in writing, and upon surrender of the certificate therefor.

CLOSING OF TRANSFER BOOKS

53. The board of directors shall have power to close the stock transfer books of the corporation for a period not exceeding 40 days preceding the date of any meeting of stockholders or the date for payment of any dividend or the

date for the allotment of rights or the date when any change or conversion or exchange of capital stock shall go into effect: *Provided, however*, That in lieu of closing the stock transfer books as aforesaid, the board of directors may fix in advance a date, not exceeding 40 days preceding the date of any meeting of stockholders or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion, or exchange of capital stock, and in such case such stockholders, and only such stockholders as shall be stockholders of record on the date so fixed, shall be entitled to such notice of, and to vote at, such meeting, or to received payment of such dividends, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.

REGISTERED STOCKHOLDERS

54. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of Delaware.

LOST CERTIFICATE

55. Any person claiming a certificate of stock to be lost or destroyed shall make an affidavit or affirmation of that fact and advertise the same in such manner as the board of directors may require, and the board of directors may, in its discretion, require the owner of the lost or destroyed certificate, or his legal representative, to give the corporation a bond, in such sum as it may direct, not exceeding double the value of the stock, to indemnify the corporation against any claim that may be made against it on account of the alleged loss of any such certificate. A new certificate of the same tenor and for the same number of shares as the one alleged to be lost or destroyed may be issued without requiring any bond when, in the judgment of the directors, it is proper so to do.

CHECKS

56. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

FISCAL YEAR

57. The fiscal year shall begin the 1st day of January in each year.

DIVIDENDS

58. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock.

59. Before payment of any dividend there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purposes as the directors shall think conductive to the interests of the corporation, and the directors may abolish any such reserve in the manner in which it was created. Any such reserve or reserves may be reduced from time to time by the board of directors by transfer from such reserve or reserves to capital account. Transfers to capital account may also be made from surplus.

NOTICES

60. Whenever under the provisions of these by-laws notice is required to be given to any director, officer, or stockholder, it shall not be construed to mean personal notice, but such notice may, unless some other method is provided therefor, be given in writing, by mail, by depositing the same in the post office or letter box, in a post-paid sealed wrapper, addressed to such stockholder, officer, or director at such address as appears on the books of the corporation, or, in default of other address, to such director, officer, or stockholder at the general post office in the city of Wilmington, Del., and such notice shall be deemed to be given at the time when the same shall be thus mailed.

61. Whenever any notice whatever is required to be given under the provisions of the general corporation law of Delaware or under the provisions of the certificate of incorporation or by-laws of this corporation, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

AMENDMENTS

62. These by-laws may be altered or amended or repealed by the affirmative vote of a majority of the stock issued and outstanding and entitled to vote thereat at any regular or special meeting of the stockholders or by the affirmative vote of a majority of the board of directors at any regular or special meeting of the board if notice of the proposed alteration or amendment or repeal be contained in the notice of the meeting of stockholders or directors, as the case may be: *Provided, however*, That no change of the time or place for the election of directors shall be made within 60 days next before the day on which such election is to be held, and that in case of any change of such time or place notice thereof shall be given to each stockholder in person or by letter mailed to his last-known post-office address at least 20 days before the election is held.

I, Edward H. Letchworth, secretary of Marine Midland Corporation, hereby certify that the foregoing is a true and complete copy of the by-laws of said corporation as the same are in force and effect as of the date hereof.

In witness whereof I have hereunto subscribed my name and affixed the seal of said corporation this —— day of ———, 19—.

[SEAL.] ———————, *Secretary.*

SCHEDULE No. 3

BOARD OF DIRECTORS OF MARINE MIDLAND CORPORATION (DELAWARE)

George G. Allen, president Duke Power Co.
John L. Clawson, chairman of the board, Clawson & Wilson Co.
Walter P. Cooke, chairman of the board, the Marine Trust Co. of Buffalo.
Arthur V. Davis, chairman of the board, Aluminum Co. of America.
William C. Feathers, president the Manufacturers National Bank of Troy.
Seymour H. Knox, president Marine Union Investors (Inc.).
Edward H. Letchworth, director and general counsel, the Marine Trust Co. of Buffalo.
Raymond V. V. Miller, White, Weld & Co.
George O. Muhlfeld, vice president, Stone & Webster (Inc.).
Bayard F. Pope, president Stone & Webster & Blodget (Inc.).
George F. Rand, president the Marine Trust Co. of Buffalo.
Faris R. Russell, White, Weld & Co.
J. F. Schoellkopf, jr., vice president, Schoellkopf, Hutton & Pomeroy (Inc.).
Paul A. Schoellkopf, president Niagara Hudson Power Corporation.
Eustace Seligman, Sullivan & Cromwell.
Ernest Stauffen, jr., chairman of the board.
Charles Winslow Smith, treasurer Sherwood Shoe Co.
Harral S. Tenney, vice president, Marine Midland Corporation.
Thomas A. Wilson, president Peoples Trust Co., Binghamton, N. Y.
Frederick W. Zoller, president Union Trust Co. of Rochester.

SCHEDULE No. 4

The Marine Midland Banks, classification, capital, deposits, and assets

Bank	Federal reserve system	Capitalization		Capital	Surplus	Undivided profits	Combined	Reserves	Total deposits	Total assets
		Par	Outstanding shares							
Marine Trust Co., Buffalo, N. Y.	Member	$50.00	200,000	$10,000,000.00	$10,000,000.00	$10,848,041.02	$30,848,041.02	$2,330,000.00	$249,723,992.63	$303,684,043.75
Fidelity Trust Co., New York, N. Y.	do	20.00	300,000	6,000,000.00	4,000,000.00	1,710,271.48	11,710,271.48	252,863.98	56,756,111.46	76,316,612.80
Union Trust Co., Rochester, N. Y.	Nonmember	50.00	80,000	4,000,000.00	3,400,000.00	1,045,961.90	8,445,961.90	1,957,641.91	60,779,914.59	72,122,396.40
Manufacturers National Bank, Troy, N. Y.	Member	25.00	48,000	1,200,000.00	1,200,000.00	1,071,928.40	3,471,928.40	916,601.11	29,068,711.32	34,457,240.83
Power City Bank (State), Niagara Falls, N. Y.	do	25.00	40,000	1,000,000.00	1,000,000.00	338,034.12	2,338,034.12	142,719.91	17,001,202.85	19,599,006.88
Niagara Falls Trust Co., Niagara Falls, N. Y.	Nonmember	50.00	40,000	2,000,000.00	750,000.00	225,279.78	2,975,279.78	122,469.09	14,115,866.46	17,519,836.36
Peoples Trust Co., Binghamton, N. Y.	Member	100.00	5,000	500,000.00	500,000.00	371,529.93	1,371,529.93	152,991.37	9,763,921.92	12,901,188.84
First Trust Co., Tonawanda, N. Y.	Nonmember	100.00	5,000	500,000.00	500,000.00	922,765.96	1,922,765.96	133,859.35	8,658,787.94	10,958,039.25
Niagara County National Bank & Trust Co., Lockport, N. Y.	Member	25.00	24,000	600,000.00	600,000.00	239,485.57	1,439,485.57	129,004.45	8,375,739.73	10,709,516.63
State Trust Co., North Tonawanda, N. Y.	Nonmember	50.00	12,000	600,000.00	400,000.00	440,585.06	1,440,585.06	247,101.88	7,650,746.52	9,534,283.04
Workers Trust Co., Johnson City, N. Y.	Member	25.00	8,000	200,000.00	200,000.00	551,968.16	951,968.16	46,674.84	4,493,024.77	5,491,667.77
Lackawanna National Bank, Lackawanna, N. Y.	do	100.00	2,000	200,000.00	200,000.00	68,182.76	468,183.76	40,117.50	4,687,055.38	5,415,355.64
Union Trust Co., Jamestown, N. Y.	Nonmember	100.00	6,000	600,000.00	600,000.00	549,644.29	1,749,644.29	40,976.40	3,016,022.02	5,056,642.71
Bank of East Aurora (State), East Aurora, N. Y.	Member	100.00	1,750	175,000.00	75,000.00	55,797.31	305,797.31	78,354.38	3,052,815.55	3,616,903.59
Cortland Trust Co., Cortland, N. Y.	Nonmember	100.00	2,000	200,000.00	70,000.00	6,191.73	276,191.73	26,882.31	1,862,687.27	2,370,846.43
Orleans County Trust Co., Albion, N. Y.	Member	50.00	2,000	100,000.00	100,000.00	5,435.99	205,435.99	33,287.56	981,596.51	1,430,320.06
Bank of LaSalle (State), Niagara Falls, N. Y.	Nonmember	100.00	500	50,000.00	25,000.00	8,137.76	83,137.76	1,677.37	757,806.91	842,622.04
Bank of Snyder, Snyder, N. Y.	do	50.00	2,000	100,000.00	50,000.00	5,148.50	155,148.50	2,430.42	572,316.60	759,895.52
Total			778,250	28,025,000.00	23,670,000.00	18,464,389.72	70,159,389.72	6,655,653.83	481,318,320.43	592,785,518.54
Affiliated security corporations:										
Security Properties Co. (Inc.)		(1)	48,000	304,883.00		32,241.60	337,124.60			768,124.60
Fitrust Corporation		(1)	549,600	1,099,200.00	1,099,200.00	8,818.02	2,207,218.02	3,211.18		2,222,551.42
Total			1,375,850	29,429,083.00	24,769,200.00	18,505,449.34	72,703,732.34	6,658,865.01		595,776,194.56

[1] No par.

SCHEDULE No. 5

Status of stock of Marine Midland Banks at March 31, 1930

	Outstanding		Directors qualifying shares	Shares exchanged	Combined per cent	Available shares	
	Par	Shares				Unexchanged	Per cent
Marine Trust Co.	$50	200,000	430	197,721	99.07	1,849	0.93
Union Trust Co., Rochester	50	80,000	302	78,624	98.66	1,074	1.34
First Trust Co., Tonawanda	100	5,000	110	4,885	99.90	5	.10
State Trust Co., North Tonawanda	50	12,000	180	11,819	99.99	1	.01
Niagara Falls Trust Co.	50	40,000	510	38,072	96.45	1,418	3.55
Manufacturers National Bank, Troy, and Security Propreties Co. (Inc.)	25	48,000	1,400	46,242	99.25	358	.75
Niagara County National Bank, Lockport	25	24,000	690	23,034	98.85	276	1.15
Peoples Trust Co., Binghampton	100	5,000	175	4,721	97.92	104	2.08
Workers Trust Co., Johnson City	25	8,000	92	7,792	98.55	116	1.45
Union Trust Co., Jamestown	100	6,000	140	5,860	100.00		
Lackawanna National Bank	100	2,000	161	1,782	97.15	57	2.85
Bank of East Aurora	100	1,750	100	1,603	97.32	47	2.68
Cortland Trust Co.	100	2,000	150	1,850	100.00	0	0
Orleans County Trust, Albion	50	2,000	140	1,860	100.00	0	0
Bank of Snyder	50	2,000	260	1,717	98.85	23	1.15
Bank of LaSalle, Niagara Falls	100	500	90	400	98.00	10	2.00
Power City Bank, Niagara Falls	25	40,000	680	38,606	98.21	714	1.79
Fidelity Trust Co., New York City	20	300,000	280	263,669	87.98	36,051	12.02
Total shares		778,250	5,890	730,257		42,103	
Total percentage			.76	93.83		5.41	

NOTE.—Entire available stock of Union Trust Co., Jamestown; Cortland Trust Co.; Orleans County Trust Co., Albion, have been exchanged.

(Thereupon, at 12 o'clock noon, after an informal discussion, in which it was decided to question Mr. Rand on his statement tomorrow, an adjournment was taken until Friday morning, April 25, 1930, at 10.30 o'clock.)

BRANCH, CHAIN, AND GROUP BANKING

FRIDAY, APRIL 25, 1930

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

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

The CHAIRMAN. The committee will come to order.

STATEMENT OF GEORGE F. RAND—Resumed

The CHAIRMAN. Mr. Rand, in your very excellent statement which you read yesterday morning you covered, sufficient for our purposes, a number of aspects of the type of banking in which you are engaged; but it seems to me that you touched rather lightly, if at all, upon the question of the initiation and application of the group-banking policy. From the standpoint of this committee that is about the most important question we have to consider in this investigation. I should like, therefore, to ask you to state fully to the committee how and by whom—that is to say, by what committee—the Marine Midland Corporation arrived at a banking policy for the group as a whole or for any member of the group, and what means are employed to make this policy effective in the banks.

I should like you to cover the following points:

First. Investment policy: After you have acquired control of a bank what steps are taken to see that the securities which it purchases are sound and liquid?

Second. Loan policy: What action does the Marine Midland, or any other agency connected with it, take in the matter of reviewing or fixing lines of credit or otherwise attempting to improve the loans of one of its banks?

Third. Examination. When your examiner goes out and makes an examination of a member bank of your group I presume he brings in a written report much the same as that of the National and State bank examiners. Should one of these reports reveal incompetency of management, unsatisfactory loans, or securities purchased not up to the standard, what means does your group employ to remedy such a situation? As the majority stockholder of such a bank you hold the power of removal over directors, and through that power indirectly control the appointment and tenure of office of the management personnel. In such a case as I have described would the Marine Midland Corporation call the officers of the bank on the carpet as a means of enforcing the group policy?

I wish you would address yourself to those questions and any other points that may appear pertinent to you along those lines. The committee would be glad to have you answer as fully as you can.

Mr. RAND. I will state in answer to question No. 1—investment policy—which question is, "After you have acquired control of a bank, what steps are taken to see that the securities which it purchases are sound and liquid?" the first thing we do after we have acquired control of a new bank, and even before we have acquired the bank, is to make a detailed examination of its loans and all its securities.

After we have acquired control of a bank we have in the Marine Midland Group (Inc.) an investment committee who are experts in the handling and purchasing of securities. This committee is constantly working with the individual bank in going over its securities, in weeding out the undesirable ones. The securities that the individual bank holds have generally been handled by the president or by a vice president—one officer generally has had charge of them—and our committee works with that officer more or less in advising the retention of good securities and the elimination of unsound securities.

There is a statistical department and an analysis of securities department. Every security that is owned by Marine Midland banks is constantly being analyzed and reviewed. If we hold railroad bonds, the reports of those railroads are followed very closely. If we hold industrial bonds, each report of that industrial concern is studied. The conditions of the industry are tabulated and watched, something that the individual bank perhaps did not do before. So, the securities are constantly reviewed and information about the particular industry or the particular railroad is constantly before our committee working with the officer in the bank who has particular charge of the bank's investments.

Then the matter is brought up to their board, with the recommendation that certain securities be disposed of or certain new securities be added, with the reasons why we make the recommendations.

Many of these banks have not, in the past, given sufficient consideration to their liquidity and we have endeavored to remedy that by the putting of a certain portion of their security holdings in Government bonds and a certain proportion in railroad bonds, with the idea of having a liquid additional reserve for those banks, to have a certain proportion in high-grade rails, a certain proportion in high-grade industrials, a certain proportion in high-grade public utilities, of course, starting with Government and municipal bonds.

The CHAIRMAN. Now there is a second question.

Mr. RAND. The second question referred to loan policy—

What action does the Marine Midland, or any other agency connected with it, take in the matter of reviewing or fixing lines of credit or otherwise attempting to improve the loans of one of its banks?

After we have assumed control of the stock of a Marine Midland bank, we very carefully go over the loans, review as far as possible the financial statements of the makers of the loans. We have in mind also the length of time the loans have run, what payments have been made upon the loans, and the type of industry to which the credit is extended. We work with the proper loaning officers—the

president, vice president, or cashier. Sometimes we work with the borrower in pointing out ways and means by which he can improve his business.

This loan committee of the Marine Midland Group (Inc.) is constantly working to eliminate unliquid loans or frozen loans, to get the borrower, individual or corporation, in the habit of filing his financial statements, or, if he is a farmer, working with him on his farm problems.

The smaller banks have, in the past, not been as scientific as the larger banks. They have loaned a small industry in the town because a director sitting around the table will say, "I know John Smith, and know that anything he desires is all right," and they make the loan. Now, in the interest of the borrower as well as our bank, we are encouraging them to get auditors in and make an audited statement of that particular company, to check up on the management and see what the trend is and look back over a period of years to see what progress the company is making and check up on its inventory.

We have done another think in connection with the loans, which I think is very helpful. In the past, the local banker has been too apt to just sit in his bank and talk with his customers. We have urged our local bankers to get out and call on their customers and go into their stores and see the condition of the merchandise, see whether the store looks prosperous, see whether he is keeping his windows clean and up to date, and the way he is operating his store, and offering suggestions. We go through the local factories with the same object in view.

We have retained a former agricultural expert to work with our farmers in the farming communities, to go out and advise with them on the diversification of crops, better ways of running his farm, and, in many cases, we have arranged sales for parts of the farm to enable the farmer to operate his farm in a better way than before.

We are doing a great deal in trying to improve the character of loans in these banks, always, of course, cooperating with the local bank board and the local president. We avoid dictating to them as long as the bank is running smoothly. We have some banks that have been very efficiently and very properly run, and there are very few loans that are subject to criticism. Those banks we have not interefered with, but where a bank has an undue proportion of poor loans, not as liquid as they might be, we do all in our power to assist that bank and show them some similarly situated institutions. We are constantly taking men from one bank and placing them in others for certain periods so that they may learn from observation better methods of operation. It has been quite an eye opener in many cases, and they have gone back and put their own banks voluntarily, of their own accord, in much better condition.

Are there any other questions on that?

The CHAIRMAN. I think that covers that quite well.

Mr. RAND. Now the next question, examination:

When your examiner goes out and makes an examination of a member bank of your group I presume he brings in a written report much the same as that of the national and State bank examiners. Should one of these reports reveal

incompetency of management, unsatisfactory loans or securities purchased not up to the standard, what means does your group employ to remedy such a situation?

Now, our bank examiner, as I said in my statement yesterday, was formerly chief bank examiner for western New York for the New York banking department, a very able man. He has under him seven or eight very capable men. They will go in and make an examination of a member bank of our group and unless the examination shows dishonesty, which it very rarely does, we endeavor to educate the management of that particular bank by placing certain officers or employees in other member banks very much as I have said before. Many of these banks have had a poor business policy, due to the fact they do not know how to run a bank. They have been in a single small bank all of their lives and have had little opportunity to see how other banks operate.

In brief, what we endeavor to do is to educate the management. If we find they have not operated the bank efficiently, we sometimes loan a good man from another bank to work with them for a period.

Should their reports reveal gross incompetency, or should we find that the men in the bank are, in our opinion, not capable of running a bank, then we call a special meeting of the board of the small bank and put the whole situation up to them. Fortunately we have only had to do that once, and we told the person who was in that bank that he was not a born banker and did not have a future in the banking business and should get in some other line. But we always work through the individual board, and the cooperation of the individual boards, after we have had control of the bank, has been very gratifying.

The CHAIRMAN. Your chief examiner, with a corps of assistants, is engaged exclusively in examining that group of banks?

Mr. RAND. Yes, sir.

The CHAIRMAN. And spends all of his time doing that work?

Mr. RAND. Yes, sir.

The CHAIRMAN. You get this information in regard to mismanagement or anything else affecting conditions in those institutions through your examiners?

Mr. RAND. Yes, sir.

The CHAIRMAN. That is the way it is brought to your group?

Mr. RAND. Yes, sir.

Now, our examiners confine themselves very much to the condition of the bank. They do not handle the securities. They receive a list of securities, but the handling of those securities is done by a separate division of our Marine Midland Group (Inc.). The average examiner is not an expert on securities, and we have three or four men who do nothing but handle securities. The bank examiners study the loans. The analysis of securities is handled by the securities division of the Marine Midland Group (Inc.). The individual bank purchases its own securities, cooperating with our securities division and their own board of directors.

The CHAIRMAN. When the examinations by the banking department or the examinations of the national banks which may be in your group, by the Comptroller of the Currency, take place, your examining department or your chief examiner and his assistants go through the examination with these independent examiners?

Mr. RAND. No; we get the report of the banking department of the State or the National department and then go over that report with the officers of the bank, in addition to making our own complete examination.

The CHAIRMAN. After the State examination has been completed, however, or the national-bank examination is completed, those results are reported to you?

Mr. RAND. Yes, sir.

The CHAIRMAN. How often does the State of New York examine the banks?

Mr. RAND. Twice a year.

The CHAIRMAN. At stated periods?

Mr. RAND. No sir; we do not know when they are coming.

The CHAIRMAN. You do not rely upon the examinations of the State banking department or the comptroller's examinations exclusively to keep in touch with your bank's conditions, but keep your own examining force and they go into these banks the same as the State banks or national-bank examiners, without notice?

Mr. RAND. Without notice; yes sir.

The CHAIRMAN. As a matter of fact, then, I suppose they may drop into any one of your banks half a dozen times a year, for that matter?

Mr. RAND. Yes. As a matter of fact, after we have made an examination, this chief examiner of ours will make certain recommendations and then possibly within a month he will send out one of his men to that bank and say, "What have you done with these recommendations? How are you following out the recommendations we have made?" He will probably meet with the board of directors. The board and our examiner will agree on a certain policy and later we will follow up and see how the policy is being carried out.

The CHAIRMAN. Supposing the State banking department, as the result of the examination made by their examiner and the comptroller's office, as a result of the examination by the national-bank examiner, make definite recommendations to charge off assets which are not in conformity with the department's idea?

Mr. RAND. With our department's idea?

The CHAIRMAN. With the ideas of the comptroller's office or of the State banking department?

Mr. RAND. I do not believe I understand that question.

The CHAIRMAN. In other words, if an examiner, either from the comptroller's office or from the State banking department, recommends certain assets to be charged off, are they charged out of the assets of those banks or does one of your banks take over the criticized assets?

Mr. RAND. No, sir; they are charged off by that bank.

The CHAIRMAN. There is no taking out of criticized assets and putting them in another company?

Mr. RAND. No, sir.

The CHAIRMAN. Each bank stands on its own foundation?

Mr. RAND. Yes, sir. We handle it this way: In the case of a bank that has a large number of charge offs, or the banking department, either State or national, has to make certain charge offs and if those charge offs are of sufficient number to be serious, we will charge them

off and then the holding company will pay in additional money into that bank.

You see, we raised $57,000,000 in cash. We are keeping a revolving fund anywhere from thirty to forty-five or fifty million dollars in cash at all times, and in case any bank's assets are impaired through the charge offs we do either of two things—have the bank stop paying dividends and let their earnings build up to take care of it, or increase their capital and pay in additional money to the surplus and their capital.

We do not feel that it is wise to take those assets out of the bank for two reasons: First, it relieves the banker of his responsibility on those assets to a certain extent; secondly, they are not apt to be followed up as closely as if left in the bank and that bank left to collect them.

The CHAIRMAN. Now, as to the latter part of the question—as the majority stockholder of such a bank you hold the power of removal over directors, and through that power indirectly control the appointment and tenure of office of the management personnel—can you elucidate on that, as to how you meet that situation?

Mr. RAND. In our banks we have never used our power to eliminate any directors of one of our member banks unless the board of that bank desired those directors eliminated themselves. In other words, we will go to the president of one of our member banks when the annual election comes up and say, "Are there any changes that you people desire to make on your board?" And if the president says, "Well, John Smith is no longer of any use to us; we should like to elect another man in the town who is a capable and coming man in place of him," we will take their suggestions on him and first we will check up on him to see if their recommendations seem sound to us, and the board will go ahead and make those changes by the election of the additional directors.

Now, in the case of officers of banks, if they are incompetent—and as I said, we have only had that experience once—we would call a special board meeting and put it up to the board, and the board would have to do that themselves. They will have to get rid of that president, vice president, or cashier or whoever it was that was incompetent.

The CHAIRMAN. But, as a general thing, you prefer to keep the local boards or the majority of them in the locality where the bank is?

Mr. RAND. Yes, sir; in many localities we have not even put a man on the board and have kept them intact. They run the bank under our supervision and with our help. If the local board wants to make a loan, they can loan any money they want to the community providing it is good. The only time we veto a loan—and then we only do it through moral suasion—is after a long conference, and if we feel it unwise to make that loan we tell the member bank, "We do not advise you to make that loan," and they do not do it.

The CHAIRMAN. Your management makes no limitation as to the amount the officers can lend, either to individuals or to corporations?

Mr. RAND. The officers do not make loans unless approved by their particular boards and we make no limitation on the loaning power of those boards other than the limitations made by law.

The CHAIRMAN. Do you find it necessary at times to transfer funds from one locality to another?

Mr. RAND. Yes, sir.

The CHAIRMAN. You do that?

Mr. RAND. Yes, sir.

The CHAIRMAN. That is done through your parent institution?

Mr. RAND. That is done through one of the larger banks in the group; yes, sir; depositing money with the various banks. For instance, at the time of the stock-market crash last fall we had about $50,000,000 in cash or call loans, extra money which was ready to be used for any of these banks that needed additional funds. In three or four cases, we deposited considerable amounts of money in those banks to enable them to take care of their requirements at that time.

The CHAIRMAN. Do you find that, in the smaller towns, you frequently have to send more money to serve the community, or do they have sufficient money there to take care of their requirements?

Mr. RAND. It seems to average up pretty well. One town will need money and another will have a surplus.

I would say at the present time we are not having to shift funds. The banks are running on about an even keel themselves, but even in times of distress it seems to run fairly even—one bank will need funds and another will have an excess.

The CHAIRMAN. Now, you are operating an interesting group. I should like to ask you what economies in management you have instituted?

Mr. RAND. The economies in management—I mentioned them in my statement yesterday. We formed our group last October. The economies are just beginning to show now. In one bank, for instance, I think it is safe to predict a saving in overhead of from $100,000 to $200,000 a year.

The CHAIRMAN. How did you bring about such economies—by the discharge of unnecessary employes?

Mr. RAND. No.

The CHAIRMAN. Reducing salaries?

Mr. RAND. No; we have never made it a policy to discharge employes. We have, on the contrary, recommended consistently the increase of salaries to employes.

Perhaps if I give a case involving one of our larger banks, a bank of some $70,000,000, where we are able to effect a great many economies, it will serve to illustrate what I have in mind.

Those economies are to be made, first, in the rentals that bank has been paying for space. That bank had several unnecessary offices. It had 11 branches, I believe, and we are able to show them how they can eliminate two or three of those branches.

In the second case—that same bank—in connection with the amount of cash that that bank carried in its own vault, we have been able to save that bank forty or fifty thousand dollars a year, by showing how similar banks, in our group, operate with less cash in their vault. In other words, it does not matter to a local bank whether it carries cash in its vaults or on deposit with the Federal reserve bank. The tellers were doing business with fifteen or eighteen thousand dollars in their cages, and we were able to show those tellers that in another bank of the same size, the teller could do the same amount of business with $4,000 in his cage if he would use his head a little. We were able to cut down the cash requirements in that bank and give the

same service to the customer, I think almost to the extent of $1,000,000, in the aggregate. Now, if you figure 5 per cent on $1,000,000, it is $50,000 a year.

We have done that in all our banks, and the saving has not been so much in the smaller banks, but in the larger banks it is quite a great deal. We have done the same thing in purchasing.

Most of the little banks, and larger ones, are the prey of every salesman that goes into their town. They will buy adding machines; they will buy typewriters; they will buy ledgers, and a little bank, with three or four million dollars in resources, will spend sometimes three or four thousand dollars a year unnecessarily in doodads that people come in and sell them. The savings we have made in that connection are remarkable.

We are also showing these smaller banks, and larger ones, too, that are in our group, that, through certain physical changes in their set-up of their bank inside, in the way they handle their collections and handle their items, they can cut down the number of their employees.

As I said a moment ago, we have never let out employees. Where we have, in our group, two or three thousand employees, they are always leaving and there is always a turnover, and we simply stop from hiring for a while. If we go into one bank and find an excess of employees, we will take possibly two or three employees out of that bank—say, for instance, the bank is in Niagara Falls—and move them into our head office in the Marine Trust Co., in Buffalo, where we may need additional employees in the bond or trust department.

We are trying to increase the salaries of our employes and at the same time increase their efficiency and cut down on the total salaries.

The CHAIRMAN. Would you say, in that connection, you have increased or decreased salaries on the whole?

Mr. RAND. Increased them on the whole.

The CHAIRMAN. Would you care to state the maximum and minimum salaries paid?

Mr. RAND. That is difficult to state, because the banks vary so.

The CHAIRMAN. You have no set rule, then, for the different classes of work?

Mr. RAND. No; we have more or less standards. We feel that a man who handles money, a teller, should receive a decent living wage.

The CHAIRMAN. For instance, take a teller: What is the salary paid to a teller?

Mr. RAND. Taking the teller in a bank in Buffalo, one of our tellers receives $4,000 a year.

The CHAIRMAN. And in the smaller institutions?

Mr. RAND. In the smaller institutions the teller's work is entirely different. There a teller does not have to be on his toes as he does in a big city, where he has a string of people waiting to cash checks and do business. He has to be a much more capable man in a larger city. In a smaller town we take into consideration the living conditions of the town, whether he is married or not, and how long he has been with the bank.

I should say that the teller in the small town would receive possibly a minimum wage of $150 a month.

The CHAIRMAN. Take stenographers and bookkeepers: What rate of salary do you pay them?

Mr. RAND. With the stenographers and bookkeepers, it depends upon the banks in which they are. In the small towns a stenographer will do all kinds of work in a bank. She may work in the bank part of the time or may do stenographic work. We pay our stenographers, I would say, depending upon their age, their qualifications, and length of time they have been in the bank from $75 a month to $250 a month.

The CHAIRMAN. Mr. Lord the other day in his testimony before this committee made the statement that their group never took over an institution that was not on a paying basis, and he also stressed the thought that these small banks in small towns could not operate successfully and that the only way that situation in these rural communities could exist in the future would be to adopt a form of branch banking; that those units could be operated as branches efficiently and serve those communities. Do you agree with that statement?

Mr. RAND. In general I do.

The CHAIRMAN. You have taken over small banks in small communities?

Mr. RAND. Our group, Mr. McFadden, is very similar—our problems in our group are very similar—to the problems in Mr. Lord's group. His group radiates out of Detroit and we radiate out of Buffalo. We have 18 banks in our group and he has more than that.

We have, for the most part, taken over paying banks. Now we have taken over two or three banks—I will say two—that are not making earnings at the present time, but we think they have a great future. We believe the town in which they are located is growing.

I do not know of any way of taking care of the banking requirements of many towns in New York State without a straight-out branch banking system.

The CHAIRMAN. In the acquisition of these banks, do you wait for them to suggest to you that they be taken over or do you go out and negotiate or buy up control of the banks?

Mr. RAND. We have never bought up the control of any bank, and my policy is never to buy up the control of a bank unbeknown to the officers of the bank or, in any way, detrimental to the best interests of the town. In fact, we have never bought up control of the banks without full consent of the directors of the banks. In every case in the acquisition of our banks we have never used any force or suasion. The banks have all come to us, I think, in every single case and asked that they be included in our Marine Midland group.

In the original formation of the group, however, we went to some 12 or 13 banks who had been working with us for years and we knew them and knew their officers and directors, and told them what we were planning to do and asked them if they cared to come in with us. We simply told them our plan, and if they wanted to come in it was all right, and if they did not want to come in it was all right.

The CHAIRMAN. You dwelt at some length yesterday on the trade area of Buffalo. I notice, in looking over your group, that you have gone across the State line into territory that might be tributary to New York City. Have you arrived at what you consider to be your definite trade area or do you consider the whole of New York State as your trade area?

Mr. RAND. We feel that the whole of New York State is our definite trade area. I should like to read something here that I have prepared——

Mr. CHAIRMAN. I should like also to embody in that question, for your thought and consideration in making your answer, the fact that you have acquired a bank in New York City which is a somewhat different plan than some of the other groups are working under. Will you explain to us that plan?

Mr. RAND. A New York City bank is very essential to our group. I should like to elaborate on that. I was hoping you would ask that question because it is very essential to us.

The CHAIRMAN. In that connection, the thought occurs to me as to whether or not, in the working out of your plan of group management, you contemplate the use of that bank exclusively for your group in New York—that is to say, whether your New York operations are to be conducted through that institution or whether you will utilize other banks for correspondents, and so forth.

Mr. RAND. We do not contemplate using the New York bank exclusively.

The CHAIRMAN. But the major portion of the business will be done through that institution?

Mr. RAND. The major portion of the business will be done through that institution; yes—probably 50 or 60 per cent through our New York bank and the other 40 per cent through bank correspondents in New York. Of course you must realize nearly all the banks are members of the Federal reserve system and a large portion of the New York business is done through the Federal reserve banks.

The same changing methods in business and the tendency toward consolidation which deter banks in small towns from retaining their business makes a bank in New York of great value even to such banks as the Marine Trust Co., of Buffalo, the Union Trust Co., of Rochester, and our banks in larger cities.

In an ever-increasing measure we have seen independent manufacturing companies in Buffalo and western New York merge or sell out to other concerns in a similar line of business. In case after case the executive offices are now in New York.

Cash balances which formerly ran into hundreds of thousands of dollars with our up-State banks are gradually reduced, becoming small operating accounts.

In many instances a large stock interest in the merged company remains—for, example, in Buffalo. Men whom we know well become prominent in the affairs of the company moving to New York. Much as they would like to continue to do business with the old bank which they know, gradually this business slips away, due to the convenience of doing business with a New York City bank at their headquarters. There is already an indication that with a bank in New York City we will regain their business which has been lost in recent years and retain within the group such business in the future.

(After discussion off the record.)

Mr. RAND. I will say this, that we have seen no evidence of the New York banks trying to take this business away from us except in a perfectly fair competitive way. Many of these mergers and con-

solidations had nothing at all to do with the New York banks, but just for economic and business reasons.

For instance the Hotel Statler Co. moved down to New York because the president of it, Mr. Statler, wanted to live there, and gradually he began doing business in New York, and there are many, many cases of that kind totally outside of the investment and underwriting business or the power of the New York banks that have caused this business to go to New York.

I will also say that I do not see any way in which banks outside of New York City could act as registrar and transfer agent of corporations whose stock is listed on the New York Stock Exchange. Other cities have a similar rule. We have in Buffalo, in our local stock exchange, a rule that you have to have a registrar and transfer agent in Buffalo, and Chicago, I believe, has the same.

Mr. WINGO. Explain why that is necessary.

Mr. RAND. Because, when a man in Buffalo sells some stock on the Buffalo Stock Exchange, he could not go to New York or Chicago and have a New York or Chicago bank act as registrar, because it has to be delivered under the rules of the stock exchange immediately, and the expense and all that is prohibitive.

Mr. WINGO. You do not mean immediately. Explain that, for the benefit of the thousands who may read this record and who do not understand this transfer situation. You do not have to deliver it on the very day; it is the next day, is it not?

Mr. RAND. I can not qualify to state the rules of the stock exchange, but it interferes seriously with the delivery if it has to go out of town to be registered or transferred.

Mr. WINGO. I do not know anything about the stock exchange, but I have read somewhere that you have to make your transfer by 3 o'clock the next day.

Mr. FISCHER. That is delivery, but that does not necessarily mean it has to be transferred.

Mr. WINGO. That is the point I wanted to get at; go on and explain it, because you just made a statement in the record that will be challenged by a great many gentlemen.

Mr. RAND. I will have to get somebody more familiar with the rules of the stock exchange than I am.

The CHAIRMAN. Is not this the real answer: That these transactions take place in New York City and, because of the requirements of the exchange as regards deliveries, it would be physically impossible to send them to these other cities for these transfers; in other words, it would impede these transactions to such an extent that it would be a great handicap, and inasmuch as the New York stock market is the big market, it is necessary that these transfers and registrations take place in close proximity to the exchange?

Mr. WINGO. Both of you gentlemen, I presume, are lawyers?

The CHAIRMAN. I am not a lawyer.

Mr. RAND. I am not.

Mr. WINGO. I said that sarcastically. When you say it is necessary physically to do this, unless they are different stocks from any I have ever seen or any I have ever as an attorney prepared for a little country corporation, I do not believe that you have given the real reason yet. There is another reason, I anticipate, aside from the

natural selfish desire to control the business. I have seen stock certificates with three or four transfers on them before they were ever transferred on the books. If a man wants to take a risk, and not have it transferred on the books, he can do so, and in some instances that happens.

(After further informal discussion off the record.)

Mr. SEIBERLING. The important thing that we have not in the record is that these corporations consolidating and moving to New York affect the banks to the extent of $100,000 a year in connection with transfers.

Mr. RAND. That is not accurate. I could not say with accuracy just what that would amount to, but suppose one of our customers in Buffalo were to sell a bond issue and have that bond issue listed on the New York Stock Exchange. The trustee of the bond issue would have to be a New York bank. If we had a bank in New York, we would receive the fee ourselves, assuming that our customer picked out our bank as trustee.

The CHAIRMAN. Which they would be likely to do.

Mr. RAND. Which they would be more apt to do. In many cases this amounts to between $20,000 and $30,000, depending on the size of the bond issue.

Mr. WINGO. That is a bond to be listed on the New York Stock Exchange?

Mr. RAND. Yes.

The CHAIRMAN. I think a statement should go into the record that Mr. Rand discusssed with the committee, off the record, an angle of this development in banking such as he has engaged in through the organization of the Marine Midland Corporation, with particular reference to their taking over the Fidelity Trust Co. in New York, operated as the New York City institution of their group.

Mr. WINGO. Before you get away from that stock transaction and that stock registrar, there are two reasons why they insist upon that, and one is to keep the stock there, and frequently stock will be held in brokers' hands with numerous transfers of ownership but without an actual transfer on the books, and the major reason why they insist on it is that they want to keep those transactions as a New York contract, governed by the laws of New York. For illustration, there are the call-loan rates. This is a real reason. There is nothing physical that would require the registrar or the stock-transfer bank to be there; and the registrar or the stock-transfer bank could be in Buffalo just the same as in New York except for the reason I mentioned. Their selfish idea is to keep it in New York City, and they use that practice to make it a New York contract, so that if any litigation arises the New York courts have jurisdiction and the New York laws as to usury and everything else govern.

I think, if you ask them in New York, they will tell you that that is the real reason why they require it.

The CHAIRMAN. In connection with this discussion of consolidations and mergers and control of banking incident thereto, during the past few years a new method of financing industry independently from bank loans has developed through the issuance of common stocks and their sale to the public. How has that affected, in your judgment, the general commercial banking business? In other words,

the Federal reserve act was created in 1913 to serve the business interests of this country through making eligible for rediscount paper representing commercial transactions, and practically ever since the development and organization of that system, we have been having a decreasing amount of that very class of paper, and the concerns who were to be served from that source have gained their money from the public through the issuance of common stock and other classes of securities.

Now, in your judgment, how has that tended to affect the general banking business of the country?

Mr. RAND. Well, it has changed quite materially the general character of our business by cutting down the eligible paper we have for rediscount with the Federal reserve bank, in that the amount and number of commercial loans that we are called upon to make is declining, and on the other hand the amount of collateral loans we are called upon to make is increasing.

The CHAIRMAN. Collateral loans are usually secured by stock-exchange securities, are they not?

Mr. RAND. Stock-exchange collateral.

The CHAIRMAN. How do you meet that, then, in carrying your assets in such condition that will permit you to obtain money from the Federal reserve in case you require it? What class of securities do you carry?

Mr. RAND. We meet that by increasing, of course, our supply of Government bonds. We carry larger amounts of Government bonds. We also carry larger lines of acceptances and bankers' bills, which are eligible for rediscount.

The CHAIRMAN. You are forced to do that because of these changing conditions?

Mr. RAND. Changing economic conditions.

The CHAIRMAN. And your situation in that respect is no different from that of any of the other large banks?

Mr. RAND. No.

The CHAIRMAN. Particularly the banks in New York City.

Mr. RAND. Our situation is comparable to that of banks in New York City, Cleveland, Detroit, and Pittsburgh.

The CHAIRMAN. Have you any suggestion to make as to whether or not that is a development that synchronizes with the intent of the Federal reserve plan?

Mr. RAND. I could not answer that.

The CHAIRMAN. In other words, does not that tend to freeze the assets of the Federal reserve system?

Mr. RAND. I suppose it does in a smaller way.

The CHAIRMAN. As a matter of fact, does not the large volume of acceptances which the Federal reserve carries from time to time practically resolve itself into frozen assets?

Mr. RAND. I would not be qualified to say that.

The CHAIRMAN. Mr. Luce.

Mr. LUCE. Before asking a question or two I want to take the stand myself and from personal experience add something to the considerations that have resulted in the centering of business in New York.

Something more than 40 years ago I started a business in the city of Boston. Five years later we opened a branch in New York. The

New York business grew rapidly and the Boston business grew slowly, and three years ago we abandoned our business in Boston and centered it in New York, and such funds as the corporation possessed were transferred from a Boston bank to a New York bank.

That was not done through any love of New York. Personally, if I were faced with the prospect of having to live in New York in order to make a living I would go and try to exist without the same sort of living somewhere else somehow. This business went to New York simply because there was more money to be made in New York, and I did not have to go with it.

I think you will find that is at the heart of this whole tendency of business to go from the smaller to the larger place. It goes because that is more profitable. There is no personal consideration, and nothing in connection with any social tendency that could be checked if we wanted to do it. I reiterate that business goes to the larger place because it is more profitable to do business in the larger place.

Now, as to the physical factors connected with the transfer of stocks, in Massachusetts the head office of our public service corporations were generally at first in the city concerned. That is changing, but still there are some public-service corporations with their main offices in the smaller cities. They maintain a transfer office in Boston in large part because of the convenience to the stockholders. It is a nuisance when you are closing up an estate or when you are making an individual purchase or sale to have to send certificates of stock off some 30, 40, 50, or 100 miles and take several days to get the thing done, rather than to step around the corner into the office of the transfer agent and have it done in five minutes.

Now, one or two questions. Unfortunately I was kept away from yesterday's hearing by the necessities of the business on the floor of the house, and I am not informed as to whether in your group there are any securities companies.

Mr. RAND. When we took over the Fidelity Trust Co. they had a small securities company called the Fitrust Corporation, and that is still in existence, and also in the Manufacturers' National Bank of Troy they have a small securities company in connection with that bank, called the Security Properties Co. (Inc.).

Mr. LUCE. It has been disclosed that in the West, from which we have had most of the testimony prior to this, there has been a marked growth of lending on securities. Is that true also of the business in New York State?

Mr. RAND. Yes; lending on collateral. I just mentioned that. The banks are lending in increasing amounts on collateral.

Mr. LUCE. Is it your expectation that you will concentrate the business of all your banks in that regard in one securities company?

Mr. RAND. Well, the securities company has nothing to do with the loans that the banks make. The collateral loans that the banks make to customers are made at the banks, and not through any securities company. I do not know of any securities company that makes loans on collateral. That is a banking function.

Mr. LUCE. I think that we have different things in mind. I have had in mind the allotments to others.

Mr. RAND. Do you mean the underwriting of securities?

Mr. LUCE. Yes; the underwriting of securities.

Mr. RAND. What was the question?

Mr. LUCE. Is it your intention to develop a central bank separately for that purpose?

Mr. RAND. Do you mean, is it our intention to develop a securities company for the underwriting of securities?

Mr. LUCE. Yes.

Mr. RAND. We are studying that proposition now, and we are not prepared to say at this time whether we will develop that or not. We are selling through our bond departments, through the bond department of the Marine Trust Co., the Union Trust Co. of Rochester, and our other large banks—selling and distributing large amounts of securities. We have to do it in self defense, and there is a demand by our customers for that kind of business, and it fulfills an economic function, of the banks selling high-grade securities. Whether we will form a securities company to handle that end of it or not, I am not prepared to say at this time. We have not decided. I would imagine that we probably will.

Mr. LUCE. Is it your judgment that the tendency toward the greater participation by banks in that particular type of business is wise or unwise?

Mr. RAND. My judgment is that it is probably wise. It all depends on the way the securities company is operated. If the securities company is operated in a high-grade way, and distributes only the highest-grade securities, I think it is a wise thing to do. In our trust departments and in our fiduciary capacity, we have made it a practice never to buy any securities that are sold by ourselves. In any of our trust accounts, we never purchase securities from our own banks or from any member of our own bank group. We have never done that; we never will.

Mr. LUCE. It has been charged that your high standard is not observed in many parts of the country and that banks having trust departments are willing to unload into trust funds the poorer grades of securities for which they do not find a ready market. What is the answer to that?

Mr. RAND. My answer to that is that all of the banks that I know of, the higher-grade banks, particularly in New York and the larger cities, have adopted the same policy that we have, of never purchasing securities from themselves with trust funds. I do not know of a large New York bank or a large bank of any standing anywhere that purchases securities from itself. I may be mistaken on that, but that is my impression.

Mr. LUCE. You have pointed out that the tendency of business to go from smaller cities to the larger cities has resulted in gain on the part of the banks in the larger cities, at the expense of those in the smaller cities, and that you are attempting by your form of organization to recover some of that loss.

Turn the matter around. When the banks in New York discover and realize that they are thus being attacked in a perfectly legitimate way, will not the inevitable result be that they will turn around and begin to form holding companies themselves?

Mr. RAND. I should think it would be.

Mr. LUCE. Then tell me this: If you were to start over again with a perfectly free hand to establish branch banks, would you establish a branch banking system or a group banking system?

Mr. RAND. That is a difficult question to answer.

Mr. LUCE. It is an important part of what we are trying to find out, whether, with free competition between the two systems, and full opportunity, the branch banking system or the group banking system will bring the community greater economic advantage and more safety?

Mr. RAND. I discussed that at length in my statement yesterday, of which I would be glad to give you a copy.

Mr. LUCE. It would be in the transcript, then, and I shall read it. I feared I might be duplicating.

Mr. RAND. My conclusion on that was that we had not really made up our minds which system was preferable, that each has many advantages over the other.

Mr. LUCE. That is all.

The CHAIRMAN. Judge Brand.

Mr. BRAND. I want to ask you a few questions only.

First, what is the approximate size of the smallest bank in your system?

Mr. RAND. About $1,000,000 in deposits.

Mr. BRAND. What is the population, say, of the city or cities in which such a bank is located?

Mr. RAND. I would say about 3,000 population; 2,000 or 3,000.

Mr. BRAND. Your group banks loan to farmers, as I understand it?

Mr. RAND. I beg your pardon?

Mr. BRAND. Do your group banks loan to farmers?

Mr. RAND. Yes.

Mr. BRAND. Upon what character of security?

Mr. RAND. Sometimes we take a mortgage on their farm, and at other times we loan them to buy a tractor, and we take a note from them, and things of that kind.

Mr. BRAND. What rate of interest do you charge the farmer?

Mr. RAND. Six per cent.

Mr. BRAND. How long do you carry it?

Mr. RAND. When I said 6 per cent, that is our standard rate. Some of the banks—and I may be mistaken—might charge 6½ or 5½ per cent.

What is your other question?

Mr. BRAND. How long do you carry the loan?

Mr. RAND. A commercial bank should not carry a loan longer than 90 days. Of course, that is ridiculous when it comes to farmers. Sometimes we have loans that we carry along for several years, but we do not like to do it. We like to have the farmer amortize the loan.

Mr. BRAND. For instance, if he wanted to borrow $1,000 in March, payable this fall, would you make him that loan?

Mr. RAND. Yes.

Mr. BRAND. Do you charge any commission outside of the rate of interest?

Mr. RAND. No, sir.

Mr. BRAND. That is the total cost to him for the use of that money?

Mr. RAND. Yes.

Mr. BRAND. Do you loan at any time on the crops that he produces on the farm?

Mr. RAND. We have never had that in New York State to any extent; we have never taken an assignment of the crop, and never been asked to. We will loan a man in the spring $1,000, with the understanding that when his crop comes in he will pay us off, but we, unlike banks in other localities, have never been called upon to make loans directly on the crop.

Mr. BRAND. What is the average value of the land that the farmers own who apply to you for money?

Mr. RAND. That would be hard to answer, because the sections are different. We have some dairying, some in orchards, and some in hay. I would say it runs anywhere from $100 an acre to $300 or $400 an acre.

Mr. BRAND. We know that there has been more or less criticism—and I think that is impliedly admitted in your statement and in the statement of others—of this group banking on the ground that either impliedly or expressly they are trying to evade the double liability of stockholders in case of the insolvency of the bank. What is the amount of stock on an average that your holding company owns in these smaller banks?

Mr. RAND. Taking all the banks, we own about 97 per cent

Mr. BRAND. Suppose that you were to buy a bank and you could not buy up over 51 per cent?

Mr. RAND. Then we would not buy it.

Mr. BRAND. Say two-thirds.

Mr. RAND. We would probably take it if we could get two-thirds.

Mr. BRAND. Suppose that that bank failed; your bank would be liable for the double liability, would it not?

Mr. RAND. Yes, sir. Bank stockholders would be liable.

Mr. BRAND. Would these other stockholders owning one-third of the stock in that insolvent bank be assessed in order to help pay the creditors of the failed institution?

Mr. RAND. In the first place, in our particular group we would never let a bank get in that shape. Our holding company has as a part of its plan the keeping of a revolving fund of between $30,000,000 and $50,000,000 in cash at all times. At the present time we have some $45,000,000 in cash. If a bank got in a bad condition, before it got to the double liability we would pay any amount of money to take care of it.

Mr. BRAND. But suppose that it did fail and the holding company owned 66⅔ per cent of the stock, which you would have to make good and would make good; the owners of the other third of that stock would be liable for the double liability, would they?

Mr. RAND. Yes.

Mr. BRAND. And have to pay?

Mr. RAND. Depending on whether we would allow them to pay I do not know. That contingency would probably never arise.

Mr. BRAND. Would you not require them to pay?

Mr. RAND. I would not say as to that. We might pay for them; I do not know.

Mr. BRAND. But it would be paid in any event?

Mr. RAND. It would be paid.

Mr. BRAND. There is no danger, then, of a holding company not paying the assessment which may be levied by the Government or by the State banking department in case of the insolvency of a bank?

Mr. RAND. I can not say as to any other holding company; I only say as to our own. As far as our own is concerned, I can not conceive of any minority stockholder having to pay anything.

Mr. BRAND. Does your holding company carry double liability in case of insolvency?

Mr. RAND. Our holding company does not carry double liability. We would welcome it if it were necessary.

The combined capital of our banks at the present time is $28,025,000, and therefore the double liability would be $28,025,000. We aim to keep at all times in cash an amount sufficient to take care of that double liability. In other words, our company will carry in cash anywhere from $30,000,000 to $50,000,000, so that the double liability is assured. We have it in cash, in other words.

Mr. BRAND. Suppose that one of your banks began to get in a shaky condition or in an unsound condition, financially, and the probabilities were that it would become insolvent. What would you do?

Mr. RAND. I believe I explained that. We would keep it from getting that way by our examination by working out the poor assets, by paying in additional money from our holding company into the capital structure of the bank.

Mr. BRAND. Getting back to that surplus fund that you referred to once or twice, where do these member banks of the holding company deposit this surplus fund?

Mr. RAND. For the most part, in the Federal reserve bank where they are members; most of our banks are members of the Federal reserve. There are four or five exceptions. The other banks deposit in their bank correspondents. I would say that very few of them carry more than a third or a quarter of their funds with other members of our own group.

The CHAIRMAN. May I ask a question there?

Mr. BRAND. Yes.

The CHAIRMAN. They do not deposit the surplus funds with your holding company, do they?

Mr. RAND. No; the surplus funds of the holding company are carried on deposit with our own banks and with other banks, and where they are carried on deposit with our larger banks——

The CHAIRMAN. Do you mean the larger banks of your group?

Mr. RAND. The larger banks of your group—the money is placed on call in Government bonds or invested so that it is always kept liquid.

Mr. BRAND. You recognize that there have been criticisms of this group banking?

Mr. RAND. Yes.

Mr. BRAND. Relative to the question whether you want to evade this double liability.

Mr. RAND. The formation of our holding company was in no sense due to the intention to evade the double liability.

Mr. BRAND. But there has been that criticism made, that the holding companies were formed to evade this double liability. Do you deny that that is true?

Mr. RAND. Yes.

Mr. BRAND. For your holding company.

Mr. RAND. We are perfectly willing to have double liability on our holding company stock, so far as that is concerned.

Mr. BRAND. Are your smaller units, located in agricultural sections, supplied with all the money they want and need to carry on their business?

Mr. RAND. I would not say that the small bank is supplied with all the money they want; the small bank receives all that they should have. Sometimes a banker will think that he should have a lot more than he is entitled to. I would say that they are supplied with all the money they need for their legitimate demands to take care of their communities.

Mr. BRAND. Are there other banks in these cities where you have your smaller banks?

Mr. RAND. Yes, sir.

Mr. BRAND. Were they there when you got possession of your banks?

Mr. RAND. Yes.

Mr. BRAND. Are all of them there that were there when you established your group banks in those smaller communities, or have any of them failed?

Mr. RAND. None has failed, to my knowledge.

Mr. BRAND. Then, so far as your group banking business is concerned, you have not interfered with the other banking institutions in cities in which they are located?

Mr. RAND. Not in the slightest.

Mr. BRAND. I want to ask you one other question, along the line that the chairman was questioning you, which is more or less immaterial. As I understand you, the average salary that you pay to your tellers is $150 per month in your smaller banks.

Mr. RAND. I may be somewhat guessing on that. I should think that that would be the average salary. In some of our smaller banks, in a bank of $1,000,000, where we sometimes have a cashier act as teller, I would say as a general rule that $150 a month was about the lowest we paid the teller.

Mr. BRAND. What do you pay your cashier in a $1,000,000 bank?

Mr. RAND. I would say that we pay him between $3,000 and $4,000 a year.

Mr. BRAND. Do you have a vice president and a president in each bank?

Mr. RAND. Not in a small bank like that. A president and a cashier.

Mr. BRAND. What do you pay the president?

Mr. RAND. Very often the position of president of a small bank is an honorary position, but where he is active, we probably pay him $3,000 or $4,000 a year, maybe $5,000. Where the president is active, the cashier would generally not be active.

Mr. BRAND. In the Bank of Snyder, I notice that the resources are about $650,000. In a bank like that, do you have a loan committee independent of the board of directors to pass on loans?

Mr. RAND. That particular bank is practically in a suburb of Buffalo; it is to all intents and purposes a suburb of Buffalo; and that bank is officered by some of our officers of the Marine Trust Co., and they have a loan committee that acts for that bank.

Mr. BRAND. Are you familiar with the merger of the Fourth National Bank in Atlanta with the Atlanta Lowrey National Bank, into the First National Bank?

Mr. RAND. No, sir.

Mr. BRAND. What suggestion would you make in regard to the establishment of a bank in a section where the people themselves are not able to form a bank and where all the banks have failed? Would you suggest that they go in a branch banking system or a chain banking system, or a group banking system?

Mr. RAND. Branch banking system.

Mr. BRAND. A branch banking system can be more economically operated than a group banking system, or chain banking system, can it?

Mr. RAND. Yes, sir.

Mr. BRAND. Do you recommend branch banking because it is safer, or cheaper?

Mr. RAND. It is more economical—that is, for the contingency that you mentioned.

Mr. BRAND. Take a State like Georgia or South Carolina. Georgia, at least, is purely an agricultural State. What sort of a banking system would you suggest for Georgia?

Mr. RAND. I could not offer a suggestion, because I do not know the conditions.

Mr. BRAND. There is nothing there but farmers growing cotton.

Mr. RAND. I would think a branch banking system would be the best; but, as I say, that is only a haphazard answer, not knowing the conditions there.

Mr. BRAND. Then, if Georgia does not have a branch banking law, your opinion is that the State legislature ought to provide for it?

Mr. RAND. I could not answer that unless I knew the conditions better. I think it is unwise to try to answer something where I do not know anything about the conditions in Georgia.

Mr. BRAND. Well, the agricultural classes are depending upon wheat, or corn, or cotton to make a living, and in that State, as well as in the South generally and the West, which is preferable, in your opinion, going into a branch banking system or a group banking system or a chain banking system?

Mr. RAND. I would hesitate to answer that, because I do not know the conditions.

The CHAIRMAN. What is the please of the committee now? It is 12.30.

Mr. WINGO. I would like to ask a few questions. I will have to leave in a few minutes.

The CHAIRMAN. All right; proceed.

Mr. WINGO. You stated, in response to a question from Judge Brand a moment ago, that branch banking is more economical than group banking. Did you mean that in connection with the situation he mentioned down in Georgia, or as a general proposition?

Mr. RAND. I think it is true as a general proposition.

Mr. WINGO. Then why do you not engage in branch banking exclusively, instead of group banking?

Mr. RAND. I thought I covered that in my original statement; that group banking is more economical than independent banking, unit banking, but there are so may other conditions that come up in group

banking that are advantageous that, in my opinion, it offsets to some extent the greater economies that might be effected out of straight branch banking. In other words, in group banking you retain many of the benefits of independent unit banking which you might not be able to obtain in straight branch banking. As I said in my statement yesterday, I am not prepared to say which system is preferable, but I think either system is preferable to the independent unit bank.

Mr. WINGO. If the law and the restrictions were identical, do you think then that you would in some instances maintain group banking and in other instances maintain branch banking?

Mr. RAND. So far as our particular operation is concerned, if I might hazard a guess, I would say we would probably go to branch banking.

Mr. WINGO. That is the point I wanted to get at. If we liberalized the law along the line you and the advocates of branch banking insist would be proper, the probabilities are that you would gradually be transformed into a branch-banking system?

Mr. RAND. Yes, sir.

Mr. WINGO. Which would you prefer, the trade area or the State line?

Mr. RAND. I feel that the trade area would be preferable.

Mr. WINGO. What reasons now occur to you, as a practical banker, based upon your own observation and experience, that would make a trade area preferable to a limitation based solely upon the polical lines of a State?

Mr. RAND. Well, I discussed that at length in my statement, and I feel I can only speak for our own situation, because I am not familiar with the other trade areas or trade locations. For our own situation, I would say that New York State and possibly a part of Pennsylvania and a part of New Jersey, as well as a part of Connecticut, following in general the second Federal reserve district, which includes those particular States.

Mr. WINGO. In other words, you have some natural industrial centers which are near State lines, and their trade and business are not limited to the political subdivisions of the country, but covers other States adjacent to those industrial centers and banking centers—that is the gist of your thought on that, I presume?

Mr. RAND. Yes.

Mr. WINGO. Your corporation, as I understand, is a Delaware corporation?

Mr. RAND. Yes, sir.

Mr. WINGO. Where do you hold your stockholders' meetings?

Mr. RAND. Wilmington, Del.

Mr. WINGO. Do you intend to hold your stockholders' meeting there each February, or are you permitted to hold it in Buffalo, if you desire to do so?

Mr. RAND. No; we are not permitted to hold them in Buffalo. We hold them in Wilmington, Del.

Mr. WINGO. I think you would be permitted to hold it elsewhere, but your policy is to hold it at Wilmington and you have been holding it in Wilmington?

Mr. RAND. Yes, sir.

Mr. WINGO. All three of your original incorporators are citizens of Wilmington?

Mr. RAND. Yes.

Mr. WINGO. Under your charter, your holding corporation is permitted to engage in any business that an individual could engage in, except a few functions of a banking nature; for illustration, you are not permitted to receive deposits; you are not permitted to issue a circulating medium; and you are not permitted to buy and sell gold bullion and foreign coins; but is there any other business that you are barred from under your charter?

Mr. RAND. I do not know.

Mr. WINGO. You can do anything that an individual can do except those things which are specifically enumerated in your charter that you are barred from doing, can you not?

Mr. RAND. I could not answer that. I am not a lawyer, and therefore could not answer that. I know that our holding company, the Marine Midland Corporation, is a holding company exclusively engaged in no other business except the holding of bank stocks.

Mr. WINGO. You mean that in practice you are strictly a holding company?

Mr. RAND. Yes.

Mr. WINGO. Is your attorney here?

Mr. RAND. No, sir.

Mr. WINGO. That is my interpretation of your charter, that you can do what any person naturally can do except those things which I have enumerated. I am under the impression, as a country lawyer, that where you enumerate and include certain things in a document that way, that that excludes the others, and the reverse would be true, that where you undertake to give a broad authority except as to certain things, then those few would eliminate from the exceptions all others. But your directors do not have to be stockholders, do they?

Mr. RAND. I do not know—no.

Mr. WINGO. Your directors may alter, amend, add to or repeal any by-law without the consent, knowledge, or approval of the stockholders—is not that true?

Mr. RAND. I could not answer that.

Mr. SEIBERLING. That is true.

Mr. RAND. I believe that is true.

Mr. WINGO. You will find it on page 7 of your printed charter, in article 4:

> To make, alter, amend, change, add to, or repeal the by-laws of this corporation without any action on the part of the stockholders.

That is under the tenth subdivision, giving the powers of your board of directors, and under your charter all your powers are vested in your board of directors, who do not have to be stockholders, and that board of directors in turn may subdelegate all of their power to two members.

Do any of your banks act in a fiduciary capacity?

Mr. RAND. Yes, sir.

Mr. WINGO. Do they loan on the stocks either of the parent corporation or of any of the unit banks in your group?

Mr. RAND. No, sir.

Mr. WINGO. They are permitted to do it, are they not?

Mr. RAND. Our banks are permitted to loan on the stocks of every other bank in the group, but we do not do it. We do have a few

loans, but our policy is not to lend upon our own stock, upon the stock of the holding company. We do have a few loans that are gradually being liquidated that hung over from before the time we formed the Marine Midland Corporation. For instance, we took into the Marine Midland Corporation the Union Trust Co. of Rochester, the largest bank in Rochester. Before we took that into the Marine Midland Corporation there were some few loans on the Marine Trust Co. and Union Trust, of Rochester stock, and vice versa. Now, that stock was exchanged for stock in our holding company, but gradually we are eliminating that, so that eventually we will not loan upon our own stock.

Mr. WINGO. Your policy, then, is to avoid what, of course, is obviously a dangerous practice, which would permit pyramiding?

Mr. RAND. Our policy is to treat our holding company as much like an actual bank as we possibly can, and not loan upon our own stock.

The CHAIRMAN. Do you maintain a market for any of your stocks?

Mr. RAND. Do you mean the other stocks of the constituent banks?

The CHAIRMAN. Yes.

Mr. RAND. No.

The CHAIRMAN. Do you maintain a market on the stock of the holding company?

Mr. RAND. We have nothing to do with that. When our company was formed we had a million shares of our stock that were handled by four different firms, and whatever marketing was done was maintained by them, but we have never tried to manipulate the stock or put it up.

The CHAIRMAN. Have you any arrangement for the maintenance of or for making a market for your stock with any of those houses?

Mr. RAND. We have not. The houses themselves are doing it, but it is independently of us.

The CHAIRMAN. Do you have to sell those stocks?

Mr. RAND. No, sir; never.

Mr. WINGO. As to those banks that act in a fiduciary capacity, do they receive on deposit the trust funds of the trust where they are acting in a fiduciary capacity?

Mr. RAND. Yes.

Mr. WINGO. Do they pay the customary interest on that deposit?

Mr. RAND. Yes.

Mr. WINGO. Do they not pay any additional?

Mr .RAND. No, sir.

Mr. WINGO. Do you think that is wise?

Mr. RAND. I do not see how we could discriminate and pay trust funds left on deposit with us more than we pay our regular customers. It would open up all kinds of embarrassing problems for us if we did. Our policy is to treat them all alike, however, paying our trust funds the highest rate of interest we can under the clearing house arrangements in the cities in which we operate.

Mr. WINGO. Do you think a bank should be permitted to be exempt from the ordinary rules governing a trustee where the trustee is an individual? Why should a bank be given preference over an individual in connection with the income to be derived from the handling of trust funds?

Mr. RAND. I can not answer that.

Mr. WINGO. Do you not recognize that that is a sound rule, that the trustee shall not derive any emoluments or profits from the handling of trust funds other than the commissions allowed by law?

Mr. RAND. Yes; I agree with that.

Mr. WINGO. Why should a bank acting in a fiduciary capacity be permitted to profit from handling the trust estate in addition to the regular commissions allowed by law?

Mr. RAND. Of course, we keep most of our trust funds invested at all times; we have very little in the way of trust funds on deposit. Most of them are invested, and most of the trust fees are fixed by law.

Mr. WINGO. But, as to the deposits that are made, you simply treat them as the other deposits bearing interest?

Mr. RAND. I do not know as I understand exactly what you mean. We pay our trust funds the same interest that we pay our other accounts, but we have no bank that I know of that has a uniform rate for all their accounts. Some are savings, some are thrift, some are checking accounts, and the rates vary. We aim to pay our trust funds the largest rate of interest that we consistently can, but we do not favor a trust account over some widow that may have a deposit with us. In other words, it seems to me that we should have a fair rate of interest, pay a fair rate of interest to all of our customers, and, simply because one is a trust account, we should not pay more on that than we would some individual or some poor person or some widow or orphan, and that is the way we try to operate.

Mr. WINGO. Where you are dealing with an individual who comes and voluntarily deposits the funds with you, each one of you, as contracting parties, is capable of protecting the interest of himself; but, on the other hand, where you are acting as trustee for an estate, you are dealing with yourself, and is it not the natural tendency, without any corrupt motive, for anyone who is borrowing money to pay the lowest rate he can pay on it?

Mr. RAND. I think that is true, but in handling our trust estate we pay the largest rate of interest we consistently can, and we have never penalized to the slightest extent because of that contractual relation.

Mr. WINGO. But that results in the trust estate sometimes having to take a lower return than could be safely procured elsewhere.

Mr. RAND. I do not think so. It does not in our case. We invest that money possibly down to $100 or $200. We do not let it lie in the bank at interest.

Mr. WINGO. So your policy is not to take advantage of your power there and accumulate the trust funds and simply pay a current rate of interest on the deposits?

Mr. RAND. I think that would be very wrong.

Mr. WINGO. That would be very reprehensible?

Mr. RAND. That would be wrong. We have never done that.

Mr. WINGO. Your corporation is authorized to do an underwriting business. Have you ever done any of that?

Mr. RAND. No, sir.

Mr. WINGO. Do any of your constituent banks do an underwriting business?

Mr. RAND. Yes.

Mr. WINGO. Do any of your banks buy securities underwritten by your other banks?

Mr. RAND. Yes; our banks do. Where our Marine Trust Co., for example, has a bond issue, we allow participation in that bond issue to our group of banks, and that is one of the benefits of group banking.

Mr. WINGO. Is there not a possible danger there?

Mr. RAND. There may be a possible danger, but I do not see that there is any more danger in buying from the bond department where we underwrite the securities than in buying elsewhere. If they do not buy from us, they will buy from some other bank, and maybe an inferior security, or they will buy from some bond salesman or some bond house, and it might be an inferior security.

The CHAIRMAN. I would like to ask, Mr. Rand, whether you invest the trust funds of your customers in securities of your own organization?

Mr. RAND. No, sir; never have done that.

Mr. WINGO. Notwithstanding the authority in your charter, you have never engaged in anything except holding the stocks of your unit banks?

Mr. RAND. Yes.

Mr. WINGO. You have not done any mortgage business?

Mr. RAND. No, sir.

Mr. WINGO. And your holding corporation has not done any underwriting; your banks do that?

Mr. RAND. That is right.

Mr. WINGO. What size community, as a general proposition, do you think would be able to maintain a unit bank profitably?

Mr. RAND. I think a town of 10,000 or 15,000 people could maintain a unit bank profitably.

Mr. WINGO. Where there is a unit bank in a town and there is a manufacturer in that small community who needs more credit, as suggested in paragraph 2 under the heading "Advantages to the depositors" on page 18 of your statement, it is customary now for the independent unit bank to arrange for the handling of that larger credit through one of its correspondents, is it not?

Mr. RAND. Yes, sir; if the correspondent will do it. Very often the correspondent will not take the excess line of the unit bank.

Mr. WINGO. It would not do it unless it were profitable and sound.

Mr. RAND. Unless it were profitable and sound, and unless they happened to have the money.

Mr. WINGO. Would your group take it if it was not profitable and sound?

Mr. RAND. We would not want our member bank to take the loan originally unless it were profitable and sound. If our member bank took the loan, we would assume that it was profitable and sound or they would not have taken it.

Mr. WINGO. You would assume it?

Mr. RAND. We would approve it before it came to us.

Mr. WINGO. In other words, if a loan would appeal to you as being safe and sound, why would it not appeal to the correspondent of the independent unit bank?

Mr. RAND. Their judgment might be different than our own, and it might appeal to the independent unit bank. I do not know—it

would have to depend on the individual loan, and you can not inswer in advance what it would be.

Mr. WINGO. So the logic of your answer on that point is that the superior judgment of your group system is the determining factor as against the unit bank taking care of that excess credit needed by the manufacturer in a local community?

Mr. RAND. Yes; I would say so.

Mr. WINGO. Under subdivision 3 of the same chapter, on page 19, you say, "The isolated country bank, while professing to have trust and investment departments, has been unable to afford competent officers along such lines." Then you say that through your banking organization there is available to the public such service through the part time of men who are experienced in their respective fields. Do you mean that you send out your different experts to these different unit banks in these small communities?

Mr. RAND. Yes.

Mr. WINGO. As a matter of fact, you exercise considerable supervisory control over the detailed operations of your unit banks, do you not, in order to guarantee the safety and soundness of them?

Mr. RAND. Well, I think I covered that in my answer to Mr. McFadden earlier in the hearing. Our examining committee works with these banks; we get to know how they operate; we get to know whether the loans that they are making are good and sound. We do not require the individual bank to take up with us a loan beforehand unless it is an unusually large loan or unless they are in doubt as to whether they should make the loan.

Mr. WINGO. In other words, it is comparable to this, that in an ordinary, individual unit bank there are certain types and sizes of loans and the operating officer, say the cashier or the active vice president, or president, whoever is the operating head, makes the great bulk of the loans without consulting the board of directors or a loan committee——

Mr. RAND. Yes.

Mr. WINGO (continuing)—and it is the unusual loan that the board of directors or the loan board or committee passes on?

Mr. RAND. Yes, that is correct.

Mr. WINGO. Now, your holding company and its supervisory officers and advisory officers occupy about the same relation to your banks as the directors in the independent unit bank would occupy to the cashier on these current loans?

Mr. RAND. Marine Midland Group (Inc.) does.

Mr. WINGO. And it is only the unusual loan that the operating officer would not act upon?

Mr. RAND. Yes.

Mr. WINGO. In other words, if I walked into a unit bank in one of your towns, and I was a citizen there, and I asked for an ordinary, small loan, nothing unusual in size, and I had an established credit and standing, they would not ask the holding company or its advisory group or board for approval, but if I asked for an extraordinary loan or was engaging in some new venture and wanted to establish some new manufacturing enterprise and wanted a line of credit, the possibilities are that they would get the benefit of your judgment?

Mr. RAND. Yes.

Mr. WINGO. Although the local board would ultimately determine what that would be?

Mr. RAND. Yes.

Mr. WINGO. Now, you have examiners that go around, I understand?

Mr. RAND. Yes.

Mr. WINGO. And they are in close touch with the credit organization of your holding company?

Mr. RAND. With the credit organization of Marine Midland Group (Inc.)

Mr. WINGO. And, for practical purposes, those examined are really traveling credit representatives? They are the agency through which your holding company protects your stockholders against improvident loans or improvident management of your units banks?

Mr. RAND. Yes.

Mr. WINGO. And that control, in your experience, has been effective?

Mr. RAND. Yes.

Mr. WINGO. That is all.

The CHAIRMAN. Before we adjourn, I would like to ask you one or two questions.

You defined your particular trade area as New York State and a certain portion of northern Pennsylvania. Would you acquire any banks outside of that area?

Mr. RAND. Our policy at the present time is not to acquire any banks outside of New York State. We may some time later wish to change that, but we are not going outside of New York State at the present time.

The CHAIRMAN. There is nothing in your make-up to prevent you from acquiring a bank in San Francisco if you want to, is there?

Mr. RAND. No, sir.

The CHAIRMAN. Now, the presentation of Mr. Lord, of Detroit, the other day embodied a statement as regards their stock holdings. For instance, he told us what per cent of his stock was held in Detroit, what per cent was held in New York, and what per cent was held in other parts of the country. Have you your stock ownership classified so that you could give us some idea as to where your stockholders are?

Mr. RAND. Yes, sir.

The CHAIRMAN. Would you put that in the record at this point?

Mr. RAND. It is covered in my statement. Our stock is held in 45 different States.

The CHAIRMAN. If that is already in the record, I do not want it repeated, but if you have it by States, I would like to have it. Have you separated the amount that is held in New York City?

Mr. RAND. Yes.

The CHAIRMAN. If you would put that in also, we will appreciate it, and, without objection, that will be placed in the record at this point.

(There was no objection, and the statement referred to is reproduced below.)

Distribution of Marine Midland Corporation stock on April 10, 1930

State and place	Number of stockholders	Total shares
New York:		
Buffalo	6,505	2,891,844
New York City	2,667	877,911
Rochester	1,555	249,067
Troy	534	102,650
Niagara Falls	967	231,297
Binghamton	184	31,788
Tonawanda	194	115,455
North Tonawanda	169	84,210
Lockport	372	62,315
Johnson City	80	11,457
Lackawanna	57	1,535
Jamestown	120	16,653
East Aurora	83	8,664
Cortland	126	8,296
Albion	47	1,864
Snyder	116	3,458
Total Marine Midland cities	13,776	4,698,464
411 other communities	2,191	287,778
Total New York State (427)	15,967	4,986,242

State	Number of communities	Number of stockholders	Number of shares
New York	427	15,967	4,986,242
Alabama	2	2	35
Arizona	1	1	10
Arkansas	1	1	50
California	22	112	29,161
Colorado	5	11	2,025
Connecticut	40	200	12,351
Delaware	6	15	4,348
District of Columbia	1	38	5,979
Florida	19	36	10,264
Georgia	4	8	18,008
Illinois:			
Chicago	1	371	44,371
Other	56	137	10,614
Total	57	508	54,985
Indiana	13	43	37,908
Iowa	19	60	1,208
Kentucky, Louisville		6	150
Louisiana, New Orleans		2	164
Maine	38	136	4,017
Maryland:			
Baltimore	1	88	12,890
Other	10	17	892
Total	11	105	13,782
Massachusetts:			
Boston	1	720	69,463
Other	164	1,006	25,190
Total	165	1,726	94,653
Michigan:			
Detroit	1	35	3,533
Other	16	31	12,368
Total	17	66	15,901

NOTE.—There are many communities tributary to Marine Midland cities whose figures are not included in Marine Midland cities totals.

Distribution of Marine Midland Corporation stock on April 10, 1930—Contd.

State	Number of communities	Number of stockholders	Number of shares
Minnesota	12	56	3,850
Mississippi	1	3	200
Missouri	2	15	2,355
Montana	2	6	280
Nebraska	4	12	450
New Hampshire	26	92	3,066
New Jersey	71	449	78,785
North Carolina	7	11	3,888
New Mexico	4	5	236
Ohio:			
Cleveland	1	74	11,101
Other	34	85	11,429
Total	35	159	22,530
Oklahoma	3	4	275
Oregon	2	16	520
Pennsylvania:			
Philadelphia	1	230	18,341
Other	111	201	60,532
Total	112	521	78,873
Rhode Island:			
Providence	1	140	4,766
Other	16	74	841
Total	17	214	5,607
South Carolina	3	4	56
South Dakota	1	1	5
Tennessee	4	9	926
Texas	7	19	1,445
Utah	1	1	5
Vermont	23	74	4,579
Virginia	13	27	3,196
Washington	11	60	3,394
West Virginia	4	6	206
Wisconsin	10	49	3,379
Wyoming	1	1	10
Total United States (45)	1,226	20,857	5,509,356
Foreign:			
Canada	26	71	13,673
England	2	9	1,090
Hawaii	1	1	100
West Indies	1	1	10
Total, foreign	30	82	14,873
Grand total	1,256	20,939	5,524,229

The CHAIRMAN. Will it be convenient for you to come back at 2.30?

Mr. RAND. I will if you want me to. I had planned not to, but I will if you desire.

The CHAIRMAN. I think there are other members of the committee that would like to question you. Perhaps we could make it at 2 o'clock, if that would help you any.

Mr. RAND. As I said, I place myself in your hands. I will stay here as long as you want me to; I will be glad to.

The CHAIRMAN. Then I suggest that we recess until 2.30 o'clock this afternoon.

(Thereupon, at 12.55 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS

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

STATEMENT OF GEORGE F. RAND—Resumed

The CHAIRMAN. The committee will come to order.

Mr. SEIBERLING. I should like to ask the witness just a few questions. By the way, are you going to put the articles of incorporation and by-laws in the record, Mr. Chairman?

The CHAIRMAN. They were placed in the record yesterday.

Mr. SEIBERLING. I just wondered if you wanted it in; and how about the exhibits that go with it? He has Schedules Nos. 4 and 5.

The CHAIRMAN. They also have been placed in the record.

Mr. SEIBERLING. Mr. Rand, I notice on page 3 of the articles of incorporation, paragraph 8, that your corporation has the right to deal in its own shares to the extent, however, that it can not impair its capital. That is correct, is it?

Mr. RAND. Yes, sir.

Mr. SEIBERLING. In your statement of December 31, 1929, you show a surplus of $19,670,000. It would have been possible on that date to have had invested in your holding company stock, holding company funds of over $19,000,000?

Mr. RAND. The surplus of the 17 banks of the Marine Midland Corporation as of December 31, 1929, was $19,670,000 not the surplus of the holding company. The holding company as of that date had cash on hand or in transit of $57,157,689.71. The only stock we have purchased of our own is eight or ten thousand shares for our employees, as employees' stock. I think the amount, as of January 1, was not over two or three hundred thousand dollars.

Mr. SEIBERLING. That is not the question I asked you. Under your set-up it would have been possible to have invested over $19,000,000 in your own stock if you had wanted to?

Mr. RAND. We had the right to do it, but we did not do it. That is common to Delaware corporations—investing in their own stock.

Mr. SEIBERLING. You have an executive committee provided for of five members?

Mr. RAND. Yes, sir.

Mr. SEIBERLING. And, of course, they control the activities of your company between meetings of the board of directors?

Mr. RAND. Yes.

Mr. SEIBERLING. And you have a provision that a majority shall control so that, as a matter of fact, it makes it possible for three men in your organization to control the whole organization between meetings of the board?

Mr. RAND. It does in theory, but actually the company is simply a holding company and does not take any action of any importance without a full board meeting, although under the by-laws, we have that power.

Mr. SEIBERLING. Of course, that is your present practice, but you do not have to continue to run it that way and neither does your successor?

Mr. RAND. That is common with banks and with most corporations. During the absence of the board, the men on the executive committee—a majority of them—are in control.

Mr. SEIBERLING. You do not have to make any reports, as a banking company?

Mr. RAND. We are not a banking company, but a holding company.

Mr. SEIBERLING. In accordance with your charter and by-laws, you are not a banking company?

Mr. RAND. That is correct.

Mr. SEIBERLING. But, in reality, you are a tremendously big banking company?

Mr. RAND. No; we do not do any banking.

Mr. SEIBERLING. You run a great many banks.

Mr. RAND. The Marine Midland Corporation of Delaware does not run any banks. It is simply a holding company to hold bank stocks.

Mr. SEIBERLING. When you hold stocks, your holding company, in reality, runs the banks?

Mr. RAND. Not the holding company; no. We have a separate company, the Midland Group (Inc.) under which the banking business of this company operates; that is, we do not do any banking business or perform any banking function, but the explanation and all functions I mentioned this morning are handled by a sort of clearing-house group of the various banks themselves—the presidents of these various banks acting as the Marine Midland Group (Inc.).

Mr. SEIBERLING. That is true; but your holding company sits away up on top and directs all of them, does it not?

Mr. RAND. It does not direct them.

Mr. SEIBERLING. It has a right to direct them, though?

Mr. RAND. The holding company does not have the right to do business in New York State and does not do business there.

Mr. SEIBERLING. It owns the capital stock of all the banks?

Mr. RAND. Yes, sir; but it does not actually do any business. It transacts no business, but simply holds the stock of the banks and receives the dividends and pays out dividends.

The CHAIRMAN. May I ask a question right there?

Mr. SEIBERLING. Yes.

The CHAIRMAN. It has no other income?

Mr. RAND. Except from the cash which it has on hand—forty or fifty million dollars.

The CHAIRMAN. Except the income it receives from that?

Mr. RAND. Yes, sir; it has no other income.

Mr. SEIBERLING. Just one more question along that line: Then, while you own all of these banks—substantially all the capital stock—you have here the sheet showing the proportionate part of the capital stock you own, showing an average of 93.83 per cent——

Mr. RAND. Yes, sir.

Mr. SEIBERLING. You own 93.83 per cent of all the banks of the group and yet you contend you are not in the banking business?

Mr. RAND. We are not in the banking business, as a holding company; no.

Mr. SEIBERLING. You make no reports as a holding company to the State or to the Federal Government—you are not subject to call for any reports?

Mr. RAND. No; but we have voluntarily offered to the banking department of New York State to permit them to examine our company at any time and recently a bill has been passed in the New York State Legislature and the House, and I believe signed by the governor in the last few days, which would put our holding company under the banking department for examination; so, from now on I believe the bank holding companies in New York State will be subject to examination by the New York Banking Department.

Mr. SEIBERLING. You are familiar with living trusts and trusts under wills, I take it?

Mr. RAND. Yes, sir.

Mr. SEIBERLING. Under this set-up, it will be possible, at future times—25 or 50 years from now—to have all of the stock of this holding company deposited in trusts of one kind and another and the holding company run by men without a dollar's interest in the company?

Mr. RAND. No, sir.

Mr. SEIBERLING. It would be possible?

Mr. RAND. I do not see how.

Mr. SEIBERLING. Under the set-up, it would be perfectly legal?

Mr. RAND. I do not know. I am not a lawyer, and can not answer that.

Mr. SEIBERLING. You do know that a director does not have to have any stock?

Mr. RAND. Yes, sir.

Mr. SEIBERLING. And a member of the executive committee does not have to have any stock?

Mr. RAND. No, sir.

Mr. SEIBERLING. If three men on the executive committee can control the company, then it would be possible to have your stock trusteed and three men run the holding company without any ownership of stock?

Mr. RAND. In theory it would be possible, but not in practice to-day. I do not see how much difference it would make under the requirement that the three men should own 10 shares each—the difference between owning 30 shares of stock out of 5,500,000 shares and owning none—the difference is so small that it reduces it almost to the point of absurdity. As a matter of fact, the directors that are on the executive committee are very large stockholders—they are the largest stockholders in the Marine Midland Corporation. I suppose, in theory, you could take a bank like the National City Bank and work out the proposition you have submitted, and have the directors, owning ten shares of stock each out of five or six million shares of the National City Bank, control the whole bank.

Mr. SEIBERLING. Do you thing it is a good thing to have such a large company as you have here controlling so many banks and so many deposits of the people, and upon whom the people depend for their money to do business, controlled by three men who have no interest in the company and who do not even have to live in the State of New York?

Mr. RAND. Three men do not control the company.

Mr. SEIBERLING. I am not asking that. Would you think that would be a good thing if such a thing should be done?

Mr. RAND. If such a remote contingency arose, I think it would be a very bad thing, but it is almost impossible.

Mr. SEIBERLING. As long as you are managing this holding company, with the views you have expressed here, I have no doubt it would be all right, but looking into the future, do you think that legislation should be passed permitting such a possible situation as I have just described to you?

Mr. RAND. I think the situation is so remote that no legislation of that kind would be needed. The same contingency you mentioned, you could work up for any large corporation or any great bank. The same think could be true of the Chase Bank and the National City Bank or any other great institution.

Mr. SEIBERLING. You do not think a banking institution is comparable with any large industrial company, do you?

Mr. RAND. No; but the same banking institution is comparable, in some respects, to our holding company, and the same contingency you mentioned is perfectly possible in connection with any bank you can mention.

Mr. SEIBERLING. I just want to ask a few questions along another line. You had the Lackawanna Steel in Buffalo recently?

Mr. RAND. Yes, sir.

Mr. SEIBERLING. And that consolidated with the Bethlehem Steel Co.?

Mr. RAND. Yes, sir.

Mr. SEIBERLING. Did you do business with the Lackawanna at that time?

Mr. RAND. Yes, sir; and we still do.

Mr. SEIBERLING. Now, the consolidation—I do not want to dig into the affairs of that company, but the consolidation of that company with the Bethlehem—what effect did that have on the banking situation in Buffalo, not only as to deposits, but as to the transfer of stock, trusteeship of bonds, and those things that were necessary in the actual financing of the company?

Mr. RAND. In that particular company it did not have so large an effect, except a Buffalo man who was president of it is no longer president, and the directors' meetings are no longer held in Buffalo. That stock, before the merger with the Bethlehem, if I remember correctly, was already listed on the New York Stock Exchange.

Mr. SEIBERLING. You are familiar with the contest going on between Cleveland and New York now in reference to the Youngstown Sheet & Tube Co.?

Mr. RAND. Only from newspaper reports.

Mr. SEIBERLING. Do you know that just now, probably for the first time in this country, as far as I know, a Cleveland house is underwriting debentures for an Akron company amounting to $30,000,000? That is very unusual, is it not?

Mr. RAND. I would not say that it was unusual for a Cleveland or Chicago house to underwrite a large bond issue.

Mr. SEIBERLING. Is it not desirable that we keep these sections, like Buffalo, Cleveland, and Chicago, in a position so that they can underwrite securities for companies in their own territory?

Mr. RAND. I think that is very desirable.

Mr. SEIBERLING. Why do you think it is desirable? I just want to get your reasons for it.

Mr. RAND. Well, I think it is desirable because it diversifies the large financial transactions and spreads them out over the country as a whole. It builds up in these large cities like Chicago, Detroit, and Buffalo, and Cleveland big houses who can do a big underwriting business. It retains money and business in those localities that otherwise might be concentrated in another locality.

Mr. SEIBERLING. Incidentally, it also gives the lawyers of those centers something to do?

Mr. RAND. Yes, sir.

Mr. SEIBERLING. And insurance agents something to do?

Mr. RAND. Yes, sir.

Mr. SEIBERLING. And the trust departments of banks something to do in the way of registering bonds and collecting coupons, and there is not any real reason why New York should do all the business of that character in the country, is there?

Mr. RAND. No. Generally, when a big issue is handled by a house in Cleveland, Buffalo, or Chicago, or Detroit there are New York partners taken into the picture.

Mr. SEIBERLING. I think that is all.

The CHAIRMAN. Mr. Busby.

Mr. BUSBY. On page 7 of your statement, headed "The Midland Group (Inc.)," you say the Marine Midland Corporation is purely a holding corporation organized under the laws of Delaware and transacting no business in the State of New York?

Mr. RAND. Yes.

Mr. BUSBY. In the same paragraph you state that for the purpose of affording certain advantages you mention there the Marine Midland Group (Inc.) was organized under the laws of New York as a management company.

I take it that you refer to the Marine Midland Group (Inc.) as being a different organization from the Marine Midland Corporation, the one originally mentioned?

Mr. RAND. Yes; we formed the Marine Midland Group (Inc.), organized under the laws of the State of New York, which is a small company with a moderate capital, which does these things mentioned in that paragraph.

The CHAIRMAN. Under the corporation laws or under the banking laws?

Mr. RAND. Under the corporation laws.

Mr. BUSBY. So the Marine Midland Corporation and the Marine Midland Group (Inc.) are two distinct bodies?

Mr. RAND. Yes.

Mr. BUSBY. One organized under the laws of Delaware and the other under the laws of New York?

Mr. RAND. Yes. That is done entirely for matters of taxation.

Mr. BUSBY. Well, what stocks or evidences of ownership in the Marine Midland Group (Inc.) do you have outstanding? What is it, in other words, anyway?

Mr. RAND. The Marine Midland Group (Inc.) is in reality a sort of clearing-house arrangement or group arrangement of various banks with a capital, I believe, of $3,000. It is a very nominal cap-

ital. Each of the presidents of the individual banks is a director in the Marine Midland Group (Inc.). The expenses of the Marine Midland Group (Inc.) are nominal. The only expenses they have are the paying of the examining committee, the paying of the investment experts that we have, and the handling of whatever group advertising is being done by the group. In effect, it is like a clearing-house arrangement of a city, where the banks chip in and pay the clearing-house examiners and pay for whatever expenses may come up.

Mr. SEIBERLING. Who owns the $3,000 stock?

Mr. RAND. The $3,000 stock is owned by the trust companies that can own the stock. In case the member bank can not own the stock, it is owned by the president of that bank. That amounts to from $30 to a few hundred dollars in each case.

Mr. BUSBY. What relation does this body have to the other body—the holding corporation?

Mr. RAND. The holding company is simply a holding company to receive dividends and pay out dividends. Some of the directors of the Marine Midland Group (Inc.)—the key directors—are also directors in the Midland Corporation, and from time to time the executives and directors of the Marine Midland Corporation confer with the directors of the Marine Midland Group (Inc.).

Mr. BUSBY. This organization is the agency that handles the business, largely, of the main holding company, is it not?

Mr. RAND. Yes.

Mr. BUSBY. It is merely the contact agent between the holding company and the individual banking units in your system?

Mr. RAND. Yes.

Mr. BUSBY. You say you have $57,000,000 cash that belongs to the holding company?

Mr. RAND. That was at the first of the year—yes.

Mr. BUSBY. How do you keep that cash invested—or is it invested?

Mr. RAND. I explained that this morning. Were you here?

Mr. BUSBY. Yes; I was here.

Mr. RAND. That is deposited among the various member banks and other banks.

Mr. BUSBY. And do those banks pay interest on that?

Mr. RAND. They pay interest upon that deposit. The banks that that money is deposited in keep that money in Government bonds or call loans—keep it liquid.

Mr. BUSBY. What do you think of an independent bank making money in a town of six or seven or eight thousand people—an average city of that size?

Mr. RAND. That is just about the border line in my own feeling. I feel a bank in a city of ten or fifteen thousand population—an independent bank—would have a chance to get along fairly well.

Mr. BUSBY. Suppose you have several banks in a town of that size—say three?

Mr. RAND. That makes it that much more difficult.

Mr. BUSBY. What about a town of four or five thousand people having its own independent bank?

Mr. RAND. It would have very hard sledding in a town of that size.

Mr. BUSBY. Does your managing board, representing the holding company, arrive at policies that should be put into effect by the banks in your system?

Mr. RAND. That is largely arrived at by the dicetors of the Marine Midland Group (Inc.) rather than the directors of the holding company.

Mr. BUSBY. Is that the institution we were talking about awhile ago?

Mr. RAND. Yes; the management company.

Mr. BUSBY. I believe it was Mr. Lord who, in his statement the other day, told us about "approved policies" that had been decided upon by the managers of his holding corporation. So the Marine Midland Group (Inc.) decides on "policies" for your institutions? How is the decision passed down to the several banks?

Mr. RAND. For each bank, a member of the group—the president of the bank is a director in the Marine Midland Group (Inc.). He attends the meetings of the Marine Midland Group (Inc.); he enters into the discussions and knows what is going on and when he goes back to his own bank, the policy decided on he carries back to his own bank and puts it into effect in his own bank.

Mr. BUSBY. Suppose the directors of his bank do not agree with him?

Mr. RAND. That has not arisen so far.

Mr. BUSBY. But suppose it does arise?

Mr. RAND. He discusses that with his directors. That has not arisen so far, however.

Mr. BUSBY. Do you think the time will ever arrive when the separate banks in your group will refuse to accept these policies decided on by the Marine Midland Group (Inc.)?

Mr. RAND. We would welcome that. If the directors of our bank in Rochester, for example, which is the largest bank in Rochester, a big bank, should feel that the Union Trust Co. of Rochester should operate under a different policy than the Marine Midland Group feel they should, we would go down there and have a meeting with those directors and thresh the matter out and discuss it, and if they convinced us, we would do what we thought was best; and again, maybe we would convince them. It is all a matter of discussion and conference. The larger banks in our group are well-run and the matters of policy are pretty well defined. They have operated much the same policies as we have, and they are working together in that respect. There has been, so far, no conflict in that respect.

Mr. BUSBY. Whom do your examiners represent? Who selects them, and to whom do they report?

Mr. RAND. The examiners are selected by the directors and officers of the Marine Midland Group (Inc.). They report direct to the officers of the Marine Midland Group (Inc.).

Mr. BUSBY. Is there only one individual from each group that is a member of the organization that controls the Marine Midland Group (Inc.)?

Mr. RAND. In some banks we have more than one.

Mr. BUSBY. How many members are in it?

Mr. RAND. About 25. We have about 17 banks. We had 18 banks, but we are merging two. We have 17 banks and the larger

banks have more representatives than the smaller banks. We have at least one from each bank.

Mr. BUSBY. Does this organization employ economists and statisticians to keep them advised as to the situation of finance throughout the country, as well as your business?

Mr. RAND. It does in respect to the purchase of securities in our bonds and investments. We have experts along that line.

The Marine Trust Co. is a large bank of $300,000,000 resources. We have our own statistician and economist in the Marine Trust Co. That function has not been taken over by the group, as yet. Later on, undoubtedly it will.

Mr. BUSBY. Is it your belief or not that the credit of the country should be in proportion to the needs of commerce and business of the country?

Mr. RAND. Well, I certainly do.

Mr. BUSBY. Suppose, through our banking system and method of handling financing the credit is extended greatly in excess of the proper needs of the business of the country: What, in your judgment, would be the result?

Mr. RAND. That is difficult to say. I think the law of supply and demand will operate in banking the same as it does in any other line.

Mr. BUSBY. Do you not think the recent collapse of the stock market was due largely to the fact that the agencies for creating securities and bonds and putting them on the market, and especially through the individual bond salesmen, who went to the individual person and solicited, and sold bonds, created such a great supply of bonds and stocks throughout the country that credit was extended far beyond any business needs of the present time, and that that is what caused the collapse in finances recently?

Mr. RAND. I do not feel qualified to state why the collapse occurred and what caused it. I have heard so many different angles on it and so many different agencies blamed for the smash, that I think anyone who would try to put his finger on the cause is a very brave person. I do not feel qualified to express an opinion on that.

Mr. BUSBY. Of course, these investment houses underwriting syndicates are bound to depend on stocks and bonds being handled in quantity in order to have a big business, are they not—in order to make money?

Mr. RAND. That is a little out of my line, and I do not feel qualified to state anything on that.

Mr. BUSBY. You have some of those organizations in your institution?

Mr. RAND. We handle bonds and handle the underwriting of bonds, but I have not seen how the underwriting of good, high-grade bonds, such as we do, has created an oversupply, or has had a contributory cause to the stock-market crash.

Mr. BUSBY. I will take but two or three minutes more. Suppose, as we have witnessed in this city, perfectly desirable buildings constructed by reason of the fact that an underwriting syndicate has made it possible to supply the funds with which to place the bonds of that building on the market: The building is not needed, but it is a good building. The bonds are sold to the public, and then the

building is not used. It is a good building, and the public loses what it has invested in the bonds, by reason of the building being sold out under a first trust to pay off a part of the first-mortgage bonds. Could you not see, under circumstances like that, where easy money, being made available by underwriting syndicates, would be a detriment to the people and to business?

Mr. RAND. I think you are getting back to the law of supply and demand again.

Mr. BUSBY. I am not dealing with that now. I am looking at the situation created by the underwriting syndicates and these investment companies. I think they have gone far beyond the requirements according to the law of supply and demand in furnishing credit.

Do you not think that kind of condition would be detrimental to the people—business stability?

Mr. RAND. If you had a condition that caused the creation of more production than you need, that might be detrimental, but I think that might be just one of the many other contributing causes. I do not see how you can pin it onto any one agency.

Easy money may be conducive to speculation, but it is only one of the great many other contributory causes, and it is hard to put them in their proper relationship. You can read volumes on it and study it until you are dizzy, but I can not, in my own mind, pin it down to any one cause.

The CHAIRMAN. Mr. Rand, I should like to ask two or three questions before I defer to Mr. Fort, on the organization of your group.

In the organization of your group, what was the motivating cause that prompted it? Was it the business in your section, or particular trade area, that demanded improved service, or was it to strengthen the local banking situation, or was it that you and your associates saw an opportunity to progress from a banking standpoint?

Mr. RAND. I think that is the real reason—possibly a combination of all three. As I said this morning, many of our customers are growing larger and becoming stronger and requiring larger lines of credit and carrying larger balances with us, and many spreading out through our trade area and we desired to strengthen our position in our territory. We desire to strengthen the position of a number of the smaller banks who were having increasingly difficult sledding.

As I said in my statement yesterday morning, several times in the last year or two, at the request of the State banking department, we have aided State banks and kept them from failing in two or three instances.

The CHAIRMAN. If the laws of the State and Nation had permitted you to organize as a branch banking institution, would you have organized as a group, as you have?

Mr. RAND. I think not. I think we probably would have organized as branches, although I think the group system provides an admirable transitional stage.

The CHAIRMAN. In regard to the purchase of these various banks, do you believe that the price at which the stock was bought by your company, represents a fair capitalization of the earning power of the units?

Mr. RAND. Yes.

The CHAIRMAN. Is it not true that some of the prices paid have been such that the returns must, necessarily be low for some period of time?

Mr. RAND. That is probably true. Of course, our corporation was formed in October or September of last year, when all bank stocks were selling on a very high basis. We ignored, as far as we possibly could, the market value of the stocks, and took into consideration mainly the earning power and asset value, liquidating value, and the communities in which they were, in arriving at the basis on which we exchanged stock for the various banks.

The CHAIRMAN. In listening to the testimony of others, as well as yourself, under the group plan, I am impressed with the thought that where these companies are well managed they are successful and probably advantageous to the community, as well as to the men who are running the institution, but in view of the possibilities of the future and possible changes in management, do you not think that we, Representatives in Congress here, with legislation in mind, should take into consideration the question of maximum and minimum as to the size of these groups and the territory they should cover; in other words, this particular plan of group or chain banking—and there is quite a similarity between the two—has had a variety of experiences in this country. It has been clearly demonstrated that where it is in strong hands it has succeeded, but in weak hands it has usually failed. Do you not think there should be some limitations placed in order to protect the public?

Mr. RAND. I think there should be limitations as to territory. I do not see how or why you should limit the size of these groups any more than you limit the size of large banks in New York or Chicago. I do not see why they should be——

The CHAIRMAN. In other words, you think you have as good a right to have a big bank in Buffalo as they have to have a big bank in New York City?

Mr. RAND. Yes, sir.

The CHAIRMAN. And in serving your particular trade area, if the business of the trade area requires it, you should have the opportunity of taking care of the business of that particular territory, without regard to the size of your institution?

Mr. RAND. Yes, sir.

The CHAIRMAN. Supposing that branch banking were authorized now, would you probably convert into a branch-banking system or continue under your present form?

Mr. RAND. Of course, that is a difficult question to answer. My feeling is—and speaking only for myself and not for my board of directors—I would prefer to see us in a reasonable time convert into a branch-banking system.

The CHAIRMAN. Now, in regard to your holding companies, the Delaware corporation, which is the Marine Midland Corporation, which is the holding company of these stocks of banks in your group, who votes that stock at the annual meetings?

Mr. RAND. The stocks of the various banks?

The CHAIRMAN. Yes.

Mr. RAND. That is voted by the officers of the Marine Midland Corporation of Delaware.

The CHAIRMAN. You designate certain officers?

Mr. RAND. Yes, sir; designated at the board meeting, as to the voting power of the stock.

Mr. SEIBERLING. Who votes the stocks held in your companies and trusts, and various corporations, banks, and so forth, held under wills—who votes that?

Mr. RAND. As a rule, our policy under that is that unless we have a large block of stock in any individual corporation we do not vote them. If we have a couple hundred shares of United States Steel Corporation stock in one trust, we do not vote that stock unless our coexecutor desires us to. If we have a very large block of stock in a certain corporation and the management of that corporation is good and the company is making progress, our trust department brings it before the executive committee of the trust company and we vote it in favor of the management. We try to put ourselves in the position that the person naming us trustee was himself before he died.

The CHAIRMAN. What would be your view on the question of examination of affiliated companies, either by the Comptroller of the Currency of national banks, or the superintendent of State banks in connection with State banks?

Mr. RAND. I think they should be examined.

The CHAIRMAN. You would be in favor of that?

Mr. RAND. Yes, sir.

The CHAIRMAN. You do not have any examination by the corporation department of the State of New York over your New York company, do you?

Mr. RAND. No, sir.

The CHAIRMAN. That is, the group company?

Mr. RAND. Yes, sir.

The CHAIRMAN. Do you have to make any reports to the department covering your operations of that group?

Mr. RAND. To what department?

The CHAIRMAN. To the corporation department of the State of New York.

Mr. RAND. I do not think we do.

The CHAIRMAN. Let me ask you one or two other questions pertaining to the expenses of the Marine Midland Corporation of Delaware. Is there any expense attached to the operation of that company?

Mr. RAND. A nominal expense.

The CHAIRMAN. Any salaries of officers?

Mr. RAND. A few salaries of officers.

The CHAIRMAN. How about the Marine Midland Group (Inc.)—the New York corporation?

Mr. RAND. The Marine Midland Group (Inc.) pays only salaries to its bank examiners and its bond experts, or where we have, in a number of cases, taken a man from the Marine Trust Co. who spends part time with the group and part time with the Marine Trust Co., his salary is prorated.

The CHAIRMAN. How is that money furnished to the group company?

Mr. RAND. Each bank chips in, and we take our expenses for the quarter, and each bank contributes in proportion to its deposits.

The CHAIRMAN. The officers and directors of the Marine Midland Co. of Delaware and the officers and directors of the Marine Midland Group (Inc.)—their salaries are paid by the banks, are they not?

Mr. RAND. The directors get no salary. The officers of the Marine Midland Group (Inc.)—the only salaries they get are those who are employed full time in the examinations and in a supervising capacity.

Now, there are one or two officers there in the Marine Midland Group (Inc.) who receive part of their salary from the group and part from the bank in which they serve. For instance, we have an officer who serves as president of the Marine Midland Group (Inc.), Mr. Becker. He was receiving a moderate salary at the Marine Trust Co. When he went to the Marine Midland Group his salary was adjusted and paid in proportion to the work that he did for the group and the trust company. So there is no double salary. There is no double salary and there is no desire on the part of those forming the group to give large salaries.

The CHAIRMAN. The salaries of the officers of the two holding companies that are affiliated——

Mr. RAND. The officers' salaries of the Delaware corporation are very nominal.

The CHAIRMAN. And deducted from the dividends they receive?

Mr. RAND. Yes, sir; deducted from the income of the corporation, dividends and interest.

Mr. FORT. Unfortunately, I missed a great deal of Mr. Rand's testimony on account of having to attend to other duties. I do not want to duplicate, and hope you will call my attention to the fact if I should happen to.

We have asked other witnesses, Mr. Rand, who have been here representing other groups, whether they believed that there were any legal regulations of group banking that we should adopt if we are to recognize it legally at all. What is your view on that?

Mr. RAND. I think that probably the territory should be defined. It is hard to give an off-hand opinion on that. I had not thought of it——

Mr. FORT. When you say the territory should be defined, you mean similarly to the suggestion of the comptroller, for instance, as to branch banking, through trade areas?

Mr. RAND. Yes, sir.

Mr. FORT. Some such basis of definition?

Mr. RAND. Yes, sir.

Mr. FORT. You men who have been running the companies are so much better posted than we are as to the hazards there may be in bad management through your personal observation of it, we have asked the other gentlemen if they would not tender a memorandum of their views as to what, if any, form of regulation it may be wise for Congress to consider, applicable to group, chain, and branch banking.

Mr. RAND. I shall be glad to do that.

Mr. FORT. For advisory use.

Mr. RAND. I shall be glad to do that.

Mr. FORT. In your handling, Mr. Rand, if your fiduciary business, is that so handled that the trust companies which act as trustees, or

banks having trust departments, earn directly or indirectly any profit whatever other than the statutory commissions?

Mr. RAND. None whatever.

Mr. FORT. Do they buy secruities from the security affiliates of the bank?

Mr. RAND. No, sir.

Mr. FORT. They always buy outside?

Mr. RAND. Yes, sir.

Mr. FORT. And bank outside?

Mr. RAND. No, sir. We discussed that this morning at some length.

Mr. FORT. Then I will not go into that any further.

Mr. RAND. We keep very little on deposit of our trust funds. Most of it is immediately invested.

Mr. FORT. Have you expressed your views on branch banking as a policy?

Mr. RAND. Yes; I expressed them at length in my original statement.

Mr. FORT. I saw that. Have you gone into the question as to whether branch banking should be permitted—that is, the establishment of branches should be permitted—in competition with existing unit banks?

Mr. RAND. We have not discussed that.

Mr. FORT. What would your view on that be? Let us take one of the small towns that Mr. Busby spoke about: If there is a unit bank in a town of five or six thousand, should the Marine Trust or any large institution, in a neighboring town, be allowed to go into that town with a branch?

Mr. RAND. I should say no. I think the way to handle that would be the way the national banking department and State banking department handle it now. If we had national branch banking and the Marine Trust wanted to start a branch in a certain town, whether they should be allowed to start the branch should be in the discretion of the banking department, who would investigate the banking conditions there and see whether the town would be better served by a branch bank, and it should not be permitted if there is proper service there.

Mr. FORT. That is difficult to do as long as you have a dual system, naturally.

Mr. RAND. If you have State and national banks?

Mr. FORT. Yes. I speak as one coming from New Jersey. We had a situation there three or four years ago where it seemed almost for a time that there was competition between the State department and the national department to see who would authorize the most banks.

Mr. RAND. I have understood that the State banking department of New York State and the national department were cooperating pretty well on matters of that kind.

Mr. FORT. That always depends upon the personality at the head of the departments?

Mr. RAND. Yes, sir.

Mr. FORT. We had a situation where that did not work out so well, and we had to get rid of our commissioner. Consequently, as long as that dual control in that matter does not have access to a court of appeals, you are faced with that bad situation?

Mr. RAND. Yes, sir.

Mr. FORT. That leads to another question. Do you see any real excuse in America for a dual code of banking; that is having both national and State codes working side by side, or would we be better off with a single code?

Mr. RAND. Well, that is a large understaking to answer.

Mr. FORT. I notice that the bulk of your banks are State chartered?

Mr. RAND. Yes, sir.

Mr. FORT. All but two.

Mr. RAND. We have two or three national banks.

Mr. FORT. Is that the result of preference in setting up the organizations or does it happen that the banks you wanted were so incorporated in the first place?

Mr. RAND. There is no intention to discriminate against national banks; it is simply a condition that exists in New York State to-day. We have not changed any banks from State to National or from National to State.

Mr. Fort. Is that because you are indifferent in your choice between the two sets of laws or because you did not want to disturb the status quo?

Mr. RAND. I feel I personally would prefer to operate, at the present time, under a State charter, but not to the extent, if we had a good national bank or had a number of them, we would have them change over to State institutions. We would prefer to keep them as national banks.

Mr. FORT. That interests us here because we are considering, as a part of all this, some reference to the weakness or point of strength of the national code in distinction to the State codes.

You say you think you would prefer the New York State code. What are the reasons for that?

Mr. RAND. In the first place, we can be a trust company which we can not be under the national code. We can be a national bank with trust powers, but as a trust company under the State law, we have broader power in mortgage loans, etc. Our preference is not strong——

Mr. FORT. Is it in any way influenced by the fact that State institutions—trust companies—can buy and sell stocks which the national banks can not do?

Mr. RAND. Not to any extent.

Mr. FORT. Do you think that is a wise power for a bank to have?

Mr. RAND. I do not think a bank should deal in stocks.

Mr. FORT. Either for itself, for its own account, or as an underwriter?

Mr. RAND. I do not say as to underwriting.

Mr. FORT. It may be for itself, for its own account?

Mr. RAND. Our trust companies have never underwritten stock. Occasionally we offer a high-grade preferred stock, but I do not know, in the last three or four years, when we have offered stock.

Mr. FORT. Do you have a securities affiliate?

Mr. RAND. No. I explained that this morning at length.

Mr. FORT. Have you been asked about the question of segregation of savings deposits?

Mr. RAND. No.

Mr. FORT. We have been trying to find out the views of bankers on whether or not savings deposits ought not to be segregated as to investment and made preferred creditors of a bank as against commercial deposits. What is your view on that?

Mr. RAND. I think it would be unwise.

Mr. FORT. Some States have gone so far as to forbid joint operation even in the same building. You see no reason for elevating the savings deposits accounts to a higher level of security than the ordinary account?

Mr. RAND. No.

Mr. FORT. In your institution, do you permit your subsidiary banks to make collateral loans on the stocks of the Marine Midland Corporation itself?

Mr. RAND. I discussed that this morning. Our policy is not to make loans on our own stocks. As I said this morning, when we formed our group last October, the Marine Trust Co. was loaning perhaps on the Union Trust Co. of Rochester stock and vice versa. We are working that out and taking on no new loans.

Mr. FORT. It would be, perhaps, a wise regulation, if we regulate this matter at all, to prohibit such loans except after a reasonable period of time after the organization of the group?

Mr. RAND. I should be in favor of that.

Mr. FORT. In our banking laws now, we limit the amount that can be loaned to an individual borrower to a certain percentage of the bank's surplus and resources. Modern loaning having become so much a matter on collateral rather than on names, have you ever considered the question as to whether a similar limitation on percentage of loans on any one single collateral might or might not be desirable?

Mr. RAND. That is a question I would have to think about a little. I am inclined to say that I think it would be desirable but, on the other hand, it depends on the security. For instance, if a banker were limited to an amount of United States Steel common or preferred stock it could take, it might work a hardship, whereas it might take a great deal of that stock profitably rather than take a lot of little dabs of second-rate companies. It is rather a difficult matter to legislate on. Some regulation might be worked out that might be beneficial.

Mr. FORT. It has always seemed to me, as a banker, and looking into this question, that many of our most serious troubles in these banks has come from loans on frozen securities. I think every bank has had its troubles with that and possibly some regulation of it might be in the general public interest and in the interest of the banks themselves in the long run.

Mr. RAND. It would have to be worked out carefully because, as I say, some banks could take a great deal of a great big nationally known company that enjoys a good market, and a regulation of that kind might hurt a bank that way. I think some regulation along that line, taking that into consideration, might be advisable.

Mr. FORT. The factor of ready marketability might enter?

Mr. RAND. Yes, sir.

Mr. FORT. I guess you have heard, as we have, that the only place to buy control of a company is to go to one or two banks and get it, and they would be glad to let you have it.

Did you discuss this morning the question of how you set up your directorates in your local banks?

Mr. RAND. Yes.

Mr. FORT. You keep them local?

Mr. RAND. Yes.

Mr. FORT. The stock which they hold to qualify them is your stock?

Mr. RAND. No, sir; it is theirs.

Mr. FORT. For the time being?

Mr. RAND. In some cases it is owned outright by the individuals, and, in a few other cases, we have an agreement to repurchase the stock from them.

Mr. FORT. An enforceable agreement at your option?

Mr. RAND. Yes, sir; only a few cases.

Mr. FORT. So, you could disqualify a director overnight, by making him give up his stock?

Mr. RAND. I think that that is not our case; that we have an option to buy the stock of the director upon his death. We agree to buy it from his estate, but he can own it until his death.

Mr. FORT. I would like to see a copy of the agreement, because that is a very interesting situation.

Mr. RAND. We have no arrangement whereby we can disqualify a director overnight.

Mr. FORT. Have you any arrangement in a bank where there is any substantial minority interest for representation of that minority interest?

Mr. RAND. In all our banks we own at least 93 per cent of the stock and there is practically no minority interest.

Mr. FORT. I thought you showed in one of these documents 12 per cent outstanding in the Fidelity Trust Co.?

Mr. RAND. That was in the process of taking over. Now I believe we have 96 per cent in that institution.

Mr. FORT. Well, on the general principle of group banking or some group institution having in some cases only control or something over control, would you feel it was desirable or undesirable for us to consider the idea of providing for minority representation?

Mr. RAND. I should think the group bank itself would want the minority interest on the board.

Mr. FORT. That would depend upon the sincerity of the group management to some extent and its purposes.

Mr. RAND. I should think that might be incorporated in the regulations.

Mr. FORT. What is your arrangement as to your security affiliates, such as you have in your institution—you lock the stock of the security affiliates so it can only be sold as part of the stock of the bank itself?

Mr. RAND. Both of our security affiliates were not of our own forming. They had been formed when we took over the bank, and we have arrived at no policy as to them.

Mr. FORT. Have you given any thought as to the wisdom, from the general banking angle, of permitting the tying up of non-banking stock as a unit with a bank stock and marketed the same way?

Mr. RAND. I do not believe I understand that.

Mr. FORT. Is it not possible that, through bad fortune or speculative efforts, or something else, of a security affiliate, when the stock is tied in with it, as a market factor, that a great lack of confidence in the bank itself might come from a collapse of the stock value?

Mr. RAND. That might be possible.

Mr. FORT. And is it not putting an entirely fictitious view in the public mind of the value of bank stocks, as bank stocks, to include the market price of the stock of the corporate affiliate, as some are?

Mr. RAND. I could not answer that question. We are making a study of that now. Some of these securities companies are able and well run, and their business fits in admirably with the banking business.

Mr. FORT. That is the next question I wanted to ask. Just what advantage do you think it is to a bank to have its own securities affiliate?

Mr. RAND. It is a tremendous advantage in that it is a valuable by-product of the bank's own business. What we are up against, not having a securities company of our own, is that some affiliated security company of a New York bank or a Chicago bank or some other bank, will go to one of our customers and underwrite a bond issue for him, and the first thing we know that customer will be going to that other bank. Furthermore, the bank, by its close contact with the customs and through accounts, is very often in a position to guide its capital requirements and developments better than some outside agency that comes in.

Of course that opens up a field for a great deal of discussion and a great deal of study and thought.

Mr. FORT. That is all on the theory that investment and commercial banking are now so close that it is difficult to find the line of demarcation.

Mr. RAND. That is true; there is a great deal in common.

Mr. FORT. But if no bank had security affiliates, the first hazard you spoke of, namely, losing your accounts to the bank whose security affiliate would be financing, would not obtain?

Mr. RAND. Of course what might happen there—I am speaking offhand—and as I said I have not given the possibility very much thought, and it requires a great deal of thought; if a bank did not have a security affiliate, some officers or directors of a bank might organize one on the side and they might reap a very large profit out of operating a security company and the profits of that company would go to the individuals instead of to the banking institution where it rightfully belongs. As I say, that is a subject for profound study and it is a big subject.

Mr. FORT. I have operated one myself and I know something about it, but not for a bank.

You see no hazard in the affiliation between an investment house and a bank of possibly getting your bank loaded with some frozen things?

Mr. RAND. There again you get back to the management of the bank and the investment company. There is that possibility, but you can get loaded and frozen with other things than that.

Mr. FORT. You think there is no greater tendency to get loaded when they own the affiliate itself through circumstances arising from

bad management than there is getting loaded at the hands of other customers?

Mr. RAND. I do not think so—perhaps not as much.

Mr. FORT. I think that is all.

The CHAIRMAN. I should like to ask you if you see any danger in this quite recent development of mixing commercial and investment funds?

Mr. RAND. I do not see any; no.

The CHAIRMAN. Of course, in England they keep the two quite separate.

Mr. RAND. Separate the savings deposits from the——

The CHAIRMAN. No; I did not mean that. For instance, you have in banks short-time money and long-time money. You have cash and you have credit. Short-time funds are mixed in with long-time investments, and long-time investments are mixed in with short-time funds. The thing is becoming quite mixed; in other words, we are mixing our commercial and our investment banking to an extent that it makes available, when not controlled, funds, for instance, for speculative purposes, like last fall or the past two years, in speculating operations. There were all the funds available that anyone would want to play the market with by the mingling of those funds and making them available for any particular movement and without any segregation of the short-time funds and the long-time funds. For instance, savings are long-time funds and invested in securities, and the short-time funds are supposed to be liquid. Do you think there is any danger in that, or do you think it is a proper and ethical banking movement, or do you think we should stop, look, and listen when we mix commercial funds with long-time investments?

Mr. RAND. I do not see how you can very well differentiate those funds. I do not see any real danger. I think the way the various banking institutions came through this crash was really remarkable.

I am afraid that any radical change in handling or segregating those funds might be more dangerous than the evil you are attempting to cure.

The CHAIRMAN. Let me ask you this, quite aside from that question: The movement toward consolidations in groups and branches is pretty active just now. Returning to the question of Mr. Fort—and the suggestion, I think, was brought about by the testimony of other witnesses—to the question of regulation of these movements, is it your practice, when you take over a bank, to consult with the banking superintendent or the Comptroller of the Currency, or do you acquire the institution without taking it up first with the banking superintendent or the comptroller?

Mr. RAND. As a rule, we have conferred with the banking superintendent or the Comptroller of the Currency. We have conferred more with the superintendent of banks, because most of the banks have been State banks, and we have been in a little closer contact with the State banking department than with the Comptroller of the Currency, and in a number of cases, where we thought there was any question that might arise in the mind of the Comptroller of the Currency or in the mind of the State superintendent of banks, we have conferred with them.

The CHAIRMAN. Under the present movements is it possible for a weak group or mercenary group to take over control of many banks without consulting the Comptroller of the Currency or the banking superintendent?

Mr. RAND. It is possible.

The CHAIRMAN. It seems to me there should be some check on that temporarily while this movement is running so rapidly. For instance, I was furnished with information the other day that indicated to me a group which apparently did not have sufficient financial backing was considering taking over some 200 banks in one of the States of the Union, and they could proceed to do that without consulting the banking superintendent or the comptroller. So while that movement is as active as it is now, it seems to me some temporary check should be placed on it either through the State banking department or through the comptroller's officer. What would you think of a regulation like that, before these groups can extend, that they must get permission of the Comptroller of the Currency or of the State superintendent of banks?

Mr. RAND. I think these groups should be under the jurisdiction of the State superintendent or the Comptroller of the Currency, or both; and that, in taking over banks, that should be one of the functions of the comptroller or the State banking department to pass upon the stability and strength of the various holding companies. That would overcome the objection you mentioned.

The CHAIRMAN. We could probably reach most of those by providing a regulation in the national law in regard to membership in the Federal reserve system to prohibit membership if their business was not conducted in that manner by first getting the consent of the Comptroller of the Currency or the banking superintendent.

Mr. RAND. I think the Controller of the Currency or the superintendent of banks, or both, should have the power to prevent a holding company that had not passed their requirements or is not the type of holding company that they feel a bank should be owned by—I think they should have the power of preventing that holding company from taking over the bank.

The CHAIRMAN. Mr. Dunbar.

Mr. DUNBAR. In your testimony, Mr. Rand, you stated that one of the means of economic reforms and activities in the substation banks you acquired, was to cause them to have less actual cash in their safe, and you instructed them to deposit some of that money in the Federal reserve bank.

Now, the Federal reserve bank pays no interest. Did you mean to make that statement?

Mr. RAND. Yes; our banks have to carry a certain amount on deposit with the Federal reserve banks anyway. We have certain requirements as to the money we have to carry wit hthe Federal reserve banks. If we take money out of the tellers' windows and from out of our own vault and put it there, that releases other money which we will have to invest in Government bonds or to put in other banks where we do get interest on it.

Mr. DUNBAR. Is your Marine Midland Corporation a member of the Federal reserve system?

Mr. RAND. No, sir; it could not be.

Mr. DUNBAR. How many of the substation banks are members of the Federal reserve system?

Mr. RAND. Ten of our banks are members of the Federal reserve system. The other eight are not, but those eight, for the most part, are very small banks.

Mr. DUNBAR. Would your corporation be permitted to be a member of the Federal reserve system?

Mr. RAND. No.

Mr. DUNBAR. No bank holding company would be permitted to be a member of the Federal reserve system?

Mr. RAND. Not under the present law.

Mr. DUNBAR. Now, you stated that you deposited this money in the Federal reserve bank and it would release credit to you that would enable you to make money.

Mr. RAND. Yes, sir.

Mr. DUNBAR. In the Federal reserve bank you are required to carry a certain amount on deposit for reserves, and you get no interest for that?

Mr. RAND. Yes, sir.

Mr. DUNBAR. Have these banks that you advised to deposit their surplus money in the Federal reserve bank been depositing their money there?

Mr. RAND. Yes, sir; they have been.

Mr. DUNBAR. Then, why deposit any more there when you get no interest on it, but could get interest on it by depositing it in other banks?

Mr. RAND. In other words, this is what we were doing: We were taking money that they were holding in the bank in the tellers' windows and in the vault, and on which we were drawing no interest, and we deposited that money in the Federal reserve bank, and that released money that was in the Federal reserve bank so that we could use that in buying Government bonds or in placing it in banks where we did get interest.

Mr. DUNBAR. But why not use the money that you saved from the tellers' windows and held in your vault for that purpose, instead of swapping the money?

Mr. RAND. We took the money that we were getting no return on, and placed it where we got return; in other words, we could have taken the money we had in the tellers' windows and put it in other banks and gotten a return on it.

Mr. DUNBAR. But you get no return on any money in the Federal reserve bank over and above your lawful reserve that you are required to keep there?

Mr. RAND. No, sir.

Mr. DUNBAR. I wish you would explain how it was possible to get money from money you put into the Federal reserve bank.

Mr. RAND. We took money that was idle and put it in other banks. We had money in the Federal reserve banks, and we replaced that money by money that we saved by the methods I mentioned.

Mr. DUNBAR. You put the money in the Federal reserve and you released the money in the Federal reserve bank to other banks?

Mr. RAND. Yes, sir.

Mr. DUNBAR. I thought you loaned more money and took the paper and rediscounted it and continued to pyramid it?

Mr. RAND. No, sir.

Mr. DUNBAR. The same effect could be effected by depositing the money directly into other banks instead of putting it into the Federal reserve bank?

Mr. RAND. Yes, sir.

Mr. DUNBAR. Now, Mrs. Pratt this morning, brought out the point in reference to your establishing a bank in the city of New York so that you there might take care of your customers who would naturally leave you and go to other banks there and she said the thought was new to her and possibly the trust companies would fall into that habit and the chairman said perhaps they would, and I think Mr. Wingo said after they got there they would be swallowed up by the banks in the city of New York. Is not that a possibility?

Mr. RAND. That is a possibility, but——

Mr. DUNBAR. In other words, are we not going right toward centralization and everything of that sort?

Mr. RAND. No, sir; I think it is going the other way.

Mr. DUNBAR. You think the business is decentralizing?

Mr. RAND. No, I think our plan of banking decentralizes banking control away from, for instance, one center. I think it means stronger banks in the Northwest and stronger banks in Detroit and stronger banks in Buffalo and decentralizes the banking business.

Mr. DUNBAR. Then, by buying this bank in New York City who made your bank in Buffalo stronger?

Mr. RAND. Yes, sir.

Mr. DUNBAR. Has this bank in New York more capitalization than your bank in Buffalo?

Mr. RAND. No.

Mr. DUNBAR. The resources of your bank in Buffalo are available for this bank in New York?

Mr. RAND. No, sir.

Mr. DUNBAR. If your customers were transferred to a bank in New York City not as strong as your bank in Buffalo, I should think there would be a little hesitancy—I should think they would go to the stronger bank.

Mr. RAND. I thought I covered that this morning.

Mr. DUNBAR. Perhaps you did, and I will look it over.

Now, this morning, you said you sold securities in self defense, and Mr. Luce thought it was not wise to do so. These securities which you sold in self defense—what do you mean by that? Does that mean people you are doing business with issue bonds, and you buy them and sell them?

Mr. RAND. Our Marine Trust Co. has 150,000 customers. They are coming to their banker and asking him for information about securities. They are coming to us and asking us to find or secure certain securities for them, so our bond department in our Marine Trust Co. is selling securities to our own customers, the same as other banks throughout the territory are doing.

Mr. DUNBAR. You do that as much as an accommodation to your customer as yourself, because they expect you to do that for them?

Mr. RAND. Yes, sir

Mr. DUNBAR. Do you encourage your substation banks to become members of the Federal reserve system?

Mr. RAND. We have not changed the banks that have gone into our group. If they are members of the Federal reserve, we want

them to remain members of the Federal reserve. So far, we have not adopted a policy. I should say, however, our policy is to have our large banks, particularly, members of the Federal reserve system.

Mr. DUNBAR. Why should not the smaller banks be members?

Mr. RAND. Well, we allow our banking boards a very large degree of local autonomy and where the board of directors of the local bank wish to become a member of the Federal reserve system, we encourage it and sometimes they have not wished to become a member of the Federal reserve system and we have not interfered with the local autonomy that they cherish.

Mr. DUNBAR. You are a believer in the Federal reserve system?

Mr. RAND. By all means. I am a director in the Buffalo branch of the Federal reserve.

Mr. DUNBAR. To what extent will these holding companies interfere with the Federal reserve banks?

Mr. RAND. I do not think they will interfere.

Mr. DUNBAR. You believe the holding company will encourage most of the substation banks to be members?

Mr. RAND. Yes, sir.

Mr. DUNBAR. All of your national banks are members of the Federal reserve system, of course?

Mr. RAND. Yes, sir.

Mr. DUNBAR. You have to deal, in doing business with your industrial companies, you have to deal in a great many of their bonds and stocks, do you not?

Mr. RAND. Not in stocks. We occasionally buy some of their bonds.

Mr. DUNBAR. Now, to what extent do you think that our industrial system is being encouraged to promote their business beyond requirements, by reason of the easy credit which exists throughout our country most of the time?

In my district I have seen more failures of industrial plants due to the fact that when they get on easy street and make $100,000 they want to make $500,000; and they begin to expand and their credit was good, and before they knew of it they got in deep water. Would you call that a fault of the banking system out there as much as anything else?

Mr. RAND. I have not had experience out in your territory, so I really can not answer that.

Mr. DUNBAR. You watch all the people you lend money to very carefully, of course?

Mr. RAND. Yes.

Mr. DUNBAR. That is one of the advantages you claim for group banking?

Mr. RAND. Yes, sir.

Mr. DUNBAR. Is there any legislation, in your opinion, going to solve this problem? I have been coming here every day and the longer I come the more confused I get. Could we have any national legislation that would affect group banking all over the United States to apply to it?

Mr. RAND. Yes; if Congress would put it into effect, it would.

Mr. DUNBAR. If Congress put it into effect, the States could pass laws in respect to group banks and they might antagonize, might they not?

Mr. RAND. I really could not answer that question.

Mr. DUNBAR. We have our State banks, which are antagonizing our national banks, and it seems to me we would have different laws in different States respecting group banking that would not be in harmony with the national act. For instance, take the matter of taxation: In your State of New York you only pay one-tenth the tax on your capital we have to pay out in Indiana. It is just a matter of State law. The laws of the State of New York are especially applicable to all bank stocks and all capital. Out in Indiana the bank stock is assessed as capital, surplus, and undivided profits, and then pays tax at 4 per cent.

The States are not in harmony in their dealing with banking institutions and the States could enact laws which are not in harmony with our Federal law so long as they remain within the State.

You believe, even under this situation that will exist, that the Federal Government could enact a holding company group bank law that would be made effective throughout the country?

Mr. RAND. As far as it applied to Federal reserve banks or national banks. I could not answer your question fully because it is a legal question, and I am not a lawyer.

Mr. DUNBAR. I infer from your testimony that you are broad-minded and you believe branch banking has a place just as well as group banking?

Mr. RAND. Yes.

Mr. DUNBAR. You spoke about group banking should be established in cities above 10,000, because you said unit banks could flourish in towns between 10,000 and 15,000—could prosper?

Mr. RAND. Well, I said in answer to the question as to how large a city should be to start an independent bank, the city should be approximately 10,000 or above. I think that is correct.

Mr. DUNBAR. Now, it would be your opinion, if we had a Federal group law—and for that matter we could have a State law on the subject—in all probability the unit banking system will disappear?

Mr. RAND. No, sir; I do not think so. I think we will always have unit banking.

Mr. STRONG. I wanted to ask you a few questions about the organization of your holding company. As I understand, the first authorization was for $10,000,000 capital.

Mr. RAND. Ten million shares authorized.

Mr. STRONG. At a value of $10 par?

Mr. RAND. $10 par.

Mr. STRONG. And that stock was used in exchange for stock of the group banks?

Mr. RAND. Only a part of it. If you read the original statement, it gives the whole history of that.

Mr. STRONG. I wanted to ask some questions and wanted to lay the foundation.

Mr. RAND. About 3,800,000 shares were issued in exchange for the stock of various banks.

Mr. STRONG. How many banks were in the group when it was first formed?

Mr. RAND. When it was first formed there were 16 banks.

Mr. STRONG. Was that the start of your group?

Mr. RAND. Yes, sir.

Mr. STRONG. Now, what arrangements are made as to the exchange of the stock of the banks for the holding company stock?

Mr. RAND. I explained that while you were out. We worked out a plan with all the various banks, taking into consideration their earnings, asset value, liquidating value, and the market value of the stock at the time, and the prospects of the bank and the locality in which it was located.

Mr. STRONG. When you take in new banks, what procedure do you go through?

Mr. RAND. The same.

Mr. STRONG. What I am asking is whether the banks that first created the holding company did not have the advantage of making their own deals as to the proportionate amount of holding company stock they should have for the stock of their exchanging bank, and when the other banks come in, you do not scrutinize them very carefully, and perhaps make a less generous proposition with them.

Mr. RAND. We carefully refrained from that. We were afraid we would be open to that criticism, and besides it would not be fair and it is not fair.

We go through exactly the same procedure when we take over a bank as we did when we formed the group.

Mr. STRONG. Is the amount of stock larger in amount—than the combined amount you hold in the banks?

Mr. RAND. It is, in number of shares, but the stock we exchange for the stock of the bank coming in is probably about equal in value for the bank stock that we are receiving.

Mr. STRONG. Of course, the bank stock you are putting out at first has really no value until you get control of the banks for which the stock is issued; it is only paper. You issue that for the stock of the bank?

Mr. RAND. Yes. No stock has been issued except for cash or bank stock.

Mr. STRONG. Do you issue a proportionately larger amount of the stock of the holding company than the stock of the bank you take in?

Mr. RAND. No; for instance, we have outstanding at the present time approximately $55,000,000—five and one-half million shares at $10 par. The combined capital of these various banks is $28,025,000. Their surplus and undivided profits are over $40,000,000. The combined capital surplus and undivided profits of the banks is $70,159,000.

Mr. STRONG. Capital and surplus?

Mr. RAND. Yes, sir. The issue in exchange was five and one-half million shares, approximately, of new stock, of $10 par, or $55,000,000.

Mr. STRONG. What is the stock of the holding company worth?

Mr. RAND. It is selling for approximately $45 a share.

Mr. STRONG. That is four and one-half times the original value of the stock?

Mr. RAND. Yes.

Mr. STRONG. There are considerable paper profits in that?

Mr. RAND. When we took over the various banks, their own stock was selling from three to eight times their book value. When we took over the Marine Trust Co., the stock was selling for $1,200 a share, and had a book value of about $150 a share.

My position on the market value of the stocks of these banks has been that I am not interested in the market values. The market values are created by conditions over which we have no control.

Mr. STRONG. You have control over the profits; if you make a good profit you increase the value of the stock.

Mr. RAND. By increasing the earning power of these various banks, and that is all we have been interested in doing.

Mr. STRONG. You have been organized about four or five months?

Mr. RAND. We organized September, 1929.

Mr. STRONG. Have you paid any dividends yet?

Mr. RAND. Two—30 cents a share each.

Mr. STRONG. How do the earnings compare to those dividends?

Mr. RAND. We are earning about $2 a share.

Mr. STRONG. Quarterly?

Mr. RAND. No; per year. Our stock is selling on a higher yield basis than the average New York bank stock; that is, it is not selling as high as the average New York bank stock.

Mr. STRONG. Do you intend to confine your operations to the State of New York?

Mr. RAND. That is our intention at the present time.

Mr. STRONG. Have you some banks in Canada?

Mr. RAND. No.

Mr. STRONG. You say it is your intention to stick to the State of New York?

Mr. RAND. Yes.

Mr. STRONG. Does your charter provide you can go outside of the State of New York?

Mr. RAND. Yes.

Mr. STRONG. You do not intend to do that?

Mr. RAND. At the present time we do not intend to. We may change our minds later.

Mr. STRONG. I presume you do not want to take into your group any bank that does not make money.

Mr. RAND. The only banks we have taken in that do not make money are banks that we feel in the future will make money. A bank that does not make money is a poor bank, and we do not want to take them in.

Mr. STRONG. What is your scheme or your proposition in these holding companies? What do they provide in the way of taking care of the small towns or small businesses?

Mr. RAND. I thought I covered that in my original statement.

Mr. STRONG. Maybe you did, but I will not keep you very long.

Mr. RAND. I have discussed that so much to-day I hardly know where to commence. We, of course, try to build up the local communities.

Mr. STRONG. Mr. Seiberling says that your argument was that branch banking was necessary to take care of that situation.

Mr. RAND. In the very small town I think that branch banking is necessary.

Mr. STRONG. Then you think branch banking is preferable to your system of banking?

Mr. RAND. I should say if branch banking were permissible in New York State, or if Congress would amend the law and make branch banking legal, the chances are that we would favor the branch system.

Mr. STRONG. You would convert to a branch banking?

Mr. RAND. Our inclination would be to do that.

Mr. STRONG. Are you in favor of the suggested trade area plan of branch banking?

Mr. RAND. Yes.

Mr. STRONG. What trade area would your group of banks belong to?

Mr. RAND. As I said previously, I feel that the second Federal Reserve District would just about suit our trade area; that is, New York State, parts of New Jersey and parts of Pennsylvania and part of Connecticut.

Mr. STRONG. Do you think your group would be able to dominate the banking in that trade area?

Mr. RAND. No.

Mr. STRONG. Are there other groups?

Mr. RAND. Yes; there are other groups.

Mr. STRONG. Organized along your lines?

Mr. RAND. Somewhat along our lines?

Mr. STRONG. How many banks are in your group?

Mr. RAND. Seventeen.

Mr. STRONG. That is including branches?

Mr. RAND. No. I think the 17 banks operate 68 branches.

Mr. STRONG. They are State banks mainly that have these branches?

Mr. RAND. State and national. I think there are four national banks and the balance State banks.

Mr. STRONG. National banks have no branches outside of the State in which the bank is located?

Mr. RAND. No, sir; that is against the law in New York State and national banking laws. Some national banks have branches inside of the city but not outside.

Mr. STRONG. The real purpose of organizing your group is to have branches outside of the city in other parts of the State or States in your Federal reserve district?

Mr. RAND. That is one of the purposes.

Mr. STRONG. If your group continues for 5 or 10 years, do you think you will be able to dominate the Federal reserve bank in your territory?

Mr. RAND. No; it would be ridiculous to think we could dominate the Federal reserve bank.

Mr. STRONG. You have dominated the other banks in that territory, have you not?

Mr. RAND. No; there are some pretty strong banks in our territory.

Mr. STRONG. You started about five or six months ago and you have 68 banks now.

Mr. RAND. No; 17 banks.

Mr. STRONG. But you have 50 or 60 branches?

Mr. RAND. Thirty-four branches in Buffalo, but there are other banks in Buffalo that have almost as many as we have.

Mr. STRONG. That is pretty good progress in that short time?

Mr. RAND. We have added only one in the last two or three years in Buffalo.

Mr. STRONG. Now, you have 17 banks in this original group controlling about 70 branches. Do you contemplate you will take in a great many more banks and branches?

Mr. RAND. Not indiscriminately. We might add three or four banks a year, but we are not——

Mr. STRONG. Are you contemplating that those banks will each have a number of branches?

Mr. RAND. We can not tell that.

Mr. STRONG. How many other groups in that trade area that you refer to—how many other groups have branches like you have?

Mr. RAND. I could not answer that offhand. There is one at Syracuse, the Bank of Manhattan of New York City, and others in New York State.

Mr. STRONG. Do you not really believe as a practical proposition in time there will be a uniting of some of those groups, as a natural consequence?

Mr. RAND. There may be. I do not know.

Mr. STRONG. It is reasonable to suppose there will be?

Mr. RAND. I could not say.

Mr. STRONG. You would say it is reasonable to believe that?

Mr. RAND. I would not say that, even.

Mr. STRONG. If there were, and those banks up there would unite in these groups, don't you think they would have a dominating influence in the control of the Federal reserve bank?

Mr. RAND. No; I think there are too many banks in New York State to have any one group have any appreciable influence on the Federal reserve.

Mr. STRONG. I was suggesting there would be a combination of banks down to two or three groups and if that should happen, I think there would be a domination of the Federal reserve bank. One of the things I am worrying about in this new changing banking system of ours into chain, group, and branch banking, is whether or not, during the course of the years, there will not be such a combination of banks that they will dominate and control the Federal reserve banks. Everybody knows that if banking should be centered in one or two groups in each Federal reserve district, they would exert a tremendous influence on the Federal reserve banks.

Mr. RAND. I can not see any danger of that in New York State. I do not know the conditions outside of New York State. I can see no danger in New York State at present or future of one or two or three groups dominating the Federal reserve bank in New York State.

Mr. STRONG. Have you ever attempted to solicit any other banks to join your group?

Mr. RAND. No, sir; they have come to us.

Mr. STRONG. Unsolicited?

Mr. RAND. Yes. We might solicit them in the future. We would never use any force or coercive methods to get banks to join our group.

Mr. STRONG. Mr. Wakefield and Mr. Decker held out that statement to us, and yet before they got home we got a letter from a considerable group insisting they had used persuasive measures that might be described as practically force to bring certain banks into the group. Do you realize that if that were done it would be a serious proposition?

Mr. RAND. Yes.

Mr. STRONG. Just one more question: Do you not really believe that if combinations of banks are allowed to spring up and grow as rapidly as your system is growing, and the one at Minneapolis and St. Paul and St. Louis and San Francisco and throughout the country, eventually we are going to have a control of money and credits in this country by a few groups?

Mr. RAND. No; I think the country is so large and the proportion the groups could have in proportion to the total resources and growth and strength of the country—I do not believe any group can dominate or attempt to dominate in the country.

Mr. STRONG. We have had group banking only a few months, and they are controlling hundreds of banks in their groups and dominating and controlling the banking business in their territories.

If those strides are maintained, in the course of a few years it seems to me there is serious danger of a control of money and credits in various territories of the United States and which will, in turn, lead to amalgamation of such interests, and what I am afraid of is that, through combinations of group banking, chain banking, and branch banking, we will have a control of money and credits in the country that will be a dangerous thing for the Nation.

Mr. RAND. I do not think you will have anything to fear on that.

Mr. STRONG. Naturally, having formed a successful combination of banks, I imagine you would not be fearful of it, and as long as you are at the head of them, probably there should not be any such fear, but our lives are short and when men get into power they become selfish, and it has been the history of the world that the greatest domination of a nation is money and credits. They dominate armies, and we said during the war "that men win battles, but money wins wars."

That is all I care to ask.

The ACTING CHAIRMAN (Mr. Seiberling). We thank you very much for your testimony, Mr. Rand. The committee will stand adjourned until Tuesday, April 29, 1930.

(Whereupon, at 4.20 o'clock p. m., the committee adjourned, to meet at 10.30 o'clock a. m., on Tuesday, April 29, 1930.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

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

APRIL 29 AND 30, 1930

VOLUME 2

Part 10

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1930

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, APRIL 29, 1930

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

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

Mr. STRONG. The committee will come to order.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EXHIBIT A

GEORGIA,
Fulton County.

To the Superior Court of said County:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ANDERSON, ROUNDTREE & CRENSHAW,
Attorneys for petitioners.

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

ARNOLD BROYLES, *Clerk.*

BY-LAWS OF THE TRUSCO INVESTMENT CO.

ARTICLE I. OFFICES

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

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

ARTICLE II. SEAL

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

ARTICLE III. STOCKHOLDERS

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

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

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

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

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

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

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

SEC. 7. *Voting.*—At each meeting of the stockholders every stockholder entitled to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such stockholder or by his duly authorized attorney and delivered to the secretary of the corporation, and he shall be entitled to vote one vote for each share of stock appearing in his name on the books of the corporation, provided that no share of stock shall be voted on at any election for directors which has been transferred on the books of the corporation within 10 days next preceding such election. Transfer books of stock may be closed so as to fix the persons entitled to vote the same, by order of the board of directors, not exceeding 30 days preceding any stockholders' meeting. Upon the demand of any stockholder, the vote for directors, or upon any other question before the meeting, shall be by ballot; in the absence of such demand, it may be viva voce. All matters or questions before a stockholders' meeting shall be decided by a vote of the majority of those present, except where otherwise required by the charter.

ARTICLE IV. DIRECTORS

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

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

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

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

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

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

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

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

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

SEC. 8. *Compensation of directors.*—Directors, as such, shall not receive any stated salary for their services, but by resolution of the board a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the board; provided, that nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

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

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

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

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

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

ARTICLE V. OFFICERS

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

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

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

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

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

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

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

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

ARTICLE VI. CAPITAL STOCK

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

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

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

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

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

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

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

ARTICLE VII. DIVIDENDS AND WORKING CAPITAL

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

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

ARTICLE VIII. FISCAL YEAR

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

ARTICLE IX. NOTICE AND WAIVER OF NOTICE

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

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

ARTICLE X. AMENDMENTS

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

August 16, 1922.

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

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

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

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

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

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

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

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

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

GEORGIA,
Fulton County.

To the Superior Court of said county:

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

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

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

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

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

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

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

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

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

_____ _____,

_____ _____,

Attorneys for Petitioner.

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

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

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

In open court this ——— day of ———, 1929.

_____ _____,

Judge Superior Court, Fulton County, Ga.

EXHIBIT A

BY LAWS OF TRUSCO INVESTMENT CO.

MEETINGS OF STOCKHOLDERS

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

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

ELECTION OF DIRECTORS

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

BOARD OF DIRECTORS

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

MEETINGS OF THE BOARD OF DIRECTORS

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

EXECUTIVE COMMITTEE

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

OFFICERS

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

DUTIES OF OFFICERS

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

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

THE TREASURER

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

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

THE SECRETARY

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

STOCK CERTIFICATES

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

SPECIAL MEETINGS

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

BY-LAWS

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

SEAL

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

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

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

FIRST NATIONAL ASSOCIATES—ATLANTA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EXHIBIT B

DIRECTORS OF FIRST NATIONAL ASSOCIATES

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

EXHIBIT C

Charter No.	Date organized	First national group			Exhibit J		
		Name	Location	Capital	Surplus and undivided profits	Deposits	Total resources
1559	1865	First National Bank	Atlanta	$5,400,000.00	$6,664,351.75	$91,015,331.07	$108,009,181.11
None.	1891	Trust Co. of Georgia; stock held by trustees for prorata benefit of shareholders of First National Bank.	do	2,000,000.00	2,946,724.45	2,286,503.98	8,236,180.23
None.	1922	First National Associates; entire capital owned by Trust Co. of Georgia, owns a controlling interest in each of the following banks and corporations.	do	400,000.00	661,672.26	[1] None.	1,061,672.26
None.	1929	First National Co.	do	1,000,000.00	1,843,080.59	[1] None.	2,843,080.59
1860	1871	National Exchange Bank.	Augusta	400,000.00	197,417.58	2,776,696.96	3,806,768.56
4691	1892	Fourth National Bank.	Columbus	300,000.00	124,976.26	1,625,427.78	2,074,425.89
None.	1890	Continental Trust Co.	Macon	350,000.00	228,836.80	4,173,615.80	4,801,522.81
2368	1877	First National Bank.	Rome	150,000.00	268,687.71	2,752,793.39	3,373,692.81
None.	1889	Liberty Bank & Trust Co.	Savannah	600,000.00	154,916.61	4,690,874.42	5,601,154.70
None.	1892	Atlanta Savings Bank.	Atlanta	100,000.00	261,591.47	58,251.70	669,528.55
				10,700,000.00	13,352,255.48		140,477,207.51

[1] Represents capital structure.

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

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

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

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

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

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

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

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

Mr. OTTLEY. I thank you for your explanation.

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

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

Mr. STRONG. We appreciate that.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

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

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

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

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

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

Mr. OTTLEY. Forty years in Atlanta.

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

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

Mr. STRONG. What position did you first take?

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

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

Mr. OTTLEY. Eight.

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

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

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes, sir.

Mr. STRONG. That has occurred in eight years?

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Why, Mr. Chairman——

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

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

Mr. STRONG. I appreciate that.

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

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

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

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

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

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

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

Mr. STRONG. You think that would be desirable?

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

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

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

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

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

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

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

Mr. STRONG. Yes, sir.

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

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

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

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

Mr. OTTLEY. No, sir.

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

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

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

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

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

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

What is the reason for this complication in your case?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. OTTLEY. The First National Co.

Mr. LUCE. Where do they get it?

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

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

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

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

Do I make myself clear?

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

Mr. LUCE. Now, a final question——

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

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

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

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

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

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

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

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

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

Mr. OTTLEY. The rate of interest of the First National Bank is 3½ per cent per annum.

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. That is correct.

Mr. WINGO. That is the structure?

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

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes, sir.

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

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

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

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

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

Mr. OTTLEY. Yes.

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Somewhere between 100 and 200.

Mr. WINGO. How many States did they cover?

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

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

Mr. OTTLEY. No.

Mr. WINGO. They failed, did they not?

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

Mr. FENN. Did you say they all failed?

Mr. OTTLEY. No, sir.

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

Mr. WINGO. How many failed?

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Well——

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

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

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

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

Mr. WINGO. But they owned considerable stock?

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

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

Mr. OTTLEY. Yes.

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

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

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

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

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

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

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

Mr. OTTLEY. That is the general impression.

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

Mr. OTTLEY. Yes.

Mr. WINGO. You are opposed to chain banking?

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. I do.

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

Mr. OTTLEY. I do.

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. I think so.

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

Mr. OTTLEY. Yes, sir.

Mr. WINGO. And deposits depend on confidence?

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

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

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

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

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

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

(Discussion off the record.)

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

Mr. OTTLEY. Under the law they can.

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

Mr. OTTLEY. That is correct.

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

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

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

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

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

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

Mr. OTTLEY. I presume so.

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

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

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

Mr. OTTLEY. That is correct.

Mr. STRONG. You think that would be bad?

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Tennessee.

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

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

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

Mr. OTTLEY. No, sir.

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

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

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

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

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

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

Mr. STRONG. I know.

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

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

Mr. OTTLEY. Yes.

Mr. STRONG. Why?

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

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

Mr. OTTLEY. Yes, sir.

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

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

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

Mr. OTTLEY. Personally, I am not.

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

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

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

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

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

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

Mr. STRONG. But you are not afraid——

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

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

Mr. OTTLEY. Certainly.

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

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

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

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

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

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

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

Mr. OTTLEY. Yes.

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. The banks themselves?

Mr. STRONG. Certainly.

Mr. OTTLEY. Under the present law——

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

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

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

Mr. OTTLEY. No, sir.

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

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

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

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

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

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

Mr. OTTLEY. I do.

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

Mr. OTTLEY. The various States have that.

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

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

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

Mr. OTTLEY. Yes, sir.

Mr. STRONG. What should that be?

Mr. OTTLEY. How low or how high?

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

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

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

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

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

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

Mr. STRONG. Do you think there should be a limit to the amount of loans these great banking institutions could make? You must remember that there is going to be an immense capital and lending any certain percentage of their capital would not be any protection. If you had a branch bank in Atlanta covering six States with 100 branches in each State, that would be 600 branches. You would have an immense capital. Do you think you should have a limitation on the amount you can loan to any one individual or corporation?

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

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

Mr. OTTLEY. Absolutely.

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

Mr. OTTLEY. Yes, sir.

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

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

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

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

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

Mr. STRONG. In the interests of the public?

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

Mr. STRONG. That is all.

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

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

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

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

Mr. LETTS. With any restriction in that regard?

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

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

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

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

Mr. OTTLEY. Just two or three years.

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

Mr. OTTLEY. Yes.

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

Mr. OTTLEY. Yes, sir.

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

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

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

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

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

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

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

Mr. LETTS. For a long time?

Mr. OTTLEY. Yes.

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

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

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

Under your suggestion, could those men be accommodated?

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

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

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

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

Mr. LETTS. I have just one other question.

Mr. STRONG. All right; proceed.

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

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

Mr. OTTLEY. Yes.

Mr. LETTS. And, in justice, requires?

Mr. OTTLEY. Yes.

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

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

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

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

Mr. SEIBERLING. How about Macon?

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

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

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

Mr. OTTLEY. I am at your service.

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

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

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

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, APRIL 30, 1930

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

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

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

STATEMENT OF JOHN K. OTTLEY—Resumed

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

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

Mr. OTTLEY. Yes, sir.

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

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

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

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

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

Mr. OTTLEY. Yes, sir; in Nashville?

Mr. SEIBERLING. Yes, sir.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. I think 8 per cent.

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

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

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

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

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

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

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

Mr. OTTLEY. Might I just say something further?

Mr. SEIBERLING. Yes.

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

Mr. SEIBERLING. The maximum rate.

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

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

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

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

Mr. OTTLEY. All right.

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

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

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

Mr. OTTLEY. I think that is reasonable.

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

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

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes.

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

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

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

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

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

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

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

Mr. OTTLEY. You ask me have I one?

Mr. SEIBERLING. Yes.

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

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

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

Mr. OTTLEY. I do, sir.

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

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

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

Mr. OTTLEY. Yes, sir; I do.

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

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. Does that express it?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. I think that is all.

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

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

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

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

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

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

Mr. OTTLEY. I get it now.

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

Mr. BRAND. Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. BRAND. I see.

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

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

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

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

Mr. BRAND. You still adhere to that opinion?

Mr. OTTLEY. I do.

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

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

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

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

Mr. BRAND. I did not think so.

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

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

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

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

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

Mr. BRAND. Nobody knew anything about it?

Mr. OTTLEY. No, sir.

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

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

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

Mr. OTTLEY. I do not know that.

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

Mr. BRAND. No.

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

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

Mr. OTTLEY. He did not.

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

Mr. OTTLEY. No, sir.

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

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

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

This is what you said:

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

Mr. BRAND. And many of them solvent?

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes, sir.

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

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

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. Yes.

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

Mr. OTTLEY. At the present time, yes.

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

Mr. OTTLEY. I do not think so.

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

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

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

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

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

Mr. OTTLEY. Make some.

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

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

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

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

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

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

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

Mr. OTTLEY. You are asking a hypothetical question.

Mr. BRAND. No; a very practical question.

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

Mr. OTTLEY. No.

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

Mr. OTTLEY. No.

Mr. BRAND. Do you know of any bank in Macon that does it?
Mr. OTTLEY. I can not answer that.
Mr. BRAND. Does your bank in Macon do it?
Mr. OTTLEY. I would say no.
Mr. BRAND. Do you know of any bank in Athens that does it?
Mr. OTTLEY. I could not tell you.
Mr. BRAND. I know that they do not.

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

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

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

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

Mr. BRAND. I agree with you about that.

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

Mr. BRAND. I agree with you about that.

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

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

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

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

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

Mr. OTTLEY. I said on their land.

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

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

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

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

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

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

Mr. OTTLEY. No.

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

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

Mr. OTTLEY. I understand that.

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

Mr. BRAND. Well, now, suppose that those two should get together and agree upon a rate of interest that they will pay on daily balances, for instance, which might have the effect of reducing the rate from 3½ to 2½ per cent; would not that be against the interests of the people generally, the rank and file of the public?

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

Mr. BRAND. Yes. Suppose that these two groups should get together and agree that they would not pay 3½ per cent any longer, but reduce the rate to 2½ per cent.

Mr. OTTLEY. In the past to a large extent, the question of interest paid on deposits, savings or otherwise, has been influenced more or less by the demand for money. You take, for instance, at the present time; the rates that banks can obtain on loans to-day and the spread between that and 3½ per cent leaves very little profit. Now, if the rate should go down with or without any agreement, you would have this situation, that the people that have money to deposit would go elsewhere, and that applies also to the people who may want to borrow money. They are not compelled to do business with any particular bank in any particular town; they are not compelled to do business with any particular bank in any particular State, and to illustrate that point, there are banks all the way from New York to and through the surrounding States that are canvassing Georgia for business right now, particularly for deposits as well as loans.

Mr. BRAND. Mr. Ottley, the question I asked is: If there is not a probability that if there were only two groups in the sixth Federal reserve district, that the big bankers would get together and agree that they are losing money in paying 3½ per cent on daily balances and that they will put it down to 2 or 2½ per cent?

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr BRAND. I agree with you fully.

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

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

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

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

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

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

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

Mr. OTTLEY. Yes, sir.

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

Mr. OTTLEY. I should think so.

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

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

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

Mr. OTTLEY. Something over 700.

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

Mr. OTTLEY. Some; yes.

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

Mr. OTTLEY. Between eight and nine years ago.

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

Mr. OTTLEY. Yes, sir.

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

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

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

Mr. BRAND. A fine building.

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

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

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

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

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

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

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

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

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

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

The CHAIRMAN. Judge Brand, will you yield?

Mr. BRAND. Yes.

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

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

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

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

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

Mr. OTTLEY. Yes.

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

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

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

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

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

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

Mr. OTTLEY. Personally I do not.

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

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

Mrs. PRATT. Yes.

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

Mrs. PRATT. Monopoly.

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

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

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

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

That is a practical illustration of what we were discussing.

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

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

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

Mr. OTTLEY. It would.

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

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

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

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

Mr. BRAND. Yes.

Mr. OTTLEY. We have not any that small.

Mr. BRAND. What is the smallest?

Mr. OTTLEY. Well, the smallest in capital and surplus I think is $362,000. That is the smallest one we have.

Mr. BRAND. You have one here at Columbus, about $2,000,000.

Mr. OTTLEY. Yes; that is the smallest one, and that is about $2,000,000.

Mr. BRAND. Mr. Luce, you asked a question yesterday, I believe, and I want to come back to it while you are present.

In Mr. Ottley's statement, this occurs:

> The question may be raised whether, since branch banking beyond city limits is prohibited by the McFadden Act, the First National Bank is not doing indirectly what is unlawful to be done directly. My answer is that the law permits us to do exactly what we are doing. It is done under the sanction of the law.

I think that he discussed that question with you, but there is one thing I did not understand, and I am only asking for information. Under what law was it, State or Federal, that you have formed your group of banks down there?

Mr. OTTLEY. Under State law.

Mr. BRAND. Were all of these banks State banks, or were some of them national banks, that you took over?

Mr. OTTLEY. No, sir. The holding company is organized under the laws of the State of Georgia, and the charter was granted by the superior court.

Mr. BRAND. The courts have no jurisdiction over national banks. And I can understand how you could take State banks over.

Mr. OTTLEY. All in the world that that company has done is what any member sitting around this table could do; that is to say, they have just simply gone out and bought a certain amount of stock from the individual shareholders that wanted to sell it.

Mr. BRAND. I wanted you to amplify your statement, because I did not really understand it.

Mr. OTTLEY. Yes. I would like to say this in connection with our buying of this stock, that first in each case we went to the presidents of the banks and said, "You have a bank of which we think well"—and I will tell you another thing, that all these banks had been correspondents, corresponding banks for years, and were good friends, like you and I are, and we went to the presidents of those banks and said, "We think this is the trend of the times and we would like to buy a majority of your stock. We are not looking for any jobs; all that we are interested in and expect to make out of it is a fair return and we want to buy your stock and pay what it is worth, and with our system and cooperation we think that we can make it a better and larger bank and help you to make more money than you are making at the present time."

Mr. BRAND. I think that is very fine. What per cent, as a rule, does your parent bank own in these banks which you have taken over—what per cent of the stock?

Mr. OTTLEY. We own in excess of 50 per cent.

Mr. BRAND. I know you do. You have a majority control, but how much over 50 per cent, as a rule?

Mr. OTTLEY. We own from 50.16 per cent to as high as 78 per cent. What we have done is this: We have gone to the president and to the board of directors and said, "Now, gentlemen, we want a minimum of 50 per cent and we are willing to buy as much more as anybody wants to sell," and in each case we made an offer to the shareholders to sell any portion of the stock that they wanted to sell, and, as I say, the smallest one is 50.16 per cent; the other is 78.21 per cent, as I remember it.

Mr. BRAND. I just want to state, for the benefit of those present, that when I said "We" a while ago in referring to the practice of our

bank lending to farmers on crop mortgages, I was referring to the Brand Banking Co., which has been a correspondent of Mr. Ottley's bank ever since it was organized. We have kept more deposits in his bank than in any other bank in Atlanta or elsewhere.

You know that to be a fact.

Mr. OTTLEY. That is a relationship, I would just like to take the opportunity to say, that we have enjoyed through these many years.

Mr. BRAND. I am much obliged; it has been mutual.

The CHAIRMAN. In connection with the questions that Mrs. Pratt asked you a few moments ago as to the concentration of banking resources in the city of New York, I want to ask you one or two questions. Some money is deposited, according to the custom of country banks, with their correspondent banks; but during the last year or two an accumulation of the country's credit has gone into brokers' loans and has been invested in the maket. It has been the practice of these banks to loan money for their customers, through the rules of the stock exchange, by letting them invest in brokers' loans, and this also may be a part of the clearing-house rules. In acting for their correspondents in that respect, the New York banks have been making a charge of one-half of 1 per cent when they loaned money for their customers in the market.

I would like to ask you if in your opinion and with your knowledge of the national banking laws, this is a legal procedure? Have the New York national banks the legal right to act in that capacity?

Mr. OTTLEY. Mr. McFadden, I am not able to answer that question.

The CHAIRMAN. Inasmuch as the comptroller happens to be here, I am going to ask him if he will tell us whether it is legal under the national banking law, for the New York national banks, as agents for country banks as lenders, to act in that capacity in regard to financing brokers' loans?

Mr. POLE. I have heard of no legal objection to it, Mr. Chairman. I would hardly be qualified to answer that question, however.

The CHAIRMAN. The matter has been called to my attention by an ex-national bank examiner, and he makes the definite statement that the national banking law does not permit national banks to act in that capacity. It is an interesting question.

Mr. POLE. Yes.

The CHAIRMAN. And I wanted to raise it.

Mr. POLE. It is an interesting question.

The CHAIRMAN. It is a matter that should be definitely known, particularly by your office.

Mr. POLE. Yes, indeed; very interesting.

The CHAIRMAN. I am going to ask you, Mr. Pole, if you will give some deliberation to that question and write me what the opinion of your office is as regards national banks acting in that capacity.

Mr. POLE. I shall be very glad to do that.

The CHAIRMAN. We only have 10 minutes now until our adjourning time, and I am wondering whether you will be back this afternoon, Mr. Ottley.

Mr. BUSBY. I just have a few questions, and I can finish in 10 minutes.

The CHAIRMAN. Very well.

Mr. BUSBY. Mr. Seiberling has a question which he asked me to ask, and I would yield to him.

Mr. SEIBERLING. The question was this: If you had branch banking in the sixth Federal reserve district, do you think that that would increase the financial importance of the centers of that district to such an extent that in all probability the district would do substantially all of the financing required by industry and corporations in that district?

Mr. OTTLEY. I think it would very largely increase and enhance the ability of the district to do its own financing. In short, my conception of it is that it would have a tendency along the lines that followed the establishment of the Federal reserve system; that is to say, that when reserves were required by law to be carried there instead of being carried somewhere else, it made those districts, particularly the sixth Federal district, very much more self-contained from a financial point of view than it ever was before, and I think along the same line——

Mr. SEIBERLING. You think it would have the effect of decentralizing to some extent money and credits and distributing them to the various Federal reserve districts?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. That is all.

Mr. BUSBY. Business throughout the country is combining and coming together in larger units in all of the several spheres of business activity, is it not?

Mr. OTTLEY. It is, sir.

Mr. BUSBY. In other words, take a corporation such as the one known as General Foods. That is a holding company that deals with all types and kinds of business activities that are in line with the supplying of food to the people of the Nation. There is the Steel Corporation, General Motors, and many other like business activities, many other holding companies, that control the business activities in the several fields, and they are getting together in larger and larger units all the time, are they not?

Mr. OTTLEY. Correct.

Mr. BUSBY. Now, following Mr. Seiberling's question, it would be impossible to keep the headquarters for those institutions from going to the larger money centers in our country, would it not?

Mr. OTTLEY. Yes, sir; it would be impossible.

Mr. BUSBY. You had one institution that grew to very great proportions in Atlanta, the coca cola business. Do you know where the coca cola business headquarters are at the present time, whether in Atlanta or New York?

Mr. OTTLEY. Atlanta.

Mr. BUSBY. Now, while business is growing bigger, banks will have to grow bigger to take care of the business of these growing institutions, will they not?

Mr. OTTLEY. That is correct.

Mr. BUSBY. And do you not think that that is largely the reason why banks are being put to the test in trying to get together as quickly as possible in larger units?

Mr. OTTLEY. Undoubtedly so, sir. In other words, the banks are but servants of business, and in order to serve bigger business, they must be larger themselves.

Mr. BUSBY. Now, you spoke of a great many banking failures in Georgia. I know that North Carolina, South Carolina, Georgia, and Florida had a very unusual percentage of bank failures during the last nine years. Do you not think that that was due largely to speculation in lands and in land values during that period of time?

Mr. OTTLEY. Well, I would not think it was necessarily due to land speculation.

Mr. BUSBY. That was largely true in Florida, was it not?

Mr. OTTLEY. Yes, sir.

Mr. BUSBY. Was it true to any extent in Georgia?

Mr. OTTLEY. We have had, I would say, very little land speculation in Georgia.

Mr. BUSBY. The result of the Florida boom, however, was to siphon the money out of your territory, it being close by, into the Florida operations, was it not?

Mr. OTTLEY. A great deal of money went there; yes, sir.

Mr. BUSBY. And that was also true of other States such as those just north of Florida, North Carolina, and South Carolina?

Mr. OTTLEY. Yes.

Mr. BUSBY. Do you not think that those States were ultimately affected in a financial way by reason of the fact that the people took available money and went to Florida and tried to make fortunes with it and then lost much of it when the crash came?

Mr. OTTLEY. I think that had some effect, but within a very short time this system that has been discussed here, the Manley system, produced a very large number of banks which failed immediately or within a very short period of time, and then the other bank failures in Florida, that have continued following that, have been due to the depression as an after result of land speculation. Now, in Georgia, primarily, I would think, and as far as I would express an opinion, in South Carolina, it is mainly due to the depressed condition of agriculture, and, as I have endeavored to point out, the foundation for the average country bank is banking, and if the farmer makes money, the banks make money, and if he does not, then they are out of luck.

Mr. BUSBY. Now, agriculture was boosted and developed considerably in response to the appeal of the Government during the war and shortly after the war, to grow foods and supply the Nation and the Army, do you not think?

Mr. OTTLEY. I think so.

Mr. BUSBY. Do you remember the days of 1918 and 1919, when we were appealing to people to even plant gardens in their back yards?

Mr. OTTLEY. Yes.

Mr. BUSBY. During those days wheat stood at $2.20 a bushel all through the Northwest. I notice another great stretch of territory, in the central Northwest, in the wheat-growing district, where bank failures were tremendous during the last nine years. Do you not think that that was due largely to the appeal that caused us to overdevelop our agricultural activities?

Mr. OTTLEY. Well, I see what you mean. At any rate, there was an overproduction at high prices, and it was the deflation from the high prices to the low prices that resulted in these bank failures.

Mr. BUSBY. The banks that were doing business in those sections of the country could not help but go down when the country went down.

Mr. OTTLEY. That is correct; and when the community fails, the little bank fails under that system.

Mr. BUSBY. Now, the present method of handling finances in this country has the tendency to overdevelop commercial activities, especially with regard to stocks and bonds, has it not?

Mr. OTTLEY. Mr. Busby, that is a question I believe to be a little out of my line.

Mr. BUSBY. You know this, however, that financing trading on the New York Stock Exchange, through the sale of stocks and bonds listed on it as well as some other exchanges, has drawn considerable money out of all parts of the country into those centers, and this action has left a dearth of money in the outlying sections of the country, so much so that business has been stifled considerably for lack of money on which to operate; is not that true?

Mr. OTTLEY. According to my observation, that is not correct.

Mr. BUSBY. It is not correct?

Mr. OTTLEY. I might just say this, that a great many corporations heretofore have financed their business by borrowing money on the notes of the corporation, but in later years those corporations have taken advantage of the money market to sell preferred stock, to sell debentures, and to sell bonds which would finance their business for a number of years, and those securities have been sold throughout the country, and that has taken them out of the banks to a large extent and relieved them of the necessity of borrowing from banks; and right at that point I might say that under the Federal reserve system one of the most difficult things that banks have to deal with to-day is to keep their funds invested in loans that are eligible for rediscount with the Federal reserve bank.

Mr. BUSBY. What do you think about the law being broadened so as to make more classes of paper subject to rediscount at the Federal reserve banks?

Mr. OTTLEY. I think that is worthy of this committee's most earnest consideration.

Mr. BUSBY. Is it not quite an effort to try to find enough eligible paper to invest the assets of the banks that must be kept liquid?

Mr. OTTLEY. That is correct.

Mr. BUSBY. Formerly corporations and business institutions borrowed their money from banks, did they not?

Mr. OTTLEY. Yes, sir.

Mr. BUSBY. And under the present system those same business activities or institutions or corporations issue their stocks, bonds, and debentures and sell them through the stock exchange, getting their money directly from the people who purchase these stocks, bonds, and securities?

Mr. OTTLEY. That is correct.

Mr. BUSBY. And it has reversed the entire system within the last few years?

Mr. OTTLEY. Yes, sir; and might I just add one word along that line?

Mr. BUSBY. Yes.

Mr. OTTLEY. And that is this, that up to the period of the war, the large majority of loans that were offered to banks were without collateral; that is, they were plain notes, based on indorsements or a statement, as the case might be. The agitation that went through

the country about buying United States bonds was a wonderful step toward thrift, so that now in the majority of instances when people come in for a loan, they have invested in Liberty bonds, started that way, and then bought these securities to which you referred, and they come in from time to time with collateral, and the number of borrowers who voluntarily offer collateral listed on the stock exchange has multiplied very, very greatly.

Mr. BUSBY. That is all, Mr. Chairman.

The CHAIRMAN. We will recess until 2.30 o'clock this afternoon.

(Thereupon, at 1 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS

The hearing was resumed at 2.30 o'clock p. m., at the conclusion of the recess.

STATEMENT OF JOHN K. OTTLEY—Resumed

The CHAIRMAN. Mr. Ottley, I should like to ask you—and my question does not apply particularly to your own situation but to the development generally throughout the country—about the consolidation of banking groups which results in chain, group, and the extension of branch banking. How much of this development do you think is a desire of the moving spirits to become big, because bigness means financial power; in other words, is that prompted by a desire to get big or prompted by other motives?

Mr. OTTLEY. Mr. Chairman, it is my belief that it is prompted by the economic trend of the business.

The CHAIRMAN. In that connection, some people make the argument that great banking consolidations are not needed to accommodate great industrial combinations and point out that it is fallacious. They point to the fact that most of these corporations do not need banking help.

This morning Mr. Busby asked you some questions pertaining to the change in the method of financing business; that whereas it was heretofore done largely through banks, now the corporations and big industries are getting their money through the issuance of common stocks and modern vehicles of investment securities.

In that connection I recall the other day when Mr. George F. Rand, of Buffalo, was before the committee, he cited, off the record, case after case of large accounts, in and around Buffalo, or within the area of their banks, which because of consolidations with larger corporations, with their main offices in New York City, had been lost.

If you will look over the annual statements—look over the September 29 clearing-house banks of New York City—you will find where those banks were acting as brokers for these industrial corporations and lending large amounts of money which at that time was running up into the billions of dollars. I think you will find that we have an entirely different situation. Would you care to comment on that particular angle of the thing?

Mr. OTTLEY. As to the angle of these New York banks acting as brokers for those concerns in lending money?

The CHAIRMAN. Not particularly that, but I was attempting to show how that was piling up in New York on account of these changed

methods of financing. You say that this is necessary to accommodate these large groups that are being formed, whereas, as a matter of fact, most of them are being financed independently of the banks.

Mr. OTTLEY. I shall be glad to give you my idea on that.

The CHAIRMAN. It is a factor in this whole situation and we would be glad to get your thought on it.

Mr. OTTLEY. Just as I stated this morning, a large number of these corporations, instead of borrowing, as they formerly did, you might say, in a small continuous or seasonal demand, that is not now so true because of their particular financing. On the other hand, from time to time these big corporations for a short period—maybe one time this one and another time that one and at intervals—want sums of money that, on account of their size were formerly accepted as being worth while, do not now mean anything when they want to borrow money.

The CHAIRMAN. So that in order to take care of their casual demands, you feel it is necessary to grow big in order to hold that business?

Mr. OTTLEY. I should like to make a statement that I would prefer not to go in the record, if it is agreeable to you.

The CHAIRMAN. We will be glad to have you do that.

(Discussion off the record.)

The CHAIRMAN. I understood you to say this morning that, in your judgment, these many small bank failures throughout Georgia, Florida, and other sections of the country were due largely to the deflation which took place in the price of products raised in those sections. Was that a complete answer, do you think?

Mr. OTTLEY. I said that and I repeat that, and I might just simply say to the general depression in which agriculture finds itself in our territory.

The CHAIRMAN. Would you attribute management as any factor in that situation?

Mr. OTTLEY. Management, I think, is always a factor.

The CHAIRMAN. Would you go so far as to say that these little banks located in the isolated farming communities, as a general thing, were not competently managed?

Mr. OTTLEY. No, sir; I would not——

The CHAIRMAN. I am not intending that as a reflection on them, but I am prompted to ask that question to elicit the information because of the fact in some of these localities there are good banks existing to-day who have been making loans to that class of people whereas other banks in that community or territory have failed.

I am trying to ascertain what is the real cause for that. During this distressed condition, I happened to address a group of bankers in New Hampshire when banks were failing in the Northwestern and Middle sections of the country and I was impressed by the type of men who attended that meeting. There have been practically no bank failures up there, but here was a conservative type of men entirely different from the type that existed in the localities where the failures occurred, where oftentimes they were the sons or brothers of the farmers of the community or the people engaged in vocations in that community, where their money was received from that class of people and loans made to that class of people where, if crops were bad they were liable to be involved.

I wondered how much management entered into that situation.

Mr. OTTLEY. I think management enters very materially into the success or failure of any line of business and it is no different in banks. Along that line, you will find in a community these several banks and one or sometimes two will be successful and continue to be successful, whereas the other bank in the community will limp along for a while and then fail. Now, broadly speaking, they have the same opportunity.

But I think that general conditions also have a great bearing. Now when the base on which a bank rests is very much restricted, it makes it very different. When it comes to the question of management you will find in communities, particularly here and there, men of property and who have grown up with the community and have had experience and all, for reasons satisfactory to themselves, will stay on in those communities. But you take the younger men that are coming along, the opportunities apparently are so small in those communities and in those small banks, that the best minds are sought, I will put it, by the larger communities, giving them the larger opportunity.

So, based upon my knowledge and information and experience, it is growing increasingly difficult for the owners of those banks to continue to have the management go along as it should in any organization. Based on that, we have constant inquiries from the large owners—sometimes from the directors and sometimes from the presidents—to assist them in finding young men who are willing to come on as cashier and take over the work.

The CHAIRMAN. So, after all, management is a factor in those situations?

Mr. OTTLEY. Yes, sir; it is a great factor.

The CHAIRMAN. My familiarity with that period of time from 1893 up until 1923 comes from the fact that I grew up in a country bank of the type we are now discussing and I knew personally of the different changes that were run in on us from time to time and many times thoughts of those experiences have come to me since we got into these studies. Many of the causes most of us were not able to understand at the time.

One of the most important changes that took place was in 1913 and 1914, when the Federal reserve act was created. I am wondering whether the putting into operation of the Federal reserve act and the classifications of loans, as to eligibility for rediscount in the Federal reserve, and perhaps the adoption of a different set of rules in regard to country banks, and the fact that subsequently the opportunity for many of these banks to make money was taken away from them—whether or not that has not had considerable bearing and influence in connection with this readjustment.

Would you care to say whether or not that is a factor in this situation? In other words, years ago the country bank was an entirely different shop from what it is to-day. It has been modernized and is more up to date and along the lines of a city bank. Are we not trying to make something of the country bank that is impossible?

Mr. OTTLEY. Mr. McFadden, I came up here prepared to come before the committee and tell everything I know and everything I think.

The CHAIRMAN. I know this is a subject, Mr. Ottley, that you have given some thought to.

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. Any banker who has been in the business as long as you have and situated as you have been, in a position to observe the small country bank and the city bank, certainly possesses valuable information for tnis committee in this study, and I am asking the questions to get your views.

Mr. OTTLEY. And I am glad to give it to you. In the first place, I should like to say that I am a great advocate of the Federal reserve system, and I have been since its inception an ardent supporter of that system.

The CHAIRMAN. I was not casting any reflection on it, you understand.

Mr. OTTLEY. I understand, but I would like to preface what I am going to say by the statement I have made, because there are some things that I may say which, if I have not made that statement in the opening, you might, or someone else might, think I was inclined to criticize the Federal reserve system.

So, I want to open my statement by that.

I think that the establishment of the Federal reserve system has been a great thing for the United States as a whole. I think that it has been a great thing for the banking industry as a whole. I do feel that, with regard to the small country bank, the Federal reserve system might be liberalized; in fact, I think there are certain things I will be glad to mention that I feel the Federal reserve system might be liberalized in regard to, in regard to all banks, but particularly to the small country bank.

The question of exchange on collection of checks which, if they are a member of the Federal reserve system they must remit without any charge, has taken from the country bank a source of revenue. In addition to that, the requirement that they shall keep their reserve with the Federal reserve bank without interest, whereas they could before keep their reserve with a correspondent and draw interest, has been another thing.

I have been such an advocate of the Federal reserve system that when country banks have asked me my advice as to whether to join the system, I have unhesitatingly recommended them to be a member of the Federal reserve system with the idea of giving their indorsement and their support and of really paying their part of the burden of the Federal reserve system. Now, when they get right down to the question of dollars and cents, from the standpoint of income, due to the fact that, say, the First National Bank of Atlanta—this is purely impersonal—is a member of that system and gets the benefits of the Federal reserve system, these country banks, of course, can get the benefit of the stabilization that the Federal reserve system offers to the banking industry really through us without paying the expense, in a sense, that they would have to pay if they are a member of the system.

So I think, in view of the difficulties that country banks, particularly, are having in making money—and no bank can be safe or other business be safe unless it does make money—I think along that line probably, due to certain questions asked by members of this committee, they may be under the impression that the banking business as

a whole is a very profitable and very lucrative business, but I think as an offset to that, a study of the bank failures of this country, particularly in the rural districts, might make them take a second thought on that——

The CHAIRMAN. You would also recommend a study of the earnings of small banks throughout the country?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. And the amount of interest they pay on deposits?

Mr. OTTLEY. Yes, sir. Along the line that we were discussing, it has occurred to me that the Federal reserve system might, to the advantage of the banking fraternity, as well as to the advantage of the Federal reserve system itself, liberalize its policy in two particulars. One is to the country bank in the possibility of paying or allowing them some form of exchange. For example, when the Federal reserve system was organized it said that a check in one place is immediately available, without cost, in a different place in the country. That was passed on to the public, but as a matter of fact, the Federal reserve bank—and you know better than anybody else when you put a check in, the bank has to carry that float.

The CHAIRMAN. I am sure you will recall the fact that I led the fight for the country banks when the so-called Hardwick amendment was up. I felt then and feel now there should be some way to recompense the small country banker for that service. I think the Federal reserve system has since recognized that and I think they agree there was a grave mistake made.

Mr. OTTLEY. I believe that because of this par clearance that they at one time outlined they would enforce rigorously, but they have not continued.

The CHAIRMAN. The Federal reserve itself has adopted a service charge on certain collections?

Mr. OTTLEY. No, sir.

The CHAIRMAN. They have not?

Mr. OTTLEY. No, sir. So, I would think they could well afford to consider a modification of the Federal reserve system in allowing compensation for the collection and remittance of checks and collections—checks particularly, because they may allow it under collections; but checks in towns of small population.

Second, I feel that the earnings of a Federal reserve bank could well afford to have what I would term a more even distribution than they have at the present time in that the banks make a contribution of the capital which was originally the thing which was put at risk, on which they get 6 per cent, but in addition to the capital, then the banks furnish the reserve on which they are not allowed any interest. The Government, on the other hand, gives them the franchise for using Federal reserve notes.

Now, I feel the Government and the banks are really partners in the operation of the Federal reserve system, whereas the only compensation or only return that the banks ever receive is the interest or dividends on the amount of capital stock which they have actually paid in. All of the profits and all the reserves belong to the Government over and above the actual capital paid in and I believe I am correct in saying that the Federal Reserve Bank of Atlanta, for illustration, for the last year, paid a franchise tax to the Government of approximately $900,000.

Now, roughly speaking, the member banks made an equal contribution along with the Government. Now, if the exchange was given consideration to the banks in the smaller communities, that would help them and be an incentive to them to join the Federal reserve system.

The CHAIRMAN. You recognize, of course, that the Federal reserve system is of more value to the banks that are located in close proximity to the Federal reserve centers, than to the little banks off in the field?

Mr. OTTLEY. Yes.

The CHAIRMAN. If I understand you correctly, you would like to do something out of the Federal reserve earnings for the fellow in the sticks—do more for him than for the fellow who gets a more direct benefit from the Federal reserve bank?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. You make a distinction between the two?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. I think there is a demarcation there where some additional relief could be extended from the system.

Mr. OTTLEY. In short, I am suggesting that the question of consideration in the matter of exchange for the collection of checks be allowed in towns of small population which would automatically cut out places like Atlanta, New Orleans, and cities of that kind.

The CHAIRMAN. Have you any other suggestion as to how the small country bank might be put into a stronger position to have more earning power?

Mr. OTTLEY. Yes, sir. The question of exchange, I think should be an exclusive proposition with reference to towns of small population.

Now, then, I think that it would be a great mistake for the Federal reserve system to increase its fixed charges, but I do believe that the expenses should be paid and losses should be charged, the dividends on the small capital stock should be paid and that the residue of earnings should be on a basis of a fair division between the Government and the shareholders; that is to say, that the country bank then would not be guaranteed a given percentage of interest on its reserve or any member bank so far as that is concerned, so as to create a fixed charge on the Federal reserve system, but when the year's business was done and finished and wound up, that both the Government and the member banks would participate in the earnings.

The CHAIRMAN. In the distribution?

Mr. OTTLEY. Yes, sir; in the distribution of earnings.

Now, that would help the country bank in addition to its exchange. It also would help the member bank, whether large or small.

The CHAIRMAN. I introduced a bill in the present session of Congress attempting to deal with that particular thing. In it I attempted to distinguish between the bank located near the Federal reserve bank as against the smaller country bank, giving the country bank a larger percentage of the earnings. It is a difficult thing to work out, but I was trying to do it, basing it on their capital and legal reserve deposited with the banks.

Mr. OTTLEY. Another thing I think should be allowed and that is that participation in the division of earnings should apply only up to the required legal reserve; that is to say, I am not suggesting that they should pay it on the amount of money that a bank might keep there, but on what they are required by law to keep there. I am of

the opinion that that would really not cost the government a lot of money to do that, for this reason: When people have money invested and they have an opportunity to get a return on it, they take an active and direct interest in the management of that concern and in the amount that it makes.

Under present conditions, why member banks, under the existing law, can only get 6 per cent on the amount of the capital stock they pay in. There is no incentive for the member banks to take an active interest in a Federal reserve bank. They do not have any stockholders' meetings, such as are ordinarily held. The election of the directors is conducted by mail under the various classes, and so forth, whereas I believe that if the member banks had a chance to participate in the earnings it would be first an incentive to increase the membership in these banks and, second, it would create an active interest in the Federal reserve system which now does not exist.

The CHAIRMAN. There is another angle to this, Mr. Ottley, that I want to direct your attention to, from my own observation, from the period between 1893 to 1924, in the country banks.

Mr. BRAND. May I ask a question there without interrupting you?

The CHAIRMAN. Yes.

Mr. BRAND. You mean, as I understand you, after ascertaining the amount of the franchise tax to be paid in the Treasury of the United States and before the 12 banks pay the same to take a part of it and give it back to the country bank?

Mr. OTTLEY. That is the point I am trying to make. Do you know what the franchise tax is now?

Mr. BRAND. Total amount paid by all the Federal reserve banks since organization is $147,109,574. The Atlanta bank paid for 1929, $803,790.

Mr. OTTLEY. Well, they call it a franchise tax, but, as a matter of fact, it is all that they earn.

The CHAIRMAN. During the period I have referred to the method of conducting these country banks has entirely changed. For long periods during that time there were comparatively few failures of country banks, and I wonder whether the question of supervision or the introduction of new methods has had anything to do with these more recent failures; in other words, this distinction: Were we, during those periods of no failures, more lenient in regard to the class of securities these banks held, or have we adopted more drastic methods of examination and criticism now, that bring about these failures?

I wish to bring out another point that has a bearing on this. In most of these country banks it is very difficult to have any market values on the loans that are in there—that is, the security that is back of them. It is a slow and different class of security, as contrasted with the security in city banks where there is a ready market for it. I wonder whether our later rules and classifications and our examinations have not proved too drastic. In other words, as contrasted with the old rules which are as familiar to you, as a banker, as the A B C's are to a boy, we have not recently applied more drastic rules.

I should like to go a step further in that connection, as to the method of arriving at the real value of these assets. If we set up a gage, as we have in the New York Stock Exchange, of securities, of

supply and demand for securities, as a daily average, which is represented in the quotation of securities, I wonder whether that is an accurate criterion or whether the judgment of the men in the locality where the country bank is located as to the value of those securities might not be just as good. For instance, there was a time when certain stock on the New York stock market, in the last few years, was selling as high as $400 a share, whereas an accountant who examined the assets of the company would find the liquidating value of those shares was under $1. Do I make myself clear to you?

Mr. OTTLEY. Yes, sir; absolutely.

The CHAIRMAN. Has the question of arriving at the value of securities back of loans in banks had anything to do with the drying up of these country banks?

Mr. OTTLEY. I think I understand what is back of your mind. I would say, based on very accurate—I do not say accurate, but very intimate—knowledge of the conditions of these country banks, both national and State and their method of examination both in and out of the Federal reserve and in and out of the national banking system, I do not attribute the failures that we have had, to any change of the form of examination or any change in the form of requirement or to applying new rules as to the market value of the assets of these banks.

I am of the opinion that the national-bank examiners have been intelligent but considerate. I am of opinion that the superintendents of State banks have been very considerate—extremely so—and I believe that the same applies to the examinations made by the Federal reserve system; that they have been intelligent but have been considerate.

I think I can give you an illustration that will bring out the point you have in mind, but I should like to make it off the record if it is agreeable to you.

The CHAIRMAN. That may be done.

(Discussion off the record.)

The CHAIRMAN. You do not see any possibility, in the building up of these groups that there might be a concentration of power which would restrict and tend to dry up the rural districts of this country?

Mr. OTTLEY. Mr. McFadden, I do not. So far as the groups are concerned, I think the real difficulty will be to get good groups to go into the country.

The CHAIRMAN. You think they would be better served? You may have answered this question as to group and branch banking. You think the group plan would be preferable to chain or branch banking?

Mr. OTTLEY. I have answered that at length, but you were not here, and I will be glad to answer it again, and I wish to say that, in my opinion, the group system is superior to unit banking and that, on the other hand, branch banking is superior to group banking in that it can be made very much more flexible and can be operated at very much less expense than can the group system. I have outlined in my statement—I have just made a rough estimate of it and it will answer what you have in mind—just a rough estimate on my part is that it would take a bank of approximately $1,000,000 to warrant a group in wanting to take over the control of it; in other words, it would take about $1,000,000 under the group plan, to interest

the group in going into any particular bank, whereas, as a matter of fact, a branch could be operated and make money on very much less deposits.

The CHAIRMAN. Under the present predicament that we are in, with this movement in progress to the extent it is, supposing that Congress fails to act on the subject of branch banking: Will the development in these various forms continue under the impetus already given them; in other words, that this thing will go on and go on and go on until we develop the group and chain banking idea to the "nth" degree, probably?

Mr. OTTLEY. I would like to speak about group or branch banking, but the chain idea I am not in favor of. But I think, in the absence of legislation, the group method will continue to progress.

The CHAIRMAN. Well, would you think it advisable, in view of the possible tendency of weak groups to get into that particular kind of business now—the danger that exists, for instance, in building up such a group as was known as the Manley Group in your country? I mean by that—and I stated this the other day—they are formulating groups by promoters who are proposing to take over a large number of small banks in various States and operate them through holding-company management. They are going into stock promotions and getting the money to buy up control of these banks and use them in the way that holding-company promoters might use them first, to gain control of the assets and preempt the business of the particular vicinity in which they are operating and use it in the exploitation and sale of securities.

They are a different type of people than you and the Guardian Trust people in Detroit and the Marine Group in Buffalo and these other groups. There is no check on those people doing that; in other words, any one can go out to-day and buy a bank anywhere without asking any superintendent of banks or the Comptroller of the Currency or the Federal Reserve Board whether or not it is the right thing to do.

Would you think, in the circumstances—and I think you know what is in the air at the present time—while this discussion is on and we are studying this situation and getting ready, perhaps, to legislate to cover the requirements, it might be advisable to put in some restrictive legislation to provide, for instance, that no bank could be taken over into a group, either a national or State member bank of the Federal Reserve System, without getting the consent of the Comptroller or the Federal Reserve Board or both?

Mr. OTTLEY. Mr. Chairman, I think that would be highly desirable.

The CHAIRMAN. The thought has been growing, while we are considering this particular legislation and the agitation is on, that the mere discussion of this subject has enlarged and magnified the opportunity in the minds of clever people that here was a chance to proceed while there was no check, so that there might be built up in this country bank groups that might be in entirely wrong hands, and that perhaps we should, pending the outcome, put some check on it.

Mr. OTTLEY. I am very much impressed with the question and the way you have put it, and I would say this, that, first, the First National as a group would welcome any check that you might put;

in other words, if the Comptroller of the Currency, or the Federal Reserve Board, or both, objected to our annexing or acquiring any other bank, I would think that we ought not to do it; we might agree with it and we might not, but I mean by that that in the interest of this system as a whole I think it is desirable, particularly desirable, to insure the right kind of people going in it and on a proper basis, and, so far as I am concerned, and so far as the interests I represent are concerned, I would welcome it.

The CHAIRMAN. Of course, the only way the Congress could reach that would be through national banks and State member banks of the Federal reserve system. That would leave unprotected, however, unless the State banking departments of the various States promulgated special rules and regulations, or the States provided similar laws the State banks which are not members of the Federal reserve system. However, it would confine the operations of promoters attempting to do this thing to that particular class of nonmember State banks.

Mr. OTTLEY. I catch your point.

The CHAIRMAN. I have before me a draft of bill to cover that, and I would like to have your opinion on it. The bill proposes to authorize the Comptroller of the Currency and/or the Federal Reserve Board, or both, to approve or disapprove the entry of any member bank in the Federal reserve system into group or chain banking. The bill would read as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That after the approval of this act it shall be unlawful for any corporation, copartnership, individual or trustee to purchase or otherwise to acquire more than 25 per cent of the shares of the capital stock of more than one member-bank of the Federal reserve system, whether State or national bank member, except after first having the approval of the Comptroller of the Currency and/or Federal Reserve Board, or both.

Any person or corporation violating this act shall be deemed guilty of a misdemeanor and shall upon conviction thereof in any District Court of the United States be fined not more than $10,000.

Would you think that such a provision as that would cover this situation?

Mr. OTTLEY. Yes, sir. The only suggestion I would make, just from hearing you read it over, is with respect to the question of the 25 per cent. I would think, if I may make a suggestion——

The CHAIRMAN. I want your suggestion.

Mr. OTTLEY. I would think something along that line would be highly desirable, for this reason, that in my judgment group banking for the country is better than unit banking, and I do not know how long it is going to be, but I feel that that is going to be the real substitute for branch banking.

You gentlemen have a hard task before you, and it may take some time; nobody knows how long it is going to take for you to reach your final conclusion in this committee, and then in Congress, but pending that I feel that any restrictions or supervision that you can throw around group banking are desirable, with the idea of protecting the public and not having a disrepute on what is going on at the present time.

The only suggestion that I would make about what you have read there, as far as I can see it, is that I think that 25 per cent should be reduced. What I mean by that is not that 25 per cent is con-

trolling, but I think that at the same time it would be undesirable for a bad group to buy as much as 25 per cent.

The CHAIRMAN. Would you say 10 per cent?

Mr. OTTLEY. I would not want as much as 25 per cent.

The CHAIRMAN. Just what is your suggestion?

Mr. OTTLEY. In other words, I would say 10 per cent instead of 25 per cent. That would be my suggestion, because that 25 per cent in one block would be too much influence if it was not the right kind.

I may be wrong about it, but that is just a suggestion, and if you are going to do it, you can do it with 10 per cent as well as 25 per cent, and it will be that much safer.

The CHAIRMAN. In the formation of these groups it has come to our attention that some of them, and rather strong groups, have been taking over some banks that were not solvent. Some of the men who are engaged in this group form of banking have suggested to us that they would not take over a bank that was insolvent.

In your particular instance, have you confined your operations in the South entirely to the soundness of the institution, or have you taken over some banks where you wanted to preempt the business of that locality and have taken them over at a possible loss?

Mr. OTTLEY. Mr. Chairman, I am very glad to be asked that question and to be given an opportunity to answer.

I will say that our line of procedure has been first that we have dealt only with banks for whom we had served as correspondents for a long number of years, and by virtue of that we knew the management and we were well acquainted with the banks, and all of our negotiations have been directly with the management; that is to say, I have dealt right with the president of the institution and not gone on the outside and bought up any stock. In addition to that, we have made our negotiations based on an actual examination and appraisal of the assets, and we have not bought any bank, first, that did not have good management, second, that was not sound and clean—and I do not know whether you have before you the names of the banks and the dates on which they were organized. You will note that not a single new institution is in there, not a single one that is an old bank with a fine reputation, well deserved.

I might add to that that the First National Bank is sufficiently jealous of its reputation that we would not be willing to buy a bank that was not of the same character in its neighborhood that we were in ours.

The CHAIRMAN. In your operations, have you an affiliated investment company?

Mr. OTTLEY. Yes, sir, we have; the First National Co.

The CHAIRMAN. Do you deal in investment securities?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. Are your activities in your investment company confined to your particular area or do you seek business outside?

Mr. OTTLEY. Of course, we do seek business. We do seek business outside, but it primarily is confined to the sixth Federal reserve district.

The CHAIRMAN. Do you intend to confine your operations to what you might call a trade area, or to the State of Georgia, or just what is the fixed area that you have in mind?

Mr. OTTLEY. Our operations up to the present time have been confined, so far as the affiliated banks are concerned, to the State of Georgia, but I do not have any hesitation in saying that I do not feel that State lines mean anything, and, with regard to laws that may be enacted, it is my suggestion, or rather my opinion, for I do not mean to suggest, that it would be advisable to limit branch banking, if you saw fit in your wisdom to permit it, to what might be called trade areas, and when you come to the question of what should be a trade area, I think that is probably the most difficult nut that you are going to have to crack, and it is more or less difficult for me to answer the question as to what I term a trade area, but I would answer that by saying that the country as a whole should be limited to the Federal reserve districts as a basis. Various corporations have made studies to determine what those trade areas were from a financial standpoint and the trend of business in the different sections of the country, and a great deal of time and study were put in on that, but I think that, as far as I have been able to observe, great wisdom was exhibited in the establishment of those Federal reserve districts.

The CHAIRMAN. You would not go so far as to say that we should confine the banking business to be done in your district to that district, would you?

Mr. OTTLEY. I would not suggest that you confine the banking business to the district, because, of course, there are banks that do business all over the United States; and I think that the idea of avoiding monopolies is a fine thing, and I think that will stop the possibility of monopoly.

The CHAIRMAN. My question was whether we should provide that all banking business originating in a certain Federal reserve district shall be done in that district, and with banks in that district only?

Mr. OTTLEY. No, sir.

The CHAIRMAN. You would no go that far?

Mr. OTTLEY. I would not even touch that, because I think that the public should have all the leeway that they can; but what I do have in mind is this, that if you are going to grant branch banking, I would suggest the Federal reserve districts as a basis, and in certain cases I take it you would find it desirable to go outside of the district, but I think that the Federal reserve district should be the basis for the branches of a bank, that you should confine the branches to the Federal reserve districts in which the banks are located, and then, as to anything outside of that, it should be the exception rather than the rule.

To illustrate what I mean more clearly from a personal standpoint than otherwise, I said in my original statement that, just roughly speaking, I would suggest that in the case of Atlanta the sixth Federal reserve district be the basis, plus a portion of South Carolina and North Carolina.

The CHAIRMAN. In the formation and operation of your group, have you made any change in your lending policy from the policy that the units followed in dealing with local business men?

Mr. OTTLEY. Yes, sir. We have made changes. The principal changes that we have made in that respect have been to increase the lines of credit to worthy customers in those cities; that is to say, you take the cities into which we have gone; we have strong corporations there that used or were likely to use lines of credit that were incon-

sistent with what those local banks could either legally or comfortably furnish. To illustrate what I mean, suppose that a concern was getting a $100,000 line of credit from one of those local banks with which we affiliated ourselves, and that those people had use for $200,000, $300,000, or $400,000. We have granted those increased loans where we were satisfied as to their soundness, and so forth, and we have said to the local bank, "Go ahead and tell him he can get so much," and to help that local bank we have just let them pass the paper in payable to their order, and when they got it up to their limit, they just charged it to our account and sent it to us, and we bought it without any recourse the same as we would buy commercial paper.

The CHAIRMAN. So you do make available, in the communities where you are taking over these banks, funds from these other banks?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. From your observations up to date, would you say that you have probably sent in more money to those localities than you have taken out, or is that a difficult thing to state?

Mr. OTTLEY. I would say that we have sent more money in than we have taken out, and, as a matter of fact, that was one of the things that really appealed to the first national group, the fact that we have a very large deposit account from a clsas of customers that are not continuous borrowers, and for that reason we have large sums of money for investment at all times, and we are seeking commercial paper and other investments, and we felt that instead of just buying commercial paper through a broker, somebody in San Francisco or Boston or some place else, if we could invest that money in the South, in our own district, that that would be of benefit to that customer as well as of benefit to ourselves.

The CHAIRMAN. Have you been able to determine the effect that the establishment of these members of your group has had on the rates of interest paid by borrowers? In other words, has it changed the rate of interest, or do you charge the current rates?

Mr. OTTLEY. Mr. Chairman, I could not answer that question specifically, as to what effect, if any, it has had on the community, but the loans with which I have come in contact have been based on current going rates.

Mr. BRAND. May I ask a question right there?

The CHAIRMAN. Yes.

Mr. BRAND. Suppose Congress should establish nation-wide branch banking; what would become of your group of banks? Would they continue to exist, or adapt themselves to the new law?

Mr. OTTLEY. Judge Brand, that is more or less a difficult question to answer, because that is in the future. In the first place, I do not believe that this country is ready for nation-wide branch banking, but regardless of whether it is or not, and regardless of whether Congress should enact it, those of us in the First National Bank felt that group banking is here and on its way and that that was but a step to branch banking, and we felt, first by the merger of the Atlanta-Lowrey and the Fourth National into the First National, that we created an institution that was able to take care of big business and that was in line with the trend of the times, and that it strengthened our position and, second, in creating this group, we felt that it put us in an independent position so that if there was nation-wide branch banking we would be in a position that we would have a place

in the sun and it would put us in an independent position so that we would not be and could not be forced to do something that did not commend itself to us.

Is that clear?

Mr. BRAND. Yes.

The CHAIRMAN. Mr. Ottley, in connection with the operation of your group and your investment houses, do any of your affiliated companies deal in the stocks of your own banks?

Mr. OTTLEY. I do not understand.

The CHAIRMAN. Do any of your banks or holding companies or investment companies deal in the stocks of your own bank; or do you make a market for them, buy and sell them actively?

Mr. OTTLEY. The First National Co. deals in securities, and they buy if somebody comes along and has a few shares of stock that he wants to sell in the First National Bank, and they will sell it the same as they will buy the stock in any other bank.

The CHAIRMAN. But you do not do it for the purpose of maintaining control, or anything like that, or to make a market for your securities or maintain a market?

It was brought to the attention of the committee that in one instance a holding company was created by a dividend out of the surplus earnings of the bank and that that holding company is now holding 70 per cent of the stock of the bank. Would you think that was good policy for a holding company, affiliated with and owned by the same stockholders, to carry on?

Mr. OTTLEY. No, sir.

I might say, roughly speaking, that the First National Bank stock is owned by around 1,250 shareholders, and if the First National Co. has any of the stock of the First National Bank, it would be merely a nominal amount.

The CHAIRMAN. In connection with the securities which your securities company handles, either by underwriting them or otherwise, does the central control use the units of the group as a market? In other words, do you originate securities and sell them to your banks, as a general thing?

Mr. OTTLEY. Those banks, if you would like to know exactly what our relationship is——

The CHAIRMAN. Yes.

Mr. OTTLEY. The First National Co. has an office in Savannah for the distribution of securities. Our affiliated organization there has a bond department of its own, so that the operations, while friendly, are entirely separate, and that bank, having a bond department, has certain participations from time to time offered to them on their own account.

The First National Co. also has an office at Macon, and they operate their own bond department.

At Augusta the First National Co. has an office, and in view of the fact that they are housed in the affiliated bank there, and furnished certain clerical help and light, and so forth, a percentage of the profits made through that office is given to them, and they assume no responsibility whatever. They have no money invested, and if there should be any loss, it is a loss of the First National Co.

Then there is one at Columbus on the same basis.

At Rome the First National Co. has no office, and the First National Bank at Rome has no bond department.

The CHAIRMAN. Is it your observation that you are distributing a larger amount of investment securities in that area than you did previously through the individual banks? In other words, has this evolution of this group tended to increase or decrease your sales of investment securities?

Mr. OTTLEY. Mr. Chairman, of course you know the trend of the security business at the present time. I would answer your question by saying that I think the evolution of these institutions would give the company a greater prestige in those several localities than they had theretofore enjoyed, and in the end that it would have a tendency to increase the distribution.

The CHAIRMAN. Then there is something to the thought that in the building up of institutions like this within a trade area there is apt to be a preemption of that territory in the distribution of securities?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. I can presume that you look forward to the sale of the major portion of the investment securities in that territory?

Mr. OTTLEY. Not necessarily so. I mean that I think it has a potential value, but the competition for the sale of securities is very strong, due to the fact, as I stated some time in this hearing, that the principal distributors of securities, mainly the affiliated companies in the case of these larger banks in New York, Boston, and Chicago, maintain offices in Atlanta, and some of them have a larger number of men traveling out from Atlanta.

The CHAIRMAN. But this kind of an association strengthens your opportunity to compete with that very class of business?

Mr. OTTLEY. Yes. I can tell you one other thing, that along with that, in this group, we have an institution, the Atlanta Savings Bank, which is purely a real-estate mortgage institution, and they lend money on their own account and they also represent clients, both individually, and as correspondents of insurance companies, and we are gradually working out a basis to offer those facilities to the people in these communities.

The CHAIRMAN. I assume that you would raise no objection to throwing open for examination by the comptroller or the State banking department these affiliated companies of yours, would you?

Mr. OTTLEY. No, sir.

The CHAIRMAN. On the contrary, you would advise it?

Mr. OTTLEY. Yes, sir; advise it and welcome it.

The CHAIRMAN. I thought you would.

I think that is about all that I can think of this afternoon.

Have you any further statement you would like to make to the committee that would be helpful to us? After all, we are studying this subject.

Mr. OTTLEY. Well, I made a suggestion about the Federal reserve system, and you brought out your suggestion about immediate legislation.

The CHAIRMAN. I am drafting that bill in proper form, and if it is completed before the House adjourns to-day, it will be introduced. If not, it will be introduced to-morrow morning.

Mr. OTTLEY. I heartily commend that.

I think your committee is to be very highly commended for the patience and all that they are putting in on this, because it is a very important subject.

The CHAIRMAN. We are very grateful to you for coming up here, and if there is any other thought that comes to you, we will be glad to have you send it along to us.

After all, we are trying to do a constructive job here; we are trying to get the facts and to find out just what is going on as well as what legislation is necessary to follow as a matter of course. It is a tremendous undertaking to try to concentrate into these hearings all of the information that we ought to have, and the questions that have been asked of you around the table have been asked principally for the purpose of eliciting information, for it does not always mean that when I ask a question that I believe a certain thing; it merely means that I am trying, and that is true of the other members of the committee, to bring out information, and you have been very frank with the committee, as I knew you would be and as you are always.

So we are deeply appreciative, and I am sure that I express the sentiment of all of the members of the committee to you for having taken the time to come up here and appear before us.

Mr. OTTLEY. I am very glad that I came, and I would like to thank you and the other members of your committee for the very great consideration and courtesy which I consider they have all shown me.

(Whereupon, at 4 o'clock p. m., the committee adjourned until Thursday, May 1, 1930, at 10.30 o'clock a. m.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

AUTHORIZING THE BANKING AND CURRENCY COMMITTEE TO STUDY AND INVESTIGATE GROUP, CHAIN, AND BRANCH BANKING

MAY 6, 7, AND 8, 1930

VOLUME 2

Part 11

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1930

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, MAY 6, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met in the committee room, Capitol, at 10.50 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. Gentlemen of the committee, we have before us Mr. James A. Bacigalupi, president of the Transamerica Corporation.

Mr. BACIGALUPI. No, sir; I have not that honor.

The CHAIRMAN. What is your title?

Mr. BACIGALUPI. I am vice chairman of the advisory committee of the Transamerica Corporation.

The CHAIRMAN. If you will take a seat opposite the reporter there, we will be glad to hear from you. I presume you would like to proceed with your statement without interruption until you have completed it?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. All right; you may proceed.

STATEMENT OF JAMES A. BACIGALUPI, VICE CHAIRMAN OF ADVISORY COMMITTEE, TRANSAMERICA CORPORATION

Mr. BACIGALUPI. Mr. Chairman and members of the Committee on Banking and Currency of the House of Representatives, at the very outset, we of the so-called Transamerica group wish to assure you of our readiness and eagerness to fully cooperate with your committee in the matter of this important and timely investigation and study of branch and group or chain banking in the United States, by placing before you whatever experience or information we may have gained during the past quarter of a century in this type of banking.

In our endeavor to lay a proper foundation for an intelligent inquiry into our experience and to convey an adequate idea of the organization we here represent, we have deemed it advisable to prepare a formal introductory statement that might prove to be as explanatory of our many and varied activities as might be consistent with conciseness and comprehensiveness.

As an aid to you in properly visualizing the present status of our organization, we have prepared two wall charts and a number of smaller photostatic copies of them so that each committee member may be possessed of a set and thus more easily follow the origin and the development of our many institutions over the past 25 years.

Our activities begin with the establishment of the Bank of Italy and, inasmuch as its origin, policies, trials, and triumphs constitute

the foundation and furnish the explanation of the present enlarged structure of our interests, we ask your indulgence while we dwell a little upon its humble beginning and phenomenal progress.

The Bank of Italy was incorporated under the laws of California, August 10, 1904, by a small group of San Francisco men, mainly Italians and Americans of Italian origin.

It frequently has been said that an institution is but the lengthened shadow of a man. Certainly any consideration of the ideals, the purposes, the growth, and progress of the Bank of Italy, unmistakably reflects the peerless ability and forceful individualism of its founder—a man who has been aptly referred to as "stout-hearted, long-headed, keen-visioned, enthusiastic American and Californian—A. P. Giannini."

In the fall of 1904, with scarcely a ripple to mark its appearance in the financial pool of western America, the Bank of Italy, with the modest capital investment of $150,000, was launched in the great city by the Golden Gate.

Mr. Giannini, excepting for a short previous association as a director of the Columbus Savings and Loan Society, a small bank in San Francisco which catered largely to an Italian and Italian-American clientile, was not an experienced banker when the Bank of Italy was organized. He was then about 34 years of age and had but recently retired from the firm of L. Scatena & Co., wholesale commission dealers in California fruits and other food products, which he had helped to build up to become the leading house of its kind in that State. He was not a rich man, neither were the other men who joined him in the organization of the Bank of Italy.

During his busy and successful years in the commission business he had formed a wide acquaintance with men of all races and stations as well as with agricultural, horticultural, and general business and banking conditions; he was quick to sense the need of rural California for a more democratic and helpful banking service, and he dreamed his dream of a state-wide banking system that would in due course bring to even the remotest corners of his native State the boon of a more resourceful and adequate metropolitan bank. There was nothing original in this thought, because San Francisco even then possessed several successful branches of Canadian branch banks and his reading and reasoning had convinced him that there must have been sound merit in the fact that practically all other civilized nations, much older in banking experience than our own, after trying out every form and type of banking system, had uniformly adopted nation-wide branch banking. He must be given full credit, however, for having realized at the very start that the temperament of the American people would not tolerate a condition of absentee "bank-lordism." This obstacle he foresaw could easily be overcome if the people of each locality entered were given a local management of their acquaintance and confidence, a voice in the conduct of the local branch and the opportunity of acquiring a financial interest in the parent institution itself.

Having as a result of the skillful guidance and dynamic energy of its founder most successfully survived the terrific quake and conflagration which laid San Francisco in ruins in 1906, when the bank was but a little more than a year old, and having creditably come through the national financial panic of 1907 with the distinction of having

been the only bank in California which paid exclusively in gold coin throughout that distressful period, the Bank of Italy in 1909 first availed itself of the permissive extra-city branch banking statute of California by establishing its first out-of-town office. This branch represented the absorption of the business and assets of the Commercial Savings Bank of San Jose, situated 50 miles south of San Francisco.

The method used in the establishment of the San Jose branch has been consistently employed in every other community entered, with but one exception, namely, Sacramento, the State capital, where it was found impossible to purchase a bank and, as a result of popular petition, led by the chamber of commerce of that city, the then superintendent of banks granted the Bank of Italy a permit to open a brand new office, a so-called de novo branch.

With the single exception of Sacramento then, the uniform policy of the Bank of Italy has been to enter outside communities only through the acquisition of an established local bank; to convert it into a branch office; to retain its management and directorate, thenceforth acting in the capacity of an advisory board, exercising a similar supervision over the loans and business of the branch as it had theretofore when acting as a board of directors, excepting that its decisions became recommendations rather than edicts; and, while not obligatory, to interest as many of the old stockholders as possible and, in addition, others of the community, in Bank of Italy stock.

When San Jose was entered, it was reasoned that the prudent way to enter an outside community was to purchase an established bank, because otherwise it could only be hoped, at the outset, to attract a few disgruntled depositors and before sufficient good business could be worked into, principally that which theretofore could find no accommodation there on account of the smaller capital and limited resources of the local banks, it would be years. Then, again, the bank would inevitably be confronted with the necessity of building a brand new local staff for the branch office—not the easiest thing in modern banking.

Subsequent experience of the bank of Italy has amply demonstrated the soundness of this reasoning. By purchasing a good bank—and, almost without exception, such have been the banks which it has purchased—it acquired a staff, an advisory board, and local stockholders who were interested in the locality and familiar with local people, values, and conditions. If the staff was found deficient, in any given case, it was always a simple matter to straighten it where needed. It started at once with an established and, in most cases, a paying business. It was able, because of the elimination of the capital of the acquired bank and because also of its method of operation, the guidance of experts at headquarters, wholesale purchases, etc., to cut down the overhead prevailing at the time of the take-over, and because of the bank's greater resources it was immediately able to bid for and to receive a great deal of local business which theretofore had to look to larger centers for accommodation.

The general policies which have uniformly characterized and distinguished the Bank of Italy from its very foundation may be briefly stated as follows:

It has always been a truly democratic institution, a bank owned by the people, conducted by men and women chosen from among the rank and the file of the people and dedicated to the uniformly courteous

and considerate service of all deserving people, regardless of social standing or the size or importance of their business or patronage. All of its officers and employees, from the president down, have been stationed "out in the open" and are readily accessible during business hours either by telephone or personal call, without the necessity of breaking through a cordon of uniformed guards or officious underlings to reach them. One of its inflexible rules has been to rigidly require in its service a full 100 per cent of the time, thought and energy of its officers and employees, without distinction. No entangling or conflicting outside interests on the part of its officers and employees has ever been countenanced. Demonstrated merit and not seniority or "pull" has ever determined promotions within the bank. Total abstinence in politics and all controversial questions, that do not directly affect the weal of the bank, has always been the rule. It has always been operated for the benefit of its customers and stockholders and not for the personal prestige or enrichment of its officers. It has been progressive and dedicated to the demonstration of the correctness and superiority of the branch-banking system as pursued by it. It has never willingly permitted precedent to shape its course, when once it has been convinced that a different method was equally lawful and sounder and safer in principle and effect. And finally, while "exceptional service" has always been its slogan, "Safety above every other consideration" has been its constant admonition and inviolable requirement.

The growth of the Bank of Italy and the expansion of its branch system was gradual and extremely conservative in the first years of its development. It was the pioneer in state-wide branch banking in the United States and as such, without precedent or personal experience to guide it, deemed it prudent to "make haste slowly" and to build carefully and soundly. Up to the beginning of 1919, its record of branch establishments was as follows: One in 1909, one in 1910, one in 1912, two in 1913, one in 1915, five in 1916, seven in 1917 and five in 1918.

The only parts of the bank act of the State of California effective July 1, 1909, under which authority the Bank of Italy developed its branch system, which gives the right to every State bank to establish branch offices anywhere in the State upon obtaining the required permission of the superintendent of banks, are as follows:

> SEC. 127. No bank shall transact any business in this State without the written approval of the superintendent of banks * * *.
>
> SEC. 9. No bank in this State, or any officer or director thereof, shall hereafter open or keep an office other than its principal place of business, without first having obtained the written approval of the superintendent of banks to the opening of such branch office, which written approval may be given or withheld in his discretion, and shall not be given by him until he has ascertained to his satisfaction that the public convenience and advantage will be promoted by the opening of such a branch office * * *.

These provisions as originally enacted remain unchanged.

It will be readily appreciated that so brief though sweeping a statute practically vests the superintendent of banks with almost absolute and arbitrary power to grant or withhold permission for the establishment of a branch. In other words, all depends, in any given case, upon whether or not he is satisfied "that the public convenience and advantage will be promoted by the opening of such branch office." With such a law and with little or no precedent in this country to

serve as a guide, coupled with the fact that it was a comparatively new and unimportant factor in the financial field, the earlier branch banking years of the Bank of Italy were replete with interesintg, not to say difficult, situations. At first its competitors gave it little, if any, serious thought. It was pitied or mildly ridiculed for its foolhardiness by the old line or othordox bankers, in whose eyes it was but a "fool rushing in where angels fear to tread." Free from outside pressure, the then superintendent of banks administered the law, as he found it, to the best of his ability, and the bank enjoyed the full and free opportunity of blazing its novel though lawful trail in strict accordance with its bent and business judgment. About 1914, however, some of the influential bankers of the State began to notice with manifest uneasiness the rapid growth of the Bank of Italy and suddenly, one by one, all of the objections, which subsequently became stock phrases in the mouths of opponents to the system, began to be aired. A few of these objections were: That it was monopolistic; that it was a means of getting the money from the rural areas to be fed out to speculators in the large cities; that being spread out it could not be properly examined; that it was more vulnerable to attack; that it was in its very nature cold-blooded; that it functioned pursuant to the dictates of one man or, at best, of a small group of men, in a central and far removed location, almost wholly lacking in knoweldge of and sympathy with outside people and industries, etc. By this time, however, the bank was able to demonstrate by its actual experience and performance that these objections were imaginary and not real. Needless to add, all examinations of the bank were most searching and complete, and because of this unfailing scrutiny—which frequently was conducted by prejudiced or antagonistic officials—every effort was constantly exerted from within to keep the bank exceptionally strong, clean, and liquid.

Briefly told, the method used by the Bank of Italy in acquiring the stock of a bank prior to the early part of 1917 was as follows: California law forbade and still forbids a bank to purchase the stock of another bank. Section 31 of the bank act provides only for the purchase of the assets of another bank, while section 31a provides for consolidation. The Bank of Italy's practice was to follow section 31, as it never made it a rule to compel the exchange of stock. The selling stockholders were always left free to take all cash or part Bank of Italy stock and part cash in exchange. As a practical thing, therefore, it was never practicable to negotiate for the purchase of the assets of a bank and arrange for the conversion of that bank's business into a branch of the Bank of Italy until after a satisfactory sale of the stock had been consummated. The selling stockholder naturally wanted his cash or Bank of Italy stock in hand before he consented to a transfer of the assets to another bank. As a consequence, one or several of the principal officers of the Bank of Italy gave his or their personal notes, secured by the shares of the bank being acquired, to the Crocker National Bank; paid the selling stockholders; perfected the procedure under section 31 of the bank act and, after consolidation, liquidated the shell of the selling banking corporation, in which was always left in cash and such assets as could not lawfully be taken over by the purchasing bank an amount equal to the capital, surplus, and profits of the selling bank plus such

bonus as had been paid, if any, which was just sufficient to pay off the Crocker National Bank. In other words, a few men pledged their personal credit and the stock thus acquired for the benefit of all of the stockholders of the Bank of Italy without charging them anything for whatever personal risk might have been involved in the transaction. In the beginning this procedure, when the number of banks purchased was small, was not burdensome or inconvenient, but later the hardship became heavy and irksome.

This fact, in addition to several other inconveniences encountered in operation, because of the restriction of the bank act—such as being forced to write off any and all real estate which had been carried on the bank's books for a period of five years, irrespective of its real value, and thereafter likely to become nobody's business in a profit-and-loss account, and so forth, it was decided to incorporate a general corporation under California laws, the beneficial interest in the stock of which corporation would be entirely owned by the Bank of Italy stockholders in exactly the same proportion as their Bank of Italy holdings. In this way this auxiliary could do many legitimate things which the bank could not do, and whatever profit or loss ensued would be enjoyed or borne by the identical stockholders in the exact proportion of their holdings. This auxiliary company was also intended to keep the bank cleaner. Whenever an asset of the bank became doubtful or an apparent loss it could be transferred for a nominal consideration to this auxiliary, where it would become some one's special duty to look after it, and thus the probability of its collection or realization be materially improved. This corporation could also engage in one or another of the several legitimate businesses which are incidental to an established banking business. It could, for illustration, act as an insurance broker or agent, and in this way take full advantage of placing the bank's own large lines of insurance and such other insurance business as naturally come to a bank through its mortgage and kindred departments; the commissions accruing therefrom going to all of the stockholders, instead of to the president or cashier personally, as so frequently happens, even to-day, particularly in the smaller banks of the country. This company, first known as Stockholders Auxiliary Corporation, was incorporated under the laws of the State of California, June 20, 1917, with an original capital of $500,000. Subsequent to said date Stockholders Auxiliary Corporation became the purchaser of the banks intended to be converted into the Bank of Italy system.

Pursuant to its progressive policy, particularly in matters calculated to better serve the agricultural needs of the people, the California Joint-Stock Land Bank was incorporated by the Bank of Italy in 1919 under the provisions of the Federal farm loan act, with a capital of $916,000. This was the first joint-stock land bank to be incorporated in the West and it has ever since operated most successfully and helpfully in the States of California and Oregon. In fact, and without any vainglory, I might add that it has functioned as one of the most successful joint-stock land banks in the United States. Its total outstanding loans to-day are $14,511,167.92.

The year 1919 also marked another significant event in the life of the Bank of Italy, for it was in that year that it again demonstrated its progressive spirit by being the first California State bank to join the Federal reserve system. It joined primarily because it believed

it to be its patriotic duty to do so, and also because it desired to expose itself to the scrutiny and supervision of still another governmental authority.

In 1921, the Bank of Italy moved its head office from Clay and Montgomery Streets to No. 1 Powell Street, an entirely different section of San Francisco, just one block removed from its long established and flourishing branch at Market and Mason Streets. It was considered ill-advised to operate two important offices of the same bank within one block of each other, and yet the good will which has been built up in that location was far too valuable to be abandoned. As a result of these considerations, a new State bank was organized by Stockholders Auxiliary Corporation under the name of Liberty Bank, and its headquarters was established in the vacated banking room formerly occupied by the Market and Mason office of the Bank of Italy.

In 1923 Stockholders Auxiliary Corporation acquired the Commercial National Bank of Los Angeles.

In 1924 Americommercial Corporation was formed by Stockholders Auxiliary Corporation and certain stockholders of the Bank of America of Los Angeles to serve as a holding company to control the Bank of America of Los Angeles and the Liberty Bank of San Francisco.

In due course the entire ownership of Americommercial Corporation passed to Stockholders Auxiliary Corporation. Later in 1924, Americommercial Corporation also acquired direct control of the Commercial National Bank of Los Angeles.

The Liberty Bank of America was formed January, 1927, by a merger of the Liberty Bank of San Francisco and the Bank of America of Los Angeles.

In March, 1927, the Bank of Italy absorbed the Liberty Bank of America and the Commercial National Bank of Los Angeles and within the same month converted to a national charter. This absorption represented an increase, overnight and without a hitch, of $172,260,087.25 in the deposits of the Bank of Italy and the addition of 178 branches throughout California to the 98 offices theretofore conducted by it. Mention of this is made to direct special attention to the splendid organization of the Bank of Italy which thus proved its ability to perform so huge a task with such ease, speed, and accuracy.

The name of Stockholders Auxiliary Corporation was changed to National Bankitaly Co. early in 1927.

Soon after the nationalization of the Bank of Italy it was deemed desirable by National Bankitaly Co. to organize a mortgage company and an agricultural credit corporation; the former to further serve borrowers, seeking loans upon the security of mortgages on real estate situated in towns and cities of Californie having a population in excess of 10,000, whose legitimate needs might be greater than could be met by a national bank; and the latter to render a more adequate service to California farmers. Accordingly Bankitaly Mortgage Co. and Bankitaly Agricultural Corporation were incorporated under the laws of California, the former in 1927 and the latter in 1928.

Believing that you may be interested in the methods by which control of the Bank of Italy is maintained, we respectfully submit the following summary:

At the head, as is required by law, is the board of directors, the members of which are to a very large degree senior officers of the institution and actually engage in administrative and executive duties. Apart from the board itself, we have an advisory committee, acting as the name implies, in an advisory capacity. All of the members of the advisory committee are directors of the bank, but not active officers.

Under the board of directors, the organization has been separated for all operating purposes into two large divisions.

The Los Angeles division embraces all branches situated south of the northern boundary line of Santa Barbara County, and the San Francisco division takes in all branches lying north of that line. Each of said divisions is under the immediate charge of a board of management, made up of all senior officers and heads of important general departments, resident within the division. The boards of management meet weekly, and oftener if necessary, and have original and direct jurisdiction in all matters of operation and minor investments within their respective divisions.

In addition to these boards of management, there has been created a regional board in Los Angeles, the membership of which has been recruited from among the advisory boards of the branches in the Los Angeles division. The function of this regional board is to keep in touch with the conduct and progress of the bank's affairs within the division, to take such action with reference to the promotion of the bank's business in the Los Angeles division and to make such recommendations to the general executive committee and the board of directors as may from time to time be deemed proper for the best interests of the bank in southern California.

Boards exercising similar functions within their respective counties have been set up in Oakland and San Diego. The one in Oakland is known as the East Bay district board, and the one in San Diego County is known as the San Diego district board.

The general executive committee is made up of the members of both boards of management who are also directors of the bank. The general executive committee meets at least once a month in San Francisco and under the board of directors is the general managing body of the bank.

In order to more closely knit the branches to head office it has been thought expedient to further subdivide the system into districts and to place each under the care of a seasoned officer, generally a vice president, resident within the district, who acts in the capacity of a supervisor. These supervisors are charged with the duty of regularly visiting the branches within their respective districts; to keep in close touch with these branches; to counsel with them and to make sure that the bank's policies are being adhered to; to attend all advisory board meetings within the district and to act as mediators between head office and the branches intrusted to their supervision.

Each of the principal functions of the bank is managed by a special committee, the composition of which includes those who are engaged in the particular operation with which the committee is concerned. The chairman of the various committees are members of the execu-

tive committee of the bank, and since all members of the executive committee are also members of the board of directors, each of the special committees is presided over by a director. The committees include: General finance, business extension, purchasing, building, bank properties, personnel, agricultural credits, advertising, and suggestion.

In addition to these special committees, there has been instituted an auditing committee of the board of directors itself. The personnel of the auditing committee is drawn from the members of the board who do not have active duties with the bank. They are required to hold monthly meetings and to carry on a constant and independent audit of the institution. The work they initiate is dictated by their own members, and the reports which they prepare are made to the board of directors as a whole.

The individual operating and administrative departments are, of course, to a large extent identical with those found in any large institution. Each has its appropriate representation in the special and standing committees. This method of coordination insures a more perfect understanding of general policies and at the same time permits adequate opportunity for a thorough discussion of important subjects whose ramifications affect more than one department.

As has already been pointed out, every branch outside of San Francisco has a local advisory board. The advisory boards meet at stated intervals, consider loan applications, lend their knowledge of local conditions to the solution of problems that arise in the administration of branch affairs, and constitute a group to which the manager may refer for guidance in any specific action. The important conscientious service rendered by the bank's approximately 1,700 advisory board members is regarded as a most valuable asset.

The actual control of the institution is maintained by properly synchronizing the functions of each of these interrelated bodies. The problem is one to which a great deal of attention has been given during the bank's quarter of a century of operation.

The bank's policy has been to allow as much latitude as possible to the several branches in the matter of their operation. Different communities have different problems and the bank must take into consideration those identifying characters. In consequence each branch makes up its own daily financial statement on standard forms, in so far as individual accounts are concerned. The bank does not maintain a supergeneral ledger at head office, but simply consolidates the daily financial statements, adding to them such items as capital, investments, etc., not carried by the branches. This reduces to a minimum the clerical effort required to keep the records complete, and at the same time it gives to each branch an identity that could be secured in no other way.

In addition to the records and books kept at the 292 branches, the bank has a set of books known as administration, where are carried the capital accounts referred to, and with which the branch statements are consolidated. No portion of the capital is assigned to individual branches, but each one has the benefit of the great lending power of the entire sum, as well as the added security which this affords depositors.

Loans are made direct by the branches, except in instances where the amount is unusually large or the branch manager wishes to secure

the advice of the head office credit department. The customers of the branch deal with the local officers, and only in extraordinary circumstances are they brought into contact with the head office departments. Each branch has a general lending limit fixed by the bank's finance committee. Within this limit each branch may lend and report without previous consultation of head office. These limits vary with the proven credit capacity of the various branch loaning officers. Experience has demonstrated that the limits thus fixed are usually sufficient to take immediate care of the ordinary requirements of the branches. In other cases lines are established for the larger borrowing accounts, in advance of the time when these firms or individuals require the accommodation for their seasonable operations. As a matter of fact, after a branch has been in operation for a year or more, experience shows that easily 80 per cent of the annual commercial credits extended by the branches are renewals under established lines. All applications for unfixed lines of credit in excess of the lending limit of a given branch are promptly considered and acted upon by the proper central credit department and proper advice and instructions issued. The branch makes daily reports of all loans, and as these are received the credit department reviews them. Pertinent comments or suggestions are then forwarded to the branch manager, so that the loan may be properly followed and collection insured at maturity. The broad fundamental policies respecting credits are outlined by the general executive committee and interpretation and application is then made by the credit department.

This system permits the smallest branch in the organization to secure the benefits of the best obtainable advice and counsel on every loan that is made, and it also insures uniformity of policy, based on a thorough knowledge of conditions throughout the entire organization and the country as well.

As an auxiliary to the credit department, and yet distinctly an entity in itself, there is a central real-estate loan department, synchronizing all of the loan operations in urban and rural property, and providing a uniform system of appraisal throughout the State.

Under the direction of the auditing committee a constant check and examination of the business at the various branches is maintained. A trained staff of inspectors is engaged in the work, appearing without advance notice at the office to be examined, and spending as much time as is necessary to see that the task is completed.

Not only do they follow the usual channels of examination pursued by State or Federal authorities, but also check into the observance of operating practices required by the bank's rules and regulations. The report of the examination, with any and all irregularities noted, is filed with the auditing committee, and subsequently the items that have to do with other departments of the bank are referred to those who are directly concerned. Upon their next visit to the branch the inspectors verify the fact that matters have been corrected.

Responsibility for the operation of the bank rests with the cashier's department, subordinate to which are the comptroller's and accounting departments. All operating instructions for the branches are cleared through the cashier in the process of transmission. The introduction of new standards of practice and preparation of improved

forms find their way into general use by appropriate action of the cashier.

It is this adherence to definitely established procedure in all matters, large or small, that makes possible the absolute control of the institution. Each department has a fixed place in the scheme of organization, and the necessary machinery for coordinated action has been supplied. The actual control is simple because of the care that has been exercised in laying the foundation.

While we do not believe that we have achieved perfection in the practices we have adopted, at the same time we know that they are fundamentally sound, and by following the rules that have been worked out we have been and are able to successfully direct the affairs of the large institutions.

The Bank of Italy conducts through appropriate and well-organized departments all of the financial activities and functions which are now performed, almost without exception, by all large modern banks in the United States, viz: Commercial, savings, safe deposit, securities, international or foreign trade and exchange, trust and travel departments. In addition to these departments, the Bank of Italy has since 1911 devoted much time and expended considerable money in the encouragement of thrift among the school children of California. Through its school savings department, the bank is to-day in contact with 1,671 schools throughout the State having an attendance of 285,000 children.

These schools are visited every week without fail on a certain day and hour by 20 young bank employees, who travel approximately 8,000 miles in order to accomplish the task of collecting the amounts which the participating pupils desire to save. Even 1 cent is accepted as a deposit from individual pupils, who are shown just as much consideration by the visiting bank men as are any other clients of the bank. Two hundred and twelve thousand children throughout California from the Oregon line down to the Mexican border now have on deposit in the school savings department of the Bank of Italy nearly $3,000,000, an average of about $15 each. In the accumulation of this vast sum, who will question the incalculable importance of the lessons incidental to thrift that have been learned by children, such as self-denial, patience, industry, and independence, all of which insure a better appreciation of the nobler ends of life and of the rights of others.

The Bank of Italy, because of its branches, leads the world in this very progressive economic movement, which has always meant more to the child than to any bank that has ever undertaken it. Then, too, in helping children to save regularly, in a systematic manner, a bank unquestionably assists all other depositaries by creating a demand for banks. And, in the last analysis, by teaching children to save during their school years, a bank gives aid to the family—the very foundation of society—whose youthful members are encouraged to persevere in a course of providential living.

Your attention is now directed to a number of exhibits which we have caused to be prepared for your committee and which we believe will prove both instructive and interesting.

The CHAIRMAN. Before you start on Exhibit A, I want to insert, at this point, without objection, the two charts which you have been referring to. We will designate them as "Charts of organization, Nos. 1 and 2."

Mr. BACIGALUPI. No. 1 will be headed the "Bank of Italy" on the upper left-hand corner, and No. 2 will be the Transamerica chart.

(The charts referred to are printed below, as follows:)

The CHAIRMAN. You are about to insert other exhibits?

Mr. BACIGALUPI. Yes, sir; they are prepared to be left with the secretary of your committee.

The CHAIRMAN. They should also be inserted in this record?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. In the order in which they appear?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. I understand that one of them is confidential?

Mr. BACIGALUPI. There is one that is confidential. It contains the names of certain borrowers.

The CHAIRMAN. Without objection, then, all of these exhibits which you are referring to as part of your testimony, with the exception of those which you will designate as confidential, will be placed in the record in the order in which they appear in your statement.

Mr. BACIGALUPI. I might state in reference to the one that is confidential, it might be well to file it with you to be kept privately, so that the members of the committee may refer to it.

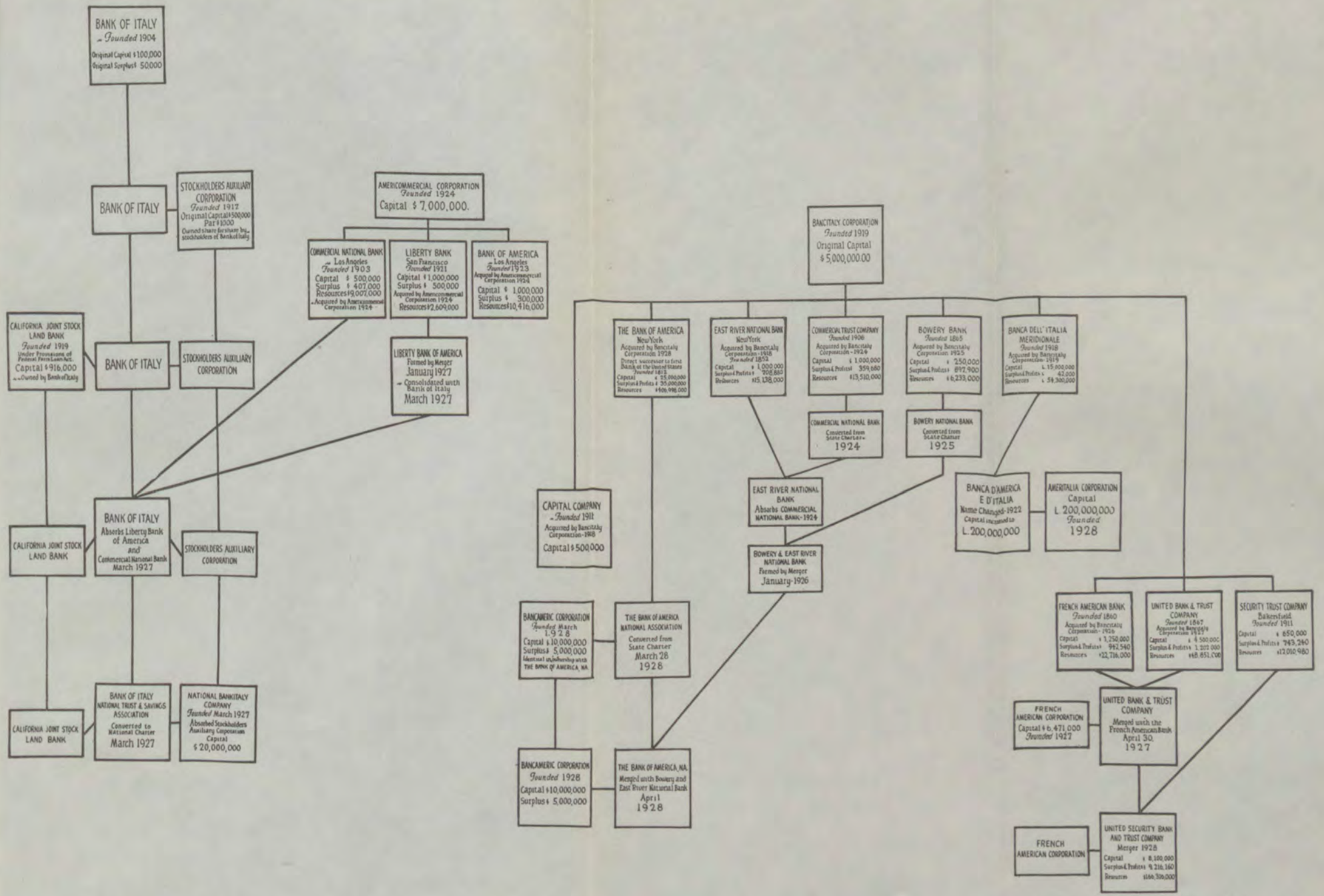
The CHAIRMAN. It will remain available in the hands of the secretary of the committee for the members that want to see it.

Mr. BACIGALUPI. Exhibit A shows the care which has been consistently exercised by the management to keep the capital structure of the bank in proper relationship to the constantly increasing resources of the institution. On December 31, 1929, the capital, surplus and profits of the bank were $108,251,158.52, while that of its affiliate, National Bankitaly Co. (owned share for share by the same stockholders and evidenced by the same certificate) was $91,620,-927—a combined working capital of approximately $200,000,000. Total resources of the bank at the end of the year were $1,055,113,-373.09. This exhibit further discloses every capital increase and its allocation and shows the capital, surplus, and profits of all absorbed banks to have totaled $56,066,000.

Mr. BRAND. Are those exhibits in this pamphlet [exhibiting]?

Mr. BACIGALUPI. No, sir; this is Exhibit A [exhibiting] which gives chronologically the date of the capital issue, how it was distributed, as to capital and surplus, whether the bank or auxiliary and also gives here a tabulation of the increase in resources from year to year of the bank and also gives the name of every bank acquired together with the capital of that bank at the time of its acquisition.

(Exhibit A referred to is here printed in full, as follows:)


BANK OF ITALY
Founded 1904
Original Capital $100,000
Original Surplus $ 50,000
BANK OF ITALY
STOCKHOLDERS AUXILIARY CORPORATION
Founded 1917
Original Capital $500,000
Par $1000
Owned share for share by stockholders of Bank of Italy
AMERICOMMERCIAL CORPORATION
Founded 1924
Capital $ 7,000,000.
COMMERCIAL NATIONAL BANK
Los Angeles
Founded 1903
Capital $ 500,000
Surplus $ 407,000
Resources $9,007,000
Acquired by Americommercial Corporation 1924
LIBERTY BANK
San Francisco
Founded 1921
Capital $1,000,000
Surplus $ 500,000
Acquired by Americommercial Corporation 1924
Resources $2,609,000
BANK OF AMERICA
Los Angeles
Founded 1923
Acquired by Americommercial Corporation 1924
Capital $ 1,000,000
Surplus $ 300,000
Resources $10,416,000
CALIFORNIA JOINT STOCK LAND BANK
Founded 1919
Under Provisions of Federal Farm Loan Act.
Capital $916,000
Owned by Bank of Italy
BANK OF ITALY
STOCKHOLDERS AUXILIARY CORPORATION
LIBERTY BANK OF AMERICA
Formed by Merger
January 1927
Consolidated with Bank of Italy
March 1927
CALIFORNIA JOINT STOCK LAND BANK
BANK OF ITALY
Absorbs Liberty Bank of America and Commercial National Bank
March 1927
STOCKHOLDERS AUXILIARY CORPORATION
CALIFORNIA JOINT STOCK LAND BANK
BANK OF ITALY
NATIONAL TRUST & SAVINGS ASSOCIATION
Converted to National Charter
March 1927
NATIONAL BANKITALY COMPANY
Founded March 1927
Absorbed Stockholders Auxiliary Corporation
Capital $20,000,000
BANCITALY CORPORATION
Founded 1919
Original Capital $ 5,000,000.00
THE BANK OF AMERICA
New York
Acquired by Bancitaly Corporation 1928
Direct successor to first Bank of the United States
Founded 1812
Capital $ 25,000,000
Surplus & Profits $ 25,000,000
Resources $106,998,000
EAST RIVER NATIONAL BANK
New York
Acquired by Bancitaly Corporation-1918
Founded 1852
Capital $ 1,000,000
Surplus & Profits $ 208,867
Resources $15,138,000
COMMERCIAL TRUST COMPANY
Founded 1906
Acquired by Bancitaly Corporation - 1924
Capital $ 1,000,000
Surplus & Profits $ 359,680
Resources $13,510,000
BOWERY BANK
Founded 1865
Acquired by Bancitaly Corporation 1925
Capital $ 250,000
Surplus & Profits $ 892,900
Resources $ 6,233,000
BANCA DELL' ITALIA MERIDIONALE
Founded 1918
Acquired by Bancitaly Corporation-1919
Capital L 15,000,000
Surplus & Profits L 42,000
Resources L 56,300,000
COMMERCIAL NATIONAL BANK
Converted from State Charter
1924
BOWERY NATIONAL BANK
Converted from State Charter
1925
CAPITAL COMPANY
Founded 1911
Acquired by Bancitaly Corporation-1918
Capital $ 500,000
EAST RIVER NATIONAL BANK
Absorbs COMMERCIAL NATIONAL BANK-1924
BANCA D'AMERICA E D'ITALIA
Name Changed-1922
Capital increased to
L. 200,000,000
AMERITALIA CORPORATION
Capital
L. 200,000,000
Founded
1928
BOWERY & EAST RIVER NATIONAL BANK
Formed by Merger
January-1926
BANCAMERIC CORPORATION
Founded March 1928
Capital $ 10,000,000
Surplus $ 5,000,000
Identical ownership with THE BANK OF AMERICA, NA
THE BANK OF AMERICA NATIONAL ASSOCIATION
Converted from State Charter
March 28
1928
FRENCH AMERICAN BANK
Founded 1860
Acquired by Bancitaly Corporation-1926
Capital $ 1,250,000
Surplus & Profits $ 992,540
Resources $22,716,000
UNITED BANK & TRUST COMPANY
Founded 1867
Acquired by Bancitaly Corporation 1927
Capital $ 4,500,000
Surplus & Profits $ 1,202,000
Resources $48,851,000
SECURITY TRUST COMPANY
Bakersfield
Founded 1911
Capital $ 650,000
Surplus & Profits $ 743,240
Resources $12,010,980
FRENCH AMERICAN CORPORATION
Capital $ 6,471,000
Founded 1927
UNITED BANK & TRUST COMPANY
Merged with the French American Bank
April 30,
1927
BANCAMERIC CORPORATION
Founded 1928
Capital $10,000,000
Surplus $ 5,000,000
THE BANK OF AMERICA, NA.
Merged with Bowery and East River National Bank
April
1928
FRENCH AMERICAN CORPORATION
UNITED SECURITY BANK AND TRUST COMPANY
Merger 1928
Capital $ 8,100,000
Surplus & Profits $ 2,116,160
Resources $166,326,000

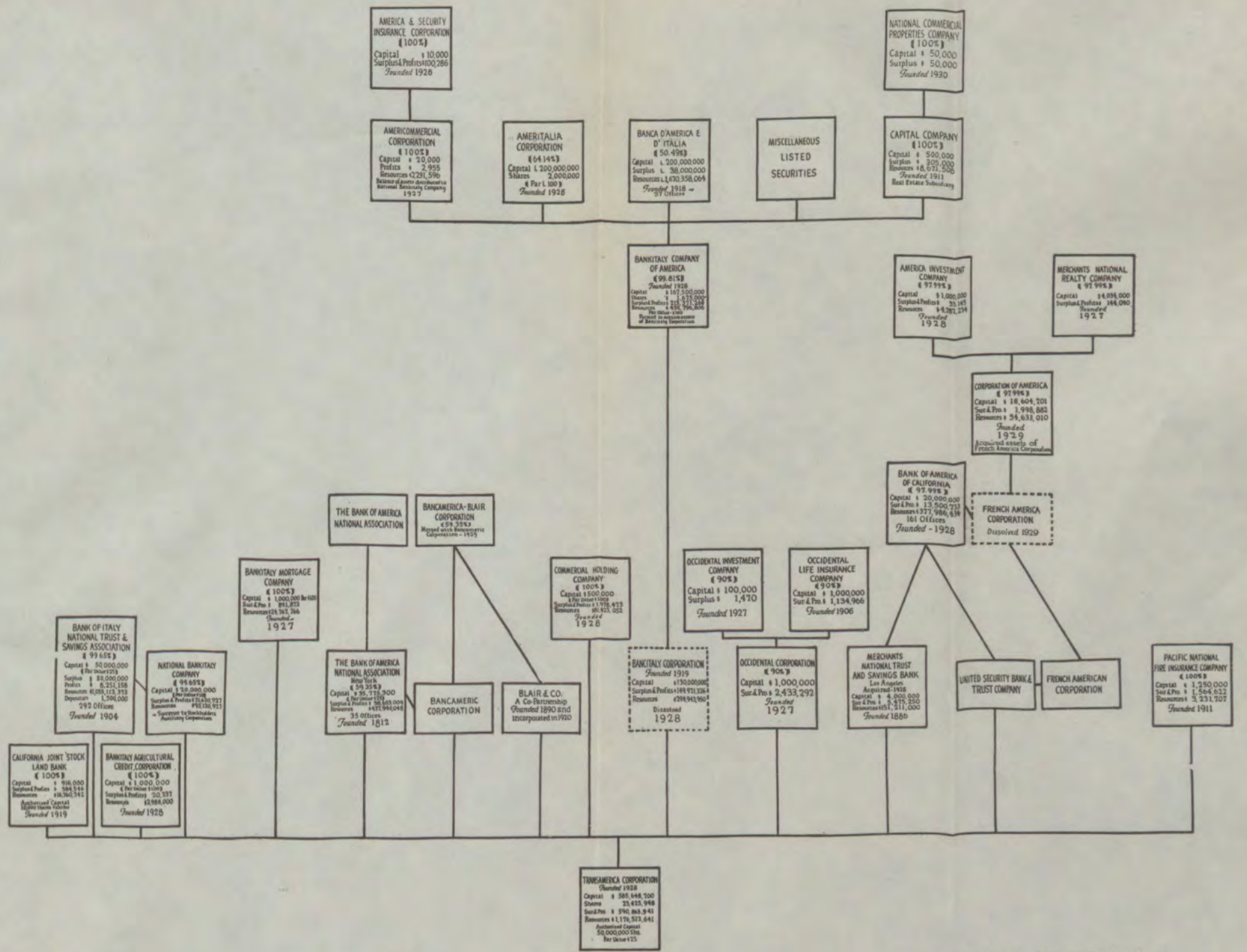

AMERICA & SECURITY INSURANCE CORPORATION
(100%)
Capital $ 10,000
Surplus & Profits $100,286
Founded 1928
NATIONAL COMMERCIAL PROPERTIES COMPANY
(100%)
Capital $ 50,000
Surplus $ 50,000
Founded 1930
AMERICOMMERCIAL CORPORATION
(100%)
Capital $ 50,000
Profits $ 2,955
Resources $291,590
Balance of assets distributed to National Bankitaly Company 1927
AMERITALIA CORPORATION
(64.14%)
Capital L 200,000,000
Shares 2,000,000
(Par L 100)
Founded 1928
BANCA D'AMERICA E D'ITALIA
(50.49%)
Capital L 200,000,000
Surplus L 58,000,000
Resources L 670,358,064
Founded 1918 – 39 Offices
MISCELLANEOUS LISTED SECURITIES
CAPITAL COMPANY
(100%)
Capital $ 500,000
Surplus $ 300,000
Resources $8,672,506
Founded 1911
Real Estate Subsidiary
BANKITALY COMPANY OF AMERICA
(99.81%)
Founded 1928
Capital $ 187,500,000
Shares 7,875,000
Surplus & Profits $ 33,371,268
Resources $ 490,790,800
Par Value $100
Pursuant to reincorporation of Bankitaly Corporation
AMERICA INVESTMENT COMPANY
(97.99%)
Capital $ 1,000,000
Surplus & Profits $ 33,145
Resources $ 9,281,234
Founded 1928
MERCHANTS NATIONAL REALTY COMPANY
(97.99%)
Capital $ 4,094,000
Surplus & Profits 164,090
Founded 1927
CORPORATION OF AMERICA
(97.99%)
Capital $ 18,604,701
Sur. & Pro. $ 1,998,862
Resources $ 34,633,010
Founded 1929
Acquired assets of French America Corporation
BANK OF AMERICA OF CALIFORNIA
(97.99%)
Capital $ 20,000,000
Sur. & Pro. $ 13,500,733
Resources $377,986,434
161 Offices
Founded - 1928
FRENCH AMERICA CORPORATION
Dissolved 1929
THE BANK OF AMERICA NATIONAL ASSOCIATION
BANCAMERICA-BLAIR CORPORATION
Merged with Bancameric Corporations – 1929
BANKITALY MORTGAGE COMPANY
(100%)
Capital $ 1,000,000 Par $100
Sur. & Pro. $ 891,873
Resources $29,767,766
Founded 1927
COMMERCIAL HOLDING COMPANY
(100%)
Capital $ 500,000
Surplus & Profits $ 1,956,423
Resources $6,423,052
Founded 1928
OCCIDENTAL INVESTMENT COMPANY
(90%)
Capital $ 100,000
Surplus $ 1,470
Founded 1927
OCCIDENTAL LIFE INSURANCE COMPANY
(90%)
Capital $ 1,000,000
Sur. & Pro. $ 1,134,966
Founded 1906
BANK OF ITALY NATIONAL TRUST & SAVINGS ASSOCIATION
(99.65%)
Capital $ 50,000,000
(Par Value $25)
Surplus $ 50,000,000
Profits $ 8,251,158
Resources $1,059,113,913
Deposits 1,590,000
292 Offices
Founded 1904
NATIONAL BANKITALY COMPANY
(99.65%)
Capital $ 50,000,000
(Par Value $10)
Surplus & Profits $71,430,927
Resources $93,120,913
– Successor to Stockholders Auxiliary Corporations
THE BANK OF AMERICA NATIONAL ASSOCIATION
New York
(59.35%)
Capital $ 35,775,900
(Par Value $25)
Surplus & Profits $ 368,603,004
Resources $437,944,048
35 Offices
Founded 1812
BANCAMERICA CORPORATION
BLAIR & CO.
A Co-Partnership
Founded 1890 and incorporated in 1920
BANKITALY CORPORATION
Founded 1919
Capital $150,000,000
Surplus & Profits $149,971,326
Resources $299,943,950
Dissolved 1928
OCCIDENTAL CORPORATION
(90%)
Capital $ 1,000,000
Sur. & Pro. $ 2,433,292
Founded 1927
MERCHANTS NATIONAL TRUST AND SAVINGS BANK
Los Angeles
Acquired - 1928
Capital $ 4,000,000
Sur. & Pro. $ 5,975,250
Resources $51,211,000
Founded 1889
UNITED SECURITY BANK & TRUST COMPANY
FRENCH AMERICAN CORPORATION
PACIFIC NATIONAL FIRE INSURANCE COMPANY
(100%)
Capital $ 1,250,000
Sur. & Pro. $ 1,564,622
Resources $ 3,231,707
Founded 1911
CALIFORNIA JOINT STOCK LAND BANK
(100%)
Capital $ 916,000
Surplus & Profits $ 584,540
Resources $18,760,545
Authorized Capital $2,000 Shares $50 Par
Founded 1919
BANKITALY AGRICULTURAL CREDIT CORPORATION
(100%)
Capital $ 1,000,000
(Par Value $100)
Surplus & Profits 20,337
Resources $2,988,000
Founded 1928
TRANSAMERICA CORPORATION
Founded 1928
Capital $ 585,648,700
Shares 23,425,948
Sur. & Pro. $ 590,863,941
Resources $ 1,176,513,641
Authorized Capital 50,000,000 Shs.
Par Value $25

EXHIBIT A

Giving the growth of capital and resources of the Bank of Italy National Trust & Savings Association

[2,000,000 shares, par value $25 each]

Date	Capital	Surplus and undivided profits	Total resources
Dec. 31, 1904	$150,000.00	$1,023.70	$285,436.97
Dec. 30, 1905	300,000.00	10,000.00	1,021,290.80
Dec. 31, 1906	500,000.00	31,564.98	1,869,947.28
Dec. 31, 1907	500,000.00	46,945.14	2,221,347.35
Dec. 31, 1908	750,000.00	78,673.41	2,574,004.90
Dec. 31, 1909	750,000.00	90,820.13	3,817,217.79
Dec. 31, 1910	1,000,000.00	150,000.00	6,539,861.47
Dec. 30, 1911	1,000,000.00	201,649.12	8,739,347.02
Dec. 31, 1912	1,000,000.00	251,437.30	11,228,814.56
Dec. 31, 1913	1,250,000.00	330,389.73	15,882,911.61
Dec. 31, 1914	1,250,000.00	350,217.18	18,030,401.39
Dec. 31, 1915	1,250,000.00	374,243.50	22,321,860.69
Dec. 30, 1916	2,000,000.00	691,452.39	39,805,995.24
Dec. 31, 1917	3,000,000.00	1,100,000.00	77,473,152.79
Dec. 31, 1918	5,000,000.00	2,000,000.00	93,546,161.50
Dec. 30, 1919	6,000,000.00	2,500,000.00	137,900,700.30
Dec. 30, 1920	9,000,000.00	3,913,240.24	157,464,685.08
Dec. 30, 1921	10,000,000.00	5,036,948.06	194,179,449.80
Dec. 29, 1922	15,000,000.00	5,533,057.07	254,282,289.52
Dec. 29, 1923	15,000,000.00	6,228,474.13	301,963,477.77
Dec. 29, 1924	17,500,000.00	7,778,695.04	358,656,301.77
Dec. 30, 1925	17,500,000.00	10,789,255.20	422,838,587.01
Dec. 30, 1926	20,000,000.00	13,918,288.41	460,981,772.98
Dec. 30, 1927	37,500,000.00	25,540,829.28	765,188,976.54
Dec. 31, 1928	50,000,000.00	55,756,632.41	847,910,538.60
Dec. 31, 1929	50,000,000.00	58,251,158.52	1,055,113,373.09

NATIONAL BANKITALY CO.

[Identical in ownership with the Bank of Italy National Trust & Savings Association; 2,000,000 shares, par value $10 each]

Dec. 31, 1929:	
Capital	$20,000,000
Surplus and profits	71,620,927

Capital surplus and undivided profits of banks converted into Bank of Italy National Trust and Savings Association

San Francisco, Liberty Bank of America	$28,142,000
Alameda:	
Citizens Savings Bank	295,000
Citizens National Bank	169,000
Arcadia, Arcadia Savings Bank	30,000
Bakersfield, Ardizzi Olcese	273,000
Burbank:	
Farmers & Merchants Savings Bank	69,000
First National Bank	58,000
Chico, Butte County National Bank	311,000
Colma, Colma State Bank	96,000
Crescent City, Smith River Bank	47,000
Dos Palos, Farmers & Merchants Bank	61,000
Eagle Rock, Eagle Rock State Bank	51,000
El Centro, First National Bank	268,000
Fresno Main, First National Bank	1,408,000
West Fresno, Industrial Bank	136,000
Gilroy, Bank of Gilroy	150,000
Hanford:	
Hanford National Bank	200,000
Peoples Savings Bank	105,000
Hayward, First National Bank	61,000
Hollister:	
Bank of Hollister	565,000
Savings & Loan Bank	234,000

Hollywood, Federal Trust & Savings Bank	$734,000
South Hollywood, Santa Monica Boulevard State Bank	30,000
King City, First National Bank	76,000
Livermore:	
Livermore Savings Bank	41,000
Farmers Merchants National Bank	65,000
Lompoc, First National Bank	175,000
Long Beach (main), Long Beach National Bank	362,000
Seventh and Pine Avenue:	
Bank of North Long Beach	50,000
American Savings Bank	200,000
International, International Savings & Exchange Bank	413,000
Los Banos, Bank of Los Banos	190,000
Madera:	
Madera Savings Bank	38,000
Commercial National Bank	104,000
Marysville, Rideout Bank	453,000
Modesto, First National Bank	183,000
Napa, Jas. H. Goodman Co. Bank	102,000
Broadway Grand, Broadway Bank	253,000
Oakland Bank Office, Oakland Bank	6,851,000
Oroville:	
Bank of Rideout Smith Co	61,000
Rideout Smith National Bank	477,000
Palo Alto, First National Bank	271,000
Pasadena (main), Central National Bank	100,000
Petaluma, Petaluma Swiss American Bank	442,000
Redwood City:	
Redwood City Commercial Bank	81,000
Savings & Loan Co., San Mateo County	39,000
Reedley, Reedley National Bank	125,000
Sacramento:	
Peoples Bank	1,089,000
Farmers Mechanics Bank	600,000
Salinas:	
First National Bank	334,000
Salinas Valley Savings Bank	179,000
San Diego (main), Merchants National Bank	787,000
San Fernando, First National Bank	53,000
Cal. Montgomery, Italian American Bank	2,283,000
San Juan, First National Bank	34,000
San Leandro, State Bank	214,000
San Luis Obispo, Union National Bank	117,000
San Pedro, First National Bank	254,000
Santa Ana:	
Orange County Trust & Savings Bank	506,000
American National Bank	208,000
Santa Clara:	
Santa Clara Valley Bank	100,000
Mission Bank	33,000
San Mateo, San Mateo Bank	100,000
Santa Maria, First National Bank	228,000
Santa Monica, First National Bank	161,000
Selma:	
First National Bank	117,000
Selma Savings Bank	53,000
Shafter, First National Bank	30,000
Stockton (main), City Bank	835,000
Sunnyvale, Bank of Sunnyvale	74,000
Tracy, American Bank	206,000
Tulare, First National Bank	154,000
Vacaville, Bank of Vacaville	186,000
Venice, State Bank of Venice	56,000
Ventura:	
National Bank of Ventura	701,000
Ventura Savings Bank	507,000

Watsonville:	
Bank of Watsonville	$237,000
Watsonville Savings Bank	130,000
Fruit Growers' National Bank	137,000
Wheatland, Farmers Bank	62,000
Winters, Citizens Bank	123,000
Woodland:	
Home Savings Bank	250,000
First National Bank	156,000
Yuba City, First National Bank	127,000
Total capital surplus and undivided profits of banks converted into Bank of Italy National Trust and Savings Association	56,066,000
Capital surplus and undivided profits of Bank of Italy National Trust and Savings Association, Dec. 31, 1929	106,172,000

Capital surplus and undivided profits of banks converted into Liberty Bank of America group

San Francisco, Liberty Bank	$4,265,000
Los Angeles, Bank of America	3,158,000
Alameda, Encinal National Bank	125,000
Angels Camp, Calaveras County Bank	243,000
Baldwin Avenue (Arcadia), First National Bank	42,000
Berkeley, Commercial National Bank	312,000
Beverly Hills, Beverly National Bank	124,000
Camarillo, Farmers Bank	50,000
Chula Vista, Peoples State Bank	86,000
Concord, Bank of Concord	75,000
Corning, Tehama County Savings Bank	95,000
Fillmore, Fillmore State Bank	195,000
Glendale, Glendale State Bank	143,000
Half Moon Bay, Bank of Half Moon Bay	87,000
La Mesa, Bank of La Mesa	67,000
Long Beach (main), Marine Trust & Savings Bank	557,000
Commercial National, Los Angeles	1,852,000
Los Gatos, Bank of Los Gatos	197,000
Manteca, First National Bank	115,000
Martinez, National Bank of Martinez	55,000
Merced, Merced Security Savings Bank	
Mill Valley, Bank of Mill Valley	142,000
Monrovia:	
First National Bank	105,000
Granite Savings Bank	84,000
Morgan Hill, Bank of Morgan Hill	84,000
Mountain View, Farmers Merchants National Bank	187,000
Ontario, Ontario National Bank	204,000
Oceanside, Oceanside Commercial & Savings	75,000
Ojai, Ojai State Bank	130,000
Orange, First Commercial Bank	79,000
Pasadena (main), National Bank of Commerce	100,000
Pescadero, First National Bank	31,000
Pittsburg, First National Bank	80,000
Pleasanton, Bank of Pleasanton	122,000
Redono Beach:	
Farmers Merchants National Bank	122,000
Farmers Merchants Savings Bank	64,000
Roseville (first branch), First National Bank	63,000
Sacramento, Bank of Sacramento	138,000
Salinas, Salinas City Bank	528,000
San Anselmo, Home Savings & Commercial Bank	54,000
San Bernardino, California State Bank	275,000
San Diego (main):	
Union National Bank	406,000
Southern Trust & Commercial Bank	1,720,000

University, University Avenue Bank	$168,000
San Jose, Bank of San Jose	87,000
San Leandro, San Leandro National Bank	110,000
San Rafael, Tamalpais Bank	226,000
East Santa Cruz, First National Bank	
Santa Cruz:	
First National Bank	308,000
City Savings Bank	405,000
Santa Maria, Commercial National Bank	148,000
Santa Paula, New First National Bank	301,000
Sausalito, First National Bank	55,000
Sawtelle, United States National Bank	57,000
South San Francisco, Citizens National Bank	62,000
Stockton (main), Commercial & Savings Bank	1,338,000
Walnut Creek, San Ramon Valley Bank	92,000
Watsonville, Fruit Growers National Bank	137,000
Willows, Glenn County Bank	229,000
Winters:	
First National Bank	106,000
Savings Bank of Winters	41,000
Yuba City, Producers Bank, Sutter County	100,000
Lancaster, Antelope Valley Bank	63,000
Alhambra, Citizens Savings & Commerical Bank	63,000
Wilshire-Robertson, Bank of Beverly	64,000
Total capital surplus and undivided profits of banks converted into Liberty Bank of America	20,795,000
Total Capital surplus and undivided profits Liberty Bank of America, February 19, 1927	28,142,000

Capital surplus and undivided profits of banks converted into bank of America group

Bank of America, Dec. 31, 1924	$1,471,855
Anaheim, Golden State National Bank	132,000
Burbank, State Bank	112,000
Culver City, Culver City Savings & Commercial Bank	130,000
Fullerton, Farmers & Merchants National Bank	128,000
Gateway, Community Savings & Commerical Bank	44,000
Huntington Park, National Bank of Huntington Park	212,000
Placentia:	
Placentia National Bank	60,000
Placentia Savings Bank	36,000
Pomona:	
American National Bank	221,000
American Savings Bank	90,000
State Bank	177,000
Estado-Cota, Santa Barbara, Central Trust & Savings Bank	702,000
Santa Monica, Citizens State Bank	103,000
Torrance, State Exchange Bank	50,000
Total capital surplus and undivided profits of banks converted into Bank of America	2,197,000
Total capital and surplus, Jan. 27, 1927	3,158,000

Capital surplus and undivided profits of banks converted into Liberty Bank group

Liberty Bank, San Francisco, Dec. 31, 1924	$1,120,000
Arcata:	
Arcata Savings Bank	166,000
Bank of Arcata	219,000
Burlingame, Peninsula Bank	60,000
Crescent City, Del Norte County Bank	179,000
Daly City, Daly City Bank	129,000
Eureka, Home Savings Bank	411,000
Fairfax, Fairfax Bank	57,000
Fort Bragg, Fort Bragg Commercial Bank	159,000

Fortuna, Bank of Fortuna	$104,000
Gustine, Bank of Gustine	155,000
Healdsburg:	
Healdsburg National Bank	214,000
Healdsburg Savings Bank	140,000
Lodi:	
First National Bank	340,000
Central Savings Bank	176,000
Redding:	
First Savings Bank	125,000
Redding National Bank	130,000
Roseville, Roseville Banking Co	175,000
San Bruno, California Bank San Mateo County	36,000
St. Helena, Bank of St. Helena	158,000
Tulare, Farmers State Bank	77,000
Vallejo:	
Central Commercial & Savings Bank	407,000
First National Bank	158,000
First Savings Bank	84,000
Yreka:	
First Savings Bank Siskiyou County	177,000
Siskiyou County Bank	181,000
Total capital surplus and undivided profits of banks taken over	4,217,000
Total capital and surplus, Jan. 27, 1927	4,265,000

Distribution of proceeds

Date	Sale of stock						Bank of Italy						
	Shares sold				Proceeds of sale		Capital		Surplus			Contingent	
	Credit	Balance	Ratio	Price	Credit	Total	Credit	Balance	Source	Credit	Balance	Credit	Balance
Oct. 17, 1904	$1,500	$1,500	(1)	$100.00	$150,000	$150,000	$150,000	$150,000					
Feb. 25, 1905	300	1,800	1–5	100.00	30,000	180,000	30,000	180,000					
Apr. 29, 1905	300	2,100	1–6	100.00	30,000	210,000	30,000	210,000					
July 15, 1905	300	2,400	1–7	100.00	30,000	240,000	30,000	240,000					
Sept. 16, 1905	300	2,700	1–8	100.00	30,000	270,000	30,000	270,000					
Nov. 11, 1905	300	3,000	1–9	100.00	30,000	300,000	30,000	300,000					
Jan. 1, 1906									From profits	$2,500	$2,500		
June 30, 1906									do	1,500	4,000		
Do	2,000	5,000	2–3	105.00	210,000	510,000	200,000	500,000	Stock	10,000	14,000		
Dec. 31, 1906									From profits	2,000	16,000		
June 29, 1907									do	2,500	18,500		
Dec. 31, 1907									do	2,000	20,500		
June 30, 1908									do	2,000	22,500		
Dec. 30, 1908	2,500	7,500	1–2	110.00	275,000	785,000	250,000	750,000	Stock	25,000	47,500		
Dec. 31, 1908									From profits	2,000	49,500		
June 30, 1909									do	2,000	51,500		
Jan 13, 1910									do	2,000	53,500		
July 9, 1910									do	2,000	55,500		
Dec. 31, 1910	2,500	10,000	1–3	110.00	275,000	1,060,000	250,000	1,000,000	Stock	25,000			
Do									From profits	10,830	91,330		
Jan. 23, 1911									do	3,250	94,580		
June 30, 1911									do	3,500	98,080		
Dec. 30, 1911									do	7,000	105,080		
June 30, 1912									do	5,000	110,080		
Dec. 31, 1912									do	5,000	115,080		
June 30, 1913	2,500	12,500	1–4	130.00	325,000	1,385,000	250,000	1,250,000	Stock	26,000	141,080	$49,000	$49,000
Apr. 22, 1914									From profits	5,920	147,000		
July 22, 1914									do	1,500	148,500		
Jan. 5, 1915									do	1,000	149,500		
Apr. 2, 1915									do	3,600	153,100		
July 1, 1915									do	5,000	158,100		
Jan. 4, 1916									do	6,000	164,100		
Mar. 15, 1916	7,500	20,000	3–5	130.00	975,000	2,360,000	750,000	2,000,000	Stock	225,000	389,100		
July 11, 1916									From profits	8,500	397,600		
Jan. 9, 1917									do	14,000	411,600		
Mar. 15, 1917	10,000	30,000	1–2	140.00	1,400,000	3,760,000	1,000,000	3,000,000	Stock	400,000	811,600		
Jan. 29, 1918	7,000	37,000	7–30	147.50	1,032,500	4,792,500	700,000	3,700,000	do			240,000	289,000
June 28, 1918	13,000	50,000	16–43	147.50	1,917,500	6,710,000	1,300,000	5,000,000	do	438,400	1,250,000	146,600	435,600
July 9, 1919	10,000	60,000	1–5	150.00	1,500,000	8,210,000	1,000,000	6,000,000	do	250,000	1,500,000	225,000	660,600

July 9, 1919	10,000	60,000	1–5	150.00	1,500,000	8,210,000	1,000,000	6,000,000	do	250,000	1,500,000	225,000	690,600
Mar. 9, 1920	10,000	70,000	1–6	160.00	1,600,000	9,810,000	1,000,000	7,000,000	do	400,000	1,900,000	175,000	835,600
July 14, 1920	(2)											525,000	310,600
Do	20,000	90,000	2–7	165.00	3,300,000	13,110,000	2,000,000	9,000,000	Stock	100,000	2,000,000		
Dec. 30, 1920									From profits	125,000	2,125,000		
Jan. 18, 1921									do	100,000	2,225,000		
June 26, 1921	10,000	100,000	1–9	200.00	2,000,000	15,110,000	1,000,000	10,000,000	Stock	250,000	2,475,000		
June 30, 1921									From profits	25,000	2,500,000		
July 24, 1922	50,000	150,000	1–2	200.00	10,000,000	25,110,000	5,000,000	15,000,000	Stock	2,500,000	5,000,000		
Mar. 5, 1924	12,500	162,500	1–12	200.00	2,500,000	27,610,000	1,250,000	16,250,000				225,000	535,600
Mar. 28, 1924	12,500	175,000	1–13	225.00	2,812,500	30,422,500	1,250,000	17,500,000				537,500	1,073,100
June 29, 1925									From profits	1,000,000	6,000,000		
Dec. 30, 1925									do	3,000,000	9,000,000		
Mar. 15, 1926	25,000	200,000	1–7	250.00	6,250,000	36,672,500	2,500,000	20,000,000	Stock	1,700,000	10,700,000		
Mar. 22, 1927	50,000	250,000	1–4	450.00	22,500,000	59,172,500	5,000,000	25,000,000	do	5,000,000	15,700,000		
Mar. 27, 1927	50,000	300,000	1–5	600.00	30,000,000	89,172,500	5,000,000	30,000,000	do	5,000,000	20,700,000		
Apr. 8, 1927													
Do	900,000	1,200,000	4–1	(3)									(4)
Nov. 1, 1927	300,000	1,500,000	1–4				7,500,000	37,500,000	Surplus	7,500,000	13,200,000		
Mar. 15, 1928	250,000	1,750,000	1–6	180.00	45,000,000	134,172,500	6,250,000	43,750,000	Stock	13,750,000	26,950,000		
Do	250,000	2,000,000	5 1–6	180.00	45,000,000	179,172,500	6,250,000	50,000,000	do Profits	13,750,000 4,300,000	40,700,000 45,000,000		
Total													

Date	Amounts to affiliation		National Bankitaly Co.					Dividends					
			Capital		Surplus			Amount				By—	
	Credit	Balance	Credit	Balance	Source	Credit	Balance	Year	Kind	Amount per share	Total	Bank of Italy	National Bankitaly Co.
Feb. 25, 1905								1905	Cash	$2.50	$5,250.00	$5,250.00	
Jan. 1, 1906								1906	do	2.50	7,500.00		
June 30, 1906								1906	do	2.50	12,500.00	20,000.00	
June 29, 1907								1907	do	2.50	12,500.00		
Dec. 31, 1907								1907	do	2.50	12,500.00	25,000.00	
June 30, 1908								1908	do	2.50	12,500.00		
Dec. 30, 1908								1908	do	3.00	15,000.00	27,500.00	
June 30, 1909								1909	do	3.00	15,000.00		
								1909	do	3.00	22,500.00	37,500.00	
Jan. 13, 1910								1910	do	3.00	22,500.00		
July 9, 1910								1910	do	3.00	22,500.00	45,000.00	
Jan. 23, 1911								1911	do	3.00	30,000.00		

[1] Opening. [2] Dividend at $7.50 payable to Stockholders Auxiliary Corporation. [3] Split $100 par to $25 par, stock dividend. [4] Stock dividend 4 for 1. [5] To Bankitaly Co.

Distribution of proceeds—Continued

Date	Amounts to affiliation		National Bankitaly Co.					Dividends					
			Capital		Surplus			Amount				By—	
	Credit	Balance	Credit	Balance	Source	Credit	Balance	Year	Kind	Amount per share	Total	Bank of Italy	National Bankitaly Co.
June 30, 1911								1911	Cash	$3.00	$30,000.00	$60,000.00	
June 30, 1912								1912	do	3.00	30,000.00		
Dec. 31, 1912								1912	do	3.00	30,000.00	60,000.00	
								1913	do	3.00	30,000.00		
								1913	do	3.00	37,500.00	67,500.00	
Apr. 22, 1914								1914	do	3.00	37,500.00		
July 22, 1914								1914	do	3.00	37,500.00	75,000.00	
Jan. 5, 1915								1915	do	3.00	37,500.00		
Apr. 2, 1915								1915	do	3.50	43,750.00	81,250.00	
Jan. 4, 1916								1916	do	3.50	70,000.00		
Mar. 15, 1916								1916	do	3.50	70,000.00	140,000.00	
Jan. 9, 1917								1917	do	3.50	105,000.00		
Mar. 15, 1917								1917	do	3.75	105,000.00	210,000.00	
Jan. 29, 1918	$92,500	$92,500	$92,500	$92,500				1918	do	3.75	138,750.00		
June 28, 1918	32,500	125,000	32,500	125,000				1918	do	3.75	141,250.00	280,000.00	
July 9, 1919	25,000	150,000	25,000	150,000				1919	do	4.00	200,000.00		
					Profits	$50,000	$50,000	1919	do	5.00	287,500.00	487,500.00	
								1919	Special[6]		375,000.00	375,000.00	
Mar. 9, 1920	25,000	175,000	25,000	175,000				1920	Cash	5.00	350,000.00		
July 14, 1920	525,000	700,000	525,000	700,000	Stock	1,000,000	1,050,000	1920	do	6.00	540,000.00	890,000.00	
Do	1,200,000	1,900,000	200,000	900,000				1920	Special[6]	7.50	525,000.00	525,000.00	
Jan. 18, 1921								1921	Cash	6.00	540,000.00		
June 26, 1921	750,000	2,650,000	100,000	1,000,000				1921	do	6.00	600,000.00	1,140,000.00	
July 24, 1922	2,500,000	5,150,000	500,000	1,500,000	Stock	650,000	1,700,000	1922	do	6.00	600,000.00		
					From profits	100,000	1,800,000	1922	do	6.00	900,000.00	1,500,000.00	
					Stock	2,000,000	3,800,000	1923	do	6.60	990,000.00		
					From profits	200,000	4,000,000	1923	do	6.75	1,012,500.00	1,650,000.00	$352,500.00
Mar. 5, 1924	1,025,000	6,175,000	125,000	1,625,000	Stock	900,000	4,900,000	1924	do	6.75	1,096,875.00		
Mar. 28, 1924	1,025,000	7,200,000	125,000	1,750,000	do	900,000	5,800,000	1924	do	7.00	1,225,000.00	1,664,843.75	657,031.25
June 29, 1925					From profits	40,000		1925	do	7.00	1,225,000.00		
Dec. 30, 1925					do	160,000	6,000,000	1925	do	7.75	1,356,250.00	1,793,750.00	787,500.00
Mar. 15, 1926	2,050,000	9,350,000	250,000	2,000,000	Stock	1,800,000	7,800,000	1926	do	8.00	1,600,000.00		
								1926	do	9.00	1,800,000.00	2,242,708.33	1,157,291.67
Mar. 22, 1927	12,500,000	21,750,000	500,000		Stock	12,000,000	19,800,000	1927	do	8.32	6,529,833.34	4,103,333.34	2,426,500.00
Mar. 27, 1927	20,000,000	41,750,000	500,000	3,000,000	do	19,500,000	39,300,000						
Apr. 8, 1927					Profits	500,000	39,800,000						
Do			9,000,000	12,000,000		9,000,000	30,800,000						

Apr. 8, 1927					Profits	500,000	39,800,000						
Do			9,000,000	12,000,000		9,000,000	30,800,000						
Nov. 1, 1927			*3,000,000*	*15,000,000*	*Surplus*	*3,000,000*	*27,800,000*						
Mar. 15, 1928	*25,000,000*	*68,750,000*	*2,500,000*	*17,500,000*	*Stock*	*22,500,000*	*50,300,000*						
Do	*25,000,000*	*91,750,000*	*2,500,000*	*20,000,000*	*do* [7]	*22,500,000*	*72,800,000*	1928	Cash	*7.00*	*14,000,000.00*	*6,000,000.00*	*8,000,000.00*
						3,750,000	*63,050,000*	1928	Special [7]		*9,750,000.00*		*9,750,000.00*
								1929	Cash	*6.00*	*12,000,000.00*	*6,000,000.00*	*6,000,000.00*
Total											58,636,958.34	29,506,135.42	29,130,822.92

[6] To Stockholders Auxiliary Corporation.

[7] Bank of America, 1-40 division.

Mr. BACIGALUPI. Exhibit B shows the steady phenomenal growth of the bank's deposits. At the beginning of this year total deposits were $893,892,732.87, and the total number of accounts exceeded 1,500,000—believed to be the largest number of depositors enjoyed by any other bank in the country.

(Exhibit B referred to is here printed in full, as follows:)

EXHIBIT B

Giving the growth of deposits of the Bank of Italy National Trust & Savings Association

Date:	Deposits	Date:	Deposits
Dec. 31, 1904	$134, 413. 27	Dec. 31, 1917	$72, 044, 728. 71
Dec. 30, 1905	703, 024. 07	Dec. 31, 1918	85, 937, 839. 04
Dec. 31, 1906	1, 348, 723. 31	Dec. 30, 1919	127, 258, 625. 92
Dec. 31, 1907	1, 660, 324. 47	Dec. 30, 1920	140, 993, 545. 37
Dec. 31, 1908	1, 728, 898. 99	Dec. 30, 1921	177, 867, 610. 68
Dec. 31, 1909	2, 929, 494. 90	Dec. 29, 1922	229, 751, 525. 82
Dec. 31, 1910	5, 348, 151. 11	Dec. 29, 1923	276, 548, 879. 20
Dec. 30, 1911	7, 129, 456. 39	Dec. 29, 1924	328, 963, 919. 05
Dec. 31, 1912	9, 916, 018. 16	Dec. 31, 1925	389, 433, 241. 00
Dec. 31, 1913	14, 226, 242. 32	Dec. 31, 1926	416, 656, 511. 00
Dec. 31, 1914	16, 272, 563. 13	Dec. 31, 1927	645, 002, 138. 00
Dec. 31, 1915	20, 474, 872. 53	Dec. 31, 1928	698, 435, 841. 00
Dec. 30, 1916	36, 804, 775. 71	Dec. 31, 1929	893, 892, 732. 87

More than 1,500,000 depositors.

Mr. BACIGALUPI. Exhibit C shows the record of growth of the bank's normal deposits, both natural and by absorption. Also a chart which discloses the very interesting fact that $381,462,000, about one-half of the total normal deposits, have been accumulated through natural growth, while $382,783,000 are due to absorptions, while only 50 branches were established de novo and 242 were established through the purchase of banks.

This I think will prove an interesting chart. We have very often been questioned as to whether our institution is the representation of putting together of a lot of resources that we have bought here and there—just how much of the growth is due to acquisition and how much was due to natural growth. This chart shows, from year to year, for instance, the growth by the two processes. The green, for instance, on this chart——

The CHAIRMAN. We will not be able to show those in colors in the printed hearings. I mention that here so those who read the record may understand.

Mr. BACIGALUPI. They may show that in black and white.

Mr. FORT. Or by heavy and thin lines.

The CHAIRMAN. You might designate for the record, how they should be shown, for the benefit of the printer, so that the reader of the record will know just what you are talking about.

Mr. BACIGALUPI. I suggest that broken and heavy lines be used. This chart shows the normal deposits of the bank, the green representing natural growth and the red the absorptions.

Mr. FENN. Those colors might be represented by solid black lines and broken lines, and by broken lines, I mean a dash and then a spece.

The CHAIRMAN. In the correction of the galley proof, I suggest that some notation be made so as to effect the distinction.

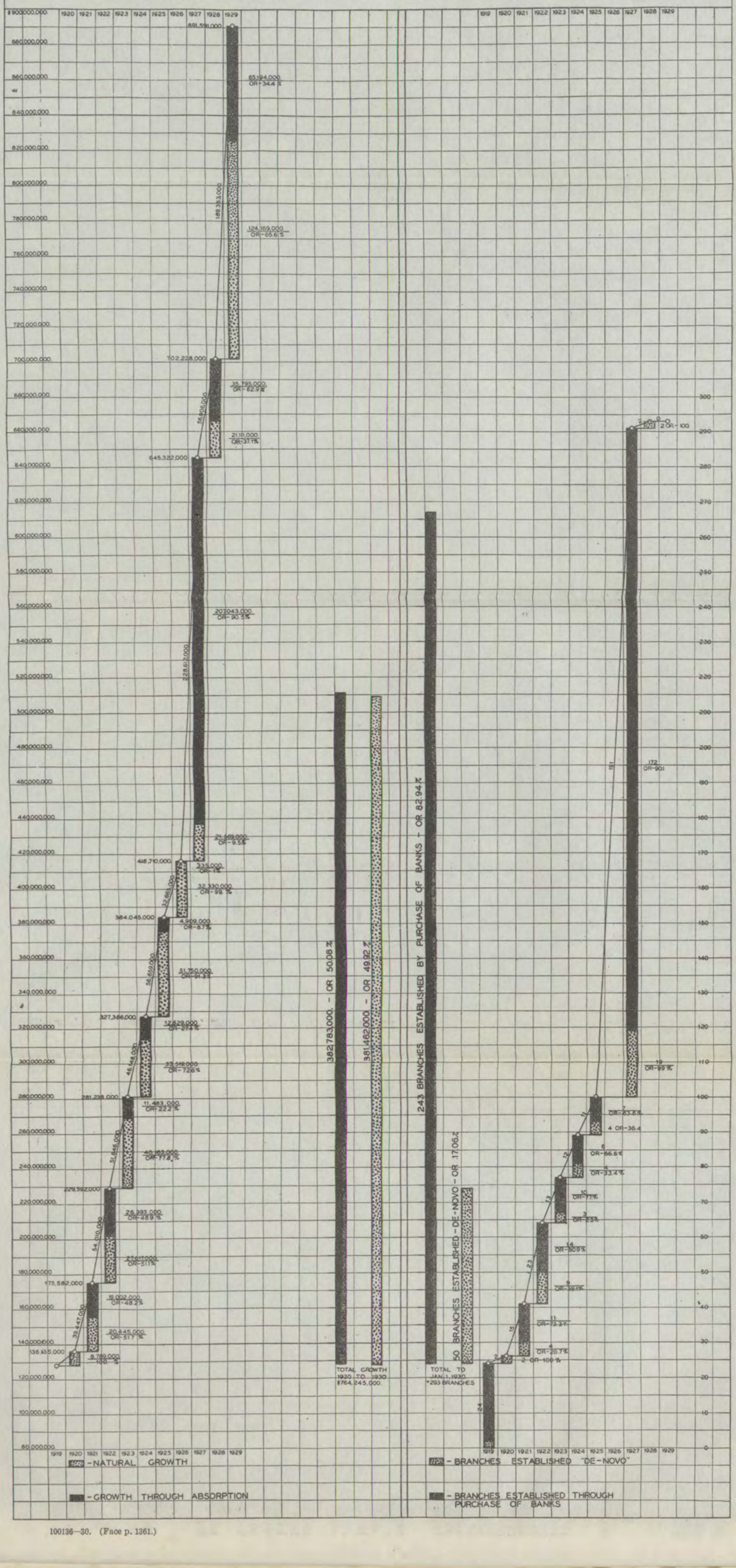
GROWTH OF BANK OF ITALY N. T. & S. A. IN DEPOSITS AND NUMBER OF BRANCHES

TOTAL DEPOSITS

SHOWING NATURAL GROWTH AND GROWTH THROUGH ABSORPTIONS

NUMBER OF BRANCHES

SHOWING INCREASE IN NUMBER THROUGH ESTABLISHMENT "DE-NOVO" AND THROUGH ABSORPTIONS



Mr. BACIGALUPI. You will notice how these red and green lines compare as to growth.

The de novo, or brand new branches established out of San Francisco would be easily less than one-half a dozen. Most of these de novo branches were new branches established in the cities of San Francisco and Los Angeles, cities in which we were already operating, but in which we extended additional windows in the business areas as they were organized. You will note, however, even charging ourselves with every de novo branch, the differentiation between the branches started brand new and those that were established only as the result of the acquisition of established institutions in the State, and how they compare.

(Exhibit C referred to is here printed in full, as follows:)

EXHIBIT C

Bank of Italy, National Trust & Savings Association deposits, record of growth

	Increase in deposits	Natural growth	Purchased growth
1904 to 1915	$20,474,872	$16,049,872	$4,425,000
1916	16,329,904	7,438,904	8,891,000
1917	35,239,954	10,057,954	25,182,000
1918	13,893,110	8,406,110	5,487,000
1919	41,320,786	41,320,786	None.
1920	13,734,919	13,734,919	None.
1921	36,874,065	19,384,065	17,490,000
1922	51,883,916	26,199,916	25,684,000
1923	46,797,354	28,968,354	17,829,000
1924	52,415,039	41,877,039	10,538,000
1925	60,469,322	55,928,520	4,540,802
1926	27,223,270	25,954,429	1,268,841
1927	228,345,627	[1] 27,273,877	201,071,750
1928	53,433,703	17,638,703	35,795,000
1929	195,456,892	130,262,892	65,194,000

[1] In determining this increase, reserves carried by the Liberty Bank of America of approximately $10,000,000 have been subtracted from the 1926 deposits.

Mr. BACIGALUPI. Exhibit D gives a complete list of the bank's branches, arranged in alphabetical order, the name of the predecessor bank, and the date when opened as a branch.

(Exhibit D referred to is here printed in full, as follows:)

100136—30. (Face p. 1361.)

EXHIBIT D

BANK OF ITALY—NATIONAL TRUST & SAVINGS ASSOCIATION

The following is a list of our branches:

Town	Branch name and address	American Banking Association No.	Interior No.	Post-office box No.	Predecessor	Date opened as branch or change
Alameda	Alameda Branch, 1500 Park Street	90-1167	147	445	Citizens National Bank	Nov. 21, 1927
					Head office Citizens Savings Bank	Do.
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Encinal National Bank	Feb. 14, 1927
Alhambra	Alhambra Branch, 2 West Main Street.	90-1052	160	188	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Citizens Savings & Commercial Bank	Jan. 28, 1927
Anaheim	Anaheim Branch, 102 East Center Street.	90-369	209	F	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					Golden State National Bank	May 7, 1925
					Golden State Bank	Aug. 27, 1920
					German-American Bank	Aug. 24, 1918
Anderson	Anderson Branch, East Center Street.	90-541	122	188	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Btanch First Savings Bank, Shasta County, Redding	Nov. 30, 1925
					Bank of Anderson	Feb. 3, 1915
Angels Camp	Angels Camp Branch, Angels Camp, Calif.	90-542	159	258	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Calaveras County Bank	Jan. 28, 1927
Arcadia	Arcadia Branch, First Street and Huntington Drive.	90-1111	88	Drawer 1	Arcadia Savings Bank	Mar. 26, 1925
Do	Baldwin Avenue Branch, Baldwin Avenue and Duarte Road.	90-877	153	545	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					First National Bank	Jan. 28, 1927
Arcata	Arcata Branch, 837 H Street	90-544	108	B	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Arcata Savings Bank	Sept. 21, 1925
					Bank of Arcata	Do.
Atwater	Atwater Branch, Third and Broadway.	90-721	248	38	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Merced Second Savings Bank, Merced	Feb. 17, 1927
Bakersfield	Bakersfield Branch, 1705 Nineteenth Street.	9-139	2	999	First National Bank	Apr. 24, 1922
Do	East Bakersfield Branch, 824 Baker Street.	90-142	1	Drawer D, station A.	Ardizzi Olcese Bank	Do.
Benicia	Benicia Branch, 698 First Street	90-550	105	Drawer 1	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Branch Central Commercial & Savings Bank, Vallejo	July 26, 1925
					Peoples Bank	Dec. 10, 1919
Berkeley	Berkeley Branch, 2000 Shattuck Avenue.	90-1186	175	209	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Commercial National Bank	Feb. 14, 1927

Beverly Hills	*Beverly Hills Branch, 9460 Wilshire Boulevard.*	*90-1132*	*245*	*None*	*Branch Liberty Bank of America, San Francisco*	*Feb. 19, 1927*
					Beverly National Bank	Feb. 16, 1927
	Wilshire-Robertson Branch, 498 Wilshire Boulevard.	90-1184	246	....do	Wilshire-Preuss Branch (renamed)	Jan. 14, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Bank of Beverly	Do.
					New	Feb. 17, 1927
Brawley	Brawley Branch, 568 Main Street.	90-820	167	L	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Southern Trust & Commercial Bank, San Diego	Jan. 28, 1927
Burbank	Burbank Branch, 221 West San Fernando Boulevard.	90-966	217	156	American State Bank	Nov. 1, 1919
					Farmers & Merchants Savings Bank	Sept. 29, 1928
					First National Bank	Do.
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
Burlingame	Burlingame Branch, southwest corner Burlingame Avenue and Park Road.	90-895	116	Drawer F	State Bank of	Jan. 19, 1926
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
Camarillo	Camarillo Branch, Ventura Boulevard near Pujol Street.	90-841	174	10	Peninsula Bank	Nov. 2, 1925
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
Centerville	Centerville Branch, southeast corner Main and Niles Road.	90-564	5	149	Farmers Bank	Jan. 28, 1927
					Branch State Bank, San Leandro	Aug. 23, 1927
					Newark Branch State Bank, San Leandro	Do.
					First National Bank	July 5, 1921
					Bank of	May 29, 1920
Chico	Chico Branch, 201 Broadway	90-305	6	1033	Butte County National Bank	Oct. 2, 1922
					Bank of Chico	July 31, 1915
Chula Vista	Chula Vista Branch, Corner Third Avenue and F Street.	90-567	232	666	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					People's State Bank	Jan. 28, 1927
					Chula Vista State Bank	Aug. 21, 1916
Colma	Colma Branch, Mission Road, San Pedro Avenue and Rainier Street.	90-930	71	Drawer T	Colma State Bank	June 2, 1923
Compton	Compton Branch, 185 East Main Street.	90-1069	60	44	American Savings Bank	Dec. 24, 1923
					Bank of	Dec. 21, 1923
Concord	Concord Branch, 1997 Mount Diablo Street.	90-525	141	38	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Bank of	Jan. 28, 1927
Corning	Corning Branch, 1124 Solano Street.	90-755	146	68	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Tehama County Savings Bank	Jan. 28, 1927
Coronado	Coronado Branch, Park Place and Orange Avenue.	90-573	168	D	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Southern Trust & Commercial Bank, San Diego	Jan. 28, 1927
Crescent City	Del Norte County Branch, northwest corner Second and H Streets.	90-481	109	30	Smith River Bank, Smith River, Calif. (moved)	Apr. 2, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Del Norte County Bank	Sept. 21, 1925
					Bank of Crescent City	Apr. 30, 1918
Culver City	Culver City Branch, 3849 Main Street.	90-828	206	38	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					Culver City Commercial & State Bank	Apr. 11, 1925
Daly City	Daly City Branch, 6298-A Mission Street.	90-946	115	None	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Daly City Bank	Nov. 2, 1925
Danville	Danville Branch, Hartz and Prospect Avenues.	90-576	225	77	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					San Ramon Valley Bank Branch, Walnut Creek	Feb. 8, 1927

Town	Branch name and address	American Banking Association No.	Interior No.	Post-office box No.	Predecessor	Date opened as branch or change
Dos Palos	Dos Palos Branch, Marguerite Street and Center Avenue.	90-580	126	58	Farmers & Merchants Bank	May 31, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Branch Bank of Los Banos	Mar. 8, 1926
Eagle Rock	Eagle Rock Branch, 5040 Eagle Rock Boulevard.	16-213	238	190, Arcade station, Los Angeles.	Eagle Rock State Bank	Oct. 28, 1929
					Eagle Rock Branch (moved)	Do.
					Pico-Robertson Branch, Los Angeles (moved)	Apr. 23, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Feb. 14, 1927
El Centro	El Centro Branch, 601 Main Street	90-884	188	Bin M	Imperial Valley Branch (renamed)	Feb. 1, 1930
					El Centro Branch (branch merger)	Oct. 23, 1927
					First National Bank	Mar. 26, 1925
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Southern Trust & Commercial Bank, San Diego	Jan. 28, 1927
					El Centro National Bank	June 30, 1920
Do	Imperial Valley Branch (dormant).	90-435	91	do	El Centro Branch (renamed)	Feb. 1, 1930
					Charter retained	Oct. 23, 1927
Emeryville	Emeryville Branch, 3900 San Pablo Avenue.	90-1208	249	None	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Feb. 17, 1927
Escondido	Escondido Branch, Grand Avenue and Lime Street.	90-461	169	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Southern Trust & Commercial Bank, San Diego	Jan. 28, 1927
Eureka	Home Savings Branch, 350 E Street.	90-145	124	993	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Home Savings Bank	Dec. 1, 1925
					First Savings Bank	July 1, 1921
Fairfax	Fairfax Branch, Main Street and Roffino Avenue.	90-970	106	K	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Fairfax Bank	Sept. 8, 1925
Fillmore	Fillmore Branch, Main Street and Central Avenue.	90-592	199	D	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Fillmore State Bank	Feb. 8, 1927
Firebaugh	Firebaugh Branch, corner Eleventh and O Streets.	90-838	127	None	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Branch of Bank of Los Banos	Mar. 8, 1926
Fort Bragg	Fort Bragg Branch, 363 Main Street.	90-734	129	G	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Fort Bragg Commercial Bank	Mar. 29, 1926
					Branch Mendocino Bank of Commerce, Mendocino	Oct. 1, 1921
Fortuna	Fortuna Branch, corner C and Fourth Streets.	90-596	130	Q	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Bank of Fortuna	Mar. 29, 1926
Fresno	Belmont-Blackstone Branch, 501 Blackstone Avenue.	90-1178	9	1275	New (Charter First Branch, Fresno)	Nov. 1, 1926
	Fresno Main Office, corner Fulton and Tulare Streets.	90-90	10	1275	First Branch Fresno (branch merger)	Do.
					First National Bank	June 27, 1921
					Peoples State Bank	Dec. 28, 1916
					Fresno National Bank	Oct. 21, 1916

	West Fresno Branch, 949 F Street.	*90-95*	*80*	*1275*	*West Fresno Branch of Valley Bank, Fresno*	*Mar. 3, 1924*
					Industrial Bank	*May 22, 1923*
Fullerton	*Fullerton Branch, corner Amerige and Spadra.*	*90-430*	*207*	*229*	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					Farmers and Merchants National Bank	Apr. 25, 1925
					Fullerton State Bank	Sept. 20, 1905
Gilroy	Gilroy Branch, 116 Monterey Street.	90-378	11	K	Bank of Gilroy	Oct. 21, 1916
					Gilroy Savings & Loan Bank	May 31, 1912
Glendale	Glendale Branch, 109 East Broadway.	90-960	162	900	Central-Glendale Branch (renamed)	Apr. 21, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Glendale State Bank	Jan. 28, 1927
	Gateway Branch, 1801 South Brand Boulevard.	90-1025	212	900	Glendale Branch (renamed)	Apr. 21, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					Community Savings & Commercial Bank	Dec. 9, 1925
Gridley	Gridley Branch, Hazel Street	90-492	25	8	Branch Rideout Bank, Marysville	Feb. 3, 1922
Gustine	Gustine Branch, corner Fifth and Fourth Avenues.	90-807	125	189	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Bank of Gustine	Mar. 8, 1926
Half Moon Bay	Half Moon Bay Branch, Maine Street and Kelly Avenue.	90-605	181	38	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Bank of Half Moon Bay	Jan. 28, 1927
Hanford	Hanford Branch, corner Seventh and Irwin Streets.	90-262	18	471	Hanford National Bank	May 5, 1924
					Peoples Savings Bank	Do.
					The old bank	July 24, 1922
Hayward	Hayward Branch, 1004 B Street	90-694	14	Drawer 4	First National Bank in Hayward	Sept. 20, 1927
					Branch State Bank, San Leandro	Aug. 23, 1927
					First National Bank	July 5, 1921
					Farmers and Merchants National Bank	Do.
Healdsburg	Healdsburg Branch, 320 West Street.	90-416	119	J	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Healdsburg National Bank	Nov. 2, 1925
					Healdsburg Savings Bank	Do.
					Sotoyome Bank	June 28, 1912
Highland Park	Highland Park Branch, 5570 Pasadena Avenue, Los Angeles.	16-112	304	190, Arcade station, Los Angeles.	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust and Savings Bank, Los Angeles.	Jan. 28, 1927
					New	June 1, 1922
Hollister	Hollister Branch, corner San Benito and Fifth Streets.	90-392	12	377	Bank of Hollister	Dec. 19, 1916
					Savings and Loan Bank of San Benito County	Do.
Hollywood	Hollywood Branch, 6780 Hollywood Boulevard.	16-145	307	190, Arcade station, Los Angeles.	Federal Trust and Savings Bank	Jan. 16, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust and Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Jan. 7, 1924

Town	Branch name and address	American Banking Association No.	Interior No.	Post-office box No.	Predecessor	Date opened as branch or change
Hollywood	Hollywood-Wilcox Branch, 6436 Hollywood Boulevard.	16-135	204	190, Arcade station, Los Angeles.	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					New	Sept. 15, 1924
Do	South Hollywood Branch, 7179 Santa Monica Boulevard.	90-1104	89	do	Santa Monica Boulevard Branch (renamed)	Aug. 1, 1927
					Santa Monica Boulevard State Bank	Mar. 26, 1925
Huntington Park	Huntington Park Branch, 6601 Pacific Boulevard.	90-1061	208	605	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					National Bank of Huntington Park	Feb. 27, 1926
					Huntington Park State Bank	May 12, 1925
					Bank of Huntington Park	Feb. 2, 1921
Kelseyville	Kelseyville Branch, South Main Street.	90-909	114	167	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Branch Farmers Savings Bank, Lakeport	Oct. 19, 1925
King City	King City Branch, southwest corner Broadway and Third Streets.	90-856	15	228	First National Bank	July 5, 1921
Knights Landing	Knights Landing Branch, corner Third and Mills Streets.	90-853	8	88	Branch Home State Bank, Woodland	July 24, 1922
La Jolla	La Jolla Branch, corner Prospect Street and Girard Avenue.	90-621	170	38	Branch Liberty Bank of America San Francisco (branch Southern Trust & Commercial Bank, San Diego)	Feb. 19, 1927
						Jan. 28, 1927
Lakeport	Lakeport Branch, southwest corner Main and Second Streets.	90-510	113	Drawer F	Liberty Bank of America	Feb. 19, 1927
					Liberty Bank	Jan. 28, 1927
					Farmers State Bank	Oct. 19, 1925
La Mesa	La Mesa Branch, 2 Lookout Avenue.	90-622	231	7	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Bank of La Mesa	Jan. 28, 1927
Lancaster	Lancaster Branch, 117 West Tenth Street.	90-756	172	575	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Antelope Valley Bank	Jan. 28, 1927
					Bank of Lancaster	May 24, 1915
					Farmers and Merchants Bank	Do.
Live Oak	Live Oak Branch, C Street	90-727	26	L-1	Branch Rideout Bank, Marysville	Feb. 3, 1922
Livermore	Livermore Branch, First and Lizzie Streets.	90-409	13	367	Livermore State Bank	Jan. 27, 1917
					Farmers and Merchants National Bank	Do.
					Bank of Livermore	Jan. 3, 1911
Lodi	First Central of Lodi Branch, 101 West Pine Street.	90-361	107	2	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Central State Bank	Sept. 21, 1925
					First National Bank	Do.
Lompoc	Lompoc Branch, 101 West Ocean Avenue.	90-449	16	87	do	July 5, 1921
					Farmers and Merchants State Bank	Aug. 5, 1920
					Bank of Lompoc	Sept. 1, 1916

Long Beach	American Avenue Branch, 301 American Avenue.	90-1001	73	Bin S	Seventh and American Branch (branch merger)	Apr. 30, 1929
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Marine Trade and State Bank, Long Beach	Jan. 28, 1927
					Bixby Park Branch (branch merger)	Nov. 3, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Jan. 28, 1927
					Branch Long Beach National Bank, Long Beach	May 14, 1924
					Home Office American State Bank	Dec. 24, 1923
Do	Belmont Shore, 5200 East Second Street.	90-1199	229	do	Pacific-Anaheim Branch (moved and renamed)	Aug. 27, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Jan. 28, 1927
Do	Bixby Park Branch (dormant)	90-1198	228	do	Charter retained, merged with branch 73	Nov. 3, 1928
Do	East Long Beach Branch, 3000 East Anaheim.	90-1197	227	do	Branch California National Bank, Long Beach	Apr. 25, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Jan. 28, 1927
Do	First and Pine Branch, corner First and Pine Avenue.	90-969	189	do	New, charter of Long Beach office retained	Dec. 9, 1929
Do	Long Beach main office, 350 Pine Avenue.	90-120	74	do	Long Beach office (branch merger)	Dec. 9, 1929
					Home office, Long Beach National Bank	May 14, 1924
					Golden State Bank	Dec. 24, 1923
					Exchange National Bank	Dec. 21, 1921
					Marine Trust Office (branch merger)	Dec. 9, 1929
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Home office Marine Trust & Savings Bank	Jan. 28, 1927
					Marine Commercial & Savings Bank	Apr. 11, 1923
					Long Beach Branch Bank of America, of California (branch merger.)	Dec. 9, 1929
					First National Bank	Jan. 21, 1929
Do	North Long Beach Branch, 5300 Long Beach Boulevard.	90-1193	192	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Marine Trust & Savings Bank, Long Beach	Jan. 28, 1927
Do	Redondo and Seventh Branch, 3401 East Seventh Street.	90-1195	193	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Marine Trust & Savings Bank, Long Beach	Jan. 28, 1927
Do	Seventh and American Branch (dormant).	90-1194	190	do	Charter retained, merged with Branch 73	Apr. 30, 1929
Do	Seventh and Pine Avenue Branch, 650 Pine Avenue.	90-1119	75	do	Branch Long Beach National Bank, Long Beach	May 14, 1924
					Branch American Savings Bank	Dec. 24, 1923
					Bank of North Long Beach	Dec. 5, 1923
Do	Union State Branch, 1705 East Anaheim.	90-1196	191	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Marine Trust & Savings Bank, Long Beach	Jan. 28, 1927
					Union State Bank	Feb. 4, 1925
Los Angeles	Angeles-Mesa Branch, 5360 Angeles Mesa Drive.	16-197	223	Box 190 Arcade Station.	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					New	May 15, 1926
Do	Broadway Office	16-104	19	do	Bank of America office (branch merger)	July 28, 1928
Do	Broadway at Seventh Street			do	Eighth and Broadway Branch (renamed)	Feb. 28, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Home office Bank of America	Jan. 28, 1927
					Commonwealth Trust Co	Sept. 28, 1923
					Western State Bank	Feb. 2, 1923
					New	Mar. 26, 1923

Town	Branch name and address	American Banking Association No.	Interior No.	Post-office box No.	Predecessor	Date opened as branch or change
Los Angeles	Brooklyn - Soto Branch, 2336 Brooklyn Avenue.	16-190	315	Box 190 Arcade Station.	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Jan. 2, 1926
Do	Commercial National office, Ninth and Main Streets.	16-78	301	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Home office Commercial National Trust & Savings Bank	Jan. 28, 1927
					Continental National Bank & Commercial National Bank, merged.	July 16, 1925
Do	Echo Park Branch, 1572 Sunset Boulevard.	16-194	318	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust and Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Mar. 5, 1926
Do	Eighth and Vermont Branch, 800 South Vermont Avenue.	16-141	305	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust and Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Dec. 1, 1923
Do	Florence-Vermont Branch, 7201 South Vermont.	16-211	236	do	Sixty-eighth and Western Branch, branch merger	Sept. 10, 1929
					Charter transferred to branch 240, Western-Manchester branch, moved and renamed.	June 10, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial & Savings Bank, Los Angeles	Jan. 28, 1927
					New	Jan. 2, 1926
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Do.
Do	Forty-eighth and Western Branch, 4728 South Western Avenue.	16-191	316	do	Second Avenue and Forty-eighth Street Branch Bank of America of California.	Mar. 3, 1930
					Second Avenue State Bank	Jan. 26, 1929
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Jan. 2, 1926
Do	Fourth and Spring Branch, 401 South Spring Street.	16-17	310	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New, original head office Commercial National Bank	1903
Do	Hill Street office, 855 South Hill Street.	16-105	201	do	Head office, Pacific National Bank	Sept. 10, 1929
					Bank of America office charter used	Do.
					Bank of America office business merged with Branch 19, charter dormant.	July 28, 1928
Do	Industrial Branch, 2363 East Ninth Street.	16-216	241	do	Industrial office, Pacific National Bank	Sept. 10, 1929
					Charter of West Adams Branch	Do.
					Business of West Adams Branch transferred to B. A. C. Branch 627.	Do.

Do	International office, 220 North Main Street.	16-61	21	do	International Savings & Exchange Bank	Sept. 15, 1917
					Union Savings Bank, Riverside, moved to Los Angeles	Sept. 15, 1904
Do	Jefferson-Vermont Branch, 3403 South Vermont.	16-212	237	do	Thirty-sixth and University Branch, moved and renamed	Sept. 2, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Feb. 14, 1927
Do	Lincoln Heights Branch, 2223 North Broadway.	16-210	327	do	Broadway-Alpine Branch, moved and renamed	June 27, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Jan. 2, 1926
Do	Main at Pico Branch, 1242 South Main Street.	16-143	306	do	Eleventh and Main Branch Bank of America of California	Mar. 3, 1930
					Branch Merchants National Trust and State Bank, Los Angeles.	Dec. 10, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust and Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Dec. 1, 1923
Do	Main office, Los Angeles division, Seventh and Olive Streets.	16-66	20	do	Seventh and Figueroa Branch (branch merger, charter transferred to branch 220).	Mar. 24, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					New	Feb. 27, 1926
					City and County Bank	Sept. 30, 1913
					Home office, Park Bank	May 1, 1913
					Central Trust Co	Mar. 29, 1908
					Dollar State Bank and Trust Co	Mar. 29, 1908
					Riverside Savings and Loan Association moved to Los Angeles.	Dec. 10, 1901
Do	Manchester-Broadway Branch, 8601 South Broadway.	16-201	320	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust and Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Oct. 23, 1926
Do	Manchester Heights Branch, 8600 South Vermont Avenue.	16-215	240	do	Manchester Heights office, Pacific National Bank	Sept. 10, 1929
					Charter of Sixty-eighth and West Branch used (Sixty-eighth and Western branch business transferred to branch 236).	Sept. 10, 1929
Do	Melrose-La Brea, 7031 Melrose Avenue.	16-188	213	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					New	Dec. 15, 1925
Do	Pico-Heights Branch, Pico Street at Fedora.	16-87	22	do	Branch Park Bank, Los Angeles	May 1, 1913
Do	Pico-Hoover Branch, 2201 West Pico Street.	16-113	302	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust and Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Apr. 20, 1922
Do	Pico-Redondo Branch, 5086 West Pico.	16-214	239	do	Pico-Hauser Branch (moved and renamed)	Dec. 17, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Feb. 14, 1927
Do	Seventh and Central Branch, 1303 East Seventh Street.	16-114	303	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust and Savings Bank, Los Angeles.	Jan. 28, 1927
					New	June 6, 1922

Town	Branch name and address	American Banking Association No.	Interior No.	Post-office box No.	Predecessor	Date opened as branch or change
Los Angeles	Seventh and Westlake Branch 2000 West Seventh Street.	16-142	309	Box 190 Arcade Station.	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust and Savings Bank, Los Angeles.	Jan. 28, 1927
					New	June 28, 1924
Do	Trust department (Los Angeles), Seventh and Olive Streets.	16-66	620	do		
Do	Vermont Avenue and Forty-eighth Street Branch, 4801 South Vermont Avenue.	16-202	321	do	Vermont Avenue and Fifth-fourth Street Branch (moved and renamed).	Aug. 19, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles-	Jan. 28, 1927
					New	Oct. 21, 1926
Do	Vermont-Melbourne Branch, 1776 North Vermont Avenue.	16-136	205	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					New	Dec. 15, 1924
Do	Vernon-Broadway Branch, 4400 South Broadway.	16-192	317	do	Forty-fifth Street and Broadway Branch (renamed)	Mar. 11, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Jan. 2, 1926
Do	Washington-Crenshaw Branch, 4182 West Washington Boulevard.	16-198	222	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					New	May 15, 1926
Do	Washington-Vermont Branch, 1561 West Washington Boulevard.	16-199	319	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New	July 1, 1926
Do	Western-Melrose Branch, 700 North Western Avenue.	16-148	314	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Jan. 2, 1926
Do	Western-Pico Branch, 3088 West Pico Street.	16-147	312	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Dec. 5, 1925
Do	Western San Monica Boulevard Branch, 1100 North Western Avenue.	16-205	325	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Nov. 20, 1926
Do	West-Sixth-Rampart Branch (dormant).	16-134	203	do	Charter retained (merged with Seventh and Hoover Branch Bank of America of California).	Mar. 3, 1930
Do	Whittier-Lorena Branch, 3361 Whittier Boulevard.	16-189	313	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Dec. 21, 1925

Do	*Wilshire-La Brea Branch, 5328 Wilshire Boulevard.*	*16-146*	*311*	*do*	*Wilshire & Detroit Branch, B. A. C.*	*Sept. 10, 1929*
					Branch Merchants National Trust & Savings Bank	Dec. 10, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					New	Oct. 26, 1925
Do	Wilshire-Western Branch 635 South Western Avenue.	16-80	202	do	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angles	Jan. 28, 1927
					New	Apr. 4, 1923
Los Banos	Los Banos Branch, corner Sixth and I Streets.	90-522	17	Drawer C	Bank of Los Banos	Mar. 8, 1926
					First National Bank	July 5, 1921
Los Gatos	Los Gatos Branch, Main Street and Santa Cruz Avenue.	90-628	142	Drawer E	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Bank of Los Gatos	Jan. 28, 1927
Madera	Madera Branch, corner C Street and Yosemite Avenue.	90-382	23	Drawer A	Madera Savings Bank	July 17, 1917
					Commercial National Bank	July 14, 1917
Manteca	Manteca Branch, 2 East Yosemite Avenue.	90-712	143	Drawer L	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					First National Bank	Jan. 28, 1927
					First State Bank	May 15, 1920
Martinez	Martinez Branch, corner Main and Estudillo.	90-1117	195	157	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					National Bank of Martinez	Feb. 14, 1927
Marysville	Rideout Branch, 231 D Street	90-232	27	F	H. O. Rideout Bank	Feb. 3, 1922
Mayfield	Mayfield-Stanford Branch, 2391 El Camino Real.	90-630	118	918	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Branch Stanford Bank of Palo Alto	Nov. 2, 1925
					Mayfield Bank moved to Palo Alto and changed to Stanford Bank.	May 31, 1918
Mendocino	Mendocino Branch, corner Main and Kastin Streets.	90-633	132	227	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Branch Fort Bragg Commercial Bank	Mar. 29, 1926
					Mendocino Bank of Commerce	Oct. 1, 1921
Merced	Merced Branch, 601 L Street	90-337	24	B-2	Security Branch (branch merger)	June 1, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Merced Security Savings Bank	Feb. 17, 1927
					Commercial & Savings Bank, Merced	June 7, 1916
					First National Bank	Do.
Do	Security Branch, dormant	90-336	247	B-2	Charter retained (merged with Branch 24)	June 1, 1927
Mill Valley	Mill Valley Branch, 102-104 Throckmorton Avenue.	90-634	139	817	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Bank of Mill Valley	Jan. 28, 1927
Modesto	Modesto Branch, 902 Tenth Street.	90-296	30	Drawer C	First National Bank	Apr. 25, 1927
					Farmers & Merchants Bank	July 31, 1917
					Security Savings Bank of Stanislaus County	Feb. 1, 1917
Monrovia	Monrovia Branch, 525 South Myrtle Avenue.	90-315	230	636	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					First National Bank	Jan. 28, 1927
					Granite Savings Bank	Do.
					Granite Bank & Trust Co.	Do.
Monterey	Monterey Branch, 332 Alvarado Street.	90-257	81	Bin 10	Branch Valley Bank, Fresno	Mar. 3, 1924
					Bank of Monterey	Apr. 18, 1923
					Monterey Savings Bank	Do.
Morgan Hill	Morgan Hill Branch, Monterey Street.	90-637	180	M	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Bank or Morgan Hill	Jan. 28, 1927
					Morgan Hill Second State Bank	Jan. 6, 1906

Town	Branch name and address	American Banking Association No.	Interior No.	Post-office box No.	Predecessor	Date opened as branch or change
Mountain View	Mountain View Branch, 201 Castro Street.	90-638	144	575	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Farmers & Merchants National Bank	Jan. 28, 1927
					Bank of Mountain View	Oct. 27, 1909
Napa	Napa Branch, 1100 First Street	90-225	31	248	Jas. H. Goodman & Co. Bank	Jan. 27, 1917
National City	National City Branch, 5 East Eighth Street.	90-753	171	A	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Southern Trust & Commercial Bank, San Diego	Jan. 28, 1927
					National City State Bank	Apr. 14, 1922
					Peoples State Bank	Aug. 23, 1909
Newhall	Newhall Branch, corner Eighth and Spruce Streets.	90-988	93	262	Branch of San Fernando, Valley State Bank	Mar. 26, 1925
North Hollywood	North Hollywood Branch, 5341 Lankershim Boulevard.	90-1200	322	308	Lankershim (town renamed)	Aug. 30, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Feb. 14, 1927
Oakland	Broadway-Grand Branch, 2200 Broadway.	90-21	57	349	Eighteenth and San Pablo Branch (branch merger)	Dec. 23, 1929
					Charter transferred to Branch 234	Dec. 23, 1929
					Broadway Bank	July 24, 1922
Do	College Avenue Branch, 5665 College Avenue.	90-11	54	349	Branch Security Bank, Oakland	Nov. 4, 1918
Do	Eleventh and Broadway Office (dormant).	90-7	53	349	Charter retained (merged with Branch 251)	Apr. 14, 1930
Do	Elmhurst Branch, 9400 East Fourteenth Street.	90-1202	242	349	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Feb. 14, 1927
Do	Fruitvale Branch, 3204 East Fourteenth Street.	90-12	55	349	Branch Oakland Bank, Oakland	Dec. 23, 1929
					Branch Security Bank, Oakland	Nov. 4, 1918
					Citizens Bank, Fruitvale	June 15, 1918
					Bank of Fruitvale	Nov. 10, 1917
Do	Grand-Lake Branch, 496 Lake Park Avenue.	90-1209	250	349	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Feb. 18, 1927
Do	Melrose Branch, 4580 East Fourteenth Street.	90-23	56	349	Branch Security Bank, Oakland	Nov. 4, 1918
Do	North Broadway Branch, 4101 Broadway.	90-1201	100	349	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Feb. 14, 1927
Do	Oakland Bank Office, 1200 Broadway.	90-1	251	349	Eleventh and Broadway Office (branch merger)	Apr. 14, 1930
					Home office Oakland Bank	Dec. 23, 1929
					Hopkins and Thirty-eighth Avenue (charter transferred)	Dec. 23, 1929
					Business transferred to Allendale Branch Oakland Bank	Oct. 21, 1929
					Oakland office (renamed)	Jan. 2, 1930
Do	Oakland bank office, 1200 Broadway.	90-1	251	349	East Bay Branch (branch merger), (charter transferred to Branch 234).	Feb. 1, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					East Bay National Bank	Feb. 16, 1927
					Home office, Security Bank	Nov. 4, 1918
					Home office, Security Bank & Trust Co	Feb. 5, 1914
					Athenian Bank of Oakland	Oct. 23, 1903

Do	San Pablo Avenue Branch, 5800 San Pablo Avenue.	90-24	58	349	New	July 1, 1922
Do	Seventy-fourth Avenue and Foothill, Boulevard Branch, 7335 Foothill Boulevard.	90-1203	243	349	Havenscourt Branch (moved and renamed)	Oct. 21, 1929
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Feb. 14, 1927
					Seventy-fourth Avenue Branch, Oakland Bank	Oct. 21, 1929
Do	Telegraph Avenue Branch, 4881 Telegraph Avenue.	90-25	59	349	New	Dec. —, 1927
					do	Oct. 18, 1922
Do	Twenty-third Avenue Branch, 1254 Twenty-third Avenue.	90-27	244	349	Branch Oakland Bank, Oakland	Dec. 23, 1929
					East Oakland Branch (moved and renamed)	Do.
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New	Feb. 14, 1927
Do	West Oakland Branch, 1228 Seventh Street.	90-26	234	349	Seventh Street Branch, Oakland Bank, Oakland	Dec. 23, 1929
					Eighteenth and San Pablo Branch (charter transferred) (business transferred to Branch 57).	Do.
					East Bay Branch (charter transferred)	Feb. 1, 1928
					Business transferred to Branch 53	Do.
Ocean Beach	Ocean Beach Branch, corner Newport and Bacon Streets.	90-1183	179	1042, Ocean Beach station, San Diego.	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Southern Trust & Commercial Bank, San Diego	Jan. 28, 1927
Ocean Park	Ocean Park Branch, 2701 Main Street.	90-1076	219	37	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					Branch Citizens State Bank, Santa Monica	Jan. 20, 1926
Oceanside	Oceanside Branch, 202 North Hill Street.	90-1170	184	Drawer K	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Oceanside Commerce & Savings Bank	Feb. 14, 1927
Ojai	Ojai Valley Branch, Ojai Avenue between Montgomery and Signal Streets.	90-643	197	369	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Ojai State Bank	Feb. 8, 1927
Ontario	Euclid Avenue Branch (dormant)	90-290	163	V	Charter retained (merged with Branch 70)	Apr. 20, 1928
Do	Ontario Branch, 200 North Euclid Avenue.	90-291	70	V	Euclid Avenue Branch (branch merger)	Do.
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Ontario National Bank	Jan. 28, 1927
					Security State Bank	May 28, 1923
Orange	Orange Branch, 100 North Glassell Street.	90-1055	233	248	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					First Commercial Bank	Jan. 28, 1927
Oroville	Oroville Branch, 526 Montgomery Street.	90-301	29	Drawer C	Bank of Rideout-Smith & Co	Feb. 3, 1922
					Rideout-Smith National Bank	Do.
Palmdale	Palmdale Branch, Center Street and Antelope Avenue.	90-833	173	26	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Antelope Valley Bank, Lancaster	Jan. 28, 1927
Palo Alto	Palo Alto-Stanford Branch, 251 University Avenue.	90-617	117	367	Stanford-Palo Alto Branch (renamed)	Apr. 23, 1928
					First National Bank	Do.
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Stanford Bank moved from Mayfield	Nov. 2, 1925
Pasadena	Commercial Bank Branch, 935–937 East Colorado Street.	90-1057	226	620	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Commercial National Bank	Feb. 8, 1927
Do	Pasadena Main Office, 160 East Colorado Street.	90-1136	161	620	Central National Bank	Jan. 16, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					National Bank of Commerce	Feb. 14, 1927
					Bank of Commerce	Sept. 20, 1911

Town	Branch name and address	American Banking Association No.	Interior No.	Post-office box No.	Predecessor	Date opened as branch or change
Paso Robles	Paso Robles Branch, corner Thirteenth and Park Streets.	90-456	28	117	First National Bank	Feb. 27, 1922
					Citizens Bank	Mar. 29, 1921
					Bank of Paso Robles	Aug. 11, 1909
Pescadero	Pescadero Branch, San Gregorio Street.	90-914	198	236	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					First National Bank	Feb. 8, 1927
Petaluma	Petaluma Swiss-American Branch, 201 Main Street.	90-222	7	B-1	Penngrove Branch Central Commercial Trust & Savings Bank, Vallejo.	July 23, 1925
					Petaluma Swiss-American Bank	Jan. 29, 1923
					Wickersham Banking Co	May 1, 1910
					First National Bank	Sept. 11, 1894
Piru	Piru Branch, Main and Center Streets.	90-888	200	B	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Fillmore State Bank, Fillmore	Feb. 8, 1927
Pittsburg	Pittsburg Branch, Railroad Avenue at Fourth Street.	90-893	140	397	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					First National Bank	Jan. 28, 1927
Placentia	Placentia Branch, 141 West Santa Fe Avenue.	90-702	216	144	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					Placentia National Bank	Dec. 23, 1925
					Placentia Savings Bank	
Pleasanton	Pleasanton Branch, Main and Neal Street.	90-466	235	38	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Bank of Pleasanton	Feb. 17, 1927
Pomona	Pomona Branch, corner Second and Garey Streets.	90-180	210	H	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					State Bank of Pomona	May 14, 1925
					American National Bank	Jan. 26, 1926
					American Savings Bank	Do.
Redding	Redding Branch, corner Market and Butte Streets.	90-703	121	67	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					First Savings Bank, Shasta County	Nov. 30, 1925
					Redding National Bank	Do.
Redondo Beach	Redondo Beach Branch, 100 South Pacific Avenue.	90-346	221	67	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Farmers & Merchants National Bank	Jan. 28, 1927
					Farmers & Merchants Savings Bank	Do.
Redwood City	Redwood City Branch, 2102 Broadway.	90-376	32	D	Redwood City Commercial Bank	Sept. 15, 1917
					Savings & Loan Co. of San Mateo County	Do.
Reedley	Reedley Branch, 1100 G Street	90-419	77	398	Reedley National Bank	May 31, 1927
					Branch Valley Bank, Fresno	Mar. 3, 1924
					First National Bank of Reedley	Oct. 31, 1921
					Reedley State Bank	Sept. 16, 1907
Roseville	First Branch, 200 Vernon Street	90-957	136	I-1	Branch Farmers & Mechanics Bank, Sacramento	Feb. 23, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					First National Bank	Jan. 28, 1927
Do	Roseville Branch, corner Lincoln and Church.	90-657	120	Drawer	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank of San Francisco	Jan. 28, 1927
					Roseville Banking Co	Nov. 30, 1925

Sacramento	Sacramento office, Eighth and J Streets.	90-1109	148	1279	Peoples Office (renamed)	Sept. 3, 1929
					Home office Farmers and Mechanics Bank	Feb. 23, 1928
					Peoples Bank	June 14, 1927
					Twelfth and J Branch (moved and renamed)	Do.
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
Do	Sixth and K Branch, corner Sixth and K Streets.	90-961	49	1279	Bank of Sacramento	Jan. 28, 1927
					Sacramento Main Office (renamed)	Sept. 3, 1929
Salinas	City Branch, Dormant	90-308	134	127	New	July 5, 1921
	Salinas Branch, 202 Main Street	90-310	72	127	Charber retained (merged with Branch 72)	Mar. 14, 1927
					City Branch (branch merger)	Mar. 14, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Home Office Salinas City Bank	Jan. 28, 1927
					Salinas City Bank of Savings	May 5, 1910
					First National Bank	June 20, 1923
					Salinas Valley Savings Bank	Do.
San Anselmo	San Anselmo Branch, 401 San Anselmo Avenue.	90-1155	183	265	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Home Savings & Commercial Bank	Feb. 14, 1927
San Bernardino	San Bernardino Branch, 361 E Street.	90-132	196	237	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					California State Bank	Jan. 28, 1927
San Bruno	San Bruno Branch, San Mateo and Sylvan Avenues.	90-904	123	49	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					California Bank of San Mateo County	Dec. 1, 1925
San Diego	Fifth and Market Branch, 600 Fifth Avenue.	90-50	164	1362	Market Street Branch, Bank of America of California, Southern Trust office charter retained.	Dec. 9, 1929
					Branch San Diego State Bank	Dec. 10, 1928
Do	Logan Heights Branch, 2196 Logan Avenue.	90-1116	165	1362	Market Street State Bank	July 14, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
Do	Normal Heights Branch, Adams Avenue at Felton Street.	90-1122	166	1362	Branch Southern Trust & Commercial Bank, San Diego	Jan. 28, 1927
					Branch Liberty Bank of America	Feb. 19, 1927
Do	San Diego Main Office, 615 Broadway.	90-53	50	1362	Branch Southern Trust & Commercial Bank, San Diego	Jan. 28, 1927
					San Diego office, branch merger	Nov. 18, 1929
					Merchants National Bank	Dec. 18, 1922
					Southern Trust office, branch merger	Nov. 18, 1929
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Head office, Southern Trust & Commercial Bank	Jan. 28, 1927
					Southern Trust & Savings Bank	July 26, 1917
					Bank of Commerce & Trust Co	Do.
					Union Office, branch merger	Nov. 18, 1929
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Union National Bank	Jan. 28, 1927
Do	Twenty-ninth and University Branch, 2897 University Avenue.	90-61	187	1362	Branch Bank of America of California, Union office charter retained.	Dec. 9, 1929
					Branch San Diego State Bank	Dec. 10, 1928
Do	University Branch, 406 University Avenue.	90-58	194	1362	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					University Avenue Bank	Feb. 8, 1927
San Fernando	San Fernando Branch, 1100 Porter Avenue.	90-859	92	456	First National Bank	June 6, 1925
					San Fernando Valley, Savings Bank	Mar. 26, 1925
San Francisco	Bay View Branch, 5000 Third Street.	11-95	63	3152	New	Mar. 31, 1923
Do	Bernal Height Branch, 433 Courtland Avenue.	11-120	257	3152	do	June 13, 1927

Town	Branch name and address	American Banking Association No.	Interior No.	Post-office box No.	Predecessor	Date opened as branch or change
San Francisco	California - Montgomery Office, corner California and Montgomery Streets.	11-85	33	3152	Italian-American Branch (charter and business transferred, renamed and business transferred from former Montgomery Street branch.	Dec. 19, 1927
					Head office, Italian-American Branch, San Francisco	Feb. 17, 1927
Do	Castro-Market Branch, Market and Seventeenth Streets.	11-90	64	3152	Montgomery Street Branch, new	July 1, 1921
					New	Jan. 3, 1922
Do	Clay-Montgomery Branch, Corner Clay and Montgomery	11-31	99	3152	Montgomery Street, charter only retained, renamed, and business Columbus Branch transferred.	Dec. 19, 1927
					Columbus Branch, Italian-American Bank	Feb. 17, 1927
Do	College Hill Branch, 3835 Mission Street.	11-122	259	3152	Columbus Savings & Loan Society	Nov. 28, 1923
					New	Sept. 1, 1927
Do	Columbus Branch, 1451-1455 Stockton Street.	11-91	68	3152	Columbus Avenue Branch, renamed	Mar. 5, 1928
					New	Nov. 15, 1922
Do	Corporate Trust Division, California-Montgomery, corner California and Montgomery Streets.	11-85	633	3152		
Do	Day & Night Branch, 948 Market Street.	11-84	101	3152	Head office, Liberty Bank of America, San Francisco	Feb. 19, 1927
					Head office, Liberty Bank, San Francisco	Jan. 28, 1927
					New	Aug. 8, 1921
Do	Divisadero-Hayes Branch, 600 Divisadero Street.	11-110	98	3152	do	Dec. 5, 1925
Do	Excelsior Branch, 4645 Mission Street.	11-93	67	3152	do	Oct. 2, 1922
Do	Fillmore-Haight Branch, 546 Haight Street.	11-128	265	3152	do	Dec. 19, 1927
Do	Fillmore-Post Branch, 1700 Fillmore Street.	11-94	69	3152	do	Mar. 3, 1923
Do	Fillmore-Sacramento Branch, 2223 Fillmore Street.	11-172	264	3152	do	July 9, 1928
Do	Geary-Divisadero Branch, 1500-1504 Divisadero Street.	11-124	261	3152	dof	Nov. 28, 1927
Do	Geneva-Mission Branch, 5137 Mission Street.	11-104	87	3152	do	Dec. 1, 1924
Do	Glen Park Branch, 2901 Diamond Street.	11-119	256	3152	do	June 6, 1927
Do	Haight - Clayton Branch, 1599 Haight Street.	11-125	262	3152	do	Dec. 27, 1927
Do	Harbor Branch, 100 Embarcadero	11-175	267	3152	do	Dec. 9, 1929
Do	Head office, Market, Powell, and Eddy Streets.	11-35	66	3152	Head office name transferred from Montgomery and Clay Streets, charter and business of Market and Mason St. eets branch transferred.	July 1, 1921
					Market and Mason Streets branch; new, charter and business Mission Branch; new, Aug. 1, 1907, transferred.	Nov. 1, 1910

					Head office Bank of San Francisco	Do.
					Polk Street Branch Bank of San Francisco	Do.
					Mechanics Savings Bank	Do.
					Moved, Montgomery and Clay Streets	Aug. 1, 1907
					Moved, 632 Montgomery Street	May, 1906
					Opened, 2745 Van Ness Avenue	Temporary.
					Closed, account of fire	Apr. 18, 1906
					New, Montgomery and Washington Streets	Oct. 17, 1904
Do	International Banking Depa.tment, 477 California Street.	11-35	661	3152	Moved from head office	Dec. 19, 1927
Do	Jones-Geary Branch, 601 Geary Street.	11-99	82	3152	New	May 5, 1924
Do	Market-Geary Branch, 706-708 Market Street or 9 Geary Street.	11-86	36	3152	do	July 1, 1921
Do	McAllister-Fillmore Branch, 1019 Fillmore Street.	11-106	95	3152	do	July 1, 1925
Do	Mission—Twenty-third Street Branch, 2701 Mission Street.	11-105	102	3152	Mission and Twenty-second Branch, B. A. C	Sept. 10, 1929
					Branch Union Security Bank & Trust Co., San Francisco	Nov. 28, 1928
					Branch Humboldt Bank	Apr. 2, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					New	Jan. 2, 1925
Do	Noe Valley Branch, 4100 Twenty-fourth Street.	11-118	255	3152	do	June 6, 1927
Do	North Beach Branch, 270 Columbus Avenue.	11-112	186	3152	Branch Italian-American Bank	Feb. 17, 1927
					New	Dec. 1, 1917
Do	Ocean Faxon Branch, 1649 Ocean Avenue.	11-117	252	3152	do	May 2, 1927
Do	Park-Presidio Branch, 801 Clement Street.	11-89	65	3152	do	Dec. 20, 1921
Do	Parkside Branch, 959 Taraval Street.	11-121	258	3152	do	Aug. 11, 1927
Do	Pierce-Chestnut Branch, 2201 Chestnut Street.	11-126	263	3152	do	Nov. 28, 1927
Do	Polk-Van Ness Branch, 1537-1541 Polk Street.	11-88	38	3152	do	Jan. 3, 1922
Do	Portola District Branch, San Bruno and Thornton Avenue.	11-107	96	3152	do	July 1, 1925
Do	Powell-Sutter Branch, 455 Powell Street.	11-123	260	3152	do	Nov. 28, 1927
Do	Sixteenth and Mission Branch, 2001 Mission Street.	11-115	254	3152	do	June 25, 1927
Do	Sunset Branch, Eighth and Irving Streets.	11-92	39	3152	do	July 1, 1922
Do	Thirty-eighth and Balboa Branch, 3701 Balboa Street.	11-173	266	3152	do	Oct. 15, 1928
Do	Trust Department (head office) Market, Powell, and Eddy Streets.	11-35	662	3152		
Do	Twentieth and Irving Branch, 1850 Irving Street.	11-116	253	3152	New	May 2, 1927

Town	Branch name and address	American Banking Association No.	Interior No.	Post-office box No.	Predecessor	Date opened as branch or change
San Francisco	Twenty-fourth and Bryant Branch, Twenty-fourth and Bryant Streets.	11-100	85	3152	New	May 24, 1924
Do	Twenty-ninth and Mission Branch, 3236 Mission Street.	11-87	37	3152	Mission Branch, name changed	Mar. 23, 1927
					New	Nov. 1, 1921
Do	Union-Webster Branch, corner Union and Webster Streets.	11-109	97	3152	do	Dec. 12, 1925
Do	West-Geary Branch, 5500 Geary Street.	11-98	76	3152	do	Mar. 17, 1924
Do	West Portal Branch, 90 West Portal.	11-62	185	3152	Columbus Branch (charter only transferred and renamed; business transferred to Branch No. 99).	Dec. 19, 1927
Sanger	Sanger Branch, 1348 Seventh Street.	90-661	78	248	Commercial Bank	Dec. 5, 1927
					Branch Valley Bank of Fresno	Mar. 3, 1924
					First National Bank	Feb. 3, 1923
San Jose	East San Jose Branch, 946 East Santa Clara Street.	90-77	156	C	Bank of San Jose Branch (charter only transferred; business transferred to Branch No. 35).	Aug. 20, 1927
Do	Hester Branch, 1449 The Alameda	90-86	157	C	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of San Jose	Jan. 28, 1927
Do	San Jose main office, corner First and Santa Clara Streets.	90-83	35	C	Bank of San Jose Branch (branch merger)	Aug. 20, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Head office Bank of San Jose	Jan. 28, 1927
					San Jose Safe Deposit Bank	Nov. 20, 1917
					Commercial & Savings Bank	Dec. 31, 1909
Do	South First Street Branch, 256 South First Street.	90-85	158	C	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of San Jose	Jan. 28, 1927
San Juan, Bautista	San Juan Branch; post office, San Juan Bautista.	90-885	86	14	First National Bank	May 19, 1924
San Leandro	San Leandro Branch, 1300 East Fourteenth Street.	90-1147	149	258	Head office State Bank of San Leandro	Aug. 23, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					San Leandro National Bank	Feb. 14, 1927
San Luis Obispo	San Luis Obispo Branch, Higuera and Garden Streets.	90-238	61	731	Union National Bank	July 24, 1922
San Mateo	San Mateo Branch, B Street at Third Avenue.	90-284	40	69	San Mateo Bank	Dec. 31, 1912
San Miguel	San Miguel Branch, Twelfth and Mission Streets.	90-770	47	138	Branch Citizens Bank, Paso Robles	July 5, 1921
San Pedro	San Pedro Branch, corner Sixth and Palos Verdes Streets.	90-998	62	F	Branch Bank of America of California	Mar. 17, 1930
					Branch Merchants National Trust & Savings Bank, Los Angeles.	Dec. 10, 1928
					First National Bank	Do.
					Bank of America of California, charter transferred to San Francisco.	Dec. 7, 1928
					Bank of America	Nov. 28, 1928

					Harbor Commercial & Savings Bank	Apr. 30, 1928
					New	June 2, 1922
San Rafael	San Rafael Branch, 800 Fourth Street.	90-217	182	E	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Tamalpais Bank	Jan. 28, 1927
Santa Ana	Santa Ana Branch, 116 West Fourth Street.	90-189	90	T	Orange County Trust & Savings Bank	June 20, 1927
					American National Bank	Mar. 26, 1925
Santa Barbara	Estado-Cota Branch, 600 Estado	90-1151	215	698	Haley Street Branch (moved and renamed)	Dec. 23, 1927
					Branch Banca Popolare Fugazi, San Francisco	Do.
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					Branch Central Trust and Savings Bank, Santa Barbara	Sept. 12, 1925
Do	Santa Barbara Main Office, 737 State Street.	90-159	214	698	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					Head office Central Trust and Savings Bank	Sept. 12, 1925
					Central Bank	Sept. 24, 1924
Santa Clara	Santa Clara Branch, Franklin and Main Streets.	90-286	42	J	Mission Bank	Nov. 15, 1917
					Santa Clara Valley Bank	Feb. 13, 1916
Santa Cruz	East Santa Cruz Branch, 381 Soquel Avenue.	90-168	177	None	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch of First National Bank	Jan. 28, 1927
Do	Santa Cruz Branch, 189-193 Pacific Avenue.	90-164	176	643	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					First National Bank	Jan. 28, 1927
					City Savings Bank	Do.
Santa Maria	Santa Maria Branch, 120 South Broadway.	90-1165	150	327	First National Bank	Jan. 16, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Commercial National Bank	Feb. 14, 1927
Santa Monica	Santa Monica Branch, 231 Santa Monica Boulevard.	90-1030	218	157	First National Bank	Feb. 27, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					Citizens State Bank	Jan. 20, 1926
Santa Paula	Santa Paula Branch, Corner Main and Hill Streets.	90-1154	151	339	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					New First National Bank	Feb. 14, 1927
Santa Rosa	Santa Rosa Branch, Exchange Avenue between Third and Fourth Streets.	90-195	43	574	Branch Central Commercial and Savings Bank, Ballejo	July 23, 1925
					Santa Rosa Bank	Dec. 7, 1917
Sausalito	Sausalito Branch, 915 Water Street	90-1110	178	F	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					First National Bank	Jan. 28, 1927
Selma	Selma Branch, 2036 Second Street	90-427	79	188	First National Bank	Jan. 16, 1928
					Selma Savings Bank	Do.
					Branch Valley Bank, Fresno	Mar. 3, 1924
					Selma National Bank	Feb. 9, 1922
					Farmers Savings Bank	Do.
Shafter	Shafter Branch, Central Avenue and James Street.	90-913	84	138	First National Bank	May 5, 1924
Soledad	Soledad Branch, Front Street	90-746	135	327	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Salinas City Bank, Salinas	Jan. 28, 1927
Sonoma	Sonoma Branch, Napa and Broadway.	90-667	104	118	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Branch Central Commercial and Savings Bank, Vallejo	July 26, 1925
					Sonoma Valley Bank	Dec. 16, 1922
South San Francisco	South San Francisco Branch, 254 Grand Avenue.	90-1080	145	398	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Citizens National Bank	Jan. 28, 1927

Town	Branch name and address	American Banking Association No.	Interior No.	Post-office box No.	Predecessor	Date opened as branch or change
St. Helena	St. Helena Branch, 1351 Main Street.	90-437	110	364	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Bank of St. Helena	Sept. 21, 1925
Stockton	East Side Branch, 131 North Wilson Way.	90-1192	155	516	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial and Savings Bank	Jan. 28, 1927
Do	Hunter Square Branch, 11 North Hunter Street.	90-104	44	516	New (charter of Stockton Branch retained)	June 10, 1929
Do	Stockton Main Office, 345 East Main Street.	90-109	154	516	Commercial and Savings Bank Branch (renamed)	Do.
					City Bank	Jan. 16, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Commercial and Savings Bank	Jan. 28, 1927
					Stockton Branch (branch merger, charter retained by Hunter Square Branch).	June 10, 1929
					San Joaquin Valley National Bank	Nov. 28, 1917
					San Joaquin Valley Bank	Do.
Sunnyvale	Sunnyvale Branch, Murphy and Washington Avenue.	90-672	41	69	Bank of Sunnyvale	June 4, 1921
Taft	Taft Branch, 501 Center Street	90-708	3	69	Branch First National Bank, Bakersfield	Apr. 24, 1922
Tipton	Tipton Branch, Tipton, Calif.	90-997	112	None	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Branch Farmers State Branch, Tulare	Sept. 21, 1925
Torrance	Torrance Branch, 1330 Sartori Avenue.	90-1009	211	607	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Bank of America, Los Angeles	Jan. 28, 1927
					State Exchange Bank	May 18, 1925
Tracy	Tracy Branch, Central Avenue and Seventh Street.	90-459	48	Drawer A	American Bank	Aug. 6, 1921
					West Side Bank	July 3, 1919
Tulare	Tulare Branch, K and Kern Streets.	90-949	111	158	First National Bank	Dec. 19, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Farmers State Bank	Sept. 21, 1925
Ukiah	Ukiah Branch, 102 North School Street.	90-405	128	615	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					Commercial Bank	Mar. 29, 1926
Vacaville	Vacaville Branch, Main and Elizabeth Streets.	90-473	51	P	Bank of Vacaville	Jan. 29, 1923
Vallejo	First Central of Vallejo Branch, 332 Georgia Street.	90-153	103	M	Branch Liberty Bank of America, San Francisco	Feb 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					First National Bank	Oct. 5, 1926
					First Savings Bank	Do.
					Head office Central Commercial and Savings Bank	July 26, 1925
Van Nuys	Van Nuys Branch, 6225 Van Nuys Boulevard.	16-195	220	1338	Citizens Bank	Nov. 1, 1925
					Seventh and Figueroa Branch (charter only transferred) (business transferred to branch No. 20).	Mar. 24, 1928
Venice	Venice Branch, 79 Windward Avenue.	90-983	94	67	State Bank of Venice	Mar. 26, 1925

Ventura	Ventura Branch, 394 East Main Street.	90-342	46	Drawer A-2	National Bank of Ventura	Jan. 28, 1918
					Ventura Savings Bank	Do.
Visalia	Visalia Branch, 128 East Main Street.	90-267	46	Bin I	National Bank of Visalia	Apr. 29, 1921
					Visalia Savings Bank & Trust Co	Do.
Walnut Creek	San Ramon Valley Branch, Main Street	90-682	224	38	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					San Ramon Valley Bank	Feb. 8, 1927
					First National Bank	Aug. 8, 1922
Wasco	Wasco Branch, Seventh and F Streets.	90-745	4	367	Branch First National Bank, Bakersfield	Apr. 24, 1922
Watsonville	Fruit Growers Branch (dormant)	90-917	133	Drawer 4	Charter retained	June 9, 1928
Do	Watsonville Branch, 400-402 Main Street.	90-280	34	do	Fruit Growers Branch (branch merger)	Do.
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Fruit Growers National Bank	Jan. 28, 1927
					Bank of Watsonville	Dec. 24, 1923
					Watsonville Savings Bank	Dec. 22, 1923
West Los Angeles	West Los Angeles Branch, 11328 Santa Monica Boulevard.	90-1006	324	I	Sawtelle Branch (town renamed)	Nov. 29, 1929
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					United States National Bank	Jan. 28, 1927
Wheatland	Wheatland Branch, Front Street	90-688	83	T	Farmers Bank	Apr. 22, 1924
Willows	Glenn County Branch, 201 Butte Street.	90-478	137	650	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Glenn County Bank	Jan. 28, 1927
Wilmington	Wilmington Branch, Anaheim and Marine Avenues.	90-1016	308	821	Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Commercial National Trust & Savings Bank, Los Angeles.	Jan. 28, 1927
					Wilmington State Bank	Feb. 8, 1924
Winters	Winters Branch, 32 West Main Street.	90-502	138	218	Citizens Bank	Mar. 12, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					First National Bank	Jan. 28, 1927
					Savings Bank of Winters	Do.
					Bank of Winters	Jan. 29, 1912
Woodland	Woodland Branch, 629 Main Street.	90-331	52	A	Home Savings Bank	July 24, 1922
					First National Bank	Do.
					Farmers & Merchants Bank	Aug. 31, 1909
Yreka	First Siskiyou County Branch, 218 Miner Street.	90-479	131	38	First National Bank	Mar. 26, 1928
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Branch Liberty Bank, San Francisco	Jan. 28, 1927
					First Savings Bank of Siskiyou County	Mar. 29, 1926
					Siskiyou County Bank	Do.
Yuba City	Yuba City Branch, 219 Bridge Street.	90-1120	152	E	First National Bank	Dec. 19, 1927
					Branch Liberty Bank of America, San Francisco	Feb. 19, 1927
					Producers Bank of Sutter County	Feb. 14, 1927

Mr. BACIGALUPI. Exhibit E is a statement which has been set up to show at a glance the bank's liquidity during the past two years. The uniform policy of the Bank of Italy has been not only to maintain a strong ratio of working capital to deposits but in addition to keep its assets more than 50 per cent liquid or in a character readily convertible into cash should occasion require it. You will note from the exhibit, for instance, that on December 31, 1929, total demand deposits were $308,597,812.95 and time deposits $582,992,370.03, or total deposits of $891,590,182.98. Available to readily meet these deposits—without having to call a single loan—there was due from banks $81,995,019.14; loans eligible and available for rediscount with the Federal reserve bank, $42,120,006.27 (and in passing it may be of interest to note that the privilege of rediscount has never once been exercised by the Bank of Italy); miscellaneous marketable securities, $68,644,707.21; exchanges for clearing and other checks in process of collection, $90,574,597.35; cash on hand $9,304,797.08; and United States Government bonds, $168,893,673.43, or a total of liquid assets of $461,532,800.48, representing 51.77 per cent of total deposits. Considering that almost two-thirds of the bank's total deposits are time, or savings deposits, this percentage is comparatively high.

(Exhibit E referred to is here printed in full, as follows:)

EXHIBIT E

Statement of liquidity, Bank of Italy National Trust & Savings Association

	June 30, 1928	Dec. 31, 1928	June 29, 1929	Dec. 31, 1929
Demand deposits	$192,828,786.96	$215,307,807.10	$207,533,612.43	$308,597,812.95
Time deposits	473,554,347.24	486,920,121.22	499,502,411.96	582,992,370.03
Total deposits	666,383,134.20	702,227,928.32	707,036,024.39	891,590,182.98
AVAILABLE TO MEET THESE DEPOSITS				
Due from banks, including Federal reserve bank (all subject to check)	46,977,274.77	46,741,503.81	68,649,550.31	81,995,019.14
Cash on hand	21,490,068.97	7,076,626.15	6,969,667.45	9,304,797.08
Loans eligible and available for rediscount with Federal reserve bank reported to home office (loans under $500 not reported in detail to home office, and not included in these figures)	27,100,576.99	31,262,013.22	30,882,893.34	42,120,006.27
United States Government bonds	155,006,916.04	203,901,848.73	182,474,954.75	168,893,673.43
Other securities	74,279,811.57	62,569,884.20	71,494,555.66	68,644,707.21
Exchanges for clearing and other checks in process of collection	29,124,979.00	41,278,713.18	34,362,438.65	90,574,597.35
Subtotal	[1] 353,979,627.34	[2] 392,830,589.29	[3] 394,834,060.16	[4] 461,532,800.48
Other loans	385,280,330.65	380,645,007.97	380,970,721.70	499,794,027.23
Other resources	28,722,787.20	29,464,588.19	32,545,799.46	37,187,975.71
Total	[5] 767,982,745.19	[6] 802,940,185.45	[7] 808,350,581.32	[8] 998,514,803.42
Overdrafts	727,250.99	666,033.22	723,441.18	685,975.90
Bank premises, furniture, and fixtures, etc	25,926,740.66	25,870,852.05	28,339,321.49	31,958,656.19
Other real estate owned	1,767,937.07	2,205,147.17	2,660,826.87	4,100,448.62
5 per cent redemption fund	300,000.00	300,000.00	300,000.00	442,895.00
Adjustments pending	858.48	422,555.75	522,209.92	
Total	28,722,787.20	29,464,588.19	32,545,799.46	37,187,975.71

[1] Per cent, 53.12.
[2] Per cent, 55.94.
[3] Per cent, 55.84.
[4] Per cent, 51.77.
[5] Per cent, 115.25.
[6] Per cent, 114.34.
[7] Per cent, 114.33.
[8] Per cent, 111.99.

Mr. BACIGALUPI. Exhibit F is a tabulation of loans and deposits by communities.

So that the committee members may understand exactly what is the situation at each of the branches in reference to deposits and loans at those branches——

Mr. FORT. Does that show by branches or communities?

Mr. BACIGALUPI. This is by communities. I also have it by branches, though.

(Exhibit F referred to is here printed in full, as follows:)

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EXHIBIT F

Month end totals

	January	February	March	April	May	June	July	August	September	October	November	December
DEPOSITS												
1928												
Commercial deposits	$152,053,000	$157,473,000	$152,411,000	$167,229,000	$166,982,000	$154,407,000	$155,546,000	$160,570,000	$165,694,000	$173,204,000	$177,723,000	$167,772,000
Savings deposits	365,292,000	364,761,000	361,852,000	360,686,000	357,711,000	376,731,000	353,405,000	365,066,000	364,084,000	369,840,000	359,866,000	377,324,000
Public	68,095,000	60,772,000	60,378,000	62,518,000	73,248,000	68,409,000	57,869,000	49,774,000	51,403,000	44,371,000	46,712,000	77,371,000
Other	31,827,000	40,072,000	62,582,000	42,828,000	41,518,000	64,695,000	41,082,000	43,427,000	50,288,000	35,506,000	48,419,000	79,684,000
Total	617,267,000	623,078,000	637,223,000	633,261,000	639,459,000	664,242,000	607,902,000	618,837,000	631,469,000	622,921,000	632,720,000	702,151,000
1929												
Commercial deposits	168,788,000	164,002,000	153,206,000	162,556,000	157,979,000	158,149,000	167,280,000	172,917,000	182,904,000	194,565,000	185,161,000	214,963,000
Savings deposits	370,746,000	368,782,000	387,108,000	380,833,000	385,314,000	401,883,000	381,976,000	378,908,000	382,086,000	382,289,000	363,162,000	411,035,000
Public	70,313,000	59,416,000	56,220,000	63,557,000	79,541,000	76,070,000	64,906,000	68,230,000	67,909,000	60,180,000	66,514,000	162,527,000
Other	50,588,000	52,461,000	50,164,000	41,697,000	51,078,000	70,747,000	43,397,000	44,854,000	48,258,000	42,149,000	52,773,000	108,210,000
Total	660,435,000	644,661,000	646,698,000	648,643,000	673,912,000	706,849,000	657,559,000	664,909,000	681,157,000	579,183,000	667,610,000	896,735,000
LOANS												
1928												
Real estate	218,721,000	222,578,000	223,711,000	223,896,000	226,347,000	226,327,000	224,401,000	224,080,000	222,461,000	220,644,000	219,891,000	219,788,000
Other loans	176,856,000	177,121,000	178,241,000	181,846,000	185,964,000	185,198,000	176,466,000	187,142,000	177,457,000	177,815,000	187,935,000	191,800,000
Total	395,577,000	399,699,000	401,952,000	405,742,000	412,311,000	411,525,000	400,867,000	411,222,000	399,918,000	398,459,000	407,826,000	411,588,000
1929												
Real estate	218,673,000	217,072,000	215,886,000	215,162,000	214,677,000	214,037,000	212,394,000	211,298,000	210,192,000	209,376,000	210,253,000	244,017,000
Other loans	175,028,000	175,073,000	178,709,000	182,244,000	200,561,000	199,701,000	198,987,000	208,853,000	225,697,000	243,606,000	253,489,000	276,150,000
Total	393,701,000	392,145,000	394,595,000	397,406,000	415,238,000	413,738,000	411,381,000	420,151,000	435,889,000	452,982,000	463,742,000	520,167,000

Net increase or decrease in deposits and loans from February 28, 1927, to February 28, 1930, inclusive

Net increase or decrease in deposits and loans from February 28, 1927, to February 28, 1930, inclusive

[Decreases appear in italic figures]

	Loans, Feb. 28				Total increase or decrease	Less purchases increased	Net increase or decrease	Deposits, Feb. 28				Total increase or decrease	Less purchases increased	Net increase or decrease
	1927	1928	1929	1930				1927	1928	1929	1930			
Los Angeles	$61,429,000	$62,885,000	$68,740,000	$78,368,000	$16,939,000	$12,589,000	$4,350,000	$80,267,000	$99,641,000	$117,625,000	$128,001,000	$47,734,000	$13,675,000	$34,059,000
San Francisco	95,976,000	103,860,000	104,733,000	127,874,000	31,898,000	14,293,000	17,605,000	142,003,000	129,573,000	127,671,000	137,966,000	*4,037,000*	17,921,000	*21,958,000*
Oakland	14,016,000	23,063,000	21,129,000	58,413,000	44,497,000	39,492,000	*5,005,000*	24,263,000	25,143,000	26,412,000	67,513,000	43,250,000	48,605,000	*5,355,000*
Long Beach	6,281,000	5,718,000	6,256,000	8,585,000	2,304,000	1,739,000	565,000	10,745,000	11,080,000	11,650,000	15,194,000	4,114,000	5,449,000	*1,335,000*
Bakersfield	5,647,000	5,163,000	4,148,000	4,190,000	*1,457,000*		*1,457,000*	6,321,000	6,793,000	7,086,000	6,685,000	364,000		364,000
Taft	525,000	373,000	337,000	417,000	*108,000*		*108,000*	1,840,000	1,674,000	1,639,000	1,522,000	*318,000*		*318,000*
Wasco	771,000	970,000	788,000	718,000	*53,000*		*53,000*	448,000	419,000	483,000	485,000	37,000		37,000
Centerville	637,000	903,000	784,000	710,000	73,000	249,000	*176,000*	1,435,000	1,707,000	1,619,000	1,630,000	195,000	382,000	*187,000*
Chico	1,230,000	1,297,000	1,081,000	1,268,000	38,000		38,000	2,093,000	2,130,000	2,184,000	2,199,000	106,000		106,000
Petaluma	2,778,000	2,762,000	2,456,000	2,619,000	*159,000*		*159,000*	3,155,000	3,054,000	2,999,000	3,067,000	*88,000*		*88,000*
Knights Landing	36,000	26,000	31,000	50,000	14,000		14,000	380,000	394,000	406,000	361,000	*19,000*		*19,000*
Fresno	7,454,000	7,472,000	6,886,000	5,818,000	*2,636,000*		*2,636,000*	17,077,000	16,826,000	15,973,000	14,863,000	*2,214,000*		*2,214,000*
Gilory	1,888,000	1,898,000	1,787,000	1,635,000	*253,000*		*253,000*	1,489,000	1,379,000	1,405,000	1,486,000	*3,000*		*3,000*
Hollister	3,011,000	2,967,000	2,644,000	2,361,000	*650,000*		*650,000*	1,943,000	1,819,000	1,905,000	2,133,000	190,000		190,000
Livermore	804,000	726,000	752,000	814,000	10,000		10,000	1,359,000	1,350,000	1,374,000	1,401,000	6,000		6,000
Hayward	1,938,000	2,550,000	2,292,000	2,058,000	120,000	661,000	*541,000*	2,101,000	2,854,000	2,710,000	2,846,000	745,000	1,099,000	*354,000*
King City	845,000	852,000	1,325,000	1,362,000	517,000		517,000	432,000	462,000	601,000	783,000	351,000		351,000
Lompoc	983,000	869,000	718,000	679,000	*304,000*		*304,000*	611,000	767,000	1,019,000	949,000	338,000		338,000
Los Banos	1,421,000	1,259,000	1,243,000	1,213,000	*208,000*		*208,000*	1,031,000	1,122,000	1,113,000	1,093,000	62,000		62,000
Hanford	792,000	797,000	740,000	889,000	97,000		97,000	1,305,000	1,435,000	1,615,000	1,677,000	372,000		372,000
Madera	1,317,000	1,205,000	1,100,000	1,203,000	*963,000*		*963,000*	1,309,000	147,000	1,515,000	1,499,000	190,000		190,000
Merced	4,414,000	3,602,000	3,137,000	2,863,000	*1,551,000*		*1,551,000*	5,196,000	5,090,000	4,960,000	5,102,000	*94,000*		*94,000*
Gridley	1,236,000	1,389,000	1,411,000	1,395,000	159,000		159,000	1,500,000	1,398,000	1,285,000	2,580,000	1,080,000		1,080,000
Live Oak	288,000	332,000	262,000	224,000	*64,000*		*64,000*	297,000	262,000	256,000	237,000	*60,000*		*60,000*
Marysville	2,734,000	3,030,000	2,745,000	2,678,000	*56,000*		*56,000*	2,942,000	2,777,000	2,784,000	2,672,000	*270,000*		*270,000*
Paso Robles	827,000	763,000	663,000	546,000	*281,000*		*281,000*	919,000	886,000	1,024,000	944,000	25,000		25,000
Oroville	1,043,000	1,040,000	934,000	989,000	*54,000*		*54,000*	2,257,000	2,336,000	2,402,000	2,258,000	1,000		1,000
Modesto	1,158,000	1,951,000	1,524,000	1,588,000	430,000	746,000	*316,000*	2,169,000	2,782,000	2,730,000	2,566,000	397,000	898,000	
Napa	3,114,000	3,167,000	2,768,000	2,705,000	*409,000*		*409,000*	2,498,000	2,421,000	2,412,000	2,281,000	*217,000*		*217,000*
Redwood City	2,493,000	2,665,000	2,603,000	2,412,000	*81,000*		*81,000*	1,899,000	1,845,000	1,840,000	1,777,000	*122,000*		*122,000*
Watsonville	3,251,000	1,381,000	1,887,000	1,883,000	*1,368,000*		*1,368,000*	2,348,000	2,411,000	2,496,000	2,619,000	271,000		271,000
San Jose	12,819,000	12,249,000	12,124,000	11,671,000	*1,148,000*		*1,148,000*	16,248,000	14,069,000	13,156,000	12,428,000	*3,820,000*		*3,820,000*
San Mateo	2,902,000	2,781,000	2,554,000	2,448,000	*454,000*		*454,000*	2,686,000	2,634,000	3,077,000	3,853,000	167,000		167,000
Sunnyvale	741,000	748,000	729,000	618,000	*123,000*		*123,000*	799,000	791,000	833,000	826,000	27,000		27,000
Santa Clara	2,016,000	1,928,000	1,763,000	1,729,000	*287,000*		*287,000*	2,318,000	1,879,000	1,843,000	1,883,000	*435,000*		*435,000*
Santa Rosa	1,671,000	1,457,000	1,331,000	1,308,000	*363,000*		*363,000*	3,409,000	3,207,000	3,212,000	3,228,000	*181,000*		*181,000*
Stockton	13,660,000	14,124,000	12,036,000	11,793,000	*1,867,000*	2,571,000	*4,438,000*	15,013,000	16,481,000	15,098,000	13,763,000	*1,250,000*	3,745,000	*4,995,000*
Ventura	4,115,000	3,401,000	2,509,000	2,700,000	*1,415,000*		*1,415,000*	3,312,000	3,689,000	4,415,000	4,235,000	923,000		923,000
Visalia	12,571,000	1,571,000	1,178,000	1,053,000	*518,000*		*518,000*	3,226,000	2,496,000	2,736,000	2,783,000	*443,000*		*443,000*
San Miguel	67,000	82,000	69,000	74,000	7,000		7,000	171,000	178,000	184,000	198,000	27,000		27,000

Net increase or decrease in deposits and loans from February 28, 1927, to February 28, 1930, inclusive—Continued

	Loans, Feb. 28				Total increase or decrease	Less purchases increased	Net increase or decrease	Deposits, Feb. 28				Total increase or decrease	Less purchases increased	Net increase or decrease
	1927	1928	1929	1930				1927	1928	1929	1930			
Tracy	$1,030,000	$1,001,000	$1,014,000	$987,000	*$43,000*		*$43,000*	$961,000	$1,064,000	$1,144,000	$1,241,000	$280,000		$280,000
Sacramento	4,609,000	11,560,000	8,841,000	7,936,000	3,327,000	$9,027,000	*5,700,000*	11,280,000	35,409,000	36,309,000	22,943,000	11,663,000	$21,218,000	*9,555,000*
San Diego	19,109,000	15,677,000	13,994,000	12,824,000	*6,285,000*	478,000	*6,763,000*	27,689,000	24,619,000	23,169,000	21,625,000	6,064,000	611,000	*6,675,000*
Vacaville	732,000	782,000	681,000	635,000	*97,000*		*97,000*	778,000	931,000	914,000	822,000	44,000		44,000
Woodland	1,850,000	1,636,000	1,395,000	1,369,000	*481,000*		*481,000*	2,409,000	2,276,000	2,163,000	2,007,000	*402,000*		*402,000*
Compton	56,000	49,000	70,000	139,000	83,000		83,000	305,000	465,000	606,000	572,000	267,000		267,000
San Luis Obispo	1,163,000	1,363,000	1,275,000	1,299,000	136,000		136,000	2,065,000	1,442,000	4,200,000	4,212,000	2,147,000		2,147,000
Ontario	1,610,000	1,718,000	1,406,000	1,230,000	*380,000*		*380,000*	1,874,000	1,726,000	1,193,000	1,235,000	*639,000*		*639,000*
Colma	476,000	562,000	451,000	488,000	12,000		12,000	969,000	868,000	889,000	1,038,000	69,000		69,000
Salinas	4,178,000	6,355,000	4,720,000	4,508,000	330,000		330,000	4,346,000	3,999,000	4,250,000	4,473,000	127,000		127,000
Reedley	175,000	864,000	788,000	599,000	424,000	561,000	*137,000*	800,000	1,751,000	1,615,000	1,663,000	863,000	676,000	187,000
Sanger	213,000	513,000	470,000	426,000	213,000	529,000	*316,000*	923,000	1,559,000	1,477,000	1,418,000	495,000	719,000	*224,000*
Selma	439,000	1,081,000	964,000	757,000	318,000	668,000	*350,000*	941,000	2,113,000	1,937,000	2,094,000	1,153,000	1,052,000	101,000
West Fresno	98,000	72,000	50,000	58,000	*40,000*		*40,000*	561,000	621,000	613,000	632,000	71,000		71,000
Monterey	1,514,000	1,430,000	1,289,000	1,693,000	179,000		179,000	2,441,000	2,521,000	2,454,000	2,536,000	95,000		95,000
Wheatland	108,000	158,000	128,000	130,000	22,000		22,000	446,000	408,000	417,000	424,000	*22,000*		*22,000*
Shafter	180,000	199,000	182,000	182,000	2,000		2,000	138,000	126,000	138,000	151,000	13,000		13,000
San Juan	139,000	187,000	220,000	222,000	83,000		83,000	204,000	187,000	210,000	255,000	51,000		51,000
Arcadia	794,000	1,114,000	1,090,000	1,211,000	417,000		417,000	648,000	703,000	807,000	716,000	68,000		68,000
Santa Ana	487,000	2,425,000	2,297,000	2,255,000	1,768,000	1,791,000	*23,000*	522,000	2,235,000	2,119,000	1,900,000	1,378,000	2,043,000	*665,000*
San Fernando	867,000	842,000	689,000	641,000	*226,000*		*226,000*	773,000	893,000	1,025,000	1,054,000	281,000		281,000
Newhall	107,000	119,000	124,000	97,000	*10,000*		*10,000*	276,000	322,000	333,000	385,000	109,000		109,000
Vallejo	1,519,000	1,589,000	1,245,000	1,265,000	*254,000*		*254,000*	3,512,000	3,544,000	3,705,000	3,766,000	254,000		254,000
Sonoma	310,000	331,000	330,000	265,000	*45,000*		*45,000*	899,000	887,000	911,000	902,000	3,000		3,000
Benicia	129,000	143,000	153,000	169,000	40,000		40,000	839,000	845,000	894,000	996,000	157,000		157,000
Fairfax	275,000	256,000	221,000	186,000	*89,000*		*89,000*	275,000	328,000	333,000	371,000	96,000		96,000
Lodi	970,000	815,000	622,000	656,000	*314,000*		*314,000*	1,449,000	1,551,000	1,542,000	1,461,000	12,000		12,000
Arcata	645,000	798,000	511,000	568,000	*77,000*		*77,000*	1,702,000	1,835,000	1,780,000	1,724,000	22,000		22,000
Crescent City	825,000	889,000	925,000	771,000	*54,000*	59,000	*113,000*	1,096,000	1,044,000	1,250,000	1,264,000	168,000	99,000	69,000
St. Helena	367,000	282,000	237,000	216,000	*151,000*		*151,000*	858,000	903,000	876,000	840,000	*18,000*		*18,000*
Tulare	215,000	1,274,000	980,000	711,000	496,000	873,000	*377,000*	302,000	1,610,000	1,572,000	1,433,000	131,000	1,107,000	*976,000*
Lakeport	391,000	359,000	320,000	273,000	*118,000*		*118,000*	395,000	486,000	517,000	470,000	75,000		75,000
Kelseyville	119,000	150,000	143,000	142,000	23,000		23,000	260,000	297,000	348,000	388,000	128,000		128,000
Daly City	926,000	1,312,000	1,477,000	1,434,000	508,000		508,000	665,000	665,000	670,000	717,000	52,000		52,000
Burlingame	1,170,000	1,238,000	1,397,000	1,674,000	504,000		504,000	960,000	1,098,000	1,224,000	1,322,000	362,000		362,000
Palo Alto	499,000	586,000	1,745,000	1,886,000	1,387,000	1,365,000	22,000	576,000	656,000	2,425,000	2,552,000	1,976,000	2,169,000	*193,000*
Mayfield	14,000	152,000	301,000	418,000	277,000		277,000	307,000	323,000	370,000	404,000	97,000		97,000
Healdsburg	1,126,000	979,000	870,000	889,000	*237,000*		*237,000*	1,062,000	994,000	1,103,000	1,106,000	*56,000*		*56,000*
Roseville	945,000	1,343,000	1,207,000	1,119,000	174,000	259,000	*85,000*	1,180,000	1,756,000	1,714,000	1,691,000	511,000	514,000	*3,000*
Redding	881,000	749,000	596,000	455,000	*426,000*		*426,000*	1,642,000	1,614,000	1,599,000	1,537,000	*105,000*		*105,000*
Anderson	187,000	182,000	182,000	115,000	*72,000*		*72,000*	327,000	311,000	314,000	299,000	*28,000*		*28,000*
San Bruno	195,000	285,000	322,000	310,000	115,000		115,000	342,000	347,000	295,000	334,000	*39,000*		*39,000*
Ventura	2,561,000	3,246,000	3,177,000	3,275,000	592,000		592,000	2,793,000	2,993,000	3,298,000	3,806,000	14,000		14,000
Gustine	*523,000*	*537,000*	*559,000*	*507,000*	*16,000*		*16,000*	*528,000*	*574,000*	*583,000*	*580,000*	*52,000*		*52,000*
Dos Palos	*163,000*	*399,000*	*332,000*	*388,000*	*225,000*	*241,000*	*16,000*	*290,000*	*473,000*	*502,000*	*666,000*	*376,000*	*251,000*	*125,000*

Gustine	*523,000*	*537,000*	*539,000*	*507,000*	*16,620*		*16,000*	*528,000*	*574,000*	*583,000*	*580,000*	*52,000*		*52,000*
Dos Palos	*163,000*	*399,000*	*332,000*	*388,000*	*225,000*	*211,000*	*16,000*	*200,000*	*473,000*	*592,000*	*666,000*	*376,000*	*251,000*	*125,000*
Firebaugh	*27,000*	*46,000*	*59,000*	*41,000*	*14,000*		*14,000*	*209,000*	*230,000*	*210,000*	*268,000*	*59,000*		*59,000*
Ukiah	*529,000*	*543,000*	*816,000*	*783,000*	*254,000*		*254,000*	*438,000*	*518,000*	*549,000*	*635,000*	*197,000*		*197,000*
Fort Bragg	*800,000*	*615,000*	*403,000*	*357,000*	*443,000*		*443,000*	*1,090,000*	*1,206,000*	*1,097,000*	*1,019,000*	*49,000*		*49,000*
Fortuna	*321,000*	*246,000*	*230,000*	*215,000*	*106,000*		*106,000*	*548,000*	*529,000*	*470,000*	*507,000*	*41,000*		*41,000*
Yreka	*600,000*	*424,000*	*581,000*	*550,000*	*91,000*	*345,000*	*436,000*	*1,039,000*	*1,108,000*	*1,619,000*	*1,608,000*	*569,000*	*710,000*	*111,000*
Mendocino	91,000	52,000	27,000	32,000	*59,000*		*59,000*	435,000	441,000	413,000	420,000	*15,000*		*15,000*
Soledad	91,000	298,000	267,000	268,000	177,000		177,000	449,000	426,000	477,000	531,000	82,000		82,000
Willows	465,000	651,000	543,000	493,000	28,000		28,000	506,000	763,000	777,000	795,000	199,000		199,000
Winters	279,000	297,000	636,000	590,000	320,000	473,000	*163,000*	310,000	270,000	761,000	585,000	275,000	566,000	*291,000*
Fall Valley	709,000	771,000	751,000	719,000	10,000		10,000	882,000	915,000	847,000	830,000	*52,000*		*52,000*
Pittsburg	328,000	341,000	383,000	483,000	155,000		155,000	507,000	537,000	702,000	762,000	255,000		255,000
Concord	371,000	382,000	364,000	340,000	*31,000*		*31,000*	426,000	511,000	544,000	489,000	63,000		63,000
Los Gatos	1,189,000	906,000	888,000	934,000	*255,000*		*255,000*	1,594,000	1,363,000	1,337,000	1,313,000	*281,000*		*281,000*
Manteca	428,000	685,000	631,000	608,000	180,000		180,000	469,000	517,000	404,000	411,000	*58,000*		*58,000*
Mountain View	739,000	740,000	631,000	659,000	*80,000*		*80,000*	1,056,000	1,042,000	1,005,000	1,021,000	*35,000*		*35,000*
South San Francisco	231,000	370,000	389,000	525,000	295,000		295,000	315,000	420,000	643,000	806,000	491,000		491,000
Corning	207,000	381,000	379,000	421,000	214,000		214,000	475,000	477,000	472,000	500,000	25,000		25,000
Alameda	204,000	2,843,000	2,454,000	1,794,000	1,590,000	2,840,000	*1,250,000*	207,000	3,256,000	3,159,000	3,011,000	2,804,000	3,387,000	*583,000*
San Leandro	221,000	1,272,000	900,000	763,000	542,000	1,322,000	*780,000*	224,000	1,561,000	1,548,000	1,547,000	1,323,000	1,833,000	*510,000*
Santa Maria	225,000	1,189,000	1,124,000	1,594,000	1,369,000	1,015,000	354,000	267,000	1,566,000	1,773,000	2,482,000	2,215,000	1,142,000	1,073,000
Santa Paula	248,000	302,000	198,000	227,000	*21,000*		*21,000*	162,000	288,000	388,000	407,000	245,000		245,000
Yuba City	373,000	1,684,000	2,255,000	2,217,000	1,844,000	1,126,000	718,000	476,000	1,676,000	1,525,000	1,314,000	838,000	1,561,000	*783,000*
Angels Camp	811,000	564,000	409,000	402,000	*409,000*		*409,000*	1,072,000	914,000	894,000	963,000	*109,000*		*109,000*
Alhambra	289,000	290,000	319,000	530,000	*241,000*		*241,000*	408,000	646,000	833,000	1,115,000	707,000		707,000
Pasadena	613,000	1,959,000	1,814,000	2,000,000	1,387,000	1,138,000	249,000	727,000	2,632,000	2,565,000	2,524,000	1,797,000	1,904,000	*107,000*
Glendale	1,028,000	1,503,000	1,712,000	1,687,000	659,000		659,000	1,461,000	1,747,000	1,794,000	1,656,000	195,000		195,000
Brawley	1,014,000	928,000	664,000	746,000	*268,000*		*268,000*	929,000	938,000	1,177,000	1,519,000	590,000		590,000
Escondido	1,747,000	1,493,000	1,216,000	1,323,000	*424,000*		*424,000*	1,314,000	1,240,000	1,212,000	1,092,000	*222,000*		*222,000*
La Jolla	571,000	1,056,000	630,000	719,000	148,000		148,000	1,918,000	1,441,000	1,058,000	1,006,000	*912,000*		*912,000*
National City	749,000	639,000	544,000	488,000	*261,000*		*261,000*	728,000	774,000	714,000	709,000	*19,000*		*19,000*
Lancaster	160,000	184,000	216,000	216,000	56,000		56,000	379,000	446,000	545,000	510,000	131,000		131,000
Palmdale	49,000	44,000	27,000	45,000	*4,000*		*4,000*	103,000	139,000	157,000	120,000	17,000		17,000
Camarillo	78,000	148,000	130,000	155,000	77,000		77,000	101,000	191,000	229,000	264,000	163,000		163,000
Berkeley	63,000	499,000	627,000	696,000	663,000		663,000	112,000	736,000	1,365,000	1,831,000	719,000		719,000
Santa Cruz	1,625,000	1,309,000	1,246,000	1,351,000	*1,274,000*		*1,273,000*	3,413,000	3,406,000	3,212,000	3,205,000	*208,000*		*208,000*
Sausalito	151,000	88,000	144,000	283,000	132,000		132,000	272,000	292,000	406,000	431,000	159,000		159,000
Ocean Beach	2,000	75,000	100,000	152,000	150,000		150,000	40,000	208,000	253,000	266,000	226,000		226,000
Morgan Hill	263,000	242,000	274,000	304,000	41,000		41,000	503,000	472,000	478,000	492,000	*11,000*		*11,000*
Half Moon Bay	481,000	552,000	516,000	477,000	*4,000*		*4,000*	552,000	529,000	575,000	587,000	35,000		35,000
San Rafael	814,000	708,000	579,000	562,000	*252,000*		*252,000*	894,000	952,000	1,074,000	1,171,000	277,000		277,000
San Anselmo	70,000	143,000	269,000	411,000	371,000		371,000	153,000	206,000	281,000	438,000	285,000		285,000
Oceanside	131,000	239,000	296,000	414,000	283,000		283,000	256,000	362,000	459,000	414,000	158,000		158,000
El Centro	3,219,000	2,849,000	2,292,000	2,200,000	*1,019,000*		*1,019,000*	3,065,000	2,734,000	3,178,000	2,844,000	*221,000*		*221,000*
Martinez	133,000	181,000	174,000	225,000	90,000		90,000	263,000	361,000	427,000	477,000	214,000		214,000
San Bernardino	928,000	917,000	835,000	819,000	*109,000*		*109,000*	1,269,000	1,443,000	1,332,000	1,504,000	235,000		235,000
Ojai Valley	535,000	504,000	432,000	503,000	*32,000*		*32,000*	581,000	727,000	700,000	652,000	71,000		71,000
Pescadero	145,000	86,000	63,000	90,000	*55,000*		*55,000*	258,000	275,000	303,000	324,000	66,000		66,000
Fillmore	678,000	635,000	503,000	641,000	*37,000*		*37,000*	770,000	679,000	970,000	626,000	*144,000*		*144,000*
Piru	107,000	112,000	67,000	101,000	*6,000*		*6,000*	138,000	149,000	156,000	155,000	17,000		17,000

Net increase or decrease in deposits and loans from February 28, 1927, to February 28, 1930, inclusive—Continued

	Loans, Feb. 28				Total increase or decrease	Less purchases increased	Net increase or decrease	Deposits, Feb. 28				Total increase or decrease	Less purchases increased	Net increase or decrease
	1927	1928	1929	1930				1927	1928	1929	1930			
Anaheim	$549,000	$757,000	$759,000	$920,000	$371,000		$371,000	$810,000	$856,000	$956,000	$874,000	$64,000		$64,000
Pomona	1,750,000	1,663,000	1,362,000	1,240,000	*510,000*		*510,000*	1,708,000	1,388,000	1,482,000	1,283,000	*425,000*		*425,000*
Torrance	130,000	168,000	209,000	275,000	145,000		145,000	282,000	593,000	591,000	500,000	218,000		218,000
Santa Barbara	1,477,000	3,271,000	2,869,000	2,385,000	908,000	$1,455,000	*547,000*	1,186,000	2,936,000	3,209,000	3,245,000	2,059,000	$1,137,000	922,000
Placentia	317,000	416,000	605,000	544,000	227,000		227,000	437,000	515,000	545,000	507,000	70,000		70,000
Burbank	363,000	440,000	832,000	692,000	329,000	357,000	*28,000*	475,000	545,000	1,037,000	885,000	412,000	547,000	*135,000*
Walnut Creek	616,000	787,000	733,000	701,000	85,000		85,000	601,000	592,000	668,000	720,000	119,000		119,000
Danville	129,000	100,000	75,000	75,000	*54,000*		*54,000*	322,000	340,000	365,000	340,000	24,000		24,000
Monrovia	1,067,000	937,000	981,000	1,021,000	*46,000*		*46,000*	1,295,000	1,236,000	1,038,000	949,000	*346,000*		*346,000*
La Mesa	259,000	320,000	263,000	328,000	69,000		69,000	545,000	442,000	470,000	440,000	*105,000*		*105,000*
Chula Vista	407,000	409,000	419,000	533,000	126,000		126,000	591,000	678,000	687,000	728,000	137,000		137,000
Orange	231,009	113,000	105,000	161,000	*70,000*		*70,000*	341,000	275,000	225,000	272,000	*69,000*		*69,000*
Pleasanton	592,000	556,000	537,000	490,000	*102,000*		*102,000*	979,000	816,000	824,000	856,000	*123,000*		*123,000*
Beverly Hills	739,000	878,000	942,000	1,368,000	609,000		609,000	830,000	1,333,000	1,918,000	2,035,000	1,205,000		1,205,000
Atwater	194,000	547,000	516,000	579,000	385,000		385,000	547,000	699,000	736,000	742,000	205,000		205,000

MR. BACIGALUPI. Exhibit G is a compilation which discloses the very interesting fact that in 100 branches of the Bank of Italy over 70 per cent of the local deposits are lent in the local community. In many of these instances more than 100 per cent of the local deposits are lent in the neighborhood. In these 100 branches the deposits total $279,176,200, and the loans aggregate $277,177,000.

(Exhibit G referred to is here printed in full, as follows:)

EXHIBIT G

Report showing that 100 of our branches have a ratio of 70 per cent or more, of loans to deposits:

		Deposits demand and savings	Loans	Ratio of loans to deposits
				Per cent
1. Bakersfield	2	$4,448,000	$3,319,000	74.62
2. Wasco	4	485,000	718,000	148.04
3. Petaluma	7	3,067,000	2,620,000	85.42
4. Gilroy	11	1,486,000	1,635,000	110.03
5. Hollister	12	2,133,000	2,361,000	110.69
6. Hayward	14	2,846,000	2,058,000	72.31
7. King City	15	783,000	1,362,000	173.94
8. Lompoc	16	949,000	679,000	71.54
9. Los Banos	17	1,093,000	1,213,000	110.97
10. Madera	23	1,499,000	1,204,000	80.32
11. Live Oak	26	237,000	224,000	94.51
12. Rideout	27	2,672,000	2,678,000	100.22
13. Napa	31	2,281,000	2,705,000	118.59
14. Redwood City	32	1,777,000	2,412,000	135.73
15. California, Montgomery Street	33	29,411,000	40,047,000	136.16
16. San Jose main office	35	11,617,000	11,088,000	95.44
17. Twenty-ninth and Mission	37	1,998,000	3,900,000	195.19
18. Sunset	39	862,000	733,000	85.03
19. San Mateo	40	2,853,000	2,448,000	85.80
20. Sunnyvale	41	826,200	619,000	74.93
21. Santa Clara	42	1,883,000	1,730,000	91.87
22. Tracy	48	1,241,000	987,000	79.53
23. Vacaville	51	822,000	635,000	77.26
24. Oakland office	53	13,165,000	13,694,000	104.02
25. Melrose	56	1,481,000	1,234,000	83.32
26. Broadway-Grand	57	1,802,000	1,657,000	91.95
27. Castro-Market	64	1,815,000	1,557,000	85.78
28. Park-Presidio	65	1,379,000	1,593,000	115.51
29. Head office	66	62,177,000	54,431,000	87.54
30. Excelsior	67	2,074,000	2,016,000	97.20
31. Columbus Branch	68	3,829,000	3,372,000	88.06
32. Fillmore-Post	69	1,605,000	1,164,000	72.52
33. Ontario	70	1,235,000	1,230,000	99.59
34. Salinas	72	4,473,000	4,508,000	100.78
35. Shafter	84	151,000	182,000	120.53
36. San Juan	86	255,000	222,000	87.05
37. Geneva-Mission	87	689,000	682,000	98.99
38. Arcadia	88	365,000	548,000	150.14
39. South Hollywood	89	1,222,000	1,040,000	85.11
40. Santa Ana	90	1,900,000	2,255,000	118.68
41. Union-Webster	97	1,112,000	815,000	73.29
42. Divisad'o-Hayes	98	662,000	506,000	76.44
43. North Broadway Branch	100	366,000	265,000	72.40
44. Daly City	115	717,000	1,433,000	199.86
45. Burlingame	116	1,322,000	1,673,000	126.55
46. Palo Alto-Stanford	117	2,552,000	1,885,000	73.86
47. May-Stanford	118	403,000	418,000	103.72
48. Healdsburg	119	1,006,000	888,000	88.36
49. San Bruno	123	350,000	310,000	88.31
50. Gustine	125	579,000	507,000	87.56
51. Ukiah	128	635,000	783,000	123.30
52. Winters	138	585,000	599,000	102.40
53. Mill Valley	139	829,000	719,000	86.70
54. Manteca	143	410,000	608,000	148.30
55. Corning	146	500,000	421,000	84.20
56. Yuba City	152	1,314,000	2,216,000	168.72
57. Baldwin Avenue	153	351,000	529,000	150.70
58. Commercial & Savings Bank	154	10,333,000	9,656,000	93.43
59. East Side	155	395,000	334,000	84.55
60. East San Jose	156	283,000	280,000	98.94
61. South First Street	158	320,000	234,000	73.20
62. Pasadena, main office	161	2,068,000	1,534,000	74.17

		Deposits demand and savings	Loans	Ratio of loans to deposits
				Per cent
63. Glendale	162	$1,118,000	$1,280,000	114.57
64. Logan Heights	165	424,000	325,000	76.70
65. Coronado	168	1,075,000	808,000	75.05
66. Escondido	169	1,092,000	1,323,000	121.04
67. La Jolla	170	1,005,000	718,000	71.47
68. Half Moon Bay	181	587,000	476,000	81.25
69. San Anselmo	183	437,000	441,000	100.90
70. Oceanside	184	413,000	413,000	100.00
71. Union office	187	214,000	271,000	126.50
72. Imperial Valley	188	2,843,000	2,199,000	77.35
73. University	194	1,512,000	1,667,000	110.17
74. Ojai Valley	197	651,000	502,000	75.84
75. Fillmore	199	626,000	640,000	102.40
76. Hill Street office	201	3,384,000	5,840,000	172.58
77. Wilshire-Western	202	1,427,000	1,461,000	102.38
78. Fullerton	207	1,135,000	1,037,000	91.36
79. Anaheim	209	874,000	920,000	105.26
80. Pomona	210	1,283,000	1,239,000	96.57
81. Gateway	212	538,000	406,000	75.46
82. Santa Barbara main office	214	1,469,000	1,157,000	78.76
83. Placentia	216	506,000	544,000	107.30
84. Burbank	217	885,000	691,000	78.19
85. Van Nuys	220	375,000	274,000	78.19
86. San Ramon Valley	224	719,000	700,000	97.36
87. Commercial Bank	226	455,000	465,000	102.19
88. Monrovia	230	949,000	1,020,000	107.59
89. La Mesa	231	440,000	327,000	74.31
90. Chula Vista	232	727,000	533,000	73.31
91. Elmhurst	242	421,000	300,000	71.25
92. Beverly Hills	245	1,547,000	1,169,000	75.56
93. Atwater	248	742,000	578,000	77.90
94. Emeryville	249	371,000	261,000	70.35
95. Oakland Branch	251	37,193,000	35,080,000	94.31
96. Parkside	258	162,000	143,000	88.88
97. Commercial National office	301	2,883,000	2,522,000	87.48
98. Fourth and Spring	310	4,068,000	3,552,000	87.31
99. Forty-eighth and Western	316	328,000	240,000	72.94
100. Ocean-Faxon	252	320,000	282,000	87.85

The ratio of loans to deposits for the entire Bank of Italy system is 6195 per cent.

Mr. BACIGALUPI. Exhibit H is an itemized list of loans made by branches in excess of the limits of the predecessor banks. Such loans total $43,867,229.56. This exhibit we request be treated as confidential, inasmuch as it contains the names of the borrowers and their business should naturally be considered as a private matter.

And this is the exhibit, Mr. Chairman, which we have decided should be filed with you for ready reference by the members of the committee. The exhibit shows the community. It shows the loaning limit of the banks we acquired. It shows the name of the borrower, the purpose for which the loan is made—for instance, cattle, lumber, department stores, and so forth; it shows the amount of the accommodation he is now enjoying from the Bank of Italy and the total for that community of excess loans.

Mr. FORT. Would it not be possible to have that printed in some form with the names left out?

Mr. BACIGALUPI. I think so. I think it may be easy to leave the name of the borrower out.

Mr. FORT. And possibly the line of business.

Mr. BACIGALUPI. And just show the amount of the loan?

Mr. FORT. The amount would not make any difference if you did not have the name.

Mr. BACIGALUPI. That is true.

Mr. FORT. It might be an interesting exhibit not only to this committee, but to the great number of bankers and others who are studying this proposition.

Mr. STRONG. Suppose you leave out just such information as will prevent disclosing the borrower and put the rest of the information into the record?

The CHAIRMAN. Might I suggest here that it is going to be a very difficult thing to do that. If you show this by towns, in the hands of some one who wants to gain knowledge in regard to these loans, they could very easily pick out the individuals. It seems to me the only way to do it is to have it printed and circulated privately to the members of the committee.

Mr. BACIGALUPI. For the purposes of general enlightenment of the members of the committee.

Mr. FENN. Since it is a confidential communication, why not treat it as a confidential communication?

Mr. FORT. You can take the name of the man, the town and the business out and it will still carry very interesting information; for instance, it might show that in town A a certain individual has a borrowing limit of $5,100, and so forth.

The mere reference to the contrast between the former borrowing limit and the present loans is a thing that I think is extremely valuable information, without any reference to the town or the name of the individual.

The CHAIRMAN. Mr. Bacigalupi, would there be any objection if we designate these towns by numbers and designate the lines of business? They could go in just the same; that is, as cattle, lumber, and so forth.

Mr. BACIGALUPI. Yes; they would not need know the town.

The CHAIRMAN. And designate the borrowers by letters?

Mr. BACIGALUPI. Yes.

The CHAIRMAN. There would be no objection to that going into the record?

Mr. BACIGALUPI. Not at all, so far as we are concerned.

The CHAIRMAN. I am going to suggest, then, that this information should be reported as to the towns by numbers and as to the borrowers by letters, giving the number of accounts in each community and the balance of the information be inserted in the record, so as not to disclose confidential references here as to the names of borrowers. It is very valuable information which should go into these hearings.

(Exhibit H, as redrafted, is here printed in full, as follows:)

EXHIBIT "H"

Examples of loans granted by Bank of Italy, N. T. & S. A., in excess of legal limit permitted to former independent bank

City	Former maximum loan	Borrower	Business	Present credit	Total
No. 1	$5,000.00	Mr. A	Cattle	$8,500.00	$8,500.00
No. 2	16,500.00	Mr. A	do	88,000.00	
		Mr. B		20,000.00	
					108,000.00
No. 3	20,000.00	Mr. A	Lumber	225,000.00	225,000.00
No. 4	5,500.00	Mr. A	Department store	50,000.00	
		Mr. B		15,000.00	
					65,000.00
No. 5	42,500.00	Mr. A	Butcher	80,000.00	
		Mr. B	Sheep and farming	98,968.10	
					178,968.10
No. 6	9,000.00	Mr. A	Department store	20,000.00	20,000.00
No. 7	9,000.00	Mr. A	Sheep	45,000.00	
		Mr. B	do	42,500.00	
		Mr. C	Sheep and farming	65,000.00	
					152,500.00
No. 8	33,000.00	Mr. A	Contractor	120,000.00	120,000.00
No. 9	11,500.00	Mr. A	Rancher	22,500.00	
		Mr. B	Tobacco	13,280.00	
		Mr. C	Rancher	15,000.00	
		Mr. D	Attorney	12,000.00	
		Mr. E	Lumber	36,089.64	
		Mr. F	Cattle	12,000.00	
					108,879.64
No. 10	6,500.00	Mr. A	Retired	13,300.00	
		Mr. B		12,767.00	
		Mr. C		11,000.00	
		Mr. D		10,000.00	
		Mr. E	Automobiles	11,761.00	
		Mr. F	do	10,285.00	
					69,113.00
No. 11		Mr. A	Department store	75,000.00	
		Mr. B	Rancher	495,000.00	
		Mr. C	Canner	566,000.00	
		Mr. D	Cotton gin	100,000.00	
		Mr. E		140,000.00	
		Mr. F	Rancher	325,000.00	
		Mr. G		110,000.00	
		Mr. H	Rancher	110,000.00	
		Mr. I	Cooperative	595,000.00	
		Mr. J	do	500,000.00	
		Mr. K		322,000.00	
		Mr. L	Real estate	250,000.00	
					3,588,000.00
No. 12	$11,000.00	Mr. A	Cattle	108,000.00	
		Mr. B	Orchardist	12,550.00	
		Mr. C	Dairyman	29,000.00	
		Mr. D	Automobiles	20,835.00	
		Mr. E	Doctor	25,000.00	
		Mr. F	Hardware	13,000.00	
		Mr. G	Orchardist	30,000.00	
		Mr. H	Canners	836,000.00	
		Mr. I	Orchardist	16,140.00	
		Mr. J	do	54,700.00	
		Mr. K	Cattleman	16,800.00	
		Mr. L	Orchardist	20,500.00	
		Mr. M	Loans	23,000.00	
		Mr. N	Dairyman	16,800.00	
		Mr. O	Seed grower	140,000.00	
		Mr. P		17,800.00	
		Mr. Q	Orchardist	20,500.00	
					1,400,625.00
		Mr. A	Rancher	13,000.00	
		Mr. B	do	12,100.00	
					25,100.00
No. 13	7,000.00	Mr. A	Truck gardening	14,000.00	
		Mr. B	Produce	14,000.00	
					28,000.00
No. 14	15,000.00	Mr. A	Finance	100,000.00	
		Mr. B	Grain rancher	26,000.00	
		Mr. C	Tractors	50,000.00	
		Mr. D	Rancher	53,000.00	
		Mr. E	Sheep and cattle	113,000.00	
					342,000.00

Examples of loans granted by Bank of Italy, N. T. & S. A., in excess of legal limit permitted to former independent bank—Continued

City	Former maximum loan	Borrower	Business	Present credit	Total
No. 15	$56,500.00	Mr. A	Hay and grain	$162,000.00	$162,000.00
No. 16	12,229.00	Mr. A	Farmer	13,500.00	
		Mr. B	Dairyman	38,200.00	
		Mr. C	do	36,698.00	
		Mr. D	do	18,500.00	
		Mr. E	Hotel	28,000.00	
		Mr. F	Farmer	18,000.00	
		Mr. G	do	13,900.00	
		Mr. H	do	21,000.00	
		Mr. I	Dairyman	21,200.00	
		Mr. J	Farmer	13,800.00	
		Mr. K	do	12,950.00	
		Mr. L	Sheep	338,107.00	
		Mr. M	do	142,000.00	
		Mr. N	Farmer	16,000.00	
		Mr. O	Sheep	79,366.00	
		Mr. P	Cattle	18,328.00	
		Mr. Q	Farmer	20,000.00	
		Mr. R	do	35,000.00	
		Mr. S	Dairyman	14,000.00	
		Mr. T	Farmer	13,300.00	
		Mr. U	do	23,000.00	
		Mr. V	Dairyman	20,000.00	
		Mr. W	Doctor	18,000.00	
		Mr. X	Farmer	17,000.00	
		Mr. Y	Dairyman	15,100.00	
		Mr. Z	Capitalist	17,186.00	
		Mr. Aa	Farmer	23,000.00	
		Mr. Bb	Insurance	12,500.00	
		Mr. Cc	Dairyman	20,000.00	
		Mr. Dd	Cattleman	36,400.00	
		Mr. Ee	Farmer	15,000.00	
		Mr. Ff	Cattleman	120,000.00	
		Mr. Gg	do	30,000.00	
		Mr. Hh	Dairyman	29,000.00	
		Mr. Ii		20,000.00	
		Mr. Jj	Farmer	42,000.00	
		Mt. Kk	Dairyman	20,000.00	
		Mr. Ll	Theater	25,000.00	
		Mr. Mm	Farmer	13,000.00	
		Mr. Nn	Canning	13,000.00	
		Mr. Oo	Cattleman	53,600.00	
		Mr. Pp	do	12,515.00	
		Mr. Qq	Farmer	13,000.00	
		Mr. Rr	do	37,600.00	
		Mr. Ss	Realtor	65,000.00	
					1,622,150.00
No. 17	$12,500.00	Mr. A	Lumber	25,000.00	
		Mr. B	Cooperative	18,000.00	
		Mr. C	do	17,000.00	
		Mr. D	Resort	42,000.00	
					102,000.00
No. 18	6,500.00	Mr. A	Farmer	16,000.00	
		Mr. B	Fuel and feed	8,550.00	
		Mr. C	Real estate	12,600.00	
		Mr. D		11,700.00	
		Mr. E	Livestock	63,000.00	
					111,850.00
No. 19	32,000.00	Mr. A	Farmer	33,000.00	33,000.00
No. 20	17,500.00	Mr. A (also borrowers at Brawley branch).	Cattle	65,000.00	65,000.00
		Total credit		315,000.00	
No. 21	17,000.00	Mr. A	Cattleman	56,610.00	
		Mr. B	Doctor	30,500.00	
		Mr. C	Lumber	35,000.00	
		Mr. D	Sheep	38,500.00	
		Mr. E	do	36,500.00	
		Mr. F	Lodge	49,000.00	
		Mr. G	Sheep	71,284.95	
		Mr. H	Real estate	125,000.00	
		Mr. I	Hotel	49,660.00	
		Mr. J	Cattle and sheep	132,500.00	
					624,554.95
No. 22	7,000.00	Mr. A	Retired	50,000.00	
		Mr. B	Dry goods	45,000.00	
		Mr. C	Hair-tonic manufacturer.	46,000.00	
		Mr. D	Capitalist	58,000.00	
					199,000.00

Examples of loans granted by Bank of Italy, N. T. & S. A., in excess of legal limit permitted to former independent bank—Continued

City	Former maximum loan	Borrower	Business	Present credit	Total
No. 23	$10,000.00	Mr. A	Grain broker	$20,000.00	
		Mr. B	Tractor dealer	20,000.00	
		Mr. C	Farmer	65,000.00	
		Mr. D	do	65,000.00	
		Mr. E	do	25,000.00	
		Mr. F	do	25,000.00	
					$220,000.00
No. 24	10,000.00	Mr. A	Rancher	50,000.00	
		Mr. B	Grain and feed	50,000.00	
					100,000.00
No. 25	45,000.00	Mr. A	Orchardist	50,000.00	
		Mr. B	Realtor	63,000.00	
		Mr. C	Wholesale grocer	200,000.00	
		Mr. D	Rancher	63,000.00	
		Mr. E	Tractors	50,000.00	
		Mr. F	Realtor	50,000.00	
		Mr. G	Automobiles	75,000.00	
		Mr. H	Rancher	50,000.00	
					601,000.00
No. 26	6,250.00	Mr. A	Canners	235,000.00	235,000.00
No. 27	11,000.00	do	Lumber	45,000.00	
	19,850.00	Mr. B	Livestock	150,000.00	
					195,000.00
No. 28	10,500.00	Mr. A	Automobiles	15,000.00	15,000.00
No. 29	18,000.00	do	Chain store manager	275,000.00	
		Mr. B	Tractors	75,000.00	
					350,000.00
No. 30	12,500.00	Mr. A	Capitalist	32,000.00	
		Mr. B	Hotel	30,000.00	
		Mr. C	Automobiles	70,000.00	
		Mr. D	Garage	35,000.00	
		Mr. E	Farmer	48,000.00	
					215,000.00
No. 31	6,500.00	Mr. A		9,700.00	9,700.00
No. 32	15,000.00	do	Building materials	35,000.00	35,000.00
No. 33	10,000.00	do		250,000.00	
		Mr. B	Lumber	250,000.00	
		Mr. C	Shoe manufacturers	41,000.00	
		Mr. D	State farm	54,800.00	
		Mr. E	Capitalist	28,350.00	
		Mr. F	Nurseyman	26,500.00	
		Mr. G	Farmer and canner	27,000.00	
		Mr. H	Butcher	12,700.00	
		Mr. I		22,000.00	
		Mr. J		21,000.00	
		Mr. K	Theater	36,000.00	
					769,350.00
No. 34	49,000.00	Mr. A	Canner	1,325,000.00	
		Mr. B	Furniture	270,000.00	
		Mr. C	Automobiles	50,000.00	
		Mr. D	Cattle and sheep	50,000.00	
		Mr. E	Shipbuilder	700,000.00	
		Mr. F	Jewelry	65,000.00	
		Mr. G	Wholesale meats	635,000.00	
		Mr. H	Chain grocery	800,000.00	
		Mr. I	Wholesale meats	70,000.00	
		Mr. J	Chain grocery	1,000,000.00	
		Mr. K	Clothing	370,000.00	
		Mr. L	Hotel	141,000.00	
		Mr. M	do	98,000.00	
		Mr. N	Realtor	1,050,000.00	
		Mr. O		150,000.00	
		Mr. P		77,000.00	
		Mr. Q		119,000.00	
		Mr. R		67,000.00	
		Mr. S		95,000.00	
		Mr. T		111,700.00	
		Mr. U		350,000.00	
		Mr. V	Automobiles	100,000.00	
		Mr. W	Bonds	700,000.00	
		Mr. X	do	250,000.00	
		Mr. Y		51,000.00	
		Mr. Z		63,000.00	
		Mr. Aa	Automobiles	60,000.00	
		Mr. Bb	Contractor	350,000.00	
		Mr Cc	Hospital	675,000.00	
		Mr. Dd	Realtor	500,000.00	
		Mr. Ee		250,000.00	
		Mr. Ff	Realtor	200,000.00	

Examples of loans granted by Bank of Italy, N. T. & S. A., in excess of legal limit permitted to former independent bank—Continued

City	Former maximum loan	Borrower	Business	Present credit	Total
No. 34	$49,000.00	Mr. Gg		$210,000.00	
		Mr. Hh	Hotel	250,000.00	
		Mr. Ii		120,000.00	$11,372,700.00
No. 35	47,700.00	Mr. A	Lumber	500,000.00	
		Mr. B	do	300,000.00	
		Mr. C	Cattle	120,000.00	920,000.00
No. 36	6,250.00	Stanford Bank			
	25,000.00	First National Bank			
		Mr. A	Department store	100,000.00	
		Mr. B	Capitalist	62,300.00	
		Mr. C	Lawyer	14,000.00	
		Mr. D	Building and loan	70,000.00	245,300.00
No. 37	10,000.00	Mr. A	Garage	11,500.00	
		Mr. B	Farmer	50,000.00	
		Mr. C	Hotel	80,000.00	
		Mr. D	Fraternal	40,000.00	
		Mr. E	Orachrd	22,000.00	
		Mr. F	Grain merchant	17,000.00	
		Mr. G	Farming	11,500.00	
		Mr. H	Orchard	20,000.00	
		Mr. I	Farming	15,325.00	
		Mr. J	Cattle and farming	21,000.00	
		Mr. K	Dairyman	13,000.00	
		Mr. L	Orchardist	18,000.00	
		Mr. M	Garage and hotel	22,000.00	341,325.00
No. 38		Mr. A	Millers	300,000.00	
		Mr. B	do	250,000.00	
		Mr. C	Baby chicks	250,000.00	
		Mr. D		75,500.00	
		Mr. E	Baby chicks	23,500.00	
		Mr. F	Produce	25,000.00	
		Mr. G		35,000.00	
		Mr. H		49,985.00	
		Mr. I		75,000.00	1,083,985.00
No. 39	8,000.00	Mr. A	Contractor	13,500.00	13,500.00
No. 40	7,750.00	Mr. A	Stock raiser	12,000.00	
		Mr. B	Hay and grain	13,000.00	
		Mr. C	Contractor	10,000.00	
		Mr. D	Livestock	11,000.00	
		Mr. E		21,000.00	
		Mr. F		30,000.00	97,000.00
No. 41	12,500.00	Mr. A	Contractor	15,000.00	
		Mr. B	Cattle	60,000.00	
		Mr. C	do	20,000.00	95,000.00
No. 42	8,000.00	Mr. A	Capitalist	22,000.00	
		Mr. B	do	34,700.00	56,700.00
No. 43	12,500.00	Mr. A	Rancher	49,000.00	
		Mr. B	do	17,500.00	
		Mr. C	do	16,000.00	
		Mr. D	do	14,500.00	
		Mr. E	do	15,000.00	
		Mr. F	Lumber and rancher	13,900.00	125,900.00
No. 44	16,000.00	Mr. A	Oil manufacturer	16,000.00	16,000.00
No. 45	5,600.00	Mr. A	Sheep	75,000.00	
		Mr. B	Capitalist	57,000.00	
		Mr. C	Sheep	45,000.00	
		Mr. D	Automobiles	51,000.00	
		Mr. E	Hardware and ice	19,535.00	247,535.00
No. 46	30,000.00	Mr. A	Cattle	69,000.00	
		Mr. B	Dairyman and farmer	188,000.00	
		Mr. C	Farmer	47,500.00	
		Mrl D	Cattle	65,000.00	
		Mr. E	Rancher	42,385,00	
		Mr. F	Realtor and insurance	31,000.00	
		Mr. G	Farmer	31,000.00	
		Mr. H	Dairyman	37,000.00	
		Mr. I	Farmer	90,000.00	
		Mr. J	Dairyman	75,783.00	
		Mr. K	Farmer	50,500.00	
		Mr. L	Cattle	61,500.00	
		Mr. M	Rancher	47,841.00	836,509.00

Examples of loans granted by Bank of Italy, N. T. & S. A., in excess of legal limit permitted to former independent bank—Continued

City	Former maximum loan	Borrower	Business	Present credit	Total
No. 47	$10,000.00	Mr. A	Realtor	$30,500.00	
		Mr. B	Capitalist	23,000.00	
		Mr. C	Trucking contractor	15,000.00	
		Mr. D	do	40,500.00	
					$109,000.00
No. 48		Mr. A	Hotel	10,000.00	
		Mr. B	Cattlemen	20,000.00	
		Mr. C	Automobiles	10,000.00	
		Mr. D	Box manufacturer	9,000.00	
		Mr. E	Cattleman	11,000.00	
		Mr. F	Cooperative	40,000.00	
		Mr. G	do	10,000.00	
		Mr. H		10,000.00	
					120,000.00
No. 49	60,000.00	Mr. A	Manufacturer	250,000.00	
		Mr. B	Canner	2,790,000.00	
		Mr. C	Canner and rancher	1,481,000.00	
		Mr. D	do	680,000.00	
		Mr. E	Cooperative	3,000,000.00	
		Mr. F	Canner	225,000.00	
		Mr. G	Canners and rancher	194,000.00	
		Mr. H	Dried fruits	119,000.00	
		Mr. I	Canner	111,000.00	
		Mr. J	Dried fruit broker	213,000.00	
		Mr. K	Dried fruits	150,000.00	
		Mr. L	Cattlemen	166,000.00	
		Mr. M	Building and loan	1,000,000.00	
					10,379,000.00
No. 50		Mr. A	Capitalist	20,000.00	
		Mr. B	Contractor	18,500.00	
		Mr. C	Tires	15,191.72	
		Mr. D	Dairyman	21,350.00	
		Mr. E	Farmer	14,939.05	
		Mr. F	Butcher	17,330.00	
		Mr. G	Cattleman	21,952.00	
		Mr. H	Farmer	29,800.00	
		Mr. I	Merchant	49,000.00	
		Mr. J	Rancher	33,237.33	
		Mr. K	do	55,500.00	
		Mr. L	Apartments	23,500.00	
		Mr. M	Capitalist	87,500.00	
					407,800.00
No. 51		Mr. A	Feed and fuel	100,000.00	
		Mr. B	Department store	100,000.00	
		Mr. C	Doctor	32,000.00	
		Mr. D	Lumber	30,000.00	
					262,000.00
No. 52	22,500.00	Mr. A	Road contractor	32,000.00	32,000.00
No. 53		Mr. A	Millwork	100,000.00	
		Mr. B	Preserved cherries	75,000.00	
		Mr. C	Tanner	60,000.00	
		Mr. D	Rancher	25,000.00	
		Mr. E	Orchardist	160,000.00	
		Mr. F	Seed store and ranching.	59,900.00	
					479,900.00
No. 54	20,000.00	Mr. A	General merchandise	50,000.00	
		Mr. B	Paving contractor	24,500.00	
		Mr. C	Finance	30,000.00	
		Mr. D	Lawyer	33,000.00	
		Mr. E	Finance	25,000.00	
		Mr. F	Butcher	30,000.00	
		Mr. G	Lumber	40,000.00	
					232,500.00
No. 55	20,000.00	Mr. A	Automobiles	171,898.73	
		Mr. B	do	43,553.46	
		Mr. C	do	113,466.33	
		Mr. D	Farming	37,000.00	
		Mr. E	Realtor and insurance	82,177.50	
		Mr. F	Contractor	30,000.00	
		Mr. G	Capitalist	36,000.00	
		Mr. H	Theater	55,000.00	
		Mr. I		23,500.00	
		Mr. J		33,800.00	
		Mr. K		25,000.00	
					651,396.02
No. 56	5,500.00	Mr. A	Capitalist	12,900.00	
		Mr. B	Boat builder	6,500.00	
		Mr. C	Railroading	7,000.00	
					26,400.00

Examples of loans granted by Bank of Italy, N. T. & S. A., in excess of legal limit permitted to former independent bank—Continued

City	Former maximum loan	Borrowe.	Business	Present credit	Total
No. 57	$10,000.00	Mr. A	Rancher	$43,000.00	
		Mr. B		45,000.00	
		Mr. C	Rancher	35,000.00	
		Mr. D	do	14,500.00	
		Mr. E	do	17,000.00	
		Mr. F	do	19,800.00	
		Mr. G	do	15,500.00	
No. 58	12,650.00	Mr. A	do	35,000.00	$190,800.00
No. 59	15,000.00	San Joaquin Valley Bank			35,000.00
	42,500.00	City Bank			
	83,750.00	Commercial & Savings Bank.			
		Mr. A	Druggist	78,000.00	
		Mr. B	Livestock	70,000.00	
		Mr. C	do	125,000.00	
		Mr. D	Beans and grain	750,000.00	
		Mr. E	Produce	200,000.00	
		Mr. F	Doctor	110,000.00	
No. 60	12,700.00	Mr. A	Dairyman	23,000.00	1,333,000.00
					23,000.00
No. 61	15,000.00	First National			
	7,500.00	Farmers State Bank			
		Mr. A	Automobiles	20,000.00	
		Mr. B	Cattle	30,000.00	
		Mr. C	do	17,000.00	
No. 62	7,500.00	Mr. A	Rancher	28,000.00	67,000.00
		Mr. B	do	30,000.00	
		Mr. C	Rancher and packer	48,000.00	
		Mr. D	Rancher	22,500.00	
		Mr. E	do	14,500.00	
		Mr. F	do	12,000.00	
		Mr. G	do	14,300.00	
		Mr. H	do	19,000.00	
		Mr. I	do	13,000.00	
		Mr. J	Cooperative purchasing.	17,000.00	
		Mr. K		21,000.00	
No. 63	9,400.00	Mr. A	Livestock	30,000.00	239,300.00
		Mr. B	Rancher	21,000.00	
No. 64	9,000.00	Mr. A	Contractor	15,000.00	51,000.00
		Mr. B	Realtor	10,000.00	
No. 65	20,000.00	M. A	Capitalist	31,700.00	25,000.00
		Mr. B	do	31,478.00	
		Mr. C		248,000.00	
		Mr. D	General merchandise	25,000.00	
		Mr. E	Transportation	30,000.00	
		Mr. F	Merchant	35,000.00	
		Mr. G	Cattle	26,800.00	
		Mr. H	Contractor	70,000.00	
		Mr. I	Orchardist and shipper.	25,000.00	
		Mr. J	do	71,763.00	
		Mr. K	Ice and storage	35,000.00	
		Mr. L	Baker	22,000.00	
		Mr. M	Orchardist	36,000.00	
		Mr. N	Orchardist and shipper.	37,000.00	
		Mr. O	Merchant	31,647.75	
		Mr. P	Laundry	31,000.00	
		Mr. Q	Rock and gravel	75,000.00	
No. 66	18,500.00	Mr. A	Cattle and sheep	120,000.00	862,388.75
		Mr. B	do	68,500.00	
No. 67	10,700.00	Mr. A	Farmer	23,000.00	188,500.00
		Mr. B		15,400.00	
No. 68	25,000.00	Mr. A	Grain broker	55,000.00	38,400.00
					55,000.00

Examples of loans granted by Bank of Italy, N. T. & S. A., in excess of legal limit permitted to former independent bank—Continued

City	Former maximum loan	Borrower	Business	Present credit	Total
No. 69	$20,000.00	Siskiyou Co. Bank			
	9,500.00	First National Bank			
		Mr. A	Cattle	$21,500.00	
		Mr. B	do	80,000.00	
		Mr. C	do	50,000.00	
		Mr. D	Cattle and ranching	20,450.00	
		Mr. E	do	11,650.00	
					$183,600.00
No. 70	12,500.00	Mr. A	Orchardist	175,000.00	
		Mr. B	Orchardist and canner	150,000.00	
		Mr. C	Miller	25,000.00	
					350,000.00
		Total			43,867,229.56

Mr. BACIGALUPI. Exhibit I sets forth the real-estate loans made in California by Bankitaly Mortgage Co., California Joint Stock Land Bank, Bankitaly, Agricultural Credit Corporation, and the trust department of the Bank of Italy National Trust and Savings Association in participation mortgage trusts. These loans total $44,794,830.07.

(Exhibit I, referred to, is here printed in full, as follows:)

EXHIBIT I

Active loans of the California Joint Stock Land Bank of San Francisco in the State of California as of March 19, 1930

County	Number of loans	Amount	County	Number of loans	Amount
Alameda	2	$47,500	Placer	3	$35,500
Butte	28	503,700	Riverside	45	318,700
Colusa	7	146,500	Sacramento	13	291,500
Contra Costa	5	63,000	San Benito	27	722,650
Del Norte	5	108,500	San Bernardino	85	590,200
El Dorado	3	40,500	San Diego	18	255,500
Fresno	83	776,050	San Joaquin	26	478,500
Glenn	14	210,050	San Luis Obispo	2	6,800
Humboldt	6	48,000	Santa Barbara	8	163,000
Kern	64	551,900	Santa Clara	30	601,000
Kings	36	708,500	Santa Cruz	4	73,000
Lake	1	10,000	Shasta	1	20,000
Lassen	2	35,000	Siskiyou	23	538,500
Los Angeles	16	206,500	Solano	43	577,500
Madera	6	50,000	Sonoma	8	127,750
Mariposa	1	35,000	Stanislaus	41	623,900
Merced	22	304,100	Sutter	34	592,300
Modoc	15	292,500	Tehama	14	266,800
Mono	2	45,000	Tulare	39	379,500
Mendocino	8	193,500	Ventura	25	458,500
Monterey	28	781,000	Yolo	16	336,300
Napa	6	186,500	Yuba	6	124,500
Nevada	2	70,000			
Orange	19	183,500	Total	892	13,178,700

Bankitaly Mortgage Co. loans, March 12, 1930

Alameda		$372,585.47
Bakersfield:		
Bakersfield	$78,691.68	
East Bakersfield	6,735.00	
		85,426.68
Berkeley		95,139.15
Burlingame		306,102.89
Eagle Rock		12,943.06
Emeryville		2,022.33
Fresno		55,478.70
Fullerton		16,708.95
Glendale:		
Gateway	22,242.92	
Glendale	4,841.19	
		27,084.11
Highland Park		8,902.53
Hollywood:		
Hollywood	4,000.00	
Hollywood-Wilcox	34,228.30	
		38,228.30
La Jolla		25,650.00
Long Beach:		
American Avenue	74,690.00	
Long Beach office	306,741.54	
Redondo and Seventh	3,250.00	
Seventh and Pine Avenue	28,900.00	
Union State	31,950.00	
		445,531.54
Los Angeles:		
Broadway office	2,024,825.00	
Brooklyn-Soto	4,200.00	
Commercial National	42,340.00	
Forty-eighth and Western	3,500.00	
Fourth and Spring	32,270.00	
International office	1,997,500.00	
Lincoln Heights	2,017.44	
Main at Pico	2,540.00	
Main office	3,469,800.94	
Pico Hoover	14,000.00	
Seventh and Central	13,800.00	
Vermont Melbourne	9,240.00	
Wilshire Western	18,600.00	
		7,634,633.80
Los Gatos		53,000.03
Monrovia		22,875.80
North Hollywood		880.00
Oakland:		
Broadway Grand	$17,089.86	
College Avenue	28,448.65	
Twenty-third Avenue	30,600.00	
Elmhurst	1,200.00	
Fruitvale	350,131.71	
Seventy-fourth and Foothill	31,226.23	
Melrose	58,399.07	
North Broadway	59,505.77	
Eleventh and Broadway	2,270,781.63	
San Pablo Avenue	18,844.61	
Telegraph Avenue	7,000.00	
		2,873,227.53
Pasadena		5,170.45
Pomona		20,329.27
Redondo Beach		21,063.53

Sacramento:		
Sacramento Main	$66, 542. 21	
Sixth and K branch	107, 573. 09	
		$174, 115. 30
San Diego:		
San Diego office	$2, 171, 484. 71	
University	199, 500. 00	
		2, 370, 984. 71
San Fernando		3, 025. 00
San Francisco:		
Bay View	$14, 897. 45	
California Montgomery	1, 937, 531. 80	
Clay Montgomery	47, 197. 18	
Columbus Avenue	192, 415. 00	
Day and Nite	501, 186. 41	
Divisadero-Hayes	5, 802. 56	
Elcelsior	161, 164. 38	
Glenn Park	5, 828. 06	
Haight-Clayton	2, 802. 73	
Head Office	2, 794, 456. 35	
Market Geary	120, 650. 00	
McAllister Fillmore	15, 700. 00	
Pierce Chestnut	12, 500. 00	
Polk Van Ness	25, 725. 00	
Twenty-ninth and Mission	779, 111. 75	
Union Webster	32, 200. 00	
		6, 649, 168. 67
San Jose		507, 517. 32
San Leandro		7, 700. 00
San Mateo		394, 885. 00
San Pedro		3, 800. 00
Santa Barbara:		
Estado-Cota	$244, 238. 28	
Santa Barbara Main	228, 614. 04	
		472, 852. 32
Santa Monica		3, 300. 00
Sawtelle		3, 360. 00
Stockton:		
Hunter Square	$247, 542. 90	
East Side branch	3, 750. 00	
Stockton Main	728, 670. 74	
		979, 963. 64
		23, 693, 655. 63

Bankitaly Agricultural Credit Corporation loans secured by chattel mortgages on sheep and cattle as of March 19, 1930—Classified by counties in California

Livestock located	Amount	Livestock located	Amount
Alameda	$200, 962. 50	Riverside	$23, 492. 94
Butte	18, 638. 91	Sacramento	14, 000. 00
Calaveras	2, 300. 00	San Benito	658, 310. 25
Colusa	17, 998. 90	San Bernardino	5, 000. 00
El Dorado	10, 000. 00	San Joaquin	54, 450. 00
Fresno	158, 737. 60	San Mateo	8, 500. 00
Glenn	45, 000. 00	Santa Barbara	243, 964. 77
Imperial	720, 357. 76	Santa Clara	57, 026. 59
Kern	70, 751. 21	Solano	44, 800. 00
Kings	87, 000. 00	Sonoma	4, 000. 00
Los Angeles	72, 080. 00	Stanislaus	46, 188. 81
Madera	20, 000. 00	Tehama	363, 569. 28
Marin	31, 900. 00	Tulare	108, 949. 68
Mariposa	51, 453. 50	Ventura	31, 970. 00
Mendocino	2, 500. 00	Yolo	44, 849. 90
Merced	166, 869. 61		
Monterey	165, 509. 97		3, 551, 132. 18

Participation mortgage trusts

Name	Source of loan	Amount	Amount of trust funds invested
Hale Bros. Realty Co.	Head office	$500,000.00	$500,000.00
Providence Hospital, Oakland	Eleventh and Broadway, Oakland	200,000.00	200,000.00
Levaggi Estate Co.	California-Montgomery	57,500.00	57,500.00
Anita Grimm	do	74,000.00	72,650.00
College of Notre Dame, Belmont	San Jose	263,000.00	260,735.00
College of Notre Dame, San Jose	do	82,500.00	82,500.00
Acorn Realty Co. (E. F. Golliett)	Eleventh and Broadway, Oakland	510,000.00	510,000.00
John DeMartini et al.	California-Montgomery	75,000.00	75,000.00
Warehouse Investment Co.	do	102,500.00	94,500.00
H. J. Burkhard	Los Angeles No. 20	70,000.00	64,400.00
William P. Rogers	do	375,000.00	288,850.00
J. H. Birnbaum Investment Co.	do	150,000.00	89,275.00
H. Bercovich	Oakland Bank office	250,000.00	250,000.00
T. W. Corder (Inc.)	do	300,000.00	300,000.00
Barney Jacobs Estate	do	100,000.00	99,319.05
Total		3,109,500.00	2,944,729.05

Mr. BACIGALUPI. Exhibit J is a comparison, over a period of the last five years, of the course of deposits of the Bank of Italy National Trust & Savings Association in various communities as against those of competing banks. This comparison is offered in support of our contention that our competition has not hurt our smaller competitors, and that to the extent of their capacity to serve they have grown proportionately.

I think, gentlemen, that this chart also will prove most interesting. The exhibit has, for instance, Bakersfield First National Bank. Its deposits on December 31, 1924, were $1,075,000 and its deposits on December 31, 1929, were $2,035,000.

The Bank of Italy, National Trust & Savings Association, at the end of December 31, 1924, was $6,800,000. In December, 1929, they were $8,500,000. The percentage of increase of the First National of Bakersfield was 89.30 per cent while that of the Bank of Italy was 24.88 per cent. That same ratio does not prevail all the way through, but we have given it for the leading communities and many of the rural communities of California. That is Exhibit J.

(Exhibit J referred to is here printed in full, as follows:)

EXHIBIT J

Showing increase or decrease in deposits over period of five years

	Deposits Dec. 31, 1924	Deposits Dec. 31, 1929	Increase or decrease	Per cent increase or decrease
Bakersfield:				
First National Bank	$1,075,000.00	$2,035,000.00	$960,000.00	89.30
Bank of Italy National Trust & Savings Association	6,875,000.00	8,586,000.00	1,711,000.00	24.88
Chico:				
Butte County Savings Bank	2,119,000.00	2,003,000.00	−116,000.00	−5.47
First National Trust & Savings Bank	2,542,000.00	3,272,000.00	730,000.00	28.72
Peoples Savings & Commercial Bank	814,000.00	1,200,000.00	386,000.00	47.42
Bank of Italy National Trust & Savings Association	2,065,000.00	2,641,000.00	576,000.00	27.89
Fresno:				
First National Bank	2,369,000.00	4,776,000.00	2,407,000.00	101.60
Bank of Italy National Trust & Savings Association	17,645,000.00	17,893,000.00	248,000.00	1.41
Haywards:				
Bank of Hayward	2,108,000.00	2,820,000.00	712,000.00	33.78
Bank of Italy National Trust & Savings Association	1,971,000.00	2,976,000.00	1,005,000.00	50.99

Showing increase or decrease in deposits over period of five years—Continued

	Deposits Dec. 31, 1924	Deposits Dec. 31, 1929	Increase or decrease	Per cent increase or decrease
Long Beach:				
Citizen State	$404,000.00	$414,000.00	$10,000.00	2.48
California First National Bank	2,880,000.00	4,763,000.00	1,883,000.00	65.38
Farmers & Merchants Bank	9,792,000.00	12,149,000.00	2,357,000.00	81.84
Seaside National Bank	(1)	2,213,000.00	2,213,000.00	100.00
Western Trust & Savings	3,106,000.00	3,078,000.00	−28,000.00	−.90
Bank of Italy National Trust & Savings Association	7,136,000.00	18,576,000.00	11,440,000.00	160.31
Madera:				
First National Bank	1,324,000.00	1,388,000.00	64,000.00	4.83
Bank of Italy National Trust & Savings Association	1,478,000.00	1,936,000.00	458,000.00	30.99
Merced:				
First National Bank	(1)	952,000.00	952,000.00	100.00
Bank of Italy National Trust & Savings Association	2,598,000.00	6,695,000.00	4,097,000.00	157.70
Marysville:				
First National Bank	959,000.00	995,000.00	36,000.00	3.75
Decker Jewell	1,524,000.00	1,688,000.00	164,000.00	10.76
Northern California Bank of Savings	3,408,000.00	3,482,000.00	74,000.00	2.17
Bank of Italy National Trust & Savings Association	2,926,000.00	2,948,000.00	22,000.00	.75
Modesto:				
Modesto Trust & Savings Bank	2,145,000.00	4,541,000.00	2,396,000.00	111.70
Bank of Italy National Trust & Savings Association	1,961,000.00	3,338,000.00	1,371,000.00	69.91
Monterey:				
First National Bank	1,316,000.00	1,958,000.00	642,000.00	48.78
Monterey Bank	(1)	396,000.00	396,000.00	100.00
Bank of Italy National Trust & Savings Association	1,975,000.00	2,661,000.00	686,000.00	34.73
Napa:				
First National Bank	3,041,000.00	3,517,000.00	476,000.00	15.65
Bank of Italy National Trust & Savings Association	2,777,000.00	2,876,000.00	99,000.00	3.56
Oakland:				
Central National Bank	20,552,000.00	28,499,000.00	7,947,000.00	38.67
Central Savings Bank	28,888,000.00	31,584,000.00	2,696,000.00	9.33
First National Bank	(1)	4,479,000.00	4,479,000.00	100.00
Farmers and Merchants Bank	4,844,000.00	5,814,000.00	970,000.00	20.02
Oakland Bank	52,826,000.00	(2)		
Bank of Italy National Trust & Savings Association	19,483,000.00	75,259,000.00	55,776,000.00	286.28
Ontario:				
First National Bank	1,027,000.00	1,772,000.00	745,000.00	72.54
Citizen's National Bank	(1)	701,000.00	701,000.00	100.00
Bank of Italy National Trust & Savings Association	550,000.00	1,487,000.00	937,000.00	170.36
Oroville:				
First National Bank	1,048,000.00	1,237,000.00	189,000.00	18.03
Bank of Oroville	675,000.00	904,000.00	229,000.00	33.92
Bank of Italy National Trust & Savings Association	1,890,000.00	2,733,000.00	843,000.00	44.60
Redwood City:				
First National Bank	1,012,000.00	1,004,000.00	−98,000.00	−8.89
San Mateo County Bank	1,214,000.00	1,273,000.00	59,000.00	4.86
Bank of Italy National Trust & Savings Association	1,800,000.00	3,160,000.00	1,360,000.00	75.56
Sacramento:				
California National Bank	14,815,000.00	23,605,000.00	8,790,000.00	59.33
California Trust & Savings Bank	11,070,000.00	19,645,000.00	7,575,000.00	59.33
Capital National Bank	10,378,000.00	12,990,000.00	2,612,000.00	25.17
Citizen's National Bank	631,000.00	1,149,000.00	518,000.00	82.09
Merchants National Bank	3,100,000.00	2,773,000.00	−327,000.00	−10.55
Sumitomo Bank	(1)	1,285,000.00	1,285,000.00	100.00
Bank of Italy National Trust & Savings Association	9,207,000.00	49,920,000.00	40,713,000.00	442.20
Salinas:				
Monterey County Bank	3,430,000.00	6,246,000.00	2,816,000.00	82.10
Bank of Italy National Trust & Savings Association	2,620,000.00	5,291,000.00	2,671,000.00	101.95
San Jose:				
First National Bank	7,709,000.00	8,300,000.00	591,000.00	7.67
San Jose National Bank	1,350,000.00	2,360,000.00	1,010,000.00	74.81
Bank of Italy National Trust & Savings Association	11,610,000.00	14,092,000.00	2,472,000.00	21.29

[1] New bank.

[2] Acquired by Bank of Italy.

Showing increase or decrease in deposits over period of five years—Continued

	Deposits Dec. 31, 1924	Deposits Dec. 31, 1929	Increase or decrease	Per cent increase or decrease
Stockton:				
First National Bank	$1,914,000.00	$2,615,000.00	$701,000.00	36.62
Stockton Saving and Loan Bank	7,124,000.00	8,338,000.00	1,214,000.00	17.04
Union Safe Deposit Bank	1,458,000.00	1,837,000.00	379,000.00	25.99
Bank of Italy National Trust and Savings Association	11,073,000.00	15,617,000.00	4,544,000.00	41.04
Ventura:				
First National Bank	833,000.00	1,551,000.00	718,000.00	86.19
Home Savings Bank	431,000.00	1,550,000.00	1,119,000.00	259.63
Union National Bank	(1)	1,384,000.00	1,384,000.00	100.00
Bank of Italy National Trust and Savings Association	2,582,000.00	6,088,000.00	3,506,000.00	135.79
Woodland:				
Bank of Woodland	690,000.00	636,000.00	−54,000.00	−7.83
Bank of Yolo	1,725,000.00	2,234,000.00	509,000.00	29.51
Yolo County Savings Bank	2,389,000.00	2,550,000.00	161,000.00	6.74
Bank of Italy National Trust and Savings Association	2,711,000.00	2,496,000.00	−215,000.00	−7.93
San Francisco:				
Anglo California Trust Co	52,466,000.00	72,265,000.00	19,799,000.00	37.74
Anglo and London Paris	115,910,000.00	111,313,000.00	−4,597,000.00	−3.96
Hibernia Savings	75,681,000.00	75,603,000.00	−78,000.00	−.10
San Francisco Bank	92,916,000.00	120,138,000.00	27,222,000.00	29.29
Wells Fargo Bank & Union Trust Co	112,513,000.00	125,558,000.00	13,045,000.00	11.59
Bank of Italy National Trust and Savings Association	91,452,000.00	256,625,000.00	165,172,000.00	180.61
Los Angeles:				
Citizen National Trust and Savings	87,951,000.00	118,496,000.00	30,545,000.00	34.72
Farmers and Merchants National Bank	45,164,000.00	57,559,000.00	12,395,000.00	27.44
United States National Bank	3,989,000.00	16,038,000.00	12,049,000.00	302.05
Union Bank & Trust Co	12,207,000.00	23,614,000.00	11,407,000.00	93.44
Bank of Italy National Trust and Savings Association	77,278,000.00	138,077,000.00	60,799,000.00	78.67

[1] New bank.

Mr. BACIGALUPI. Exhibit K and Exhibit L comprise specimens of accounting department reports and report forms in use by the Bank of Italy.

Now, these are technical and I put them in for good measure, feeling that if the committee should desire to press into service some expert who would want to make a summary of the accounting forms and system used, he would find the bulk of that here.

(Exhibits K and L are not printed but held in the committee room for reference.)

Mr. BACIGALUPI. Exhibit M is an authentic copy of the bank's usual semiannual supplemental report of earnings, operating ratios, and so forth, prepared for the information of the bank's chief executives. The particular point which we desire to stress here is that several of the smaller country branches will be noted as operating at a loss and yet no branch of the Bank of Italy has ever been closed because it was not operating at a profit. It has felt that it could very conveniently stand these small losses and offer them as a willing contribution to the residents of these smaller communities, who otherwise would be forced at no little inconvenience to go to neighboring towns for their banking accommodations.

That is this report, gentlemen [exhibit], and this will answer your question, sir [exhibit to Mr. Fort]. Starting with about page 6 or 7, we begin to itemize the various districts and branches. This has to do with the earnings of branches and also covers loans, too, I think. Exhibit K would give you the deposits.

(Exhibit M is not printed but held in committee room for reference.)

Mr. BACIGALUPI. Exhibit N contains two articles on the trust department of a branch bank and should prove of interest.

(Exhibit N referred to is here printed in full as follows:)

EXHIBIT N

DEVELOPING AND ADMINISTERING TRUST BUSINESS IN A BRANCH BANKING SYSTEM

(By W. J. Kieferdorf, Vice President, Bank of Italy, National Trust and Savings Association, San Francisco, Calif.)

Branch banking is now regarded as the boldest forward step in American finance, but it would fail of its true destiny if it did not include in every instance a complete program of fiduciary service.

There must be no subordination of fiduciary service to commercial and savings banking, or relegation of it to the background as a secondary activity, declares Mr. Kieferdorf. Every community where a branch is located, not matter how small nor how far-removed from the head office of the bank, should be given the benefits of metropolitan trust service.

Mr. Kieferdorf describes the methods adopted in California by his institution to initiate and develop trust service in the branch banking system of that State. Every trust, whether private or court, is administered at the branch where it originates. The head office, through the district supervisors, maintains control by requiring a system of reports and strict adherence to given policies. The record system used in estate settlement, custodian service, the system of tickler cards, the filing of trust agreements, the supervision of escrows, and the method of reviewing securities and investments are fully explained.

A state-wide educational program was begun by the Bank of Italy nearly 10 years ago, and intensified during the past four years, to the end that all employees, advisory board members and stockholders, individually and collectively, should be made "trust-minded" and "will-conscious." The fine team work which resulted accounts in large measure for the growing number of nominations of the bank under wills—now upwards of 5,000 a year—and for the fact that the trust earnings of some of the smaller branches exceed the earnings of their respective banking departments.

One of the most satisfactory results of the campaign has been the highly satisfactory relations with lawyers. Past antagonisms have been largely dispelled by the frequently reiterated policy of the bank scrupulously to respect the rights of attorneys and their relations with their clients.

The introduction of branch banking into American finance is now almost universally regarded as the boldest, if not, indeed, the greatest forward step in the financial progress of our country.

Those of us who hail from the great West, who have witnessed the birth and growth of this new, yet very old, idea of banking, whose imaginations have been fired by its immense possibilities for public service, recognize that it had its inspiration in the same spirit of daring, the same spirit of self-sacrificing adventure that led our forefathers—the hardy pioneers of California—nearly 100 years ago, to brave the pathless prairies, the trackless deserts and the snow-capped, towering mountains to reach the promised land.

Whether it be confined to the limits of a city and thus becomes merely local in its operations, or whether it be extended to include a group of cities more or less contiguous, or whether, indeed, it embraces under one central management, banking service to the several hundred cities and towns and villages of a great State, complete branch banking, based as it is upon sound and enduring principles, must find a permanent abode in our country. The time is not far distant, if I may hazard a prophecy, when the public of the States that do not now permit branch banking, viewing this safer, more complete, more varied, more democratic, more widely extended metropolitan banking service, will demand appropriate legislation so that this proven type of banking may be permitted in their own States; and then, only, will small communities, now generally denied adequate banking facilities and corporate trust service, enjoy the ministrations of the corporate fiduciary and the trained trust officer, and be able to command for their development the great capital concentrated at the head office of the bank, as and when they require it.

NO BRANCH BANK COMPLETE WITHOUT FIDUCIARY SERVICE

But branch banking would fail of its true destiny, however, if it did not include in every instance in its far-reaching program complete fiduciary service, for it is axiomatic that complete banking service connotes complete fiduciary service.

There must, even in a branch banking system, be no subordinating of fiduciary service to commercial and savings banking; there must be no relegating it to the background as a secondary activity; there must be no dodging the duty of giving every community where a branch is located, no matter how small nor how far removed from the head office of the bank, the benefits of metropolitan trust service.

The criticism occasionally imputed to branch banking institutions—that the branch managers and perhaps the branch trust officers are mere machines in a fine network of automatons, that their sole guide is the ubiquitous and omniscient rule book, and that they have no independent judgment or discretion—is refuted by the service given, by the appreciation of thousands of satisfied depositors and stockholders, and best of all by the results obtained. No other instrumentality of finance was ever dedicated to a higher ideal of service than branch trust service in a branch banking system.

It is scarcely possible for me, in the limited time at my disposal for the preparation of this paper, to discuss, except superficially, trust service in "city-wide" institutions, or in institutions having branches in a few more or less contiguous cities.

I welcome the suggestion of your program committee that I may limit this discussion to trust service more or less state-wide in scope, and describe the progress that has so far been made and some of the methods adopted in California by the institution that I am honored to represent, in its attempts to initiate and effectuate this service in our great State.

PROGRAM FOR STATE-WIDE SERVICE

At the outset may I say that while highly satisfactory progress, both from the standpoint of service and of net profits, has been made, particularly during the last few years, in extending trust service to practically every one of the 293 branches in the 166 cities in which the bank operates, much additional work must yet be done to perfect our administrative processes, and much additional personnel must be trained at the head office, where in fact all of our trust men are trained. The results so far obtained encourage us to continue the plan as originally laid out for the development of "State-wide trust service." It would, however, be erroneous to conclude that we have achieved perfection in this wide, new field of trust endeavor, and that we may now rest on our laurels.

The trust service of our bank in the beginning was confined to the metropolitan areas of San Francisco and Los Angeles, and localized at the main office in each city. The branches contiguous to the main offices in these two cities were limited in their fiduciary service, with few exceptions, to escrows handled by part-time or full-time escrow men or assistant trust officers, who, though familiar with trust work, referred all prospects for trust business to the main office. To-day, after 10 years of successful experimentation, this is still the case in all of the large cities where more than one branch is located—except that, attached to each main office, are highly-trained trust men who call at the branches regularly to interview the prospects that the branch managers have interested in a trust or a will; the assistant trust officers at the main office, too, are always at the call of the branch managers for special appointments. It is a vital part of our system, and the key note of our success, that there must be intimate and constant cooperation between the branch manager on the one hand who, himself, is well versed in the practical phases of trust management by reason of head office training, and on the other hand the trust officer, who supplies the technical knowledge. This combination works perfectly, and is of the greatest importance in the rural districts. Our intracity trust service, therefore, is not, at this stage of our development, a serious problem. The key cities of the trust districts, as explained later, are district centers; the trust officers in charge of the offices in these key cities are district trust supervisors as well.

As new branches were added in the rural communities, new centers of trust activity were established—first in the cities of the Santa Clara Valley and in the great valley of San Joaquin; then in the coast counties and the great valley of the Sacramento River; and finally in the extreme northern and extreme southern sections of the State, all this expansion taking place while the institution was a State bank.

BANK OF ITALY UNDER NATIONAL CHARTER

With already existing trust offices in many of the most important cities, subordinated in policy and operation to the head office in San Francisco, it was but natural that the district plan of organization for the administration of trusts should be adopted; and, accordingly, the State of California, with respect to Bank of Italy state-wide trust administration and development, was divided into 14 trust districts, covering geographically the entire State, each district, with one exception, having its supervising trust officer and staff.

While this plan was in the making, the bank was nationalized, and we found ourselves for the first time with a definitely fixed number of branches, now numbering, as before stated, 293 in all, offering banking services in 166 cities, with no further increase possible under the limitations imposed by the present national banking laws.

Each district is, in a sense, a complete unit subordinated to the head office only with respect to policy, accounting, supervision of investments, compliance with established procedure, and control of the personnel. The size of any district depends on density of population and geographical location; in several districts there are four or more counties with as many as a dozen banking branches, all within easy reach of the district trust officer's headquarters in a central branch, which is usually located in the most important city or town of the group.

THE IDEAL DISTRICT STAFF

The ideal district staff consists of the district trust officer, assistant trust officer, trust examiner, and the usual clerical and stenographic help. In addition to his local duties, the district trust officer keeps in constant touch with the branches in his jurisdiction, has a definite visiting day for each of them, and endeavors to adhere as closely as possible to a regular schedule of visits so that the branch manager can make definite appointments with the clients of his branch. He is also subject to call at any time if a special emergency or special business requires his presence. His whereabouts is known at all times at the trust headquarters so that he can be reached whenever he is needed. Thoroughly trained at the head office in trust administration, probate matters, living trusts, agencies, escrows, securities management, and tax questions, and having a basic legal, and often a liberal classical, education, possessing sufficient maturity to impress his clientele and justify their confidence, the district trust officer is the keystone of the arch in the finely-knit-together fiduciary structure. Attendance at periodic meetings of district trust officers at the head office and constant touch with the trust executives of the bank, assure uniformity of operation throughout the system and faithful adherence to established policies.

The branch managers, on the other hand, have acquired, with very few exceptions, a fine practical knowledge of trust functions and know how the trust department can serve their clientele. Each branch maintains its own trust records, handles the receipts and disbursements required by the trusts, and diarizes the specific duties in the administration of estates, thus assuring local administration of estates and trusts, as against absentee administration. In fact, in most districts the closest possible cooperation exists between the branch banking staff and the district trust officer. Due to comparatively few changes among managers of branches, many of whom have had legal training, the educational efforts that are constantly expended to educate the rank and file of the entire banking system of the bank in trust matters and the resultant efficiency of operation and intelligent attention to duty account for the success so far attained. Under this arrangement, the branch manager is the business manager of the trusts handled at his branch; the district trust officer is the consultant, supplying legal and technical skill; while the trust examiner audits and keeps in order the accounting detail so that proper reports may be made to district headquarters and the head office, as required by the rules of the bank.

CARRYING TRUST SERVICE TO RURAL COMMUNITIES

Before the advent of the branch bank giving trust service, rural communities in our State were without trust service. The unit banks located there could not efficiently and profitably give such service. Grouped into districts under the district plan of administration, the clientele of contiguous rural communities and towns can now be as effectively served as if the trust departments were established in each community, and profitably, too; for estates of decedents must be

probated and the affairs of the living must be administered in the country as well as in the city; and wealthy agriculturists and prosperous small-town merchants have need of trust service as well as their brethren in the big cities. In fact, the district plan of trust administration, under the branch banking idea, is so elastic that possible mergers with other branch-banking institutions in the State that have trust departments can readily be consummated. Indeed, if by new legislation national banks shall be permitted to extend their service to border States within their respective Federal reserve districts, the program of administration and control of trust business, if desirable, could readily be adapted even to this new condition, subject, of course, to the varying laws of the other States within the Federal reserve district.

It requires no great stretch of the imagination to picture a gradual unification of probate law, procedure and practice, and uniformity of inheritance-tax laws in such States, if this drastic change in our banking laws affecting branch banking in the national system should come to pass.

EDUCATIONAL PROGRAM FOR TRUST OFFICIALS

The problem of supplying trust executives and supervising trust officers has been practically solved by our educational program started nearly 10 years ago and intensified during the past 4 years. To-day it is a regular part of our routine at the head office under the leadership of veteran trust men who understand branch banking and branch psychology and who, in addition to the burdens of their ordinary duties, are giving generously of their own time and talents as professors in the great school of fiduciary science.

We realized early in the game that education was the basic necessity; education of the higher officers, of the general banking staffs, of the advisory board members of each branch; also education of the public in the communities where our branches are located; and finally, to some extent, of lawyers by frank disclosure of our plan of operations, to the end that all of our employes, advisory board members and stockholders, individually and collectively, should be made "trust minded" and "will-conscious." Commercial bankers in the past have side-stepped trust business because they did not understand it; and some declined to lend a willing ear because to familiarize themselves with fiduciary service meant study and too much attention to technical details and legal matters that were not to their liking. The objective of our great State-wide campaign of education is to make the far-flung personnel familiar with the fundamentals of trust service—to impart to them the basic principles of fiduciary service by various educational devices, such as "question and answer" courses, talks by trust officers and trust examiners, trust literature, perennial classes at the head office, lectures, and community meetings; this program is succeeding beyond our expectations. While this is being written, there are at our head office 25 representatives of various branches, some of whom have had legal training, undergoing an intensive two-weeks' study of trust functions. Only a few of these men are in the trust department of the bank; the majority of them are in the banking department. When they return to their respective branches, they will not only be better fitted by reason of their training to appreciate trust service, but they will also have absorbed some of the enthusiasm of the big city bank. The remarkably small turnover among our branch executive officers, and the promotions from within the organization if there be changes, make this educational effort well worth while. It is no reflection on the intelligence and enthusiasm and good will of the general personnel of our bank, now numbering 7,200 men and women, including advisory board members, that the job of "selling the trust department" to the rank and file of the bank must still go on, no matter how satisfactory our progress is, nor how thoroughly the trust department is appreciated.

No small rôle in this educational effort is played by the district supervising trust officer; he is the leader and teacher as well as the trust expert, aided and abetted by the branch manager who is the originator of trust business at his branch, and the efficient trust administrator when it has been placed on our books.

FINE TEAM WORK BRINGS BUSINESS

It is this fine team work that accounts for the ever-increasing record of nominations of our bank under wills, now numbering upwards of 5,000 a year; it accounts, too, for the fact that the trust earnings of some of our smaller branches exceed the earnings of their banking departments. What better encouragement can a branch manager have?

As already stated, every trust, whether private or court, is administered at the branch where it originates. This is in accordance with our desire to give metropolitan trust service to every community where a branch of our bank is located.

The head office, through the district trust supervisors, maintains an indirect control by requiring a system of reports and strict adherence to well-defined policies. For example, Circular A–247 directs that on the last day of each month, each branch shall prepare a "fiduciary financial statement" which must be forwarded to the district trust supervisor who, in turn, examines it and immediately sends it to the head office. This fiduciary financial statement is a transcript of the "trust general ledger" as of the close of the last day of the month, showing the control accounts of all trusts handled at the branch.

Circular A–260, to cite another example, sets forth in detail the documents that must be sent to the head office and to the district of subdistrict headquarters.

RECORD SYSTEM IN ESTATE SETTLEMENT

Whenever any of our depositors dies leaving a will in which our bank is named executor two copies of the following documents are sent in due course to the district or subdistrict headquarters, where they are carefully checked, after which one copy is forwarded to the head office for additional checking before being permanently filed: Copies of will, petition for probate, letters testamentary, notice to creditors, statement of publication of first notice to creditors, affidavit of publication of notice to creditors, inventory and appraisement, all petitions for sale of real or personal property, all orders confirming sales, order for family allowance, income, inheritance, and federal estate tax returns, all accounts rendered, petition for distribution, order settling final account and decree of distribution, final discharge.

Likewise, when the bank acts as administrator with the will annexed, or administrator without a will, copies of the principal documents similar to those above must be sent to the head office and district or subdistrict headquarters in the same manner except, of course, that a copy of renunciation of the one entitled to act must accompany the petition for letters of administration.

When the bank acts in other fiduciary capacities under court trusts, such as special administrator, trustee under wills, guardian of minors or incompetents, the relative documents must be similarly supplied to the district headquarters and head office.

RECORDS IN CUSTODIAN SERVICE

The service offered by trust departments of banks to act as depositary or custodian of the personal property of decedents for personal executors, administrators, trustees and guardians, thus effecting a reduction in the bond that may be required of such executors and administrators, trustees and guardians, is being appreciated now more generally than heretofore by the legal profession. In these cases, the branches are required, pursuant to the requirements of Circular A–260, to file in due course at the district office and at head office copies of (*a*) order of court designating the bank depositary of such personal property, (*b*) receipt for securities deposited, (*c*) order terminating depositaryship, (*d*) receipt of executors, administrators, trustees, or guardians.

In foreclosure matters under deeds of trust securing loans, in cases where the bank is not the beneficiary, copies of (*a*) the deed of trust and note, (*b*) notice of breach and election to sell, (*c*) notice to trustee, (*d*) notice of sale, (*e*) affidavit of publication, (*f*) affidavit of posting notice of sale, (*g*) copy of trustee's deed must likewise be filed at the district offices and the head office at the proper time.

Most attorneys comply graciously with our requests for duplicates of all necessary documents required by our plan of district and head office control, thus eliminating much copy work in our own offices.

SYSTEM OF TICKLER CARDS

In order to assure our receiving copies at appropriate times, and to maintain a check on the various necessary steps in probate and other procedure, so that there shall be no failure on our part to comply with the laws governing the administration of court trusts or our duties in other respects, a system of tickler cards has been set up at the head office and at district or subdistrict offices, on which are printed (*a*) trust number, (*b*) name of depositor, (*c*) capacity in which

we are acting, (*d*) the list of important documents described above, and (*e*) two blank columns to the right of each card, respectively, headed "Date due" and "Date received."

For example, when the district office (or head office) receives notice of the death of one of its clients, leaving a will in which our bank is named executor, the card headed "executor" is immediately filled in by inserting the trust number, the name of the decedent, and the approximate dates when the various documents should be filed.

The opening record card and a copy of the will should be received almost immediately after receiving notice of death of testator; a copy of the petition for probate of will, within 30 days; letters testamentary, within 30 days; request for income tax determination should be submitted to the internal revenue collector immediately upon receipt of letters testamentary; notice to creditors should be published immediately upon issuance of letters testamentary; statement of publication of notice to creditors should be filed within 30 days after date of issuance of letters testamentary; preliminary report for Federal estate tax (where necessary) must be filed within 60 days from date of death; inventory and appraisement should be filed within 90 days from date of issuance of letters testamentary; report of inheritance tax appraiser and determination of inheritance tax should be filed within six months from date of death so that the tax may be paid and the 5 per cent discount taken advantage of; Federal estate tax returns should be filed within one year from date of death; final account and petition for distribution should, ordinarily, be filed immediately after time for notice to creditors has expired; decree of distribution should be received within a reasonable time thereafter, and decree of final discharge should be received shortly after that.

All dates are, therefore, listed in the first column under "Date due," and the card is placed in the tickler file and will automatically show up on the date first appearing thereon. In each instance, the dates are far enough in advance so as to enable us to write to the branch that a certain document should be filed on a certain date. This is followed up if necessary until a copy of such document is received by the district office and the head office. When such document is received the date of such receipt is entered in the second column under "Date received," and the card is immediately placed in the tickler file under the next following date and so on until all documents have been received.

It is conceivable that there may be documents filed in connection with any estate, the titles of which do not appear on these cards, such as petitions and orders for sale of property; any extraordinary proceedings, etc. In these cases, it is usually easy to obtain a copy of the respective documents without delay and without the necessity of a follow-up.

FILING OF TRUST AGREEMENTS

This same official circular (A–260) requires the filing of copies of all private trust agreements and declarations of trust. Practically all private trust agreements and declarations of trust are prepared at our head office, although many such documents, especially subdivision trust agreements or declarations, are drafted at our Los Angeles main office; but whether prepared by us from data sent us by the district offices or elsewhere, all such agreements and declarations are reviewed at the head office, where one copy, after execution of the trust, must be filed. The original executed copy remains at the branch where the setlor transacts his business, the duplicate original is handed to the customer. Notarial acknowledgments of the signatures of all parties to such documents must be affixed to original and duplicate copies.

Advances to trusts, both private and court, are charged to a specific fund of $100,000 of the bank's capital set aside for this purpose. Branches are authorized to draw against this fund up to the amount allocated to them by the head office, and are required (Circular A–256) to send, each night, to the head office or to the district or subdistrict headquarters, as applicable a report of any change in the title of "Advances to private trusts" or "Advances to court trusts," including full particulars. Should it become necessary for any branch to make an advance to either a court or private trust in excess of the authorization for that particular branch, head office, upon application, increases the allocation to this branch and reduces the allocation of some branch not requiring advances for the time being, thus obviating the necessity of increasing the total fund in excess of $100,000. Under no circumstances are our branches permitted to carry any funds in these accounts beyond the total amount authorized for the branch, nor must any loans to beneficiaries or setlors of such trusts be carried under these titles.

SUPERVISION OF ESCROWS

Supervision of escrows is committed to district and subdistrict headquarters where copies of (*a*) escrow agreements, (*b*) any amendments thereto, (*c*) assignments thereof, must be filed.

All stocks and bonds held by branches in their court and private trusts must be reported to the head office trust department through district or sub-district headquartes on a special form provided for the purpose, on the fifteenth of each month from the "Asset ledgers." If there has been no change since the last report, the form must nevertheless be returned, marked "No change" (Circular A–272).

All uninvested cash held by branches in court and private trusts must be reported at close of business on Friday of each week from trust cash ledger sheet. to the head office through district or subdistrict headquarters, as applicable.

REVIEW OF SECURITIES AND INVESTMENTS

The review of securities and the investment of cash requiring investment are undertaken at present by three subsidiary committees, composed of executive trust officers and other branch executives, operating, respectively, at San Diego for the San Diego district, which includes the extreme southern section of the State; at Los Angeles for the metropolitan district of Los Angeles, including such cities as Long Beach and Pasadena; and at head office trust department for the balance of the State. The proceedings of these meetings are set forth in formal minutes, forwarded immediately to head office in San Francisco for final action of the director's committee. Additional investment committees for the investment of trust funds and the audit of securities will be appointed for other sections of the State as conditions may require.

When it is found that there are uninvested cash funds available for investment in any trust, the branch, at which the trust is administered, reports such fact to the district trust supervisor, who forwards such request to the office where the trust investment committee functions, together with a statement of facts concerning the particular trust, accompanied by his recommendation as to the nature of investment which he deems appropriate. This matter is then submitted to the proper subsidiary investment committee, which meets as often as is necessary. This committee decides upon the nature of the security to be purchased as an investment for the trust, taking into consideration the purpose of the trust, the existing assets, the ages and other sources of income of the beneficiaries, the date of termination, and other pertinent facts. Thereafter, the action of this committee is reviewed by the directors' investment committee of the bank for final disposition. In practice, the directors' committee rarely reverses the judgment of the subsidiary investment committees, as the bank's policy with reference to investment of trust funds and the kind of securities to be selected is well know and established. So there is no undue delay in promptly investing cash funds in suitable securities.

ALLOCATION OF PROFITS

The question of allocation of profits, when business originating in one branch is administered at another, is generally settled by inquiry into the merits of each case separately. However, as a general rule, when a will is obtained by one branch and later probated at another branch, because of change of residence of the testator, or for some other reason, the originating branch receives 25 per cent of the fee collected by the administering branch.

Time will not permit further detailed description of the operation of trusts at branches and the supervision exercised by district headquarters and the control maintained by the head office at San Francisco, to assure faithful and accurate service.

Besides the examinations and audits made by the trust examiners of the trust districts and the periodic examinations made by the national-bank examiners and by the office of the superintendent of banks of the State of California which has jurisdiction over the operation of trust departments of all State and National banks in our State, the general auditors of the bank conduct rigorous audits of all trust department records at the head office and the branches. Under such rigid supervision it is not likely that deliberate neglect in administrative service is possible.

It is plain that the trust operations at our branches are safeguarded in every possible way. In fact, our bank may be visualized as operating unit trust de-

partments in every branch where court and private trusts are being administered; yet the units themselves are grouped together in districts under the direction and supervision of the district trust officers, who must look to the head office in San Francisco for general policies and practice.

There is no dearth of potential trust business in the rural districts of our State. Our out-of-town branches, under capable trust district administration, will serve the public in rural districts satisfactorily and profitably, and will do much to make our State thoroughly "trust minded," thus stimulating trust business for the other large banks of our State that conduct trust departments.

COOPERATION WITH LAWYERS

Our relations with lawyers for the most part have been highly satisfactory. Antagonisms of the past have been largely dispelled because the members of the bar are now thoroughly aware of our desire to work whole-heartedly with them, rather than against them. Our former president and now chairman of our advisory committee, James A. Bacigalupi, himself an outstanding attorney, personally assured the lawyers of our State, in his many eloquent public utterances, that our institution will always scrupulously respect the rights of attorneys and their relations with their clients, and will retain the services of any reputable attorney who refers any business to out bank.

In conclusion, may I refer to the report of the public trust officer of New Zealand for the year ending March 31, 1929, which recently reached me? It discloses the fact that the office "has branches and agencies in 110 cities and towns throughout the country," where trusts are handled in much the same manner as in our bank; that "the value of estates and funds under administration on March 31, 1929, was 48,334,790 pounds sterling" (nearly $250,000,000); that "during the year wills numbering 6,053 were deposited with the public trustee"; that on March 31, 1929, "62,841 wills of living persons were held in safe custody"; and that during the year "3,508 new estates and funds of a total value of 7,091,350 pounds sterling (nearly $35,000,000) were accepted for administration." The report also showed that "the wills on deposit represent prospective business worth over 250,000,000 pounds sterling" (over $1,250,000,000).

I look forward to the time, even though perhaps comparatively few years may yet be allotted to me, when the great branch banking institutions yet to come, of which the few now in existence are but the forerunners, located in every strategic financial center of our country, will not only disclose records as monumental as those that I have just quoted but what is more important will give to finance a new dignity and a nobler objective, offering to every community in our country, near and remote, the safe and dependable service of the corporate trustee and the ministrations of trust-minded bankers and sympathetic trust officers.

Mr. Chairman, ladies and gentlemen, I have been asked to address myself this morning to a brief consideration of the growing importance of the trust department in the modern bank.

My only warrant to speak to you with any degree of authority upon this subject must be found in the fact that I began my banking career, a little more than a decade ago, as the organizer and manager of the trust department of my institution, having been chiefly attracted to the work by a keen appreciation of the immense potentialities of trust company service. While it was not my good fortune to remain in intimate association with this newer phase of the banking business for more than a few years, I have never relinquished my warm initial interest in its development, and have consequently followed its progress with ever-increasing conviction and delight.

The outstanding and unmistakable impression that even the most casual observer receives to-day when contemplating the ever-broadening opportunities for genuine and helpful corporate trust service to the public, is that of marvelous growth.

I shall not burden you by a long recital of statistics, but I deem it opportune to cite just a few pertinent facts in support of the proposition that trust business in the United States to-day—both potential and actual—is increasing at a tremendous rate.

A nation-wide survey conducted by this the trust company division of the American Bankers Association has disclosed the fact that there are to-day

approximately 3,500 qualified trust departments of banks in our country as against only 14 in 1870; that the majority of the trust companies or active trust departments of banks in this country in operation to-day have been established since 1915; that over 20,000 officers and employees of banks in the United States are to-day devoting their full time to the handling of trust work, and that fully 45,000 Americans chose a corporate executor or trustee during the past year alone.

From the recent report of the Comptroller of the Currency, in which trust findings from the bank call of June 29, 1929, are summarized, we are struck by the following significant figures:

There are to-day in operation in the United States 1,734 trust departments of national banks alone, managing 75,988 individual trusts, representing assets in excess of $5,237,000,000—a gain of 359 per cent in such assets and of 191 per cent in the number of such trusts since 1926. The assets under corporate trusteeships in national banks aggregate more than $7,370,000,000—a gain of approximately 200 per cent over similar assets in 1926. This is indeed a remarkable showing, particularly when cognizance is take of the fact that until the comparatively recent enactment of the Federal reserve act national banks were not permitted to exercise trust power.

In a recent address the Hon. Joseph S. McCoy, United States Government actuary attached to the Treasury Department at Washington, D. C., revealed the significant fact that approximately 400,000 estates, representing assets of over $5,000,000,000, are now probated annually, and that about 60 per cent of this vast sum, or over three billions for the year ending December 31, 1927, belonged to estates administered in only five States of the Union, namely, New York, Pennsylvania, Illinois, Massachusetts, and California.

Statistics recently released in the States of Massachusetts and Pennsylvania—the only two States in the Union which publish consolidated statements of trust funds held in all trust companies or trust departments of banks, both State and national—show that the total trust funds administered by banks in the State of Massachusetts in 1900 amounted to about $14,000,000, and that in 1929 this volume has grown to the imposing figure of $600,000,000, while in the State of Pennsylvania the total funds held in all banks in 1900 approximated $500,000,000, and that in 1929 this volume has increased to the staggering figure of more than $4,000,000,000.

And now, for your greater edification, permit me to conclude these citations with a passing reference to just one type of corporate fiduciary service which has only lately sprung into being, but which promises, if intelligently and diligently cultivated, almost unlimited possibilities—I allude to the life insurance trust.

Life insurance, like a great giant that has but lately found his stride, increasing by leaps and bounds because of the realization that insurance of human lives must be viewed as to its objects in terms of income rather than of principal, now looks to the corporate fiduciary as the complementary medium for the complete fruition of its purpose, because life insurance without a concomitant conservation plan—so that the beneficiaries may be the better protected and their comforts and independence the better assured—fails of its essential destiny.

It is of immense significance, therefore, that in the United States to-day there are in force nearly $100,000,000,000 of life insurance; that this is now increasing at the rate of $10,000,000,000 a year, and that life insurance companies, during 1928, paid out in cash total claims calculated to be in excess of $700,000,000. It is estimated that of this huge sum of life insurance in force to-day, only $2,000,000,000, or 2 per cent of it, has as yet been lodged with American trust companies under agreements of trust; yet more than five hundred millions so held or in excess of 25 per cent of this total was trusteed during the past year alone.

Impressive as these figures are—in my humble opinion—they do not begin to reflect the true measure of the immense resources awaiting trust company management in America.

At this juncture, however, it behooves us to pause a moment to seek and to firmly establish in our minds the real reasons for this recent phenomenal popularity, throughout the country, of corporate trust service.

In the first place, the wealth of the American people has grown apace during the past 15 years with the ever-increasing prosperity of our great country. This unprecedented rapid enrichment of so large and widely scattered a proportion of our people—theretofore almost total strangers to the intricate science of safe investment, conservation, and transmission of so much newly acquired wealth—rendered it not only advisable but most necessary that they should seek the guidance and the cooperation of some trusted, wiser, and better qualified friend or acquaintance.

In the second place, be it said to the enduring credit of our banks engaged in the field of fiduciary service, the American people have been gradually and are now being more rapidly, led to understand and to appreciate the overwhelming superiority of corporate trust service. Our people are coming more and more to realize that whether the qualified bank act as custodian of securities, or as escrow holder; or as the executor or trustee under the will of a decedent; or administrator of his estate; or guardian of the estate of a minor or incompetent; or trustee of a living trust with all the wide ramifications of custody and investment management that modern finance implies; or trustee under corporate hypothecations for the protection of bondholders; or registrar of stock to safeguard the shareholders against overissues; or transfer agent to facilitate the issuance of stock in conformity with the rigid rules of our stock exchanges—in fine, that in all of its wide range of endeavors, the underlying principle of corporate trust activity is conservation, protection, painstaking, and efficient service, cordially, conscientiously, and constantly supplied. Schooled in the practice of probate law; expert in financial matters; familiar with the handling of stocks, bonds, real estate, and life insurance; functioning at times as an investment committee for the speedy and safe investment of trust funds; auditing and revising at other times the securities left by a testator or subsequently acquired and held in trust; using the bank's superior credit information, always ready at hand, to pass judgment on questionable notes and other evidences of debt; having at instant command the combined experience of seasoned bankers to solve the ever new and intricate problems of modern taxation and finance; available at all times during business hours; never incapacited by illness or absence, and enduringly strong as to financial responsibility—the qualified bank as executor, trustee, guardian, or depositary stands commanding and paramount in the field of fiduciary service.

Verily, in this new era of massive industrial and commercial structures; in this day of our complicated and highly specialized civilization, departmental financial emporiums are inevitable, and the one big opportunity of banks for further profitable development and of public benefaction lies in the field of trust service.

Having established the growing recognition of, and the ever-increasing demand for, corporate fiduciary service, it would seem to follow that every bank of any size or importance in our country should seek to equip itself to handle trusts. It should do so not only because of the material profit to be directly derived from a trust department when once well organized and properly developed, but also because such a department will insure the retention of a bank's depositors who might otherwise be attracted to a competitor in their search for this service. It is not only advisable, but important, therefore, to regard the trust department as a most effective cementer of a bank's general business. It operates at once to retain present depositors, and the likelihood of retaining the patronage of their succeeding generations is not only a reasonable expectation but almost an absolute certainty.

This leads us to a brief consideration of what should be the proper attitude of a bank's general management toward the trust department.

In the first place, as I view it, the trust department should be regarded neither as an "ornament" nor as a "side show." The modern bank should see to it that its trust department is placed at least on a par, both as to prominence and importance, with its general banking departments; it should exercise great diligence and care in the selection of its trust officer; it should not relinquish its initial interest in the department or cease its cooperation with its trust executive after his selection; it should not leave the development work to the department alone, but every general officer and employee, under the guidance of the trust officer, should at once undertake to learn enough about the broad functions of the department and the superiority of its service so as to be able to recognize and to intelligently direct a prospective piece of trust business as soon as it appears; and above all, its general management should be patient and tolerant in its expectations of huge profits.

It frequently happens that trust departments are tucked away in the basement or in some other remote and inconspicuous place in the bank, and that little or no effort whatever is exerted on the part of the institution's general officers or contacting personnel to feature or to build up the new department. Dissatisfaction or disappointment is then later expressed because of the slowness of the progress made, and erroneous appraisements are indulged in regarding its worth and potentialities. In this day of hurry and scurry the uninitiated public must be sold on everything new, and the only way to get over the message that a new service has been added by a bank is to feature it strongly, both in the prominence,

propriety, and attractiveness of its quarters and in the bank's campaign of publicity and advertising.

A bank, therefore, should not elect to enter the trust field unless it intends to make the trust end of its business a major department of the institution. In the establishment of a trust department, a bank's first concern should be to so equip and develop it as to be prepared to render a type of service that will insure the highest degree of safety and satisfaction to its customers and thereby reflect credit not only upon itself but likewise upon every other trust company and trust department in the country.

And in this connection, I am pleased to proclaim—to the enduring credit and honor of this country's banks which have already entered this fertile field—that no charge of negligence or loss has ever been successfully prosecuted against any bank engaged in the administration of a trust. This is, indeed, an enviable record and one which we must jealously maintain.

As to the selection of a suitable trust officer, too much emphasis can not be laid upon the essential qualities which he should possess. He should be, above all, a man of recognized sterling character, and in addition should possess executive ability, initiative, sound judgment, a fair knowledge of banking, investments and law, and be blessed with some imagination and plenty of soul. The quest for such a man may, on first thought, seem almost hopeless, and in candor it must be admitted that it is no easy task to find one—not already a trust company employee—who will at once measure up to all of these exacting requirements.

I think that the experience of my institution in this particular is eminently pertinent, and I therefore make bold to cite it. We are to-day exercising trust functions through every one of our 292 offices, spread over 166 cities of California, and, with but a scant half dozen exceptions, every one of our trust men and women have been developed within our own organization. Our trust department is only 12 years old and the major part of its development, both as to business and personnel, has taken place within the last six or seven years. We first chose intelligent men and women who possessed the natural qualities set down among the requirements I have here enumerated, and then we set to work building them up in the qualities or essentials which they lacked but which are readily attainable and acquired through application and study. We have made lawyers out of bankers and bankers out of lawyers, and in not a few instances we have made both bankers and lawyers our of just plain good men and women. My successor as the head of our trust department, was neither a banker nor a lawyer when he first joined our institution in 1918 and entered the trust department in 1920. I had, however, known him at college and had long admired him for his excellent qualities of mind and heart. By dint of appplication and observation he has proven himself a master in the science of fiduciary service, having served as chairman of the trust section of the California Bankers Association and delegated to represent it at this convention as vice president for California. He has gradually developed an exceptional personnel, ever keeping his organization in step with the growth of our trust business, so that while the department did not begin to show material profits until about seven years ago, he nevertheless kept it "in the black" practically from the very beginning of his administration. He has also, in the interim, personally supervised a systematic campaign of education in the matter of trust company functions, among our directors, advisory board members, general officers and employees throughout the States, and stands ready to-day to intelligently, safely, and efficiently care for, through his splendid department, the ever growing volume of trust business which is being influenced to our institution.

It has been my observation that while some uninitiated bankers are inclined to underestimate the importance of the trust department, more of them are prone to expect too much from it, too soon.

The trust department is in truth a potential gold mine which offers almost inexhaustible possibilities as a profit maker, but it requires much intelligent, painstaking and constructive effort and plenty of patience and cooperation before pay dirt is struck. I offer this out of sympathetic regard for such unfortunate trust officers as there may be in the country to-day whose superior general officers may be a little too restive and unreasonable at times in their expectations of immediate fabulous profits. I have known some managers of trust departments who have been driven, because of this unwarranted clamor for immediate and larger profits, to knowingly accept trusts fraught with the probability of most disastrous liability to the bank. This of course should not be. A bank's first concern in the operation of a trust department should be

to maintain the highest and safest standard of trust service, and this can only be done by carefully scrutinizing every bit of trust business before accepting it, and by careful and expert handling after it has been undertaken.

As to what would be reasonable to expect by way of profits from a trust department, I believe it to be the consensus of men qualified to voice an opinion that normally no profit should be expected for at least the first five years of operation, and that in cases where such a department has been established over a period of years and has succeeded in building up a volume of business, it should attain an operating ratio of at least 50 per cent, so that of every dollar taken in at least 50 cents should represent the net profit to the institution. The potentialities for profit from this source, over the years, may therefore be said to be most encouraging and practically unlimited.

In this day of keener banking competition and the insatiate demand of the public for more and varied gratuitous personal service, it is not only advisable but almost necessary that banks turn to this newly cultivated field of the trust department as a certain and most effective means of restoring narrowing banking profits.

Another intriguing feature of corporate trust service, in addition to the most appealing human side of the business, lies in the fact that the idea of competition is supplanted by the idea of cooperation and that in the trust business there is no competition in the real sense of the term. In other words, every success achieved and work well done in this field by one bank inevitably inures to the benefit and profit of all. This great service needs only to be understood to be appreciated, so that the sooner its message can be spread among our bankers and the public generally, the greater and the more enduring will its importance become.

Let us, therefore, acknowledge the ever-growing importance of the trust department in the modern bank; let us strive to give it its proper place of importance in our institutions. Let us be unfailing in our efforts to hold high the type of our trust personnel and to keep excellent the character of the service rendered; let us resolve to ever put quality above quantity and safety above profits in our pursuit of this most interesting and helpful humanitarian feature of our banking service; let us never fail in our willingness and eagerness to sympathetically cooperate with our trust officers in the discharge of their trying and most important responsibilities; let us not be niggardly in our educational efforts to make the great American people "will conscious" and to bend the public attitude toward "trust mindedness"; and then, and only then, may we hope and confidently expect to reap our reward a thousandfold, a reward not only in dollars and cents, but—what should be of infinitely greater satisfaction to us as the favored recipients of such boundless confidence—in the abiding appreciation and undying gratitude of generations yet unborn.

Mr. BACIGALUPI. Exhibit O comprises two tabulations showing, among other things, that an original investor in one share of Bank of Italy stock in 1904 who exercised all of his rights to purchase additional shares when issued, would have invested, up to and including January 25, 1930, $54,510 and would now own 3,469 shares of Transamerica Corporation stock (provided he has exercised his privilege to exchange his Bank of Italy stock for Transamerica stock). Figured at the present market value of $44 per share, his shares would have a value of $152,636, equivalent to an average cost of $16 per share, and representing an unbooked profit of $98,126, or an average profit of $28 per share. He would further have received dividend payments of $22,563. The combined profit from appreciation in market value of shares held with dividends received totals $120,689. This amounts to an average total profit of $35 per share purchased, equivalent to 219 per cent return for the period on the actual investment, or an average profit of about 9 per cent per year.

(Exhibit O referred to is here printed in full, as follows:)

EXHIBIT O

Table showing the status on January 25, 1930, of an investor who purchased 100 shares of stock in the Bancitaly Corporation on the date of organization and exercised all his rights to purchase additional shares

Date	Total shares			Shares purchased with rights exercised			Total cash investment	Dividends		
	Number	Approximate market price	Approximate market value	Number	Rate	Cost		Rate	Amount	Total
June 30, 1919	100	$100.00	$10,000.00				$10,000.00			
Dec. 30, 1919								$3.00	$300.00	$300.00
June 30, 1920		105.00	10,500.00					3.00	300.00	600.00
Dec. 31, 1920								3.50	350.00	950.00
June 30, 1921		110.00	11,000.00					3.50	350.00	1,300.00
Dec. 31, 1921								3.00	350.00	1,650.00
June 30, 1922		115.00	11,500.00					3.50	350.00	2,000.00
Dec. 31, 1922								3.50	350.00	2,350.00
June 30, 1923	200	121.00	24,200.00	100	$115.00	$11,500.00	[1] 21,500.00	4.00	400.00	2,750.00
Dec. 31, 1923								4.00	800.00	3,550.00
June 30, 1924		120.00	24,000.00					4.00	800.00	4,550.00
Sept. 30, 1924								[2] 2.00	400.00	4,750.00
Dec. 31, 1924								2.00	400.00	5,150.00
Mar. 30, 1925								2.00	400.00	5,550.00
June 30, 1925		209.00	41,800.00					2.00	400.00	5,950.00
July 3, 1925	229			29	160.00	4,640.00	26,140.00			
July 10, 1925	258			29	185	5,365.00	31,505.00			
Sept. 30, 1925								2.25	580.50	6,530.50
Dec. 31, 1925								[2] 5.25	1,354.50	7,885.00
Mar. 30, 1926	387			129	225.00	29,025.00	60,530.00	2.25	580.50	8,465.50
Apr. 10, 1926	1,935	[(3)]								
June 30, 1926		79.00	152,865.00					.56	1,083.60	9,549.10
Sept. 30, 1926								.56	1,083.60	10,632.70
Dec. 31, 1926	2,056			121	85	10,285.00	70,815.00	.56	1,083.60	11,716.30
Mar. 30, 1927								.56	1,151.36	12,867.66
June 30, 1927	2,467	120.00	296,040.00	411	100.00	41,100.00	111,915.00	.56	1,151.36	14,019.02
July 29, 1927	3,453	90.00	310,770.00	[(19)]						
Sept. 24, 1927	3,946			[(20)]			[(4)]			
Sept. 30, 1927	3,946		540,602.00				[(5)]	.56	1,933.68	15,952.70
Dec. 31, 1927	3,946	137.00						.56	2,209.76	18,162.46
Mar. 31, 1928	3,946							.56	2,209.76	20,372.22
June 30, 1928								.56	2,209.76	22,581.98
Sept. 30, 1928								.56	2,209.76	24,791.74
Oct. 31, 1928	[6] 3,946	[(21)]	[(22)]							
Nov. 1, 1928	[7] 4,093	125.00	511,625.00							
Jan. 1, 1929								.56	2,209.76	27,001.50
Apr. 15, 1929		135.00	552,553.00							
Apr. 25, 1929							[(8)]	1.00	4,093.00	31,094.50
Do	[9] 4133	[(16)]	552,555.00				111,915.00			31,094.50
July 25, 1929	4133							1.00	4,133.00	35,227.50
Do	[10] 4174	145.00	593,485.00				111,915.00			35,227.50
Aug. 23, 1929	4174	154.00	642,796.00				111,915.00		[11] 5,093.00	40,320.50
Sept. 10, 1929	[12] 10435	65.00	678,275.00				111,915.00			40,320.50
Oct. 25, 1929	[13] 10539	65.00	685,036.00				111,915.00			40,320.50
Do							[(14)]	.40	4,174.00	44,494.50

[1] 100 per cent increase in capital. Sold 90,000 shares in odd lots to stockholders over varying periods at prices averaging $115 per share of new stock for each share formerly held.
[2] Dividend changed to quarterly basis.
[3] Christmas dividend $3.
[4] 1 new share for each 7 held to stockholders of record this date.
[5] This dividend voted on 3,463 shares to stock of record Sept. 15, 1927.
[6] Transamerica conversion, 1 for 1.
[7] Stock dividend 1–40; 1 share of Bank of America for 40 shares Bancitaly Corporation. Later converted into Transamerica stock on basis of 1 share of Bank of America for 1⅛ shares Transamerica Corporation.
[8] Dividend amount changed to $1 and date forwarded to Apr. 25, 1929. First Transamerica dividend.
[9] Stock dividend 1–100.
[10] Stock dividend 1–100.
[11] Intercoast warrants issued on basis of 1 for 9 (rights to subscribe to 463 shares on basis of 4,174 shares as of July 25, 1929). Selling price of rights, $11.
[12] 150 per cent stock dividend on stock of record July 25, 1929. (4,174 shares).
[13] 1 per cent stock dividend on stock as of record Oct. 5, 1929. (10,435 shares).
[14] Dividend changed to $1.60 on basis of 40 cents per quarter. On stock as of record Oct. 5, 1929.
[15] Stock dividend (1–100).
[16] 25 per cent stock dividend and par reduced to $25.
[17] 40 per cent stock dividend.
[18] 14²⁄₇ per cent stock dividend.
[19] Trans-America conversion.

Table showing the status on January 25, 1930, of an investor who purchased 100 shares of stock in the Bancitaly Corporation on the date of organization and exercised all his rights to purchase additional shares—Continued

Date	Total shares			Shares purchased with rights exercised			Total cash investment	Dividends		
	Number	Approximate market price	Approximate market value	Number	Rate	Cost		Rate	Amount	Total
Nov. 5, 1929	10960	$65.00	$712,400.00	[15] 421	$55.00	$23,155.00	$135,070.00			$44,494.50
Jan. 25, 1930	10960		712,400.00				135,070.00	$0.40	$4,384.00	48,878.50
Do	[16] 11069	44.00	487,036.00				[17] 135,070.00			48,878.50

[15] Rights to purchase additional shares of new Transamerica stock to be issued Nov. 20, 1929 to stockholders on record Nov. 5, 1929. Basis of rights 1-25; rate $55. The value of the stock acquired through exercising these rights is shown as the price prevailing on Sept. 24, 1929.
[16] Stock dividend (1-100).
[17] Average cost per share, $12.20.

SUMMARY

Eleven thousand and sixty-nine shares of Transamerica Stock worth $487,036 have been secured for $135,070 equivalent to an average cost of $12 per share, and represents a profit of $351,966 at the market price of $44 a share, or an average profit of $32 per share.

Including the dividend payments of $48,878.50, the combined profit from appreciation in market value of shares held, with dividends received totals $400,844.50. This amounts to an average total profit per share purchased of $36, or 300 per cent for the period. This would average approximately 27 per cent a year.

Table showing the status January 26, 1930, of an investor who purchased one share of stock in the Bank of Italy on the date of organization and exercised all his rights to purchase additional shares

Date	Shares acquired through exercising rights		Total shares acquired to date	Total investment to date	Dividends		Ratio of capital increase
	Number	Cost per share			Rate	Total to date	
Oct. 31, 1904			1	$100.00			
June 30, 1905					$2.50	$2.50	
Dec. 31, 1905	1	$105.00	2	205.00	2.50	5.00	2-3
June 30, 1906					2.50	10.00	
Dec. 31, 1906					2.50	15.00	
June 30, 1907					2.50	20.00	
Dec. 31, 1907					2.50	25.00	
June 30, 1908	4	110.00	6	645.00	2.50	30.00	2-1
Dec. 31, 1908					3.00	48.00	
June 30, 1909					3.00	66.00	
Dec. 31, 1909					3.00	84.00	
June 30, 1910					3.00	102.00	
Dec. 31, 1910					3.00	120.00	
June 30, 1911					3.00	138.00	
Dec. 31, 1911					3.00	166.00	
June 30, 1912					3.00	174.00	
Dec. 31, 1912					3.00	192.00	
June 30, 1913	1	130.00	7	775.00	3.00	210.00	1-4
Dec. 31, 1913					3.00	231.00	
June 30, 1914					3.00	252.00	
Dec. 31, 1914					3.00	275.00	
June 30, 1915	3	130.00	10	1,165	3.00	294.00	3-5
Dec. 31, 1915					3.50	329.00	
June 30, 1916					3.50	364.00	
Dec. 31, 1916					3.50	399.00	
June 30, 1917	5	140.00	15	1,865	3.50	434.00	1-2
Dec. 31, 1917	10	147.50	25	3,340	3.75	490.25	2-3
June 30, 1918					3.75	584.00	
Dec. 31, 1918					3.75	677.75	
June 30, 1919	5	150.00	30	4,090	4.00	777.75	1-5
Dec. 31, 1919					5.00	927.75	
June 30, 1920	5	160.00	35	4,890	[1] 12.50	1,302.75	1-6
Do	10	165.00	45	6,540			2-7
Dec. 31, 1920					6.00	1,572.75	
June 30, 1921	5	200.00	50	7,540	6.00	1,842.75	1-9
Dec. 31, 1921					6.00	2,142.75	
June 30, 1922	25	200.00	75	12,540	6.00	2,442.75	1-2
Dec. 31, 1922					6.60	2,937.75	
June 30, 1923					6.60	3,432.75	

[1] Includes special dividend July 14 of $7.50.

Table showing the status January 25, 1930, of an investor who purchased one share of stock in the Bank of Italy on the date of organization and exercised all his rights to purchase additional shares—Continued

Date	Shares acquired through exercising rights		Total shares acquired to date	Total investment to date	Dividends		Ratio of capital increase
	Number	Cost per share			Rate	Total to date	
Dec. 31, 1923					$6.75	$3,939.00	
Mar. 5, 1924	6	$200.00	81	$13,740			1-15
June 30, 1924	6	225.00	87	15,090	6.75	4,445.25	1-13
Dec. 31, 1924					7.00	5,034.25	
June 30, 1925					7.00	5,663.25	
Dec. 31, 1925					7.75	6,337.50	
June 30, 1926	12	250.00	99	18,090	8.00	7,035.50	1-7
Dec. 31, 1926	24	450.00	123	28,890	9.00	7,924.50	1-4
Mar. 21, 1927					[2] 4.50	8,478.00	
June 30, 1927			[3] 492		1.31	9,122.52	
Sept. 30, 1927					1.31	9,767.04	
Oct. 25, 1927	123	(4)	615				
Dec. 31, 1927					1.50	10,689.54	
Do	102	180.00	717	47,250			1-6
Mar. 31, 1928					1.50	11,765.04	
May 5, 1928			717	47,250		11,765.04	
June 30, 1928					1.50	12,840.54	
Sept. 29, 1928					[5] 2.00	14,274.54	
Oct. 31, 1928			[6] 1,255				
Nov. 1, 1928			[7] 1,282				
Dec. 31, 1928					[5] 2.00	15,708.54	
Apr. 25, 1929					[8] 1.00	16,990.54	
Do			[9] 1,295				
July 25, 1929					1.00	16,285.54	
Do			[9] 1,308	47,250			
Aug. 23, 1929			1,308	47,250		[10] 19,880.54	
Sept. 10, 1929			[11] 3,270	47,250			
Oct. 25, 1929			[12] 3,303	47,250			
Do					[13] .40	21,188.54	
Nov. 5, 1929	132	[14] 55	[14] 3,435	54,510		21,188.54	1-25
Jan. 25, 1930					.40	25,562.54	
Do			[15] 3,469			22,562.54	

Average cost per share to stockholder, $15.71.

[2] Quarterly hereafter.
[3] Stock split 4 for 1, par value reduced to $25.
[4] 25 per cent stock dividend.
[5] Special 50 cents dividend on national Bankitaly profits.
[6] Transamerica conversion, 1¼ for 1.
[7] Stock dividend, 1 for 40; a share of Bank of America for 40 shares of Bank of Italy stock. Later converted into Transamerica stock on basis of 1 share of Bank of America for 1½ shares Transamerica Corporation stock.
[8] Dividend changed to $1 and date forwarded to Apr. 25, 1929.
[9] Stock dividend, 1 per cent.
[10] Intercoast warrants issued on the basis of 1 for 9 (rights to subscribe to 145 shares on basis of 1,308 shares as of July 25, 1929); selling price of rights, $11.
[11] 150 per cent stock dividend on stock of record July 25, 1929 (1,308).
[12] 1 per cent stock dividend on stock of record Oct. 5, 1929 (3,270 shares).
[13] Dividend changed to $1.60 on basis of 40 cents per quarter. On stock of record Oct. 5, 1929.
[14] Rights to purchase additional shares of new Transamerica stock to be issued Nov. 20, 1929, to stockholders on record Nov. 5, 1929. Basis of rights, 1–25; rate, $55.
[15] Stock dividend, 1 per cent.

SUMMARY

Three thousand four hundred and sixty-nine shares of stock having a value of $152,636 at the present market price of $44 a share have been secured for $54,510, equivalent to an average cost per share of $16, and representing a profit of $98,126, or an average profit of $28 per share.

Including the dividend payments of $22,683, the combined profit from appreciation in market value of shares held with dividends received totals $120,689. This amounts to an average total profit of $35 per share purchased, equivalent to 219 per cent returned for the period on the actual investment, or an average profit of about 9 per cent per year.

Mr. BACIGALUPI. Exhibit P is a booklet which fully describes the bank's employes' compensation and benefit plans. These plans have had the effect of materially quickening the interest of the bank's employees and have resulted in materially lowering labor turnover, in increased efficiency, and in more general and telling participation in new business activities, and in insuring a more cordial, courteous, and efficient service to the public.

(Exhibit P, referred to, is here printed in full, as follows:)

EXHIBIT P

EMPLOYEES COMPENSATION AND BENEFIT PLANS OF THE BANK OF ITALY, NATIONAL TRUST & SAVINGS ASSOCIATION, CALIFORNIA

INTRODUCTION

When the Bank of Italy opened its doors for business in 1904, it began a banking career which has proved to be one of the most noteworthy in the history of American finance.

Guided by the principles so clearly laid down by its founder, A. P. Giannini, the bank has avoided "entangling alliances"; and its officers and employees, refraining from all outside interests, have "kept clean, kept clear, and attended solely to the business of banking." It is only fitting, therefore, that on the twentieth anniversary of its founding, the bank should add to its previous plans for the advancement of its employees' interests, a plan designed to perpetuate and still further to encourage and reward that whole-souled loyalty to the welfare of the bank upon which its success has been founded.

With the remarkable results of these policies, as evidenced by the growth of the bank and reflected in the character of its service, every one has long since become familiar. Very little is known, however, of what the bank is doing to perpetuate and encourage these policies and at the same time give to employees the widest possible opportunities and privileges. One of the most important aspects of this phase of the bank's activities is found in the development of the various plans for employees printed in this booklet.

In the development of these plans the board of directors has been mindful not only of the welfare of its employees—it has been mindful of the welfare of the stockholders and of the public as well. It has been the experience of the board that whatever benefits and rewards employees stimulates a desire on their part to effect economies in operation, to increase efficiency, and to give better service to the public. It is, therefore, not as an act of philanthropy but rather as a sound economic move for the benefit of all concerned that the bank has inaugurated its various plans for employees. More particularly are these purposes served by the last of these plans, which adds to the employee's normal compensation, a share in the capital stock of the bank, the size of which depends upon the faithfulness with which he serves the bank, his frugality, and his effort, (combined with those of his fellows) in increasing the net receipts of the bank or in decreasing its cost of operation.

For this reason, the plan is put forward not as profit-sharing, but rather as a plan of employee compensation—over and above normal salaries—to be used by employees in acquiring an ever-increasing share in the ownership and control of the bank. Employees are thus put in a position to capitalize their efforts in behalf of the bank and build themselves up to a position it would otherwise be impossible for them to attain.

That in the working out of this plan stockholders would be benefited has been frankly granted. That is only fair and that the stock they acquire shall have an increasing value is as important to the employe stockholder as to any other. For this reason, it was decided that after deducting from the net receipts of the bank all operating expenses, all normal dividends, and all proper reserves for depreciation, taxes, and insurance, 40 per cent of the remaining net receipts should be used as a fund to purchase stock for employes, and to meet the expense of administering this and other plans for employees.

In considering the way in which the above sum could be distributed most fairly, it was suggested by employees who were consulted on the plan, that it should be in proportion to such contributions as employes themselves wished to make for the purchase of stock. It was felt that employes would acquire stock more rapidly if they added their own savings, and that it would be quite appropriate for the bank to distribute the fund in proportion to these savings. This, however, did not meet all the requirements of the board of directors who wished to bring everyone into the plan irrespective of what he could afford to contribute. It was therefore decided that while employees would be allowed to contribute a percentage of their salaries as savings for the purchase of stock, and would have such savings increased by proportionate contributions of the bank from the fund, the bank would also pay to every employee who received less than $6,000 a year, a sum based upon his salary and length of service, called "extra compensation,"

which would operate as the employee's minimum contribution, must as if made by the employee himself. The bank's contribution of extra compensation could then be increased by the employee up to a maximum amount determined by his salary and length of service. Since those with a small salary and with dependents would find it harder than others to exercise this latter privilege, it was further decided that, in the case of a married employee with children who receives less than $2,400 per year, the bank will add to such employee's extra compensation, for each dependent child, an amount equal to 15 per cent of the sum of his extra compensation and such additional contribution as he has made himself. There is a maximum limit in this provision of 45 per cent of the sum of such extra compensation and additional employee contribution.

The fund remaining after deducting extra compensation is termed "Special Compensation" and is to be prorated among employees in proportion to their contributions to the savings provision of the plan, no matter whether such contributions are the result of extra compensation contributed by the bank, percentage of salary contributed by the employee, or the sum of these two contributions.

Thus arose the three main features of the plan: Extra compensation, savings provision, and special compensation. These features are the essence of the plan. For the rules concerning their administration, the percentages paid as extra compensation, the amount employees may contribute, the methods of prorating special compensation, the manner in which stock is held and acquired, and for other necessary provisions, the plan itself must be consulted.

From the combination of these three features comes the incentive of the employee to find in the development of the bank his own best development. Through the operation of the plan, the employee acquires stock by doing what every other person does who builds a business for himself—that is, by devoting his time to it, by increasing the value of his services, by contributing his money, and finally by helping increase the profits of the bank; for it is by doing all of these things that he is enabled, under the plan, to acquire an ever-increasing share in the ownership and control of the bank.

The plans for employees, other than the compensation plan, have been in operation for some time, and employees are familiar with them. The full text of these plans is also published in this booklet, in order that employees may have a complete knowledge of the opportunities and advantages available to them. All the plans express the settled policy of the bank to build the organization by and for its own employees—a policy that has resulted in rapid advancement from within, and which means the development of employees to positions of ownership and financial independence as fast as circumstances make possible.

EMPLOYEES COMPENSATION PLAN

(Adopted October 14, 1924; effective January 1, 1925; amended to January 1, 1927)

The uniform practice of the bank has been to require employees to devote all of their time and energy exclusively to the welfare and advancement of the interests of the bank, without emoluments or fees other than the regular compensation paid by the bank. To insure the perpetuation of this practice, to provide a method of compensation for employees which will stimulate a desire on their part to effect economies in operation and to increase efficiency, to encourage employees to become part owners in the bank, and to reward saving by employees, the bank has adopted the following plan of compensation.

This plan has three provisions: (1) Extra compensation; (2) savings provision; (3) special compensation.

I. *Extra compensation.*—Each employee now or hereafter in the continuous employ of the bank, and receiving a total fixed salary of less than $6,000 for the calendar year, shall be entitled to extra compensation consisting of a percentage of his salary based upon length of service, as follows:

The minimum percentage shall be 5 per cent, and shall apply to the employee up to and until the end of the first full calendar year of continuous employment. Thereafter, the percentage of extra compensation shall be increased by 1 per cent for and during each full calendar year after the completion of the first full calendar year of continuous employment, until a maximum of 10 per cent of the current year's salary is received. After that, it shall continue at the rate of 10 per cent.

Any employee who shall not remain in the continuous employ of the bank for at least one full calendar year shall not be entitled to extra compensation. Employees who do so remain in the employ of the bank shall be credited on Janu-

ary 1 following the first full calendar year of continuous employment with extra compensation equal to 5 per cent of the salary theretofore paid to the employee, and extra compensation shall not be credited prior thereto.

After the first full calendar year of employment, the extra compensation shall be credited to the salary of the employee semiannually on January 1 and July 1, but shall be retained by the bank and paid out only through the operation of the savings provision hereinafter mentioned, provided that an employee after becoming entitled to credit of extra compensation at the rate of 10 per cent for one year may receive such portion of the extra compensation in excess of 3 per cent of his average semiannual salary as he shall in writing direct. Said sums shall be paid to him semiannually.

For the purpose of fixing extra compensation, continuous service with an institution absorbed by the bank shall be considered as employment with the bank.

II. *Savings provision.*—The bank shall deduct from the salary of every employee as often as his salary is payable, not less than 3 per cent nor more than 10 per cent of the salary, plus 1 per cent of the salary additional for and during each full calendar year after the completion of the first full year of continuous employment, but in no event in excess of 30 per cent. The sums so deducted shall be paid forthwith to the trustee hereinafter mentioned.

The percentage to be deducted from the salary shall be fixed as follows:

(*a*) In the case of employees who are credited with extra compensation (i. e. those who receive a salary of less than $6,000 per annum), the minimum percentage to be deducted shall be the amount of such extra compensation, and said minimum deduction shall be made from the extra compensation at the time it is credited; provided, that in the case of employees who have been entitled to credit of extra compensation at the rate of 10 per cent for one year, the minimum to be so deducted thereafter may be reduced at the option of the employee to not less than 3 per cent of the salary. The maximum which may be deducted at the option of any employee shall be 10 per cent of the salary plus 1 per cent of the salary additional for and during each full calendar year after the completion of the first full calendar year of continuous employment, but any amount so deducted in excess of the extra compensation prior to the end of the first full calendar year of continuous employment shall be paid to the employee if his employment is terminatec prior to said date. The extra compensation percentage shall be counted as part of the maximum which may be deducted.

(*b*) In the case of employees who are not credited with extra compensation (i. e., those who receive a salary of $6,000 or more per annum), the minimum percentage to be deducted shall be 3 per cent of the salary, and the maximum which may be deducted at the option of the employee shall be 10 per cent of the salary plus 1 per cent of the salary additional for and during each full calendar year after the completion of the first full year of continuous employment. Any sums deducted prior to the end of the first full calendar year of continuous employment shall be paid to the employee if his employment is terminated prior to said date.

For the purpose of fixing the percentages under the savings provision, the employment of an employee shall date from the time of entering the employ of the bank; or in the case of employees of institutions absorbed by the bank (including purchase of a majority of the capital stock of such institutions for the benefit of the bank), employment shall date from the date of acquisition of such institutions.

On request, employees must demonstrate to the bank their financial ability to pay the amount of the optional deduction from their salary.

In the case of a married employee with children, who is receiving a salary of less than $2,400 per year, the bank, after application to it through its executive committee and investigation of the merits of the case, will increase the amount of such employee's extra compensation, as follows: For each dependent child under 18 years of age there shall be added 15 per cent of the extra compensation and optional deduction paid to the trustee under the savings provision; but this sum is not to exceed a maximum of 45 per cent of the extra compensation and optional deduction paid to the trustee under the savings provision. The additional sum so provided shall be paid to the trustee under the extra compensation provision.

III. *Special compensation.*—The bank will pay to the trustee semiannually, on or about January 1 and July 1 of each year, beginning July 1, 1925, as special compensation to employees, upon the terms herein provided, a sum equal to 40 per cent of the current net receipts of the bank of Italy National Trust & Savings Association and National Bankitaly Co., (estimated separately), for the semiannual period then ended, less the sums provided for employees' benefits.

The current net receipts for the purpose of this plan shall be determined as follows:

From the receipts for the semiannual period then ended, there shall be deducted:

1. All operating expenses, interest, taxes, commissions, and charges of every kind and character during said period.

2. Deductions for reserve or contingent funds, or for any other purpose which the board of directors or executive committee may direct.

3. The regular or special dividends declared or paid during said period.

4. Any profits realized during said period upon any assets owned on December 31, 1924, which at said date were not carried upon the books, or which were carried upon the books at substantially less than their actual value.

There shall be charged to this 40 per cent of said current net receipts all sums paid or set aside during said period for employees' benefits now or hereafter in operation either under this plan (excepting fixed and special compensation), or otherwise.

The balance shall be paid to the trustee, and all except such reserves as the trustee may deem it necessary to set up to cover extra and special compensation of employees not entitled to credit for said extra and special compensation (i. e., employees not having completed their first full calendar year of service), shall be prorated to the credit of the respective employees having one full calendar year or more of service, in proportion to the respective sums paid to the trustee for the credit of said employees under the provisions of the extra compensation and savings provision during said period.

Upon the completion of the first full calendar year each employee shall receive credit for extra compensation as hereinbefore provided, and a prorata of special compensation on the total savings deduction and extra compensation then standing to his credit at the average rate that has prevailed during the preceding three semiannual periods for the distribution of special compensation. In figuring such average rate, amounts smaller than 1 per cent shall be dropped.

Each employee shall also receive, as his prorata of the profit or loss arising from the increase or decrease in the value of the stock purchased with funds reserved for credit to him upon the completion of his first full calendar year, a credit or a debit equal to the average increase or decrease in the value of the stock purchased with the funds in the hands of the trustee during the three preceding semiannual periods. This credit for debit shall be figured as a percentage of the total amount, before posting interest, standing to his credit upon the completion of his first full calendar year. Amounts smaller than 1 per cent shall be dropped.

IV. Application of funds by trustee.—All sums paid to the trustee shall be applied by the trustee semiannually (following the receipt of the payment of extra and special compensation), in the acquisition of capital stock of the Bank of Italy National Trust & Savings Association (together with such beneficial interest in the stock of National Bankitaly Co. as shall be appurtenant thereto) at a price which shall be fixed semiannually by the board of directors and the trustee, said price to be substantially the market price. In the event of a disagreement, the price shall be fixed by a majority of a board consisting of a representative of the board of drectors, a representative of the trustee, and a third person, selected by the two.

Each employee shall be credited on the books of the trustee with the nearest number of full shares which can be purchased for him at the price set. Any excess over the sum required for the purchase of the nearest number of full shares shall be used by the trustee, together with similar excesses as to other employees, in the acquisition of capital stock of the Bank of Italy National Trust & Savings Association, and upon the receipt of the succeeding semiannual payment of extra and special compensation, the trustee shall credit to or deduct from each employee as to whom there has been any such excess, a sum equal to his pro rata participation in the profit or loss arising from the purchase of said stock. The profit or loss arising from the purchase of said stock shall be deemed to be the difference between the price then fixed for stock as provided in the preceding paragraph and the price fixed for stock at the succeeding semiannual date. All dividends on said stock shall be credited to employees in proportion to their interest therein. In prorating profit and loss and dividends no account shall be taken of fractions of less than 1 per cent.

The dividends (except stock dividends) accruing upon stock purchased by the trustee shall be paid by the trustee to the respective employees in accordance with their respective interests therein. Stock dividends shall be held by the trustee and carried to the account of the respective employees.

In the event stockholders of the bank are given the right to subscribe to additional shares of its capital stock, the employee shall have the right to purchase

said shares in proportion to the number of shares then held by the trustee to his account (not including shares represented by trust certificates) by delivering to the trustee, 20 days prior to the termination of said right to subscribe, a sum sufficient to purchase said shares, and said shares so purchased shall be delivered to said employee. Upon a failure of an employee to exercise said right to subscribe, the trustee shall have the right in its individual capacity to subscribe for and purchase said shares and upon said purchase the said shares shall be the individual separate property of the trustee.

The employees shall not be entitled to receive any of the sums paid to the trustee except upon the terms provided in this plan, but the same, and the stock purchased thereby, shall be carried upon the books of the trustee to the account of the respective employees, subject only to application and disposal as herein provided for.

The full and complete voting power on all stock acquired and held by the trustee under this plan shall be vested in the trustee.

V. Delivery of trust certificates and certificates of stock.—After January 1, 1925, upon the termination of 10 calendar years of employment, net stock which has been acquired by the trustee for the account of an employee under the provisions of this plan, shall forthwith be held by the trustee under a trust, the provisions of which are found in that certain agreement of trust, dated as of October 14, 1924, between the bank, the trustee, and employees of the bank, which agreement is incorporated in this plan and is a part hereof. A duplicate original of said agreement is on file in the office of the trustee and is open to inspection at any time. The trustee shall forthwith deliver to the employee a trust certificate evidencing his ownership in said shares of stock, subject to the provisions of said agreement. Said agreement provides that the voting power of said stock is vested in the trustee under said agreement, and that at the termination of 10 years after the issuance of the trust certificate the trust as to the shares represented thereby shall terminate, and the shares shall be delivered to the holder of said trust certificate. The certificates held or delivered under the trust shall not be sold or transferred without 10 days' prior written notice thereof being given to the trustee, during which period the trustee shall have the option of purchasing said certificate and the shares represented thereby, at the average price per share at which the trustee has acquired shares under the provisions of the plan during the preceding semiannual period, or in the event no shares have been so acquired, then at a price determined by a board appointed in the manner provided in section IV hereof.

Employees who have been on January 1, 1925, for 10 calendar years or more in the employ of the bank, or who thereafter attain such length of service, shall be entitled (after January 1, 1925, or after attaining such length of service, as the case may be), on the termination of each semiannual period, to the trust certificate herein provided for, for the stock which has been purchased for the account of said employee under the provisions hereof; and the date upon which the trust as to such certificate shall terminate, shall be 20 years from the first of the calendar year following the date upon which such employee entered the employ of the bank, as determined under the savings provision.

Employees who have been on January 1, 1925, for 20 calendar years or more in the employ of the bank, or who thereafter attain such length of service, shall be entitled (after January 1, 1925, or after attaining such length of service, as the case may be), on the termination of each semiannual period, to a certificate of stock covering the shares which have been purchased during said period for the account of said employee under the provisions hereof, free and clear of any trust.

VI. Termination of rights.—The rights of the employee under the plan shall terminate as follows: (A) Discharge for cause; (B) discharge without cause, employee coming under pension plan, death; (C) resignation.

(A) Discharge for cause.—In such event, the trustee shall pay to the employee in full and complete discharge of all of his rights under this plan, and in the property in the hands of the trustee, the sums actually contributed by the employee out of his salary, which are still in the hands of the trustee (i. e., for which no trust or stock certificates have been issued), with interest thereon at the rate of 4 per cent per annum up to the last semiannual period on any amounts paid prior thereto upon which no dividend has been paid, and such employee shall receive nothing on account of extra and special compensation; provided, that if the bank has suffered a loss on account of any dishonest or negligent act of the employee, then so much of the sum to which the employee would otherwise be entitled shall be paid to the bank as is necessary to make good such loss. The extra and special compensation or the proceeds thereof to which the discharged

employee would otherwise be entitled at the time of severance, shall be held by the trustee, and prorated among the other employees in the same manner as the succeeding credit of special compensation is prorated. Discharge for cause shall include discharge by reason of disloyalty, dishonesty, immorality, insubordination, negligence, or any similar cause.

(*B*) *Discharge without cause, employee coming under pension plan, death.*—In any such event, there shall be delivered to the employee, or his nominee, or the beneficiaries under his will, or his heirs, in full and complete discharge of all his rights under this plan and in the property in the hands of the trustee, the stock which has been purchased for the account of said employee under the provisions of this plan, plus any unexpended sums for his account in the hands of the trustee, and less all sums or stock or trust certificates theretofore paid or delivered to the employee by the trustee; provided, that the trustee at its option may in lieu thereof pay to the employee or his nominee or the beneficiaries under his will or his heirs, the value of said stock based on the price per share last fixed for the purchase of stock under this plan, whereupon all rights of the employee (or his nominee, or the beneficiaries under his will, or his heirs) under this plan and in the property in the hands of the trustee shall terminate; provided further, that special and extra compensation benefits shall cease to accrue from the first of the semiannual period of the severance.

In no case shall an employee who is discharged from the service of the bank, i. e., leaves the service for some cause other than voluntary resignation, have any right to be considered under the classification, "Discharge without cause," except in the event of death, availability for pension under this pension plan, or disability acquired while in the service of the bank as a permanent employee in good standing. In all other cases where an employee is discharged and where the cause of reason for such discharge is not of such a nature as to warrant forfeiture of the employee's extra and special compensation, as provided in VI–A, "Discharge for cause," the executive committee may, at its discretion, fix the terms of payment and the amounts due each employee under this plan. Payments to employees may be made immediately or at some time subsequent to the date of discharge, but not to exceed one year, at the discretion of the executive committee. Payment may not be, except in cases judged by the executive committee to be for some special reason worthy of it, in amounts or stock exceeding what would be payable or deliverable to the employee in case of voluntary resignation. The decision of the executive committee shall be final in all cases of discharge, and upon receipt of the cash or stock, as authorized by the executive committee, the interest of the discharged employee in the plan and in the property in the hands of the trustee shall terminate.

(C) *Resignation.*—In such event, there shall be paid or delivered to the employee 12 months after the resignation becomes effective, in full and complete discharge of all of his rights under this plan and in the property in the hands of the trustee, a sum equal to the amounts theretofore paid to the trustee by or for the benefit of said employee on account of extra compensation, savings, and special compensation, less all sums and stock and trust certificates theretofore paid or delivered to the employee by the trustee; or in lieu thereof, at the trustee's option, the said stock and unexpended sums held for his account may be delivered to him, provided that extra and special compensation shall cease to accrue from the first of the semiannual period in which the employee resigns.

If the employee shall resign prior to the completion of his first full calendar year of employment, then the sums deducted from his salary under the savings provision hereof shall be paid to him when his resignation becomes effective.

VII. General provisions—(A) *Those entitled to benefits of plan.*—All employees of the Bank of Italy National Trust & Savings Association and Stockholders Auxiliary Corporation, and of such other corporations, associations, firms, and businesses as the boards of directors of these corporations shall determine to be associated institutions (which are herein collectively referred to as the "Bank"), who remain in the employ thereof for at least a full calendar year are entitled to the benefits of this plan with the exception of:

(1) Employees excepted by resolution of the executive committee; (2) part-time employees; (3) employees eligible to or receiving pension benefits; (4) Mr. A. P. Giannini, the author of the plan and for that reason, at his request, excluded from participation in its benefits.

Employment for the purpose of this plan shall be computed from the first day of the first month of continuous employment, if the first day of actual service is on or before the fifth day of the month, otherwise it shall date from the first of the calendar month next succeeding.

Absence on military service in the World War shall not be deemed an interruption in employment.

The term "employee" shall include the officers of the bank.

(B) *Not assignable.*—The interest of the employee under this plan shall not be grantable, transferable, or otherwise assignable by the voluntary or involuntary act of the employee, or by operation of law, nor be liable or taken for any debt, liability, or contract of any employee, except as herein otherwise provided.

(C) *Termination.*—This plan may be modified, amended, or terminated at any time by resolution of the board of directors, which shall also have power to interpret and apply the provisions hereof and supply any deficiencies therein. No employee participating hereunder shall have any vested right or interest in the continuance of the said plan.

(D) *The trustee.*—The trustee shall be the Bancitaly Corporation, or such successor as the board of directors may hereafter from time to time appoint.

The trustee shall not be responsible for anything save its gross negligence or willful neglect. It shall not be under any duty to segregate or keep separate the moneys or properties held hereunder, and its investment of said moneys and properties shall not be limited to those ordinarily approved for trust investment, nor shall it pay any interest upon the same save as herein specifically provided. Up until such time as a trust certificate for the shares is delivered under the provisions of Section V of the plan, the trustee shall be the absolute owner of all shares of stock acquired by it under the plan, with all the rights incident to absolute ownership; and up to the delivery of said trust certificate the right and interest of the employee shall be that of a party to a contract only, which, when fully performed and completed, and not before, will entitle said employee to the payment or delivery herein provided for. It is contemplated that the trustee will use under this plan, shares of stock in its possession at the time of the adoption of this plan, and also shares which it may acquire in the future before funds are in its hands available for the purchase of additional stock under this plan. In every such case, the trustee shall be entitled to use the said shares under this plan and shall thereupon be credited in its individual capacity with the value of said shares so used, as said value is fixed in accordance with the provisions of this plan.

(E) *Loans.*—In the absolute discretion of the trustee, a loan or loans may be made to an employee in cases of necessity, to be secured by the interest of the employee under this plan, but so long as such employee is indebted to the trustee he shall not be entitled to any special compensation, except to the extent that his optional deduction from salary and extra compensation for the then current period shall exceed the amount of any loan made by the trustee.

(F) *Miscellaneous.*—Length of service and date of employment, for all purposes of this plan, except for fixing the rate of extra compensation, shall be computed in accordance with the definitions contained in the savings provision hereof.

The terms "Boards of Directors" and "Executive Committee" as used herein shall mean the board of directors and the executive committee of the Bank of Italy National Trust & Savings Association.

SICKNESS DISABILITY BENEFITS

All employees of the bank, after four months of continuous service, shall be entitled to receive sickness disability benefits during periods of physical inability to work by reason of sickness or accidental injury, except when due to illegal cause, immoralities, or unprovoked encounter, under the following plan:

Each employee absent because of illness as defined above, will continue to receive his full salary during the continuation of said absence, provided the period of such absence does not exceed one-sixteenth of the entire period of previous continuous employment, and is justified by the submission of a doctor's certificate. In cases of absences of not more than two days, the personnel department may waive the requirement of a doctor's certificate. If the term of absence under this plan shall exceed a period of 30 days, the provisions of this plan become inoperative, except that in justifiable cases the executive committee may allow full benefits.

If between any two periods of sickness or disability there is not a lapse of at least four months, the second said sickness shall, for the purpose of this plan, be considered a continuance of the first.

In computing the period of such service at any time, the term of any previous absence will be deducted from the full term of employment; however, absence on account of military service incident to the World War shall, for the purposes of this plan, not be considered as an interruption in employment.

SERVICE DEFINED

Service with any bank heretofore or hereafter acquired by the Bank of Italy National Trust & Savings Association shall, for the purposes of this plan, be considered as employment in the service of the Bank of Italy National Trust & Savings Association.

This bank reserves the right to alter, amend, or suspend any of the provisions of this plan in part or in their entirety at any time without notice in so far as they apply to any specific employee or group of employees.

This plan, in its application to any particular employee, will automatically cease to operate immediately upon his death.

VACATIONS

The vacation period for the employees of the Bank of Italy National Trust & Savings Association is from March 15 to September 15 of each year, and all employees whose term of service falling within this period is one year or more are allowed two week's vacation.

To those whose term of service within this period is six months or more, but not one year, one week's vacation is allowed.

Otherwise, no vacations are permitted, except by special arrangement with the personnel director.

Mr. BACIGALUPI. Exhibit Q is Neal's California banking chart as of December 31, 1929, which discloses the name and location of all banks open in California on that date. This is supplied so that your committee may form a clearer concept of the competitive banking situation which prevails in California to-day.

(Exhibit Q is not printed but held in committee room for reference.)

Mr. BACIGALUPI. Exhibit R is a collection of testimonials commendatory of branch banking gathered by the bank's supervisors throughout California. They are respectfully submitted for what value or importance you may deem to attribute to them. The name and address of the person interviewed is given in each instance and we have felt that perhaps some of the statements made may contain at least the germ of a new thought or point of view.

(Exhibit R is not printed but held in committee room for references.)

Mr. BACIGALUPI. Exhibit S shows the earnings of Bank of Italy and National Bankitaly Co. from 1921 to 1929, inclusive.

(Exhibit S, referred to, is here printed in full, as follows:)

Exhibit S

Bank of Italy National Trust & Savings Association

	1921	1922	1923	1924	1925	1926	1927	1928	1928
GROSS EARNINGS									
Discount interest on loans	$7,202,217.63	$8,937,923.51	$11,424,339.51	$13,199,644.84	$13,779,704.61	$15,615,916.00	$24,141,779.34	$25,509,248.43	$27,445,781.49
Interest from other banks	151,844.59	111,624.73	101,704.26	195,496.91	186,502.53	138,499.02	148,977.96	175,409.75	315,083.72
Interest on investments	1,815,612.18	2,230,855.54	2,759,703.89	3,258,654.28	4,611,464.32	5,004,025.23	7,346,208.13	10,104,862.50	10,516,894.19
Exchange	228,888.09	206,633.72	184,244.20	197,059.12	186,194.82	339,162.05	436,302.11	1,093,250.69	1,398,161.30
Rents (net)	282,992.05	519,228.44	769,742.43	786,681.22	970,427.28	1,133,483.12	1,498,006.09	721,847.76	130,534.32
Other income	497,444.12	320,952.47	905,300.96	1,007,464.14	548,871.82	756,026.32	1,775,757.14	2,001,626.97	2,476,360.52
Bond department, profit and loss on investment	530,362.76	476,817.81	437,326.71	1,336,677.23	2,264,692.80	1,398,314.90	7,027,100.07	5,886,567.03	5,360,901.40
Trust department	76,350.41	46,153.48	122,885.64	114,240.14	87,739.66	82,628.45	272,793.17	629,542.67	779,865.87
Sale of real estate	8,814.99	30,524.60	3,861.15		285,163.82				
Total	10,794,226.82	12,880,914.30	16,709,108.75	20,095,917.88	22,920,761.66	24,468,055.09	42,646,924.61	46,122,355.80	48,423,582.81
LESS OPERATING EXPENSES AND TAXES									
Expenses	3,747,783.99	5,187,089.98	6,311,528.28	6,901,696.87	7,224,609.91	7,883,159.36	13,290,065.51	15,839,921.80	14,487,433.38
Interest paid on deposits	3,610,164.56	4,751,340.01	6,050,522.22	7,764,138.70	8,891,649.34	10,051,320.13	14,960,278.99	15,949,767.38	17,416,060.30
Interest on bills payable and rediscounts	421,107.35	128,723.45	275,512.89	29,719.41	228,472.37	277,973.01	506,956.32	1,078,897.37	998,150.33
Taxes	298,500.00	433,915.29	399,000.00	483,412.17	582,109.55	692,538.70	992,981.45	1,650,081.62	1,244,787.46
Total	8,077,555.90	10,501,068.73	13,036,563.39	15,178,967.15	16,926,841.17	18,904,991.20	29,750,282.27	34,518,668.17	34,146,431.47
Net earnings	2,716,670.92	2,379,845.57	3,672,545.36	4,916,950.73	5,993,920.49	5,563,063.89	12,896,642.34	11,603,687.63	14,277,151.34
Special items-									
Depreciation	4,614.09	161,152.39	296,039.94	464,080.64	564,001.28	560,822.98	1,286,645.53	1,794,270.16	1,593,654.45
Losses	323,340.76	429,573.18	396,203.98	474,103.00	518,444.03	376,868.83	647,068.11	1,030,447.15	2,138,073.71
Goodwill	268,947.19	222,350.00	129,610.59	4,936.33	109,421.85		1,118,813.42		649,833.86
Employees' compensation	113,454.11	186,079.06	194,265.38	238,728.91	850,461.69	869,482.12	615,754.72		1,502,358.85
Carried to surplus	125,000.00				4,000,000.00			4,500,000.00	
Dividends	1,140,000.00	1,500,000.00	1,650,000.00	1,664,843.75	1,795,750.00	2,242,708.33	4,103,333.34	6,000,000.00	6,000,000.00
Total	1,974,456.15	2,599,154.63	2,666,119.89	2,846,692.63	7,636,078.85	4,049,882.26	7,771,615.12	13,124,717.31	11,878,920.87
Included in undivided profits	742,214.77	*219,309.00*	1,026,425.47	2,070,258.10	*1,642,150.87*	1,513,181.63	5,125,027.22	*1,521,029.68*	2,398,230.47
Balance forwarded from previous period	1,798,309.68	2,540,724.45	2,321,415.39	3,327,840.86	5,398,098.96	3,755,940.59	5,269,122.22	10,394,149.44	8,873,119.76
Undivided profits at end of period	2,540,724.45	2,321,415.39	3,327,840.86	5,398,098.96	3,755,940.59	5,269,122.22	10,394,149.44	8,873,119.76	11,271,350.23
Surplus	2,500,000.00	5,000,000.00	5,000,000.00	5,000,000.00	9,000,000.00	10,700,000.00	13,200,000.00	45,000,000.00	45,000,000.00
Capital	10,000,000.00	15,000,000.00	15,000,000.00	17,500,000.00	17,500,000.00	20,000,000.00	37,050,000.00	50,000,000.00	50,000,000.00

National Bankitaly Co.

	1921	1922	1923	1924	1925	1926	1927	1928	1929
GROSS EARNINGS									
Discount		$2,302.26	$3,545.88	$858.74	$959.37	$1,080.05	$578.97		
Interest on loans	$55,117.76	130,832.37	162,431.89	237,749.00	518,156.63	671,536.31	1,620,272.40	$2,687,038.78	
Interest on investments				21,302.55	14.79	212,446.08	501,538.66	1,698,303.59	
Commissions		28,764.95	28,975.37	54,572.55	60,771.53	146,664.03	158,007.88	20,129.98	
Rents	2,802.14	2,415.41	127,321.71	293,421.67	244,083.23	68,258.10	74,468.97	78,674.24	
Other income	58,255.74	35,561.77	142,217.06	28,276.75	77,187.47	94,047.26	66,242.59	135,307.12	
Interest and income on real estate		4,302.13		25,481.19	213,534.78	77,356.32	870,682.38	508,217.39	
Dividends received	232,567.17	414,152.59	265,240.96	166,410.77	16,501.68	523,935.54	688,020.18	2,758,545.40	$10,270,642.89
Profit on investments	95,123.87	374,929.10	178,035.69	628,241.36	852,925.97	1,076,945.12	9,940,307.20	5,148,157.64	
Total	443,866.68	993,260.58	907,768.56	1,456,314.58	1,984,135.45	2,872,268.81	13,920,119.23	13,043,374.14	10,270,642.89
LESS OPERATING EXPENSES									
Expenses	35,324.81	42,334.40	50,863.47	42,010.04	298,026.86	234,622.80	593,604.28	648,328.04	
Interest	155,206.63	276,416.76	54,058.13	230,210.10	85,202.33	948,542.69	649,395.17	252,555.58	
Taxes	6,707.53	12,723.86	33,483.72	64,761.25	123,001.99	2,828.91	1,425.62	1,521,334.54	25.00
Losses	33,066.16	148,400.53			317,436.09	18,398.04	6,165.29	121,171.03	
Total	230,305.13	479,875.55	138,405.32	336,981.39	823,667.67	1,204,392.44	1,250,590.36	2,543,389.19	25.00
Net earnings	213,561.55	513,385.03	769,363.24	1,119,333.19	1,160,467.78	1,667,876.37	12,669,528.87	10,499,984.95	10,270,617.89
Special items:									
Depreciation			33,225.65		100,000.00	27,782.00	57,009.78	*1,873,719.50* *468,158.57* 2,382,012.48	
Employees compensation					138,676.49	99,558.18	965,930.89	2,177,302.00	
Stock dividend							3,000,000.00		
Carried to contingent							93,034.99		
Goodwill							1,336,370.14		
Transferred to B. of I							650,000.00		
Carried to reserve							1,873,719.50		
Carried to surplus		200,000.00			200,000.00				
Dividends		90,000.00	352,500.00	612,500.00	787,500.00	1,073,958.33	2,426,500.00	8,000,000.00	6,000,000.00
Total		290,000.00	385,725.65	612,500.00	1,226,176.49	1,201,298.51	10,402,565.30	10,202,456.41	4,270,617.89
Increase in undivided profits	213,561.55	223,385.03	383,637.59	506,833.19	*65,708.71*	466,577.86	2,266,963.57	297,528.54	
Balance forward from previous report	7,530.97	221,092.52	444,477.55	828,115.14	1,334,948.33	1,269,239.62	1,735,817.48	4,002,781.05	4,300,309.59
Total undivided profit end of period	221,092.52	444,477.55	828,115.14	1,334,948.33	1,269,239.62	1,735,817.48	4,002,781.05	4,300,309.59	8,570,927.48
Surplus	1,800,000.00	4,000,000.00	4,000,000.00	5,800,000.00	6,000,000.00	7,800,000.00	27,800,000.00	63,050,000.00	63,050,000.00
Capital	1,000,000.00	1,500,000.00	1,500,000.00	1,750,000.00	1,750,000.00	2,000,000.00	15,000,000.00	20,000,000.00	20,000,000.00

Mr. BACIGALUPI. We pass now to a hurried reference to and general description of Bankitaly Corporation, which is the second column of Chart 1 (printed at p. 1350).

In 1918, as will be noted on the right of Chart No. 1, Bankitaly Corporation was incorporated under the laws of the State of New York, with an original authorized capital of $5,000,000. This company was organized pursuant to repeated requests of Mr. A. P. Giannini by many Italians and Americans of Italian origin residing in New York, who were desirous of duplicating in that great financial metropolis of the nation, the success of a bank operated—in so far as might be permitted by the laws of that State—along the general lines and pursuant to the general policies of the Bank of Italy in California. Mr. A. P. Giannini was president of Bankitaly Corporation from the date of its incorporation to the day of its dissolution in 1928. Shortly after its incorporation it acquired the control of the East River National Bank of New York.

In 1924 Bankitaly Corporation acquired the Commercial Trust Co. of New York, which institution, after having been concerted into a national bank was, in the same year, merged with the East River National Bank.

In 1925 the Bowery Bank of New York was similarly acquired and similarly merged under the name of Bowery and East River National Bank. The East River National Bank was presided over by Dr. A. H. Giannini—brother of Mr. A. P. Giannini who went from California to New York for that purpose—from the date of its purchase by Bankitaly Corporation to the time when it merged with the Bank of America National Association of New York.

The Bank of America of New York was acquired by Bankitaly Corporation in 1928, immediately converted from a State to a national charter in March of 1928, and merged with the Bowery and East River National Bank during the following month, Dr. A. H. Giannini becoming chairman of the board and Edward C. Delafield its president.

A security affiliate of the Bank of America National Association under the name of Bankamerica Corporation was immediately formed with a capital of $10,000,000 and a surplus of $5,000,000.

It may be of historical interest to note in passing that the Bank of America, New York, is a direct successor of the First Bank of the United States, founded in 1812. The capital, surplus, and profits of the Bank of America National Association on December 31, 1929, totaled $74,428,309.59; its deposits $305,904,586.25, and its total resources $437,940,048.82. It is now operating 35 offices in New York City.

The other banks and corporations acquired by Bankitaly Corporation—given in the chronological order of their acquisition—were the following:

Capital Co., a general California corporation, acquired in 1918. Practically all of the assets of this company consist of business properties in California and elsewhere. Its principal function, therefore, is to acquire, hold title to, manage, and otherwise deal in desirable city real estate.

Banca Dell Italia Meridionale, a controlling interest in which was acquired in 1919. Its head office was then situated in Naples, Italy, and it operated two branches, one in Naples and the other in Pozzuoli. In 1922 its capital was increased from 100,000,000 lire (approximately

$5,000,000) to 200,000,000 lire (approximately $10,000,000) and its name was changed to Banca d'America ed'Italia. Its head office moved to Rome and later to Milan—the leading industrial and commercial city of Italy. This bank is to-day operating 37 branches and agencies scattered throughout the Italian peninsula; its working capital is 238,000,000 lire (approximately $12,000,000), and its total resources approximately 1,021,091,986.29 lire (approximately $51,054,599.35); it is recognized as one of the most liquid banks in Italy and ranks, in size, among the five largest banks in that nation. The entire present investment of our group in this bank amounts to $6,340,309.47.

Ameritalia is an auxiliary corporation to Banca d'America e d'Italia, organized in 1928 under the laws of Italy, with a paid up capital of 200,000,000 lire. It is an investment company and deals in both United States and European securities.

In 1926 Bancitaly Corporation acquired the French American Bank, and in 1927 the United Bank & Trust Co., both of the city of San Francisco, These banks were consolidated April 30, 1927, and the French American Corporation was established as the security affiliate of the consolidated bank. In 1928 the Security Trust Co., of Bakersfield was acquired and immediately consolidated with the United Bank & Trust Co., the name of the consolidated bank being changed to United Security Bank & Trust Co.

In addition to its ownership of these operating properties, Bancitaly Corporation invested a very large portion of its working capital in prime securities listed on the New York Stock Exchange.

The capital stock of Bancitaly Corporation was issued entirely in the form of common stock.

Exhibit O, heretofore submitted, contains a table which shows the status on January 23, 1930, of an investor who purchased 100 shares of stock in Bancitaly Corporation on the date of its organization and exercised all his rights to purchase additional shares. Such an investor—having exchanged his Bancitaly Corporation stock for Transamerica—would now own 11,069 shares of Transamerica having a present market value of approximately $487,036, at a total cost to him of $135,070, equivalent to an average cost of $12 per share. This would represent an unbooked profit of $351,966, at the market price of $44 a share, or an average profit of $32 per share. Including the dividend payment of $48,878.50, the combined gain from appreciation in market value of shares so held, with dividends received, the total would be $400,844.50. This would average 300 per cent on the investment for the period or 27 per cent per year.

Up to about the middle of 1928, the bulk of the stockholders of both the Bank of Italy and Bancitaly Corporation—about 125,000 in number—were residents of California. Both stocks were listed on the San Francisco Stock Exchange and traded in on the New York Curb. So enthusiastic were these stockholders over the results actually accomplished and realized, that many of them became greedy and borrowed funds wherewith to increase their holdings, while others, encouraged by their example and also desirous of realizing great and certain profits immediately, did likewise. The market values of these stocks under this unprecedented demand naturally increased in leaps and bounds. Outside money began to pour into California and so-

called finance companies began to spring up throughout the State advertising their readiness to lend liberally on the security of these stocks. These companies and individuals lent money freely, charging as high as 12 per cent per annum and, in some instances, a commission besides. Through our legal department, one of these concerns was arrested and prosecuted for a violation of the California law and a conviction obtained, to which wide publicity was given. These loans and the collateral supporting them were held in escrow by competing banks and by title companies. The terms of these escrows called for a selling of the stock on the market, should the market at any time reach a certain lower level. Mr. Giannini repeatedly warned the public, through the press, against this excess and cautioned the people to refrain from purchasing the stocks of these institutions unless they bought them for cash and for an investment. As the then president of the Bank of Italy, I, in my annual report to the stockholders, held January 10, 1928 (a copy of which report was mailed to every stockholder and widely commented upon by the press), had the following to say upon the subject:

> In the last analysis the sustained market value of any stock is generally reflective of the popular appraisement of present worth and future probabilities of enhancement, and while we prefer to remain silent as to what our thoughts may be upon the subject of justifiable market values, we do wish to voice the belief that with our unusual capitalization and resources, our well-distributed, well-appointed, enthusiastic, and experienced organization, our large number of seasoned, loyal, helpful, and satisfied shareholders distributed throughout the State (most of whom have come from banks acquired and now incorporated in our system); and, finally, with the cooperation of our powerful and resourceful affiliations and the prestige accruing from present position and past performances, no financial institution in California promises to share in greater measure in the increased prosperity that inevitably is in store for the West, than does the Bank of Italy.
>
> This optimistic comment, however, should not be accepted by any shareholder, who may be indebted to any source for any portion of his or her holding of bank stock, as an inducement to carry on in expectation of immediate increment or higher returns, nor should it be taken by others as an encouragement to go into debt for the purpose of increasing their holdings. Those who owe, we would urge to sell enough to clear them, and those who can not pay for what they buy, we would most strongly counsel to strictly refrain.

Despite these warnings, the market values of our stocks during the ensuing February, March, April, and May were run up to ever increasing highs. Bank of Italy passed $300 and Bancitaly Corporation passed $200 per share. Suddenly, in the first part of June, 1928, the fire of enthusiasm died out. On a limited market with many sellers and no purchasers, it was not long before the market prices were depressed to levels which in turn set off tier after tier of the above-mentioned escrows, thereby bringing about, with each new low, a new flood of selling orders. Naturally, this abnormal situation caused the stocks to descend to ridiculous lows for a short while and the unpleasant experience dampened speculative and even investment ardor for some time thereafter. The loyalty of practically all of the investing stockholders throughout the ordeal was admirable, and, as far as our banks were concerned, not the slightest evil result occurred. In fact the Bank of Italy showed a very material gain in its deposits as of June 30, 1928, over December 31, 1927.

This occurrence led to the formation of Transamerica Corporation. The reasons underlying its organization are best expressed in the

letter which Mr. A. P. Giannini addressed to the stockholders of Bank of Italy and Bancitaly Corporation on October 24, 1928, and I take the liberty of quoting its pertinent portions here:

> Pursuant to these deliberations, Transamerica Corporation was incorporated under the laws of Delaware, early this month, and the basis of exchange for Bank of Italy stock has been fixed at one and three-quarters shares of the new corporation for each share of Bank of Italy, and on the basis of share for share as between Bancitaly Corporation and Transamerica Corporation.
>
> We firmly believe that the proposed plan will have the following beneficial, advantageous, and desirable results: First, consolidation, with resulting saving in operation, into one organization of the control of not only Bank of Italy and Bancitaly Corporation, but of their affiliations as well, namely, National Bankitaly Co., California Joint Stock Land Bank, Bankitaly Agricultural Credit Corporation, Bankitaly Mortgage Co., Americommercial Corporation, Pacific National Fire Insurance Co., and Capital Co.; second, advantages of operation under the favorable corporations laws of Delaware; third, removal of the stock of the Bank of Italy and Bancitaly Corporation from the various exchanges, leaving Transamerica Corporation stock alone to be dealt in on the open market, thus eliminating from the operation of the controlled institutions themselves any concern regarding stock-market fluctuations; fourth, a wide listing of Transamerica Corporation stock on the various stock exchanges, thus insuring a broader and more stable market.

As a result of this one communication practically all stockholders of both Bank of Italy and Bancitaly Corporation exchanged their holdings for Transamerica Corporation stock on the basis fixed.

In due course Transamerica Corporation acquired varying interests in the following corporations. They are all set out on Chart No. 2, with "Transamerica" at the bottom (printed at p. 1350):

	Per cent
California Joint Stock Land Bank, having a capital of $916,000, surplus and profits of $584,546, and resources of $16,760,342	100
Bank of Italy National Trust & Savings Association and National Bankitaly Co	99.65
Bankitaly Agricultural Credit Corporation, having a capital of $1,000,000 surplus and profits of $20,337, and resources of $2,988,000	100
Bankitaly Mortgage Co., capital $1,000,000, surplus and profits $891,873, and resources of $24,767,766	100
The Bank of America National Association of New York and Bancamerica Blair Corporation. (Blair & Co., founded in 1890 and incorporated in 1920, was acquired by Transamerica Corporation in 1929 and merged with Bancamerica Corporation, the security affiliate of the Bank of America National Association, under the name of Bancamerica Blair Corporation)	59.35
Commercial Holding Co., capital $500,000, surplus and profits $1,978,473, and resources $81,423,052. This company was formed to act as an active trading company	100
Bankitaly Co. of America, capital $167,500,000, surplus and profits $213,371,268, and resources $450,796,806. This company was formed under the laws of Delaware and succeeded to the operating properties specified in the chart above its name, together with the miscellaneous listed securities theretofore owned by Bancitaly Corporation, which was legally dissolved in 1928	98.81
Occidental Corporation, the holding company owning Occidental Life Insurance Co. and Occidental Investment Co	90
Bank of America, California, and its security affiliate, Corporation of America, the successor to French American Corporation, dissolved in 1929. Bank of America of California is the result of a consolidation of the United Security Bank & Trust Co. with the Merchants National Trust & Savings Bank of Los Angeles, acquired by Transamerica Corporation in 1928: Bank of America of California has a capital of $20,000,000, surplus and profits of $13,500,733, and resources of $377,986,434. It is a State bank and not a member of the Federal reserve system. It operates a State-wide branch system through 161 branches	97.99

	Per cent
Pacific National Fire Insurance Co., capital $1,250,000, surplus and profits $1,564,622, and resources $3,231,707. This company was organized in 1911 and acquired in 1927 with the purchase of the Farmers and Merchants National Bank of Sacramento by Bancitaly Corporation. Transamerica Corporation has a capital of $585,648,700, surplus and profits of $590,863,941, and resources of approximately $1,176,512,641	100

Exhibit T is a collection of the most recent published statements of the above-named banks and insurance companies, from which may be noted not only their financial status, but the names of their principal officers and directors as well.

I present that for the record.

(Exhibit T referred to is here printed in full as follows:)

EXHIBIT T

THE BANK OF AMERICA

Directors.—George N. Armsby, vice president, Bancamerica-Blair Corporation; Frank Bailey, chairman, The Prudence Co.; Harry Bronner, director, Bancamerica-Blair Corporation; William H. Coverdale, Coverdale & Colpitts; Allen Curtis, Curtis & Sanger; Frank L. Dame, president, North American Co.; Arthur V. Davis, chairman, Aluminum Co. of America; Edward C. Delafield, president; Gayer G. Dominick, Dominick & Dominick; Archibald Douglas, Douglas, Armitage & McCann; Douglas L. Elliman, Douglas L. Elliman & Co.; Henry J. Fuller, Aldred & Co.; Emanuel Gerli, president, E. Gerli & Co.; A. H. Giannini, chairman of the board; A. P. Giannini, president, Transamerica Corporation; Otto J. A. Grassi, L. Gandolfi & Co.; Crowell Hadden, chairman, Brooklyn Savings Bank; P. C. Hale, president, Hale Bros. Stores (Inc.); George Hewlett, Hewlett & Co.; Charles W. Higley, president, Hanover Fire Insurance Co.; Robert J. Hillas, president, Fidelity & Casualty Co.; Gilbert H. Johnson, Isaac G. Johnson & Co.; Sam A. Lewisohn, Adolph Lewisohn & Son; Hunter S. Marston, vice president, Bancamerica-Blair Corporation; William S. Menden, president, B. M. T. Corporation; John Hill Morgan, Rumsey and Morgan; A. J. Mount, president, The Bank of Italy, N. T. & S. A., San Francisco; Acosta Nichols, Spencer Trask & Co.; E. J. Nolan, president, the Bank of America of California, Los Angeles; Frank C. B. Page, president, E. W. Bliss & Co.; Martin S. Paine, Magnus Co. (Inc.); Lionello Perera, vice president; R. Stuyvesant Pierrepont, New York; T. R. Preston, president, Hamilton National Bank, Chattanooga, Tenn.; John E. Rovensky, vice chairman; Nicholas M. Schenck, president, Lowe's (Inc.); R. A. C. Smith, chairman, White Rock Mineral Springs Co.; Samuel Thorne, Delafield, Thorne, Burleigh & Marsh; Alfred P. Walker, New York; Elisha Walker, president, Bancamerica-Blair Corporation.

Officers.—A. H. Giannini, chairman of the board; Edward C. Delafield, president; John E. Rovensky, vice chairman; Elisha Walker, chairman executive committee.

Wall Street office: Vice presidents: Clare Walker Banta; Gilbert E. Chapin; Charles E. Curtis, cashier; Clarence M. Fincke; Elmore F. Higgins; Edward Hudson; Lionello Perera; Edward W. Russell; Henry J. Schuler.

Comptroller: A. H. Gibson.

Assistant vice presidents: Edward Craig, William A. Creelman, P. J. Hebard, Adrian M. Massie, Mark B. Peck, Guido Perera, Gaillard B. Smith.

Auditor: William H. Stoffel.

Assistant cashiers: Henry J. Drake, Dominick Infantino, F. A. Magrath, A. Edward Scherr, jr., John H. Trowbridge.

Assistant comptrollers: A. Elliott Pinkus, F. R. Rappel.

Assistant auditors: H. L. Brummer, Robert E. Larkin, G. H. Sinclair, H. B. Tagg.

Trust department: Wm. J. Montgomery, vice president; Frederick G. Curry, vice president; Dudley F. Fowler, assistant vice president; Charles W. Devoy, trust officer; Paul E. Landon, trust officer; J. L. Crolius, assistant trust officer; Wm. R. Lockwood, assistant trust officer; J. E. Robertson, assistant trust officer.

Foreign department: L. B. Heemskerk, vice president; A. W. Austin, assistant vice president; John W. McKeon, assistant vice president; Wellington Elmer, assistant cashier; H. B. Husted, assistant cashier; Silvio Perera, assistant cashier;

F. W. C. Rideout, assistant cashier; Rodolfo Rojas, assistant cashier; F. Gonzalez-Rosa, assistant cashier.

BANKING DEPARTMENT

Commercial banking: The Bank of America National Association is essentially a commercial bank and the deposit accounts of business organizations, individuals, and banks are solicited. Liberal credit facilities are extended to industrial and commercial houses. Loans are also made on approved collateral.

Thrift department: This department accepts deposits at a higher rate of interest than that which applies to checking accounts. It is primarily intended for the small depositor who is interested in accumulating a fund which can remain undisturbed.

Collections: Collection of notes, drafts, foreign checks, and bills of exchange is the function of this department. With world-wide connections, this institution renders a collection service which is direct and efficient.

Transfers of funds: The Bank of America National Association is enabled through its membership in the Federal reserve system and its correspondents to arrange for transfers of funds to out-of-town points by wire and executes telegraphic orders from out-of-town depositors to make payments in New York City.

Credit department: The credit facilities of The Bank of America National Association are made available through a carefully organized and efficient credit department. Information as to trade conditions, markets, and industrial conditions helpful to the bank's customers is also furnished by this department.

BRANCHES

Branch office system: Through the advantageous location of branch offices in strategic business centers of greater New York we are in a position to augment our national and international banking service by a system of community banks.

Main office, 44 Wall Street; 8 Broadway, Produce Exchange Building; 257 Broadway, opposite City Hall; 105 Hudson Street, corner Franklin Street; 399 Broadway; 680 Broadway; 124 Bowery, corner Grand Street; 387 Broome Street; 28 Mulberry Street; 282 Seventh Avenue; 1451 Broadway; Madison Avenue, corner Fortieth Street; Seventieth Street, corner Madison Avenue; 2018 First Avenue, corner One hundred and fourth Street; One hundred and sixteenth Street, corner First Avenue; 363 East One hundred and forty-ninth Street; 4547 Third Avenue; Westchester and Castle Hill Avenues; 3556 White Plains Avenue.

Brooklyn: 16 Court Street; 166 Montague Street; Court Street, corner Schermerhorn; 294 Livingston Street; Flatbush Avenue extension at De Kalb Avenue; 41 Washington Avenue; 211 Fourth Avenue; 131 Union Street; Avenue U and West Fifth Street; Fifty-fifth Street and Thirteenth Avenue; 6323 Fourteenth Avenue; 934 Third Avenue; 4924 Fourth Avenue; 8524 Fifth Avenue.

Staten Island: 577 Bay Street, Stapleton, Staten Island.

Queens: Roosevelt and Alburtis Avenues, Corona, Long Island.

STATEMENT OF CONDITION, DECEMBER 31, 1929

Resources

Cash in vault and in Federal reserve bank	$26, 447, 459. 33	
Due from banks and bankers	99, 115, 462. 67	
		$125, 562, 922. 00
United States Government securities		19, 980, 361. 74
Other securities		33, 750, 229. 63
Loans and discounts		218, 323, 795. 05
Customers' liability under acceptances		38, 540, 863. 94
5 per cent redemption fund with United States Treasury		225, 000. 00
Accrued interest receivable and other assets		1, 556, 876. 46
		437, 940, 048. 82

Liabilities

Capital	$35, 775, 300. 00	
Surplus	35, 500, 000. 00	
		$71, 275, 300. 00
Undivided profits		3, 153, 009. 59
Reserved for contingencies, taxes, interest, etc		1, 869, 035. 92
Deposits		305, 904, 586. 25
Liability as acceptor, indorser or maker on acceptances and foreign bills		50, 832, 499. 52
Circulation		4, 174, 920. 00
Unearned discount		702, 235. 82
Other liabilities		28, 461. 72
		437, 940, 048. 82

FOREIGN DEPARTMENT

Foreign banking: The foreign department of The Bank of America National Association is more than 100 years old. This department finances imports from all parts of the world; finances exports to all parts of the world; buys and sells foreign exchange-draft or cable; issues travelers' letters of credit and travelers' checks, insuring proper introduction to our correspondents abroad and safe and convenient carrying of funds.

Foreign market information: The foreign department has on file reports on many of the larger concerns in important foreign cities and all information that it has obtained or can obtain is at the disposal of customers.

TRUST DEPARTMENT

The fiduciary field embraces a variety of services enabling this bank to assist both individuals and corporations in the management and conservation of all forms of property.

Personal trusts: The personal trust department accepts appointments as executor to settle estates of deceased persons under will; administrator to settle estates of deceased persons under court appointment; testamentary trustee to conserve and manage estates under the provisions of a will; trustee under agreement to conserve and manage estates under living or voluntary trusts; custodian to care for securities, relieving the owner of routine and detail, without his relinquishing control; guardian of the estate of minors; committee of the property of incompetents; agent for individuals.

The Bank of America National Association administrator to settle estates of deceased persons under court appointment; testamentary trustee to conserve and manage estates under the provisions of a will; trustee under agreement to conserve and manage estates under living or voluntary trusts; custodian to care for securities, relieving the owner of routine and detail, without his relinquishing control; guardian of the estate of minors; committee of the property of incompetents; agent for individuals.

Corporate trusts: The corporate trust department accepts appointments as depositary and agent under escrow, reorganization and voting trust agreements; receiver; registrar of stocks and bonds; transfer and fiscal agents for corporations; trustee under indentures covering note issues; trustee under mortgages securing bond issues; agent for corporations.

Statistical service: Statistical information gathered under the supervision of men trained in analyzing investment securities is available to our depositors without charge.

THE BANK OF AMERICA SAFE DEPOSIT CO.

Modern safe deposit facilities are at the disposal of customers at the following offices: 44 Wall Street, New York; 105 Hudson Street, at Franklin Street; 680 Broadway at Great Jones Street; 124 Bowery at Grand Street; 28 Mulberry Street; 1451 Broadway at Forty-first Street; 21 East Fortieth Street at Madison Avenue; 843 Madison Avenue at Seventieth Street; 2261 First Avenue at One hundred and sixteenth Street; 4547 Third Avenue at One hundred and eighty-fourth Street; 3556 White Plains Avenue at Two hundred and twelfth Street; Westchester and Castle Hill Avenues; 166 Montague Street, Brooklyn, N. Y.; 294 Livingston Street, Brooklyn, N. Y.; 934 Third Avenue, Brooklyn, N. Y.; 131 Union Street, Brooklyn, N. Y.; 211 Fourth Avenue, Brooklyn, N. Y.; Roose-

velt and Alburtis Avenues, Corona, Long Island; 577 Bay Street, Stapleton, Staten Island, N. Y.

BANCAMERICA-BLAIR CORPORATION

(Identical in ownership with the Bank of America National Association)

Bancamerica-Blair Corporation, formed by consolidation of the international investment house of Blair & Co. (Inc.) and The Bancamerica Corporation, is the security affiliate of The Bank of America National Association. It offers to customers of the bank a complete investment service, maintaining wire connections with principal cities in the United States and abroad.

The corporation underwrites and distributes original issues of investment securities, and offers with recommendation, selected and diversified bonds and stocks. It will gladly give information regarding investments and review security holdings upon request.

The principal office of Bancamerica-Blair Corporation is located temporarily at 24 Broad Street, New York City. Other offices are as follows: Albany, Atlanta, Baltimore, Boston, Buffalo, Chicago, Cincinnati, Cleveland, Hartford, Los Angeles, Milwaukee, Minneapolis, Oakland, Omaha, Philadelphia, Pittsburgh, Portland, Oreg., Portland, Me., Providence, Rochester, St. Louis, St. Paul, San Diego, San Francisco, Scranton, Seattle, Syracuse.

Affiliated offices in London, Paris, Berlin, Rome, and Milan.

BANCA D'AMERICA E D'ITALIA

[Societa Anonima—Sede, Sociale, Roma, capitale sociale L.200,000,000 interamente versato—riserv L.38,000,000—direzione generale, Milano]

Situazione dei conti al 31 Ottobre 1929

ATTIVO

Cassa e depositi liquidi presso Istituti		L.121, 994, 442. 91
Titoli di Stato e garantiti dallo Stato		129, 818, 711. 05
Portafoglio:		
Proprio		196, 934, 482. 89
Incasso		22, 055, 727. 22
Riporti:		
Su titoli di Stato e garantiti dallo Stato	L.11, 225, 401. 55	
Su titoli industriali	34, 944, 916. 10	
		46, 170, 317. 65
Titoli di Proprieta		7, 294, 258. 63
Correntisti—Saldi debitori		102, 971, 816. 18
Banche e corrispondenti—Saldi debitori		268, 329, 123. 13
Conti correnti garantiti		47, 481, 607. 67
Debitori per accettazioni ed avalli		52, 857, 640. 10
Stabili ed Impianti		5, 309, 177. 14
		1, 001, 217, 304. 57

Conti d'ordine

Titoli e Merci:		
A cauzione di servizio	12, 646, 372. 90	
A garanzia	91, 485, 904. 37	
In deposito	561, 094, 270. 80	
Della Cassa Prev. Impieg.	3, 914, 212. 15	
		669, 140, 760. 22
		1, 670, 358, 064. 79

PASSIVO

Capitale		L.200, 000, 000. 00
Riserve		38, 000, 000. 00
Depositi a risparmio		134, 001, 722. 60
Banche e corrispondenti—Saldi creditori		498, 162, 094. 32
Cedenti all'incasso		41, 326, 906. 97
Assegni in circolazione:		
Circolari	L. 21, 322, 997. 67	
Ordinari	3, 073, 837. 58	
		24, 396, 835. 25
Accettazioni e avalli conto terzi		52, 857, 640. 10
Fondo Previdenza Impiegati		617, 036. 47
Dividendi in corso ed arretrati		612, 051. 00
Risconto dell'attivo		2, 478, 449. 00
Utili		8, 764, 568. 86
		1, 001, 217, 304. 57

Conti d'ordine

Titoli e Merci:		
A cauzione di servizio	L. 12, 646, 372. 90	
A garanzia	91, 485, 994. 37	
In deposito	561, 094, 270. 80	
Della Cassa Prev. Impieg	3, 914, 212. 15	
		669, 140, 760. 22
		1, 670, 358, 064. 79

Il Presidente del Consiglio de Amm.ne, V. Scialoja.
Il Direttore Generale, A. Alvino.
Un Sindaco, G. Moro.
p. Il Contabile Capo, G. Marinello.

Ameritalia Societa Anonima—Sede Sociale: Milano; capitale interamente versato L. 200,000,000; riservato statutariamente agli Azionisti della Banca D'America e D'Italia (mediesma Direzione).

CONSIGLIO DI AMMINISTRAZIONE

Presidente: S. E. Gr. Cr. Prof. Vittorio Scialoja.
Vice presidenti: Rubino Gr. Uff. Avv. Michele, Mele Gr. Uff. Dott. Davide.
Consiglieri: Alvino Comm. Angelo, Del Gaizo Gr. Uff. Luigi, Ferrando Cav. John, Ferrara Comm. Edoardo, Fimiani Ing. Quirino, Giannini Amedeo P, Giannini Comm. L. Mario, Grant, John M., Hale, Prentis C., Latorraca Cav. Francesco, Liccioli Ing. Mario, Passalacqua Gr. Uff. Marco, Pedrini Comm. Armando, Perera Comm. Lionello, Taussig Comm. Dott. Edoardo, Vitelli Comm. Crescenzo, Zunino Frank A.
Segretario del consiglio: Gianrini Comm. Avv. Emilio.
Sindaci effettivi: Cortinois Dott. Rag. Angelo, Di Trani Rag. Michele, Lari Avv. Cesare, Leva Avv. Domenico, Moro Prof. Rag. Gr. Uff. Giovanni.

ADVISORY COMMITTEE

James A. Bacigalupi, P. C. Hale, L. M. Giannini.

GENERAL EXECUTIVE COMMITTEE

L. M. Giannini, member advisory committee, chairman; A. J. Mount, president, vice chairman; W. E. Blauer, vice president, vice chairman; Orra E. Monnette, vice chairman board of directors, vice chairman; George A. Webster, vice president, vice chairman; James A. Bacigalupi, past president, member advisory committee; W. A. Bonynge, vice president; G. A. Davidson, vice chairman board of directors, Louis Ferrari, vice president; A. P. Giannini, past president; A. J. Gock, vice president; Morgan A. Gunst, vice president; P. C. Hale, vice president, member advisory committee; W. H. Harrelson, vice president; A. Pedrini, vice president; L. Scatena, chairman board of directors; A. E. Sbarboro, vice president; E. J. Wightman, vice president; W. H. McGinnis, secretary.

GENERAL FINANCE COMMITTEE

W. E. Blauer, vice president, chairman; A. J. Mount, president, vice chairman; A. J. Gock, vice president, vice president, vice chairman; W. E. Bentz, vice president; Louis Ferrari, vice president; Fred A. Ferroggiaro, vice president; Morgan A. Gunst, vice president; A. W. Hendrick, vice president; George Panario, vice president; A. E. Sbarboro, vice president; R. E. Trengove, vice president; George A. Webster, vice president.

BOARD OF MANAGEMENT, SAN FRANCISCO DIVISION

A. J. Mount, president, chairman; A. Pedrini, vice president, vice chairman; George A. Webster, vice president, vice chairman; W. E. Baluer, vice president; R. B. Burmister, vice president and cashier; Louis Ferrari, vice president; A. J. Gock, vice president; Morgan A. Gunst, vice president; W. H. Harrelson, vice president; A. W. Hendrick, vice president; F. R. Kerman, vice president; W. J. Kieferdorf, vice president; E. Leimert, vice president; A. E. Sbarboro, vice president; W. R. Williams, vice president.

BOARD OF MANAGERS, LOS ANGELES DIVISION

H. R. Erkes, vice president, chairman; W. A. Bonynge, vice president, vice chairman; W. J. Braunschweiger, vice president, vice chairman; W. E. Benz, vice president; A. H. Brouse, vice president; H. R. Coulter, vice president; G. A. Davidson, vice chairman board of directors; Orra E. Monnette, vice chairman board of directors; Marc Ryan, vice president; R. E. Trengove, vice president; E. J. Wightman, vice president.

REPRESENTATIVES

London, John M. Grant, vice president, 13 Moorgate; New York, H. P. Preston, vice president, 44 Wall Street; Chicago, A. A. Wilson, vice president, 105 West Adams Street.

BRANCHES

Alameda, Alhambra, Anaheim, Anderson, Angels Camp, Arcadia, Arcata, Atwater, Bakersfield, Benicia, Berkeley, Beverly Hills, Brawley, Burbank, Burlingame, Camarillo, Centerville, Chico, Chula Vista, Colma, Compton, Concord, Corning, Coronado, Crescent City Culver, City, Daly City, Danville, Dos Palos, Eagle Rock, East Bakersfield, El Centro, Emeryville, Escondido, Eureka, Fairfax, Fillmore, Firebaugh, Fort Bragg, Fortuna, Fresno, Fullerton, Gilroy, Glendale, Gridley, Gustine, Half Moon Bay, Hanford, Hayward, Healdsburg, Highland Park, Hollister, Hollywood, Huntington Park, Kelseyville, King City, Knights Landing, La Jolla, Lakeport, La Mesa, Lancaster, Lankershim, Live Oak, Livermore, Lodi, Lompoc, Long Beach, Los Angeles, Los Banos, Los Gatos, Madera, Manteca, Martinez, Marysville, Mayfield, Mendocino, Merced, Mill Valley, Modesto, Monrovia, Monterey, Morgan Hill, Mountain View, Napa, National City, Newhall, Oakland, Ocean Beach, Ocean Park, Oceanside, Ojai, Ontario, Orange, Oroville, Palmdale, Palo Alto, Pasadena, Paso Robles, Pescadero, Petaluma, Piru, Pittsburg, Placentia, Pleasanton, Pomona, Redding, Redondo Beach, Redwood City, Reedley, Roseville, Sacramento, Salinas, San Anselmo, San Bernardino, San Bruno, San Diego, San Fernando, San Francisco, Sanger, San Jose, San Juan Bautista, San Leandro, San Luis Obispo, San Mateo, San Miguel, San Pedro, San Rafael, Santa Ana, Santa Barbara, Santa Clara, Santa Cruz, Santa Maria, Santa Monica, Santa Paula, Santa Rosa, Sausalito, Sawtelle, Selma, Shafter, Soledad, Sonoma, South San Francisco, St. Helena, Stockton, Sunnyvale, Taft, Tipton, Torrance, Tracy, Tulare, Ukiah, Cacaville, Vallejo, Van Nuys, Venice, Ventura, Visalia, Walnut Creek, Wasco, Watsonville, Wheatland, Willows, Wilmington, Winters, Woodland, Yreka, Yuba City.

A national bank—Condensed statement of condition, Bank of Italy, National Trust & Savings Association, December 31, 1929

RESOURCES

First mortgage loans on real estate	$243, 945, 840. 55	
Other loans and discounts	297, 671, 877. 15	
		$541, 617, 717. 70
United States bonds and certificates of indebtedness	177, 894, 688. 63	
State, county, and municipal bonds	49, 935, 009. 89	
Other bonds and securities	15, 859, 041. 20	
Stock in Federal reserve bank	2, 850, 000. 00	
Total United States and other securities		246, 538, 739. 72
Due from Federal reserve bank	$25, 626, 547. 95	
Cash and due from other banks	158, 240, 958. 80	
Total cash and due from banks		183, 867, 506. 75
Banking premises, furniture, fixtures, and safe deposit vaults (292 banking offices in California)		31, 958, 656. 19
Other real estate owned		4, 100, 448. 62
Customers' liability under letters of credit and acceptances		37, 506, 471. 70
Customers' liability on bills purchased and sold		3, 881, 415. 04
Interest earned on bonds and loans		4, 974, 555. 62
Other resources		667, 861. 75
Total resources		1, 055, 113, 373. 09

LIABILITIES

Deposits:		
Savings	$582, 873, 629. 68	
Commercial	311, 019, 103. 19	
		893, 892, 732. 87
Letters of credit and acceptances		37, 506, 471. 70
Bills sold with our endorsement		3, 881, 415. 04
Circulation		8, 566, 080. 00
Dividends unpaid		3, 015, 514. 96
		946, 862, 214. 57
Capital	$50, 000, 000. 00	
Surplus and profits	58, 251, 158. 52	
Invested capital		108, 251, 158. 52
Total liabilities		1, 055, 113, 373. 09

All charge-offs, expenses, and interest payable to end of year have been deducted in above statement.

More than 1,500,000 depositors.

DIRECTORS

Edw. C. Aldwell, James A. Bacigalupi, W. A. Bonynge, H. Cartan, Eustace Cullinan, G. A. Davidson, P. J. Dreher, Paul B. Fay, Alfred Ghirardelli, George J. Giannini, A. J. Gock, Morgan A. Gunst, P. C. Hale, C. N. Hawkins, L. M. MacDonald, J. A. Migliavacca, A. J. Mount, N. A. Pellerano, A. E. Scarboro, Myer Siegel, Waller Taylor, E. J. Wightman, O. J. Woodward, Geo. W. Peltier, W. W. Garthwaite, W. J. Kieferdorf, Dr. D. E. Bacigalupi, W. E. Blauer, Dr. G. E. Caglieri, C. C. Chapman, Clarence P. Cuneo, W. W. Douglas, Will S. Fawcett, Mark E. Fontana, A. P. Giannini, L. M. Giannini, Chas. F. Grondona, Marshal Hale, Wm. H. Harrelson, J. F. Leahy, John G. Mattos, jr., Orra E. Monnette, A. Pedrini, Robt. D. Rossi, L. Scatena, J. H. Skinner, R. B. Teffy, George Webster, Jos. F. Cavagnaro, Louis Ferrari, F. A. Ferroggiaro.

Bank of America of California

Statement of condition at close of business, December 31, 1929

Resources:	
Loans and discounts	$244, 145, 134. 59
United States and municipal bonds, other securities	56, 636, 622. 43
Bank premises, equipment, and vaults	12, 034, 317. 21
Customers' liability under acceptance and letters of credit	3, 228, 997. 24
Earned interest receivable	3, 000, 510. 51
Other resources	1, 519, 452. 72
Cash and due from banks	57, 421, 399. 77
Total resources	377, 986, 434. 47
Liabilities:	
Capital stock	20, 000, 000. 00
Surplus	7, 000, 000. 00
Undivided profits	6, 500, 733. 24
Reserve for interest, taxes, etc	1, 778, 238. 57
Acceptances and letters of credit	3, 252, 426. 24
Other liabilities	1, 820, 463. 65
Deposits	337, 634, 572. 77
Total liabilities	377, 986, 434. 47

Total resources of the Bank of America of California, the Corporation of America, Merchants National Realty Corporation, America Investment Co., and affiliated banks and trust companies owned or controlled by the stockholders of the Bank of America of California are in excess of $400,000,000.

OFFICERS

President: E. J. Nolan.

Vice presidents: C. R. Bell, Marco H. Hellman, Irving H. Hellman, Will F. Morrish, Howard Whipple, R. M. Philleo (cashier), H. H. Ashley (manager trust department), H. R. Coulter (comptroller), Robert R. Yates, F. N. Belgrano, jr., Louis H. Moore, R. W. Watson, J. A. Westmoreland, J. M. Dupas, Arthur S. Crites, John M. Perry, Hilliard E. Welch, T. J. Brant, J. H. Rosenberg, C. W. Prollius, G. W. Schmitz, A. G. Maurer, B. H. Brown, G. L. Pape, H. B. Kelley, Thomas M. Williams, Stewart McKee, E. A. Winstanley, Roger Bocqueraz, J. A. Taylor, L. S. Colyer (trust officer), J. E. McGuigan (trust officer), F. H. Gay, and G. M. McClerkin.

COMPREHENSIVE TRUST SERVICE

The trust department acts as executor, administrator, guardian, and as trustee under wills; also as trustee under living trusts, in life insurance trust agreements, and for subdivisions. The corporate trust department is equipped to act as trustee under indentures to secure bond issues, as transfer agent and registrar of corporate stocks, as dividend disbursing agent, and as depository for reorganization committees.

To the permanency and financial responsibility of a corporate trustee, the trust department of this bank adds the advantages of state-wide facilities, years of experience, and the most modern equipment in conducting all forms of trust activity for its clients.

AMERICA INVESTMENT CO. OWNED BY THE SHAREHOLDERS OF BANK OF AMERICA OF CALIFORNIA

Complete investment service, including the underwriting and distribution of high-grade securities, is afforded. Stocks and bonds, listed and unlisted, are bought and sold in all markets. Direct access to private wires permits prompt execution of New York Stock Exchange transactions.

Members: Los Angeles Stock Exchange and Los Angeles Curb Exchange. Associate members: San Francisco Stock Exchange and San Francisco Curb Exchange.

Business with the America Investment Co. may be transacted through any branch of the Bank of America of California.

SAN FRANCISCO BRANCHES

Northern division headquarters, 631 Market Street.
Bay View, 4850 Third Street.
Bush-Montgomery, Bush and Montgomery Streets.
Donohoe-Kelly, 68 Sutter Street.
French American, 108 Sutter Street.
Fugazi, 2 Columbus Avenue.
Hayes Valley, 498 Hayes Street.
Humboldt, 783 Market Street.
North Beach, 1500 Stockton Street.
Oriental, 939 Grant Avenue.

SAN FRANCISCO REGIONAL ADVISORY BOARD

Leon Bocqueraz, chairman of the board of directors; Wyatt Allen, grain broker; C. J. Auger, jeweler; J. A. Bergerot, insurance; X. de Pichon, agent, Compagnie du Bolco; George Filmer, Filmer, Bradford & Maxwell; L. S. Goldstein, president L. S. Goldstein Co.; Christian Hellwig, capitalist; W. J. Hotchkiss, president Standard Creamery Co.; A. P. Jacobs, president Jacobs, Nalcolm & Burt; A. G. Luchsinger, jr., vice president Humboldt branch; Louis R. Lurie, president the Lucie Co.; R. D. McElroy, real estate and insurance; G. W. McNear, importer and exporter; Dr. Howard Morrow, physician; Dr. J. H. O'Connor, physician; Oliver J. Olson, president Oliver J. Olson Co., shipping; A. Pechoultres, president Pacific Realty Co.; G. Pouchan, capitalist; C. R. Puckhaber, vice president Fresno branch; Carl Raiss, Carl Raiss & Co.; Arthur E. Rowe, capitalist; Adolph P. Scheld, capitalist; Dr. T. E. Shumate, president Shumate Pharmacies; John G. Sutton, capitalist; Kenneth Walsh, Walsh, O'Connor & Co.

BOARD OF DIRECTORS

Chairman: Leon Bocqueraz.
Members: Morgan Adams, president Mortgage Guarantee Co., Los Angeles; H. H. Ashley, vice president and manager trust department; C. H. Baker, C. H. Baker Co., San Francisco and Los Angeles; Thomas W. Banks, Banks, Huntley & Co., Los Angeles; F. N. Belgrano, jr., vice president; C. R. Bell, vice president; Arthur S. Bent, president Bent Bros., Los Angeles; Roger Bocqueraz, vice president American Solvents & Chemical Co., San Francisco; T. J. Brant, director Title Insurance & Trust Co., Los Agneles; B. C. Brown, Chas. Brown & Sons, San Francisco; Louis M. Cole, president Royal Packing Co., Los Angeles; R. H. Collins, Collins Kelvinator Corporation, Pasadena; H. H. Cotton, chairman executive committee, Municipal Bond Co., Los Angeles; H. R. Coulter, vice president and comptroller; Arthur S. Crites, vice president; O. K. Cushing, Cushing & Cushing, attorneys, San Francisco; A. de Bretteville, vice president J. D. & A. B. Spreckels Securities Co., San Francisco; D. M. Dorman, chairman of boardof directors, California Dairies, (Inc.), Los Angeles; J. M. Dupas, vice president; E. E. Duque, secretary and general manager California Portland Cement Co., Los Angeles; F. J. Edoff, capitalist, Oakland; D. K. Edwards, capitalist, Los Angeles; Herbert W. Erskine, Keyes & Erskine, attorneys, San Francisco; C. W. Fay, vice president Fay Improvement Co., San Francisco; W. D. Fennimore, president California Optical Co., San Francisco; F. W. Flint, jr., capitalist, Los Angeles; H. W. Frank, Harris & Frank, Los Angeles; H. C. Fryman, president Hayward Hotel Co., Los Angeles; James A, Gibson, jr., Gibson, Dunn & Crutcher, attorneys, Los Angeles; J. A. Grennan, John A. Grennan, real estate, San Francisco; Alfred Harrell, the Bakersfield Californian, Bakersfield; Marco H. Hellman, vice president; Irving H. Hellman, vice president; James W. Hellman, president Hellman Hardware Co., Los Angeles; Will E. Keller, capitalist, Los Angeles; John E. Marble, capitalist, Los Angeles; Henry S. McKee, president American Capital Corporation, president Pacific Investing Corporation, Los Angeles; Clay Miller, Clay Miller & Co., San Francisco; A. F. Morlan, president Title Guarantee & Trust Co., Los Angeles; Will F. Morrish, vice president; E. J. Nolan, president; Geo. L. Payne, Payne's Bolt Works, San Francisco; John M. Perry, vice president; R. M. Phillco, vice president and cashier; Paul A. Pflueger, partner, Max I. Koshland Co., San Francisco; R. I. Rogers, capitalist, Los Angeles; James Shultz, capitalist, Los Angeles; Howard Sprecels, the Spreckels Companies, San Francisco; Joseph Toplitzky, Joseph Toplitzky Co., real estate and investments, Los Angeles; Nion R. Tucker, Tucker, Hunter, Dulin & Co., San Francisco; H. A. Van Norman, chief engineer and general manager, bureau of water-

works and supply, city of Los Angeles; O. A. Vickrey, O. A. Vickrey & Co., real estate, Los Angeles; Hilliard E. Welch, vice president; Howard Whipple, vice president; Robert R. Yates, vice president.

HEAD OFFICE AND BRANCHES

Head office: 660 South Spring Street, Los Angeles.

Branches: Alameda, Alturas, Anaheim, Antioch, Arcata, Arroyo Grande, Auburn, Bakersfield (2 branches), Bell, Berkeley (7 branches), Bieber, Bishop, Brentwood, Chino, Chowchilla, Cloverdale, Colfax, Colton, Dinuba, Dixon, Dunsmuir, Elk Grove, Encinitas, Exeter, Fall River Mills, Fellows, Florence, Fowler, Fresno, Gardena, Geyserville, Glendale, Graham, Grass Valley, Healdsburg, Hermosa Beach, Hilmar, Hollister, Hollywood, Huntington Park, Isleton, La Habra, Lincoln, Livingston, Lodi, Lone Pine, Los Angeles (36 branches), Maricopa, Modesto, Monterey Park, Napa, Nevada City, Newcastle, Norwalk, Oakdale, Oakland (11 branches), Orland, Pacific Grove, Palm Springs, Petaluma, Pismo Beach, Placerville, Point Reyes Station, Ramona, Red Bluff, Redlands, Richmond, Ripon, Riverside, Sacramento (4 branches), St. Helena, San Bernardino, San Carlos, San Clemente, San Diego, San Francisco (10 branches), San Jose, San Luis Obispo, San Pedro, Santa Rosa, Solana Beach, South Pasadena, Stockton, Suisun, Susanville, Taft, Tomales, Truckee, Turlock, Upland, Vallejo, Valley Ford, Visalia, Walnut Park, Whittier, Williams, Yuba City.

Mr. BACIGALUPI. Each of these corporations is operated entirely independent of the others and managed—in so far as the ordinary conduct of their business is concerned—exclusively by its own competent body of officers and directors. Naturally, Transamerica Corporation exercises its legitimate prerogatives as the principal owner and keeps in constant touch with the activities of its various properties through regular reports that are issued within the organizations for the information and guidance of their own officers. Practically all of the policies of these various institutions were established before Transamerica Corporation was formed, and are still pursued. Any radical departure from any of these policies or abnormal expenditures, however, would call for prior consultation and consent of the management of Transamerica Corporation. The sole concerns of Transamerica Corporation are to select and maintain competent boards of directors and managements for its holdings and to cooperate with them in promoting the efficiency and profitableness of their operations.

The financial dealings between Transamerica Corporation and its controlled banks are purely those of depositor and depositary.

As between the subsidiaries themselves, all financial transactions are kept wholly within the law and the dictates of sound business judgment. Borrowings by subsidiary companies from any of the subsidiary banks have been and are exceptional and entirely upon a well secured basis (listed stocks and bonds with an ample margin).

As between the subsidiary banks in the matter of bank deposits and exchange, all other things being equal, preference is given by one to the other, but as regards new business, where they chance to operate in the same territory, keenest legitimate competition is the rule. Each subsidiary possessing a competent management and being held responsible for the safe and profitable conduct of its own affairs, no other attitude could reasonably be expected.

Exhibit U contains a copy of the articles of incorporation, a copy of the by-laws, and a list of the directors and principal officers of Transamerica Corporation.

(Exhibit U, referred to is here printed in full, as follows:)

DIRECTORS OF TRANSAMERICA CORPORATION

Elisha Walker, chairman board of directors Transamerica Corporation
George N. Armsby, vice president Bancamerica-Blair Corporation
J. A. Bacigalupi, general counsel Transamerica Corporation and chairman advsiory committee Bank of Italy National Trust & Savings Association.
C. R. Bell, vice president Bank of America of California.
W. E. Blauer, vice president and chairman general finance committee Bank of Italy National Trust & Savings Association.
Leon Bocqueraz, chairman board of directors Bank of America of California.
Harry Bronner, director Bancamerica-Blair Corporation.
Edward H. Clark, president Cerro de Pasco Copper Corporation and president Home State Mining Co.
Paul D. Cravath, Cravath, de Gersdorff, Swaine & Wood, attorneys, New York.
Edward C. Delafield, president the Bank of America National Association, New York.
Louis Ferrari, vice president Bank of Italy National Trust & Savings Association.
W. W. Garthwaite, vice chairman board of directors Bank of Italy National Trust & Savings Association.
A. H. Giannini, chairman board of directors the Bank of America National Association, New York.
A. P. Giannini, chairman advisory committee Transamerica Corporation.
L. M. Giannini, president Transamerica Corporation.
C. N. Hawkins, president California Cattlemen's Association.
P. C. Hale, vice president and member advisory committee, Bank of Italy National Trust & Savings Association.
Hunter S. Marston, president Bancamerica-Blair Corporation.
Jean Monnet, vice chairman board of directors, Transamerica Corporation.
W. F. Morrish, vice president Bank of America of California.
A. J. Mount, president Bank of Italy National Trust & Savings Association.
E. J. Nolan, president Bank of America of California.
A. Pedrini, vice president Bank of Itaiy National Trust & Savings Association.
H. P. Preston, vice president Transamerica Corporation.
J. E. Rovensky, vice chairman board of directors the Bank of America National Association, New York.
A. E. Sbarboro, vice president Bank of Italy National Trust & Savings Association.
E. R. Tinker, chairman executive committee Bancamerica-Blair Corporation.
George A. Webster, vice president Bank of Italy National Trust & Savings Association.

BY-LAWS OF TRANSAMERICA CORPORATION

OFFICES

1. The principal office shall be in the city of Wilmington, county of New Castle, State of Delaware, and the name of the resident agent in charge thereof is the Corporation Trust Co. of America.

The corporation may also have offices at such other places as the board of directors may from time to time appoint or the business of the corporation may require.

SEAL

2. The corporate seal shall have inscribed thereon the name of the corporation, and the words "Incorporated October 11, 1928, Delaware." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise. The secretary may have duplicate seals made and deposited for use with such officers as the board of directors may designate.

STOCKHOLDERS' MEETINGS

3. The first or organization meeting of the stockholders shall be held at 460 Montgomery Street, San Francisco, Calif. All other meetings of the stockholders shall be held at the office of the corporation in the city of Wilmington, county of New Castle, State of Delaware: *Provided, however,* That the board of directors

may hold said meetings in such other office or place as the said board may designate.

4. An annual meeting of the stockholders, after the year 1928, shall be held on the second Saturday of February in each year, if not a legal holiday, and if a legal holiday, then on the next Saturday following, at 10 o'clock a. m., when they shall elect by a plurality vote, by ballot, a board of directors, and transact such other business as may properly be brought before the meeting.

5. The holders of a majority of the stock issued and outstandlng, and entitled to vote thereat, present in persons, or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by law, by the certificate of incorporation or by these by-laws. If, however, such majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person, or by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented any business may be transacted which might have been transacted at the meeting as originally notified.

6. At each meeting of the stockholders every stockholder having the right to vote shall be entitled to vote in persons, or by proxy appointed by an instrument in writing subscribed by such stockholder or by his duly authorized attorney and submitted to the secretary at or before such meeting and bearing a date not more than three yaers prior to said meeting, unless said instrument provides for a longer period. Each stockholder shall have 1 vote for each share of stock having voting power, registered in his name on the books of the corporation, except that no share of stock shall be voted on at any election for directors which has been transferred on the books of the corporation within 20 days next preceding such election: *Provided, however,* That the board of directors shall have power to close the stock transfer books of the corporation for a period not exceeding 40 days preceding the date of any meeting of stockholders, or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect: *Provided, however,* That also in lieu of closing the stock transfer books as aforesaid, the board of directors shall have authority to fix, in advance, a date not exceeding 40 days preceding the date of any meeting of stockholders, or the date for any payment of dividend, or the date for the allotment of rights of the date when any change or conversion or exchange of capital stock shall go into effect as a record date for the determination of the stockholders entitled to notice of and to vote at any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any change, conversion, or exchange of capital stock, and in such case only such stockholders as shall be stockholders of record on the date so fixed shall be so entitled to such notice of and to vote at such meeting or to receive payment of such dividend, or to receive such allotment of right, or to exercise such rights as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid. The vote for directors, and, upon the demand of any stockholder, the vote upon any question before the meeting, shall be by ballot. All actions shall be had and all questions decided by a plurality vote.

7. Written notice of the annual meeting shall be mailed to each stockholder entitled to vote thereat at such address as appears on the stock book of the corporation, at least 10 days prior to the meeting.

8. Special meetings of the stockholders, for any purpose, or purposes, unless otherwise prescribed by statute, may be called by the president, and shall be called by the president or secretary at the request in writing of a majority of the board of directors, or at the request in writing of stockholders owning a majority in amount of the entire capital stock of the corporation issued and outstanding, and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

9. Business transacted at all special meetings shall be confined to the objects stated in the call.

10. Written notice of a special meeting of stockholders, stating the time and place and object thereof, shall be mailed, postage prepaid, at least 10 days before such meeting, to each stockholder entitled to vote thereat at such address as appears on the books of the corporation.

11. All notices required by these by-laws or otherwise to be mailed may be mailed either from the principal office of the corporation at Wilmington, Del., or from any other office or place that may be determined by the board of directors.

DIRECTORS

12. The property and business of this corporation shall be managed by its board of directors, three in number. Directors need not be stockholders. They shall be elected at the annual meeting of the stockholders and each director shall be elected to serve until his successor shall be elected and shall qualify.

13. The directors may hold their meetings and have one or more offices, and keep the books of the corporation, except the original or duplicate stock ledger, outside of Delaware or at such other offices of the corporation or other places as they may from time to time determine.

14. In addition to the powers and authorities by these by-laws expressly conferred upon them, the board may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

COMMITTEES

15. There shall be an executive committee of such number as the board of directors may determine, appointed by the board of directors, all of whom shall be members of the board of directors. The members of the executive committee shall hold office for one year and until their respective successors shall be appointed. The executive committee shall, between sessions of the board, have all the powers of the board of directors in the management of the business and affairs of the corporation, and shall have power to authorize the seal of the corporation to be affixed to all papers which may require it. The taking of any action by the executive committee shall be conclusive evidence that the board of directors was not, at the time of such action, in session.

16. The secretary or a member of the executive committee shall keep minutes of all its proceedings and all proceedings shall, from time to time, be reported to the board of directors and shall be subject to revision or alteration by the board of directors provided no rights of third parties shall be affected by such revision or alteration. The presence of two members of the executive committee shall constitute a quorum for the transaction of business. The executive committee may take action without a meeting on the written approval of such action by a majority of the committee. A majority of the directors may fill vacancies in the executive committee. The board of directors shall appoint the chairman of the executive committee and a vice chairman or such number of vice chairmen as the board may determine.

The board of directors may appoint other committees, each committee to consist of two or more of the directors which, to the extent provided in the resolution appointing the committee or in these by-laws, shall have and may exercise the powers of the board of directors and the management of the business and affairs of the corporation and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in these by-laws or as may be determined from time to time by resolution adopted by the board of directors. Every committee shall keep regular minutes of its proceeding and report the same to the board when required.

COMPENSATION OF DIRECTORS

17. Directors, as such, shall not receive any stated salary for their services; but by resolution of the board, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the board: *Provided*, That nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

18. Members of special or standing committees may be allowed like compensation for attending committee meetings.

MEETINGS OF THE BOARD

19. The newly elected board may meet at such place and time as shall be fixed by the vote of the stockholders at the annual meeting, for the purpose of organization or otherwise, and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting: *Provided*, A majority of the whole board shall be present; or they may meet at such place and time as shall be fixed by the consent in writing of all the directors.

20. Regular meetings of the board may be held without notice at such time and place as shall from time to time be determined by the board.

21. Special meetings of the board may be called by the president on two days' notice to each director, either personally or by mail or by telegram; special meetings shall be called by the president or secretary in like manner and on like notice on the written request of two directors.

22. At all meetings of the board two directors shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation or by these by-laws.

OFFICERS

23. The officers of the corporation shall be chosen by the directors and shall be a president, two executive vice presidents, vice presidents, a treasurer, a secretary, assistant vice presidents and assistant treasurers, and assistant secretaries. The board of directors may also choose additional executive vice presidents, vice presidents, assistant vice presidents, assistant secretaries and assistant treasurers, and such other officers as they may determine. The secretary and treasurer may be the same person, and any assistant treasurer may also be an assistant secretary and any vice president may hold at the same time the office of secretary or treasurer.

24. The board of directors, at its first meeting after each annual meeting of stockholders, shall choose a president, the executive vice presidents, the vice presidents, the secretary and the treasurer, and such other officers as they may determine, none of whom except the president need be members of the board.

25. The board may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

26. The salaries of all officers and agents of the corporation shall be fixed by the board of directors.

27. The officers of the corporation shall hold office until their successors are chosen and qualify in their stead. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the whole board of directors. If the office of any officer or officers becomes vacant for any reason, the vacancy shall be filled by the affirmative vote of a majority of the whole board of directors.

THE PRESIDENT

28. (*a*) The president shall be the chief executive officer of the corporation; he shall preside at all meetings of the stockholders and directors; he shall have general and active management of the business of the corporation, and shall see that all orders and resolutions of the board are carried into effect.

(*b*) He shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation.

(*c*) He shall be ex officio a member of all standing committees, and shall have the general powers and duties of supervision and management usually vested in the office of president of a corporation.

EXECUTIVE VICE PRESIDENTS AND VICE PRESIDENTS

29. (*a*) The executive vice presidents and the vice presidents, in the order of their seniority, shall, in the absence or disability of the president, perform the duties and exercise the powers of the president, and shall perform such other duties as the board of directors may prescribe.

(*b*) Each executive vice president shall have the same powers as the president and, while subject to the authority of the president, may exercise such powers

notwithstanding the fact that the president is not absent or disabled. Any action taken by a vice president in the performance of the duties of the president, or either executive vice president, shall be conclusive evidence of the absence or inability to act of the president and the executive vice presidents at the time such action was taken. The vice presidents shall also have such other and further duties as may be assigned to them respectively by the board of directors.

(c) Upon any vacancy in the office of president caused by death or incapacity or any reason deemed sufficient by the board of directors, the senior executive vice president shall succeed to the office of president and in the event of the death or incapacity of both the president and the senior executive vice president, the other executive vice presidents and the vice presidents, in the order of their seniority, shall succeed to the offices of president and executive vice presidents, respectively, until otherwise ordered by the board.

THE SECRETARY AND ASSISTANT SECRETARIES

30. (a) The secretary shall attend all sessions of the board and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose; and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders, and of the board of directors, and shall perform such other duties as may be presented by the board of directors, the president, or the executive vice presidents, under whose supervision he shall be. He shall keep in safe custody the seal of the corporation, and when authorized by the board or these by-laws, affix the same to any instrument requiring it, and when so affixed it shall be attested by his signature or by the signature of the treasurer. He shall be sworn to the faithful discharge of his duty.

(b) The assistant secretaries, in the order of their seniority, shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board of directors shall prescribe.

THE TREASURER AND ASSISTANT TREASURERS

31. (a) The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation, in such depositories as may be designated by the board of directors.

(b) He shall disburse the funds of the corporation as may be ordered by the board, taking proper vouchers for such disbursements, and shall render to the president and directors, at the regular meetings of the board, or whenever they may require it, an account of all his transactions as treasurer and of the financial condition of the corporation.

(c) He shall give the corporation a bond if required by the board of directors in a sum, and with one or more sureties, satisfactory to the board, for the faithful performance of the duties of his office, and for the restoration to the corporation, in case of his death, resignation, retirement, or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in his possession or under his control belonging to the corporation; but the board of directors may, if they see fit, dispense with such bond.

(d) The assistant treasurers in the order of their seniority shall, in the absence or disability of the treasurer, preform the duties and exercise the powers of the treasurer, and shall perform such other duties as the board of directors shall prescribe.

SIGNATURES

32. (a) All checks, drafts, notes, acceptances, bills of exchange and all other obligations of the corporation shall be signed by the following officers, to wit, president, or executive vice president, any vice president, any assistant to president, any vice president, the treasurer or assistant treasurer and secretary or assistant secretary, or by any person or persons thereunto authorized by the board of directors. The president or executive vice president, or any vice president, or any assistant to the president, or any assistant vice president, or the treasurer or any assistant treasurer, secretary or any assistant secretary, is authorized to indorse on behalf of the corporation, any checks, drafts, acceptances, bills of exchange, notes or other negotiable instruments, and to accept any bills of exchange, drafts or acceptances.

(*b*) All indorsements, assignments, transfers, stock powers or other instruments of transfer of securities standing in the name of the corporation shall be executed for and in the name of the corporation by any of the following officers, to wit, the president, or executive vice president, or any vice president, or any assistant to the president, or any assistant vice president, or the treasurer or any assistant treasurer, or the secretary or any assistant secretary, or by any other person or persons thereunto authorized by the board of diectors.

(*b*) The president, the executive vice president, any vice president, any assistant to the president, any assistant vice president, the treasurer, any assistant treasurer, or the secretary or any assistant secretary, may execute a proxy to vote any stock standing in the name of this corporation.

(*d*) General signing powers shall be vested in the president, the executive vice president, any vice president, any assistant to the president or any assistant vice president, the treasurer, any assistant treasurer, acting with the secretary or any assistant secretary, and said officers are authorized to execute all contracts, deeds, conveyances, mortgages, pledge agreements, negotiable instruments of all kinds, and all other written instruments or documents affecting the business or the property of this corporation, and no resolution of any kind or character of the board of directors shall be necessary in order to evidence said authority.

(*e*) It shall not be necessary to the validity of any instrument executed by any authorized officer of this corporation that the execution of such instrument be evidenced by the corporate seal, and all documents, instruments, contracts, and writings of all kinds signed on behalf of the corporation by any authorized officer thereof shall be as effectual and binding on the corporation without the corporate seal as if the execution of the same had been evidenced by the affixing of the corporate seal.

VACANCIES

33. If the office of any director or directors becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, or otherwise, the remaining directors, though less than a quorum, shall choose a successor or successors, who shall hold office until the next annual election and until a successor or successors have been duly elected, unless sooner displaced.

DUTIES OF OFFICERS MAY BE DELEGATED

34. In the case of the absence of any officer of the corporation, or for any other reason that the board may deem sufficient, the board may delegate, for the time being, the powers or duties, or any of them, of such officer to any other officer, or to any director: *Provided*, a majority of the entire board concur therein.

REMOVAL

35. Any person elected to office by the board of directors may be removed at any time upon vote of the majority of directors in office at any meeting specifically called for the consideration of such removal.

CERTIFICATES OF STOCK

36. The certificates of stock of the corporation shall be numbered and shall be entered in the books of the corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed by the president, or one of the executive vice presidents, or a vice president or any assistant vice president, and the treasurer or an assistant treasurer, and the secretary or an asistant secretary: *Provided*, That when the law of Delaware shall permit, the board of directors may have the certificates of stock signed by the lithographed or printed signatures of the president, secretary, or other officer; such certificate to be in the form approved by the board of directors.

TRANSFERS OF STOCK

37. Transfers of stock shall be made on the books of the corporation only by the person named in the certificate or by attorney, lawfully constituted in writing, and upon surrender of the certificate therefor.

CLOSING OF TRANSFER BOOKS

38. The board of directors shall have power to close the stock transfer books of the corporation for a period not exceeding 40 days preceding the date of any meeting of stockholders, or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect: *Provided however*, That in lieu of closing the stock transfer books as aforesaid, the board of directors may fix in advance a date, not exceeding 40 days preceding the date of any meeting of stockholders or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion, or exchange of capital stock, and in such case only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.

REGISTERED STOCKHOLDERS

39. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of Delaware.

LOST CERTIFICATE

40. Any person claiming a certificate of stock to be lost or destroyed, shall make an affidavit or affirmation of that fact and advertise the same in such manner as the board of directors may require, and the board of directors may, in their discretion, require the owner of the lost or destroyed certificate, or his legal representative, to give the corporation a bond, in such sum as they may direct, not exceeding double the value of the stock, to indemnify the corporation against any claim that may be made against it on account of the alleged loss of any such certificate; a new certificate of the same tenor and for the same number of shares as the one alleged to be lost or destroyed, may be issued without requiring any bond when, in the judgment of the directors, it is proper so to do.

INSPECTION OF BOOKS

41. The directors shall determine from time to time whether, and, if allowed, when and under what conditions and regulations the accounts and books of the corporation (except such as may by statute be specifically open to inspection) or any of them shall be open to the inspection of the stockholders, and the stockholders' rights in this respect are and shall be restricted and limited accordingly.

CHECKS

42. All checks or demands for money and notes of the corporation shall be signed by such officer or officers as the board of directors may from time to time designate.

FISCAL YEAR

43. The fiscal year shall begin the 1st day of January in each year.

DIVIDENDS

44. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock.

Before payment of any dividend there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any

property of the corporation, or for such other purpose as the directors shall think conducive to the interests of the corporation.

DIRECTORS' ANNUAL STATEMENT

45. The board of directors shall present at each annual meeting, and when called for by vote of the stockholders, at any special meeting of the stockholders, a full and clear statement of the business and condition of the corporation.

NOTICES

46. Whenever under the provisions of these by-laws notice is required to be given to any director, officer, or stockholder it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, by depositing the same in the post office or letter box, in a post-paid sealed wrapper, addressed to such stockholder, officer, or director at such address as appears on the books of the corporation, or, in default of other address, to such director, officer, or stockholder at the general post office in the city of Wilmington, Del., and such notice shall be deemed to be given at the time when the same shall be thus mailed.

Any stockholder, director, or officer may waive any notice required to be given under these by-laws.

AMENDMENTS

47. These by-laws may be altered or amended by the affirmative vote of a majority of the stock issued and outstanding and entitled to vote thereat, at any regular or special meeting of stockholders if notice of the proposed alteration or amendment be contained in the notice of the meeting, or by the affirmative vote of a majority of the board of directors if the alteration or amendment be proposed at a regular or special meeting of the board and adopted at a subsequent regular meeting: *Provided, however*, That no change of the time or place for the election of directors shall be made within 60 days next before the day on which such election is to be held, and that in case of any change of such time or place notice thereof shall be given to each stockholder in person or by letter mailed to his last known post-office address, at least 20 days before the election is held.

WAIVER OF NOTICE

48. Whenever, under the provisions of these by-laws or of any law, the stockholders, directors, or committees are authorized to hold any meeting after notice or after the lapse of any prescribed period of time, such meeting may be held without notice or without such lapse of time by the written waiver of such notice signed by every person entitled to such notice.

AMENDMENT TO SECTION 12 OF BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation, held at the office of the company, 460 Montgomery Street, San Francisco, Calif., on January 8, 1929, at 2 p. m., section 12 of the by-laws of Transamerica Corporation was amended so as to read as follows, to wit:

"12. The property and business of this corporation shall be managed by its board of directors, 19 in number. Directors need not be stockholders. They shall be elected at the annual meeting of the stockholders and each director shall be elected to serve until his successor shall be elected and shall qualify."

AMENDMENT TO SECTION 22 OF BY-LAWS

At the same meeting section 22 of the by-laws of Transamerica Corporation was amended so as to read as follows, to wit:

"22. At all meetings of the board seven directors shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the directors present at any such meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation or by these by-laws."

AMENDMENT TO SECTION 12 OF BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation, held at the office of the company, 460 Montgomery Street, San Francisco, Calif., on May 29, 1929, at 10.30 o'clock a. m., section 12 of the by-laws of Transamerica Corporation was amended so as to read as follows, to wit:

"12. The property and business of this corporation shall be managed by its board of directors, 22 in number. Directors need not be stockholders. They shall be elected at the annual meeting of the stockholders and each director shall be elected to serve until his successors shall be elected and shall qualify."

AMENDMENT TO SECTION 22 OF BY-LAWS

At the same meeting section 22 of the by-laws of Transamerica Corporation was amended so as to read as follows, to-wit:

"22. At all meetings of the board eight directors shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation or by these by-laws."

AMENDMENT TO SECTION 16 OF BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation, held at the office of the company, 460 Montgomery Street, San Francisco, Calif., on May 29, 1929, at 10.30 o'clock a. m., section 16 of the by-laws of Transamerica Corporation was amended so as to read as follows, to wit:

"16. The secretary or a member of the executive committee shall keep minutes of all its proceedings and all proceedings shall, from time to time, be reported to the board of directors and shall be subject to revision or alteration by the board directors provided no rights of third parties shall be affected by such revision or alteration. The presence of four members of the executive committee shall constitute a quorum for the transaction of business. The executive committee may take action without a meeting on the written approval of such action by a majority of the committee. A majority of the directors may fill vacancies in the executive committee. The board of directors shall appoint the chairman of the executive committee and a vice chairman or such number of vice chairmen as the board may determine. The board of directors may appoint other committees, each committee to consist of two or more of the directors which, to the extent provided in the resolution appointing the committee or in these by-laws, shall have and may exercise the powers of the board of directors and the management of the business and affairs of the corporation and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in these by-laws or as may be determined from time to time by resolution adopted by the board of directors. Every committee shall keep regular minutes of its proceedings and report the same to the board when required."

AMENDMENT TO SECTION 32 OF BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation, held at the office of the company, 460 Montgomery Street, San Francisco, Calif., on August 19, 1929, at 4 o'clock p. m., section 32 of the by-laws of Transamerica Corporation was amended so as to read as follows, to wit:

"SIGNATURES

"32. (a) *One signature.*—The president, or the chairman of the executive committee, or any executive vice president, or any vice president, or the treasurer or any assistant treasurer, or the secretary or any assistant secretary, or any other person or persons authorized by the board of directors, are and each of them is hereby authorized to indorse on behalf of this corporation any checks, drafts, acceptances, bills of exchange, notes, or other negotiable instruments, and to accept on behalf of this corporation any bills of exchange, drafts, or acceptances; to execute for and in the name of this corporation all indorsements, assignments, transfers, stock powers, or other instruments of transfer of stock, bonds, and other securities standing in the name of or owned by this corporation; to execute proxies and to vote any stock standing in the name of this corporation.

"(b) *Two signatures.*—The president or the chairman of the executive committee, or any executive vice president, or any vice president, or the treasurer or any assistant treasurer, together with the secretary or any assistant secretary, or any person or persons authorized by the board of directors, are hereby authorized to execute for and on behalf of this corporation all contracts, deeds, conveyances, mortgages, pledge agreements, negotiable instruments of all kinds, or documents affecting the business or property of this corporation, and to sell, convey, and transfer any property, real, personal or mixed also, to sign all checks, drafts, notes, acceptances, bills of exchange and other obligations of this corporation; and no resolution of any kind or character of the board of directors shall be necessary to evidence said authority."

"SEAL

"It shall not be necessary to the validity of any instrument executed by any authorized officer or officers of this corporation and the execution of such instrument be evidenced by the corporate seal; and all documents, instruments, contracts and writings of all kinds signed on behalf of the corporation by any authorized officer or officers thereof shall be as effectual and binding on the corporation with out the corporate seal as if the execution of the same had been evidenced by affixing the coporate seal thereto."

I, the undersigned, ——— assistant secretary of Transamerica Corporation, a corporation, do hereby certify that the foregoing is a true, full, and correct copy of the by-laws of said Transamerica Corporation, adopted at a meeting of the incorporators held in San Francisco, Calif., on October 31, 1928, as amended to date by the board of directors; that said by-laws have never been further amended or repealed and are still in full force and effect.

In witness whereof I have hereunto set my hand and affixed the corporate seal of said corporation, this ——— day of ——— 19

———— ————,
Assistant Secretary of Transamerica Corporation.

AMENDMENT TO SECTION 8 OF THE BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation, held at the office of the company, 460 Montgomery Street, San Francisco, Calif., on January 20, 1930, at the hour of 10 o'clock a. m., section 8 of the by-laws of Transamerica Corporation was amended so as to read as follows, to wit:

"8. Special meetings of the stockholders for any purpose or purposes, unless otherwise prescribed by statute, may be called by the chairman of the board, and shall be called by the chairman of the board, or vice chairman of the board, or president or secretary, at the request in writing of a majority of the board of directors, or at the request in writing of stockholders owning a majority in amount of the entire capital stock of the corporation issued and outstanding, and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

AMENDMENT TO SECTIONS 12 AND 14 OF THE BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation held at the office of the company, 460 Montgomery Street, San Francisco, Calif., on January 20, 1930, at the hour of 10 o'clock a. m., sections 12 and 14 of the by-laws of Transamerica Corporation were amended so as to read as follows, to wit:

"DIRECTORS

"12. The property and business of this corporation shall be managed by its board of directors, 28 in number. Directors need not be stockholders. They shall be elected at the annual meeting of stockholders and each director shall be elected to serve until his successor shall be elected and shall qualify.

"14. In addition to the powers and authorities by these by-laws expressly conferred upon the, the board may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these by-laws directed or required to be exercised or done by the stockholders: *Provided, however*, That the board of directors may not, and no officer or committee shall sell the holdings of the corporation in any wholly owned and/or affiliated and/or practically controlled banks or company without the approval of at least two-thirds of the entire membership of the board of directors either expressed at a meeting by resolution concurred in by two-thirds

of the entire board of directors or by a written consent executed by at least two-thirds of the members of the board."

AMENDMENT TO SECTIONS 15 AND 16 OF THE BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation, held at the office of the company, 460 Montgomery Street, San Francisco, Calif., on January 20, 1930, at the hour of 10 o'clock a. m., sections 15 and 16 of the by-laws of Transamerica Corporation were amended to read as follows, to wit:

"COMMITTEES

"16. (*a*) There shall be an advisory committee of such number as the board of directors may determine appointed by the board of directors and all of whom shall be members of the board of directors, which will meet at such times as it may desire, and which shall have available to it upon its request any information concerning any phase of the activities of the corporation or its affiliated or subsidiary companies. It shall be consulted in matters of major importance and matters involving policy, and shall serve in an advisory capacity to the board of directors and the management, and may submit its recommendations or reports to the board of directors, the executive committee, or management. The board of directors shall also elect a chairman of the advisory committee and two vice chairmen thereof, The members of said committee shall hold office for one year or until their respective successors are elected and qualify.

"(*b*) There shall be an executive committee of such number as the board of directors may determine, appointed by the board of directors, all of whom shall be members of the board of directors. Regular meetings of the executive committee shall be held in the city of New York at such times and on such notice as shall be fixed by resolution of the executive committee. Special meetings of the executive committee may be held in the city of New York or the city and county of San Francisco, Calif., and may be called by the chairman of the board or vice chairman of the board or the president upon such notice as the executive committee shall fix. The members of the executive committee shall hold office for one year and until their respective successors shall be appointed. The executive committee shall, between sessions of the board, have all the powers of the board of directors in the management of the business and affairs of the corporation, and shall have the power to authorize the seal of the corporation to be affixed to all papers which may require it. The taking of any action by the executive committee shall be conclusive evidence that the board of directors was not at the time of such action in session. The secretary or a member of the executive committee shall keep minutes of all its proceedings and all proceedings shall, from time to time, be reported to the board of directors and shall be subject to revision or alteration by the board of directors provided no rights of third parties shall be affected by such revision or alteration. The presence of four members of the executive committee shall constitute a quorum for the transaction of business. A majority of the directors may fill vacancies in the executive committee. The chairman of the board shall be the chairman of the executive committee.

"16. The board of directors may appoint other committees, each committee to consist of two or more of the directors which, to the extent provided in the resolution appointing the committee or in these by-laws shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in these by-laws or as may be determined from time to time by resolution adopted by the board of directors. Every committee shall keep regular minutes of its proceedings and report same to the board when required."

AMENDMENT TO SECTIONS 20, 21, AND 22 OF THE BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation, held at the office of the company, 460 Montgomery Street, San Francisco, Calif., on January 20, 1930, at the hour of 10 o'clock a. m., sections 20, 21, and 22 of the by-laws of Transamerica Corporation were amended so as to read as follows, to wit:

"MEETINGS

"20. Regular meetings of the board of directors shall be held without call and without notice at 460 Montgomery Street in the city and county of San Francisco, State of California, on the second Wednesday of each month commencing with the month of March, 1930, at the hour of 3 o'clock p. m. At least two special meetings each year shall be called and held in the city of New York.

"21. Special meetings of the board may be called by the chairman of the board on five days' notice to each director, either personally or by telegram; special meetings shall be called by the chairman of the board, the vice chairman of the board, the president or secretary, in like manner and on like notice, at the written request of two directors.

"22. At all meetings of the board one-third of the total number of directors shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation or by these by-laws."

AMENDMENT TO SECTIONS 23, 24, 27, 28, 29, 30, AND 31 OF THE BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation, held at the office of the company, 460 Montgomery Street, San Fancisco, Calif., on January 20, 1930, at the hour of 10 o'clock a. m., sections 23, 24, 27, 28, 29, 30, and 31 of the by-laws of Transamerica Corporation were amended so as to read as follows, to wit:

"OFFICERS

"23. The officers of the corporation shall be chosen by the directors and shall be a chairman of the board, a vice chairman of the board, a president, two executive vice presidents, vice presidents, a treasurer, a secretary, assistant vice presidents and assistant treasurers, and assistant secretaries. The board of directors may also choose additional executive vice presidents, vice presidents, assistant vice presidents, assistant secretaries, and assistant treasurers, and such other officers as they may determine. The secretary and treasurer may be the same person, and any assistant treasurer may also be an assistant secretary and any vice president may hold at the same time the office of secretary or treasurer.

"24. The board of directors, at its first meeting after each annual meeting of stockholders, shall choose a chairman of the board, a vice chairman of the board, a president, the executive vice president, the vice presidents, the secretary and the treasurer, and such other officers as they may determine, none of whom except the chairman of the board, the vice chairman of the board, and the president need be members of the board.

"27. The officers of the corporation shall hold office until their successors are chosen and qualify in their stead. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the whole board of directors. If the office of any officer or officers or a committee member becomes vacant for any reason, the vacancy shall be filled by the affirmative vote of a majority of the whole board of directors.

"28. (*a*) The chairman of the board shall be the chief executive officer of the corporation; he shall preside at all meetings of the stockholders and directors; he shall have general and active management of the business, affairs and property of the corporation, and shall see that all orders and resolutions of the board are carried into effect. He shall execute bonds, mortgages, and other contracts requiring a seal, under the seal of the corporation. He shall be ex officio a member of all standing committees, and shall have the general powers and duties of supervision and management usually vested in the chief executive officer of a corporation.

"(*b*) The vice chairman of the board shall perform such duties as from time to time shall be assigned to him by the board of directors or the chairman of the board. He shall be ex officio a member of all standing committees, and in the absence or disability of the chairman of the board the vice chairman of the board shall perform the duties of the chairman of the board, and, while so acting, shall be subject to all the restrictions upon the chairman of the board.

"29. (*a*) The president shall perform such executive duties in connection with the general management of the affairs of the corporation as the board of directors

shall prescribe. He shall be ex officio a member of all standing committees; and he shall, in the absence or disability of the chairman of the board and the vice chairman of the board, perform all of the duties of the chairman of the board, and, while so acting, shall be subject to all the restrictions upon the chairman of the board. The president in the Pacific coast territory, subject to the direction of the board of directors and the supervision and authority of the chairman of the board shall be the chief executive officer.

"(b) The executive vice presidents and the vice presidents, in the order of their seniority, shall, in the absence or disability of the president, perform the duties and exercise the powers of the president, and shall perform such other duties as the board of directors may prescribe.

"(c) Each executive vice president shall have the same powers as the president, and, while subject to the authority of the president, may exercise such powers notwithstanding the fact that the president is not absent or disabled. Any action taken by a vice president in the performance of the duties of the president, or either executive vice president, shall be conclusive evidence of the absence or inability to act of the president and the executive vice presidents at the time such action was taken. The vice presidents shall also have such other and further duties as may be assigned to them respectively by the board of directors.

"30. (a) The secretary shall attend all sessions of the board and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose; and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders, and of the board of directors, and shall perform such other duties as may be prescribed by the board of directors, the chairman of the board, the vice chairman of the board, the president, or the executive vice presidents, under whose supervision he shall be. He shall keep in safe custody the seal of the corporation, and when authorized by the board of these by-laws, affix the same to any instrument requiring it, and when so affixed it shall be attested by his signature or by the signature of the treasurer. He shall be sworn to the faithful discharge of his duty.

"(b) The assistant secretaries, in the order of their seniority shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board of directors shall prescribe.

"31. (a) The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation, in such depositories as may be designated by the board of directors.

"(b) He shall disburse the funds of the corporation as may be ordered by the board, taking proper vouchers for such disbursements, and shall render to the chairman of the board, the president and directors, at the regular meetings of the board, or whenever they may require it, an account of all his transactions as treasurer and of the financial condition of the corporation."

AMENDMENT TO SECTION II OF THE BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation, held at the office of the company, 460 Montgomery Street, San Francisco, Calif., on January 20, 1930, at the hour of 10 o'clock a. m., section 32 of the by-laws of Transamerica Corporation was amended so as to read as follows, to wit:

"SIGNATURES

"32. (a) *One signature.*—The chairman and the vice chairman of the advisory committee, the chairman of the board, the vice chairman of the board, the president, or any executive vice president, or any vice president, or the treasurer or any assistant treasurer, or the secretary or any assistant secretary, or any other person or persons authorized by the board of directors, are and each of them is hereby authorized to indorse on behalf of this corporation any checks, drafts, acceptances, bills of exchange, notes or other negotiable instruments, and to accept on behalf of this corporation any bills of exchange, drafts, or acceptances; to execute for and in the name of this corporation all indorsements, assignments, transfers, stock powers or other instruments of transfer of stock, bonds, and other securities standing in the name of or owned by this corporation; and to execute proxies and to vote any stock standing in the name of this corporation.

(b) *Two signatures.*—The chairman and the vice chairman of the advisory committee, the chairman of the board, the vice chairman of the board, the president, or any executive vice president, or any vice president, or the treasurer or any assistant treasurer, together with the secretary or any assistant secretary, or any person or persons authorized by the board of directors, are hereby authorized to execute for and on behalf of this corporation all contracts, deeds, conveyances, mortgages, pledge agreements, negotiable instruments of all kinds, or documents, affecting the business or property of this corporation, and to sell convey, and transfer any property, real, personal or mixed, also to sign all checks, drafts, notes, acceptances, bills of exchange and other obligations of this corporation; and no resolution of any kind or character of the board of directors shall be necessary to evidence said authority."

"SEAL

"It shall not be necessary to the validity of any instrument executed by any authorized officer or officers of this corporation that the execution of such instrument be evidenced by the corporate seal; and all documents, instruments, contracts, and writings of all kinds signed on behalf of the corporation by any authorized officer or officers thereof shall be as effectual and binding on the corporation without the corporate seal as if the execution of the same had been evidenced by affixing the corporate seal thereto."

'AMENDMENT TO SECTION 46 OF THE BY-LAWS

At a special meeting of the board of directors of Transamerica Corporation, held at the office of the company, 460 Montgomery Street, San Francisco, Calif., on January 20, 1930, at the hour of 10 o'clock a. m., section 46 of the by-laws of Transamerica Corporation was amended so as to read as follows, to wit:

"NOTICES

"46. Whenever under the provisions of these by-laws notice is required to be given to any director, committee member, officer, or stockholder, it shall not be construed to mean personal notice, but such notice may be given, in the case of stockholders, in writing, by mail, by depositing the same in the post office or letter box, in a postpaid sealed wrapper, addressed to such stockholder, at such address as appears on the books of the corporation, or in default of other address, to such stockholder at the general post office in the city of Wilmington, Del., and in the case of directors, committee members, and officers, by telegraph, to the last business address known to the secretary of the corporation, and such notice shall be deemed to be given at the time when the same shall be thus mailed or telegraphed.

"Any stockholder, director, or officer may waive any notice required to be given under these by-laws."

CERTIFICATE OF INCORPORATION OF TRANSAMERICA CORPORATION

ARTICLE I

The name of this corporation is Transamerica Corporation.

ARTICLE II

Its principal office in the State of Delaware is located at No. 7 West Tenth Street, in the city of Wilmington, county of New Castle. The name and address of its resident agent is the Corporation Trust Co. of America, No. 7 West Tenth Street, Wilmington, Del.

ARTICLE III

The nature of the business of this corporation and the objects or purposes proposed to be transacted, promoted, or carried on by it are as follows, namely:

1. To subscribe for, purchase, acquire, invest in, hold for investment or otherwise, own, trade, and generally deal in, and to use, sell, assign, transfer, pledge, mortgage, or otherwise dispose of, the stocks, bonds, and other evidences of indebtedness of any corporation, domestic or foreign, public, quasipublic, or private, and to possess and exercise in respect thereof all rights, powers, and privileges of individual owners or holders of such stock, including the right to

vote thereon and to execute proxies therefor, and also to the extent now or hereafter authorized or permitted by the laws of the State of Delaware to purchase, hold, sell, exchange, or transfer, or otherwise deal in shares of its own capital stock, bonds, or other obligations from time to time to such an extent and in such manner and upon such terms as its board of directors shall determine and as the laws of Delaware may permit: *Provided*, That this corporation shall not use any of its funds or property for the purchase of shares of its own capital stock when such use would cause an impairment of the capital of this corporation: *And provided further*, That shares of its own capital stock belonging to this corporation shall not be voted directly or indirectly.

2. To do any and all acts and things for the protection, improvement, and enhancement in value of such securities or of any thereof, or designed to accomplish any such purpose.

3. To buy, hold, own, maintain, sell, convey, generally deal in, lease, mortgage, exchange, and otherwise trade in and dispose of real property of all kinds or any interest or right therein, within and without the State of Delaware and in any and all of the States, Districts, Territories, or dependencies of the United States, and in any and all foreign countries in accordance with the law thereof; to carry on the business of developing and improving real property; to build, construct, operate, maintain, lease, and sell dwelling houses, apartment houses, business blocks, and buildings of all kinds and descriptions; to improve, enhance in value, or alter all kinds of buildings and other real estate, both improved and unimproved; to maintain a general real-estate agency, including the right to manage estates and to act as agent, broker, or attorney in fact for any person or corporation; to supervise, manage, and protect the real property of the corporation, and any interest or claim held by it in the same; to have the same insured against fire and other casualties; to exercise all rights and powers, to perform all transactions, and in every respect to deal with real property to the same extent that is permitted under the laws of the State of Delaware to any commercial corporation.

4. To acquire by purchase or otherwise, own, sell, lease, let, convey, mortgage, pledge, exchange, invest in, trade in, and generally deal in personal property of every kind, character, and description without limitation in any and all parts of the world in accordance with law to the same extent as is permitted to any commercial corporation by the laws of the State of Delaware.

5. To acquire, own, hold, and dispose of grants, concessions, and franchises or interests therein; to cause to be formed, merged, or reorganized, and to promote and aid in any way permitted by law the formation, merger, or reorganization of any business, concern, firm, association, or corporation, domestic or foreign, and to do all acts and things permitted by law tending to aid in establishing the business and promoting the success of any such business, concern, firm, associations, or corporation; to take over properties, manage the affairs and conduct the business of such concerns, firms, associations, and corporations, and in the course of which business to dispose of, deal in, realize upon, or otherwise turn to account, and to hold, possess, and improve the property thereof, real or personal, of every kind and description, and to assume the liabilities of any such person, firm, association, or corporation, and to take in any legal manner the whole or any part of the business or acquire and to pledge, mortgage, sell, or otherwise dispose of the same.

6. To promote and assist, financially or otherwise, corporations, domestic or foreign, public, quasi public or private, firms, syndicates, associations, individuals, and otherwise, and to the extent permitted by law to give any guarantee in connection therewith for the payment of money or for the performance of any other undertaking or obligation; to institute, enter upon, assist, promote, or participate in commercial, mercantile, and industrial works, contracts, ventures, enterprises, and operations without limit to the extent permitted by law, and to aid in procuring necessary means, facilities, and capital for the same to such extent as may be permitted by law.

7. To act as financial and business agent, general or special, for domestic and foreign corporations, public, quasi public and private; individuals, partnerships, associations, firms and syndicates, and as such to develop, improve, and extend the property, trade, and business thereof, and to aid any lawful enterprise and in connection with acting as such representative or agent or broker for any principal to give any other aid or assistance to such extent as may be permitted by law.

8. To guarantee the payment of dividends upon stock, or interest upon bonds, notes, and other evidences of indebtedness or obligation, or the performance of

the contracts or other obligations of any corporation, domestic or foreign, public, quasi public or private, copartnerships, association, syndicate, firm, or individual to such extent as may be permitted by law, and to such extent to enter into, make, perform, and carry out contracts of every kind and for any lawful purpose with any person, firm, association, corporation, syndicate, or others.

9. To borrow money with or without pledge of or mortgage upon any or all of its property, real or personal, as security, and from time to time to make, execute, indorse, and issue bonds, debentures, promissory notes, bills of exchange, and other obligations of the company for moneys borrowed or in payment for property acquired or for any other objects and purposes of the company or its business, and to secure the payment of any such obligations by mortgage, pledge, deed, deed of trust, indenture, agreement, or other instrument of trust, or by other lien upon, assignment of, or agreement in respect to all or any part of the property, rights, privileges, or franchises of this corporation, wherever situated, whether now owned or hereafter to be acquired.

10. To apply for, obtain, register, purchase, lease or otherwise acquire, hold, own, use, operate, introduce, develop or control, sell, assign, or otherwise dispose of, take or grant licenses, patents, inventions, patent rights, copyrights, privileges, improvements, processes, trade-marks, trade names, formulæ, labels, designs, brands and blends, and any interest therein, and similar rights of any and all kinds and whether granted, registered, or established by or under the laws of the United States or of any other State, country, or sovereign, and to use, improve, exercise, develop, grant licenses in respect of, sell, trade in, or otherwise turn to account the same; to acquire water and water rights within and without the State of Delaware for all purposes; to promote irrigation, construct and maintain dams, levees, weirs, canals, ditches, and do all other acts necessary to secure, impound, and use water for irrigation, drainage, and other purposes so far as can be done in accordance with law.

11. To act as insurance agent for any fire, accident, life, casualty, or other insurance company, and generally to conduct and maintain a general insurance brokerage and commission business, and generally deal in, place, and contract, either on commission or otherwise, insurance of every kind or character; to become a member of any brokers' or other insurance board or organization convenient or proper for the carrying on of any such business.

12. To act as trustee under deeds of trust securing obligations for the payment of money, or otherwise act as trustee to such extent as may be permitted by the laws of Delaware or by the laws of any State in which this company may do business.

13. To organize or cause to be organized under the laws of the State of Delaware, or of any other State, district, territory, province, or government, a corporation or corporations for the purpose of accomplishing any or all of the objects for which this corporation is organized, and to dissolve, wind up, liquidate, merge, or consolidate any such corporation or corporations or to cause the same to be dissolved, wound up, liquidated, merged, or consolidated.

14. To carry on any other lawful business whatsoever which may seem to the corporation capable of being carried on in connection with the foregoing, or calculated directly or indirectly to promote the interest of the corporation or to enhance the value of its properties; and to have, enjoy, and exercise all the rights, powers, and privileges which are now or which may hereafter be conferred upon corporations organized under the same statutes as this corporation.

15. To do a general financial, industrial, mining, manufacturing, shipping, importing and exporting, brokerage, merchandising, farming business, and to engage in any other business or transaction permitted by the laws of Delaware to any commercial corporation.

16. In the acquisition of any property, real or personal, hereinbefore mentioned, or of any shares of stock, debentures, bonds, or other evidences of indebtedness, or any other rights or privileges of any kind or character, this corporation may issue in payment thereof, in whole or in part, shares of its own capital stock, or otherwise pay for the same in shares of its own capital stock or in the bonds or other evidences of indebtedness issued by this corporation, and the board of directors of this corporation shall have the right to determine the value to be placed on any such shares, bonds, or other indebtedness of this corporation so issued or exchanged.

17. To conduct its business (including the holding, purchasing, mortgaging, and conveying of real and personal property) in the State of Delaware, other States, the District of Columbia, the territories, colonies, and possessions of the United States, and in foreign countries; and to maintain such offices either within

or without the State of Delaware as may be convenient; provided, however, that nothing herein contained shall be deemed to authorize this corporation to construct, hold, maintain, or operate within the State of Delaware railroads, railways, telegraph or telephone lines, or to carry on within said State any public-utility business.

The foregoing clauses shall be construed both as objects and powers and the foregoing enumeration of specific powers shall not be held to limit or restrict in any manner the powers of the corporation; and it is the intention that the purposes, objects, and powers specified in each of the paragraphs of this Article III of this certificate of incorporation shall, except as otherwise expressly provided, in no wise be limited or restricted by reference to or inference under the terms of any other clause or paragraph of this article or any other article of this certificate of incorporation, but that each of the purposes, objects and powers specified in this article and each of the articles or paragraphs of this certificate of incorporation shall be regarded as independent purposes, objects, and powers.

ARTICLE IV

The total authorized capital of the corporation is $250,000,000, and the total number of shares authorized of the corporation's capital stock is 10,000,000, and the par value of said shares is $25 each.

The shares of capital stock of this corporation may be issued by this corporation from time to time for such consideration as from time to time may be fixed by the board of directors of this corporation; and all issued shares of the capital stock of this corporation shall be deemed fully paid and nonassessable and the holders of such shares shall not be liable thereunder to this corporation or its creditors. No stockholder of this corporation shall have any preemptive or preferential right of subscription to any shares of any stock of this corporation, or to any obligations convertible into stock of this corporation, issued or sold, nor any right of subscription to any thereof other than such, if any, as the board of directors of this corporation in its discretion from time to time may determine and at such price as the board of directors from time to time may fix, pursuant to the authority hereby conferred by the certificate of incorporation of this corporation, and the board of directors may issue stock of this corporation, or obligations convertible into stock, without offering such issue of stock, either in whole or in part to the stockholders of this corporation. The acceptance of stock in this corporation shall be a waiver of any such preemptive or preferential right which in the absence of this provision might otherwise be asserted by stockholders of this corporation or any of them.

This corporation shall be entitled to treat the person in whose name any share is registered as the owner thereof, for all purposes, and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the corporation shall have notice thereof, save as expressly provided by the laws of the State of Delaware.

ARTICLE V

The number of shares with which this corporation will commence business is 60 shares of the par value of $25 each.

ARTICLE VI

The names and places of residence of each of the original subscribers to the capital stock of this corporation are as follows:

Name	Residence	Number of shares of stock subscribed
William T. Sweigert	San Francisco, Calif.	20
S. J. Tosi	do	20
Eustace Cullinan, jr.	do	20

ARTICLE VII

The corporation shall have perpetual existence.

ARTICLE VIII

The private property of the stockholders shall not be subject to the payment of the debts of the corporation, but shall be exempt from corporate liability.

ARTICLE IX

The number of directors of this corporation shall be fixed and may be altered from time to time as may be provided in the by-laws. In case of any increase in the number of directors, the additional directors may be elected by the board of directors to hold office until the next annual meeting of the stockholders and until their successors are elected and qualified. In case of vacancies in the board of directors a majority of the remaining members of the board may elect directors to fill such vacancies. Any director may, by vote of a majority of the directors, for any cause deemed by them sufficient, be removed as such director, and any director may also be removed by a majority vote of the stockholders entitled to vote at any annual or special meeting thereof, for any cause deemed sufficient by the directors present at such meeting. The officers of this corporation need not be stockholders therein.

ARTICLE X

In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized:

(*a*) To make and alter the by-laws of this corporation, without any action on the part of the stockholders; but the by-laws made by the directors and the powers so conferred may be altered or repealed by the stockholders.

(*b*) To fix, determine, and vary the amount to be maintained as surplus, and subject to the other provisions and requirements of this certificate of incorporation the amount or amounts to be set apart or reserved as working capital.

(*c*) By resolution passed by a majority of the whole board, to designate three or more of their number to constitute an executive committee, which committee, to the extent provided in said resolution or in the by-laws of this corporation, shall have and exercise (except when the board of directors shall be in session) any and all of the powers of the board of directors in the management of the business and affairs of this corporation and have power to authorize the seal of this corporation to be affixed to all papers which may require it.

(*d*) To authorize and cause to be executed mortgages and liens, without limit as to amount, on the real and personal property of this corporation.

(*e*) To sell, exchange, assign, convey, or otherwise dispose of a part of the property (whether real or personal), assets and effects of this corporation less than the whole or less than substantially the whole thereof, on such terms and conditions as they shall deem advisable without the assent of the stockholders in writing or otherwise.

(*f*) With the consent in writing of or pursuant to a vote of, the holders of a majority of the number of shares of capital stock issued and outstanding to sell, exchange, assign, transfer, and convey or otherwise dispose of the whole or substantially the whole of the property (whether real or personal), assets, effects, and good will of this corporation (including the corporate franchise and other intangible property of this corporation) upon such terms and conditions as the board of directors shall deem expedient and for the best interests of this corporation.

(*g*) From time to time to determine whether and to what extent and at what time and place and under what conditions and regulations the accounts and books of this corporation, or any of them, shall be open to the inspection of any stockholder; and no stockholder shall have any right to inspect any account, book or document of this corporation except as conferred by statute or the by-laws or as authorized by resolution of the stockholders or board of directors.

ARTICLE XI

This corporation may in its by-laws confer powers upon its board of directors in addition to the foregoing and in addition to the powers and authorities expressly conferred upon them by the laws of the State of Delaware.

ARTICLE XII

The stockholders and board of directors shall have power, if the by-laws so provide, to hold their meetings and to keep the books of this corporation (except such as are required by the law of the State of Delaware to be kept in Delaware) and documents and papers of this corporation outside the State of Delaware and to have one or more offices within or without the State of Delaware at such places as may be designated from time to time by the board of directors.

ARTICLE XIII

All of the powers of this corporation, in so far as the same may be lawfully vested by this certificate of incorporation in the board of directors, are hereby conferred upon the board of directors of this corporation.

ARTICLE XIV

This corporation reserves the right to amend, alter, change, add to, or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed by statute, and all rights and powers conferred by this certificate of incorporation on stockholders, directors, and officers are granted subject to this reservation.

We, the undersigned, being each of the original subscribers to the capital stock hereinbefore named, for the purpose of forming a corporation to do business both within and without the State of Delaware and in pursuance of the general corporation laws of the State of Delaware, being chapter 65 of the Revised Code of Delaware and the acts amendatory thereof and supplemental thereto, do make and file this certificate, hereby declaring and certifying that the facts herein stated are true and do respectively agree to take the number of shares of stock hereinbefore set forth opposite our respective names, and accordingly have hereunto set our hands and seals this 6th day of October, 1928.

WILLIAM T. SWEIGERT. [SEAL.]
S. J. TOSI. [SEAL.]
EUSTACE CULLINAN, Jr. [SEAL.]

In the presence of:

EDWARD P. MCAULIFFE.

STATE OF CALIFORNIA,
City and county of San Francisco, ss:

Be it remembered that on this 6th day of October, 1928, personally came before me, Edward P. McAuliffe, a notary public in and for the city and county and State aforesaid, William T. Sweigert, Eustace Cullinan, jr., and S. J. Tosi, parties to the foregoing certificate of incorporation, known to me personally to be such, and I having first made known to them and each of them the contents of said certificate, they did severally acknowledge that they signed, sealed, and delivered the said certificate as their several voluntary act and deed, and that the facts therein stated are truly set forth.

Given under my hand and seal of office the day and year aforesaid. My commission expires December 31, 1930.

EDWARD P. MCAULIFFE,
Notary Public, San Francisco, State of California.

STATE OF DELAWARE,
Office of Secretary of State:

I, Charles H. Grantland, secretary of state of the State of Delaware, do hereby certify that the above and foregoing is a true and correct copy of certificate of incorporation of the "Transamerica Corporation," as received and filed in this office the 11th day of October, A. D. 1928, at 1 o'clock p. m.

In testimony whereof I have hereunto set my hand and official seal, at Dover, this 11th day of October in the year of our Lord one thousand nine hundred and twenty-eight.

[SEAL.]

CHARLES H. GRANTLAND,
Secretary of State.

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF INCORPORATION OF TRANSAMERICA CORPORATION AND OF INCREASE OF CAPITAL STOCK

Transamerica Corporation, a corporation organized and existing under and by virtue of the provisions of an act of the General Assembly of the State of Delaware, entitled "an act providing a general corporation law, approved March 10, 1899," and the acts amendatory thereof and supplemental thereto, the certificate of incorporation of which was filed in the office of the secretary of state of Delaware on October 11, 1928, and William H. Snyder, vice president of said Transamerica Corporation, and George E. Hoyer, secretary of Transamerica Corporation, hereby certify:

First. That at a meeting of the board of directors of said Transamerica Corporation, duly held and convened, a resolution was duly adopted, setting forth an amendment proposed to the certificate of incorporation of said corporation, a copy of which resolution is as follows, to wit:

"*Resolved*, That it is advisable that Article IV of the certificate of incorporation of Transamerica Corporation be and it is hereby amended so as to read as follows:

"'ART. IV. The total authorized capital of the corporation is $1,250,000,000 and the total number of shares authorized of the corporation's capital stock is 50,000,000 and the par value of said shares is $25 each.

"'The shares of capital stock of this corporation may be issued by this corporation from time to time for such consideration as from time to time may be fixed by the board of directors of this corporation; and all issued shares of the capital stock of this corporation shall be deemed fully paid and nonassessable and the holders of such shares shall not be liable thereunder to this corporation or its creditors. No stockholder of this corporation shall have any preemptive or preferential right of subscription to any shares of any stock of this corporation, or to any obligations convertible into stock of this corporation, issued, or sold, nor any right of subscription to any thereof other than such, if any, as the board of directors of this corporation in its discretion from time to time may determine, and at such price as the board of directors from time to time may fix, pursuant to the authority thereby conferred by the certificate of incorporation of this corporation, and the board of directors may issue stock of this corporation, or obligations convertible into stock, without offering such issue of stock, either in whole or in part, to the stockholders of this corporation. The acceptance of stock in this corporation shall be a waiver of any such preemptive or preferential right which in the absence of this provision might otherwise be asserted by stockholders of this corporation or any of them.

"'This corporation shall be entitled to treat the person in whose name any share is registered as the owner thereof, for all purposes, and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the corporation shall have notice thereof save as expressly provided by the laws of the State of Delaware.'

"*Be it further resolved*, That a special meeting of the stockholders of Transamerica Corporation be and it is hereby called to be held on the 9th day of February, 1929, at 9.30 a. m. of said day, at the office of the company, Du Pont Building, in the city of Wilmington, State of Delaware, for the consideration of such amendment and for the purpose of voting upon said recommendation made by the directors to amend the certificate of incorporation of Transamerica Corporation by increasing the authorized capital stock of the company from $250,000,000, evidenced by 10,000,000 shares of a par value of $25 each, to $1,250,000,000, evidenced by 50,000,000 shares of a par value of $25 each, and for the transaction of any and all business in connection therewith that may properly come before such meeting; and further

"*Resolved*, That written notice of such special meeting, signed by the president and the secretary of the company, be either delivered to each stockholder entitled to vote in respect of said proposed amendment or entitled to attend said meeting or mailed to him at his post-office address, if known, at least 10 days before the date fixed for said meeting, said notice to set forth a brief summary of the changes to be effected by said amendment, and said directors deem it advisable that said notice shall contain a brief summary of said changes to be effected by said amendment instead of containing a copy of said amendment in full."

Which resolution declared said amendment advisable and called a meeting of the stockholders of said corporation for consideration thereof.

Second. That thereafter, pursuant to the aforesaid resolution of its board of directors, a special meeting of the stockholders of said Transamerica Corporation

was duly called and held in accordance with law and the by-laws of the corporation, at the office of the corporation in the city of Wilmington, State of Delaware, on the 9th day of February, 1929, at 9.30 o'clock in the forenoon, at which meeting more than a majority of the voting stockholders of said corporation were present in person or by proxy. That at said meeting a vote of the stockholders by ballot in person or by proxy was taken for and against said proposed amendment, which vote was conducted by Alfred Jarvis and L. H. Herman, two judges appointed for that purpose by said meeting; and that at said meeting by vote conducted as aforesaid, said amendment was adopted pursuant to section 26 of the general corporation law of Delaware, as amended, the persons or bodies corporate holding the majority of the issued and outstanding voting stock of said corporation voting for said amendment, to wit, 7,324,159 shares out of the total issue of 8,993,417 shares were voted for said proposed amendment, and no shares were voted against the same, as appears by the certificate made by said judges.

In witness whereof said Transamerica Corporation has caused its corporate seal to be hereunto affixed and this certificate to be signed by its vice president and its secretary, this 9th day of February, 1929.

WILLIAM H. SNYDER,
Vice president.
GEO. E. HOYER,
Secretary.

STATE OF DELAWARE,
County of New Castle, ss:

Be it remembered, that on this 9th day of February, 1929, personally came before me Herbert E. Latter, a notary public in and for the county and State aforesaid, William H. Snyder vice president of Transamerica Corporation, a corporation of the State of Delaware, the corporation described in and which executed the foregoing certificate, known to me personally to be such, and he, the said William H. Snyder as such vice president, duly executed said certificate before me and acknowledged the said certificate to be his act and deed, and the act and deed of said corporation; that the signatures of the said vice president and of the secretary of said corporation to said foregoing certficate are in the handwriting of the said vice president and secretary of said company, respectively, and that the seal affixed to said certificate is the common or corporate seal of said corporation, and that his act of sealing, executing, acknowledging, and delivering the said certificate was duly authorized by the board of directors and stockholders of said corporation.

In witness whereof I have hereunto set my hand and seal of office the day and year aforesaid.

HERBERT E. LATTER,
Notary Public.

Appointed February 24, 1927; State of Delaware; term two years.

STATE OF DELAWARE,
Office of Secretary of State:

I, Charles H. Grantland, Secretary of State of the State of Delaware, do hereby certify that the above and foregoing is a true and correct copy of certificate of amendment of certificate of incorporation of the Transamerica Corporation, as received and filed in this office the 11th day of February, A. D. 1929, at 1 o'clock p. m.

In testimony whereof I have hereunto set my hand and official seal, at Dover, this 11th day of February in the year of our Lord one thousand nine hundred and twenty-nine.

[SEAL.]

CHARLES H. GRANTLAND,
Secretary of State.

Mr. BACIGALUPI. This preliminary statement, owing to the ground to be covered and explained, has necessarily become very long. I ask your indulgence, however, if I prolong it a little, because I feel that it would be incomplete were it not to include a brief announcement of at least a few of the opinions we hold with reference to the subject matter of this timely investigation, formed as a result of our

comparatively long personal and intimate touch with all types and forms of banks now prevalent in the United States.

We see nothing wrong with well-organized and well-managed group banking as it exists in the United States to-day, excepting that it is not as resourceful, flexible, efficient, or economical as branch banking. We believe that group banking is a great improvement over the individual or unit form, however, and a decided step in the right direction.

We firmly believe that large-scale branch banking over wide and diversified areas has demonstrated its decided superiority, in the following particulars, wherever it has been tried:

1. It is more economical because:

(*a*) Operating expenses should be less, due to the efficiencies and economies which large-scale organization, purchasing, and so forth, make possible.

(*b*) Overhead should be less, due to the centralization of administrative functions and elimination of unnecessary duplication of facilities.

(*c*) Credit losses are less, due to intelligent credit supervision by picked men, which only a large and highly profitable institution can afford to employ, and due also to the inherent soundness that comes from loans spread over a wide area and competent officers close at hand to watch them, as against loans all placed in one community or lent at a distance without any one connected with the lending bank to constantly follow them up.

(*d*) Assets enjoy a higher earning rate, due to the increased facilities for investment and greater experience in investment that naturally comes with the handling of large amounts of money.

2. Local communities receive a safer and more adequate banking service because:

(*a*) They enjoy a sound depositary for funds that presents an equal and undivided responsibility to all its patrons, and is capable of easily weathering the complete or partial agricultural or industrial failure in any given section during one or more years.

(*b*) No financial need is too large or too small to be supplied; and such banks are in a far better position to finance the sound and legitimate growth of a community than would be possible through the employment of local capital alone.

(*c*) An opportunity is offered residents of every community served to share, through stock ownership, in the profits not alone arising from the branch within their own locality, but those that accrue from the entire system as well.

3. Branch banking is a financial bulwark making generally for greater soundness and progress and is destined to become, as we see it, one of the Nation's most invaluable assets.

We have for several years been, in principle, favorably disposed to branch banking without any territorial limitations. It is our view that the ideal system of banking should permit parent banks to establish branches in any part of the world. This privilege is now possessed by all of the leading foreign banks and has been of great value to foreign countries in building up and holding their foreign trade. We have become a great commercial nation and our prosperity is dependent upon the efficient development of our foreign trade in all sections of the globe. Congress has recognized in the Federal reserve act the principle that banking should follow this trade by giving to national

banks the right, with the approval of the Federal Reserve Board, to establish branches in foreign countries. Recently the Bank of Italy National Trust and Savings Association was given permission to open a London branch.

While we recognize that our country is not now prepared by experience or education to engage in nation-wide branch banking we are nevertheless of the theory that this type of branch banking under proper regulation and control would give, in conjunction with foreign branches, the widest possible diversification of business and the greatest soundness. Such a system of branch banking would not, however, be expected to proceed entirely from New York City. In our great country the future will witness many strong commercial centers with banks fully able to exist independently of New York. There would be branch banking systems with head offices in Minneapolis, San Francisco, Detroit, Chicago, Buffalo, St. Louis, Atlanta, New Orleans, and so on.

For the present we are engaged in branch banking in the State of California upon a State-wide scale. Our branches are operated under a great variety of conditions of soil, climate, industry, and business. While we are not advocating or supporting any particular legislative suggestions at this time we are nevertheless in a position, by virtue of our experience in every aspect of branch banking, to avail ourselves of any enlargement of the territory in which national banks may be permitted to engage in branch banking.

I wish to thank the committee for its patience and consideration and I shall be glad to answer to the best of my ability any questions which you may propound.

The CHAIRMAN. I am going to suggest, Mr. Bacigalupi, that the committee recess now until 2.30 this afternoon, when we shall be pleased to have you back. I am supposing, now, that you have completed your formal statement.

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. The members of the committee will want to question you on different phases of your statement at the afternoon meeting. Without objection, then, the committee will stand in recess until 2.30 this afternoon.

(Whereupon, at 12.25 o'clock, p. m., the committee recessed until 2.30 o'clock, p. m.)

AFTER RECESS

Upon the expiration of a recess, the committee resumed its hearing.

The CHAIRMAN. The committee will please come to order.

My attention has been directed to a matter that I want to call to the attention of the committee, to the effect that a concern in New York City, calling themselves "patent law reporters," 154 Nassau Street, headed by Herbert B. Sanson, is apparently taking these proceedings held before our committee on the subject of branch, chain, and group banking and is reprinting them and apparently selling them to the public.

From the information which comes to me from a reliable source, they are conducting a campaign for the sale of these public hearings, which are available to everyone in the country without cost so long as the supply furnished the committee lasts.

It would seem unfortunate that anyone should be attempting to exploit the distribution of these hearings for the purpose of making money.

The circular or card of some sort which these people are apparently sending out is as follows:

BRANCH, CHAIN, AND GROUP BANKING

Every phase of this important subject is being investigated by House Committee on Banking and Currency.

Not since the creation of the Federal reserve system has anything so vitally affected American banking.

Send your order to-day so we will know how many copies to prepare of the proceedings.

HOUSE RESOLUTION NO. 141

PATENT LAW REPORTERS,
154 Nassau Street, New York.

Please prepare and send me ..... copies of the proceedings of above committee, for which I agree to pay at the rate of 25 cents per page.

Signature..... Title.....
Bank..... City.....

The CHAIRMAN. One banker, without stopping to think and being interested in the hearings, signed one of these cards, and a few days later was presented with a bill for $1,200, and he is now resisting the payment of this bill and these people are evidently attempting to collect.

I simply wanted to call this to the attention of the committee so that you would know what is taking place. It would seem to me that it is a matter that ought to be stopped. I do not know that it is within the juridsiction of the committee to stop it.

Great numbers of these hearings have been asked for and mailed out. They are undoubtedly getting them from these printed hearings.

I simply want the committee to know that some people were attempting to exploit the banks in regard to these hearings. I am sure that if any bank wants copies of these hearings, they can be made available through the usual channels here without going to to this great expense, but it is apparent that some banks are innocently being mulcted in this manner.

Mr. WINGO. As I understand it, this concern made inquiries beforehand, and, of course, the clerk properly told them he knew of no law against it, and there is no reflection whatever on the clerk; he did the proper thing.

I imagine that these people, by payment of the fixed charges provided by law and the regulations of the Government Printing Office, could get copies of the hearings, but the viciousness of it was that, while it was perfectly lawful, they sent out notices and took advantage of what they know is an obvious fact, that the busy banker possibly would get the impression that he has to pay that much in order to get the official reports of this committee, when there has never been any disposition upon the part of the House to decline to allow us to have printed whatever was necessary to meet the legitimate demands of those interested in any of our hearings.

I think it would be unfortunate if any bank should be required to pay for a copy of these hearings, and I think it is a part of a proper charge upon the Public Treasury for this committee to have whatever

copies printed that may be necessary to meet the demands of any banker or of any other citizen who is interested in this subject, having them follow the customary course of writing to the committee or to their own Congressman or Senator in order to get copies.

I think the chairman ought to consider how he can make public such a suggestion, even though it may result in greater demand being made upon us than ordinarily would be made, for I do not like the idea of a bank, like the one you mentioned, having to pay $1,200 and then perhaps having to pay five, six, or ten times that much before they get through, and I think something ought to be done to warn the bankers that they do not have to buy these hearings, that if any bank is interested the committee will furnish copies to them, either through request made directly to the committee or on their Congressman or Senator.

Mr. FORT. Of course, we can not furnish them without limit, without exhausting the appropriation.

Mr. WINGO. What we ought to do is to meet every legitimate demand without the bankers having to pay some private source a profit for these hearings.

Mr. FENN. In connection with Mr. Strong's very valuable testimony before the committee a year or two ago, the chairman informed me that they had an authorization to print 5,000 extra copies, and the demand for these hearings is going to be as great.

The CHAIRMAN. Greater.

Mr. FENN. The time will come when we will have to ask for that authorization.

Mr. WINGO. But if the point as to demand should be reached that Mr. Fort refers to, that we would have exhausted our appropriation, we could then merely do what we frequently have to do, tell them that certain documents are exhausted but that they can procure them from the Public Printer at a certain price, and to find out and tell them what that price is.

It might be wise, in order to prevent a terrific and unnecessary demand, to let the committee simply take care of requests through the members, and then if some man should write me where I did not think he was entitled to it, where it was mere idle curiosity on his part, I could do with him as I do sometimes with others, tell him that, of course, I have not an available copy to send him but that it can be procured by purchasing it from the Public Printer for so much.

Mr. FENN. I do not recall of these hearings ever having been in the Public Printer's hands.

Mr. WINGO. I think we should arrange for additional copies to be distributed at cost.

The CHAIRMAN. I think that, so far as additional copies are concerned, we probably will find it necessary to get authority to print them, and later on, perhaps at the conclusion of this study, it may be possible to print them in one or two volumes instead of in the smaller pamphlets as now.

I brought this matter up so that it would be a notice to the country generally that this thing was taking place, and that it was not the view of the committee that anyone should be permitted to exploit the banks.

I want to quote a little further——

Mr. GOODWIN. May I ask a question?

The CHAIRMAN. Yes.

Mr. GOODWIN. Do I understand that any private individual or organization may print a copy of the hearings before this committee and include on the cover, "House of Representatives, United States Congress, Public Document Number so and so"?

The CHAIRMAN. I understand that can be done.

Mr. WINGO. I do not know how far they could go. I suggest, Mr. Chairman, that you look into what the law is, and the precedents, and what the rulings have been with respect to copying a public document by way of private printing.

The CHAIRMAN. I will be very glad to do that.

So that the members of the committee may know what is happening, I would like to finish this statement. This gentleman writes that an officer in his bank glanced over this card, a copy of which I have inserted in the record, and concluded from the reading of the contract that he was ordering four copies of a pamphlet that would cost 25 cents each. Then the letter goes on—

He thought—

The officer of that bank—

it would be worth that much to have these reports here in our files—not that we had any particular use for them. To our great astonishment we find that a set of these proceedings consisted of more than two volumes and enough pages so that the four copies would make an aggregate cost of something like $1,200.

The thing is a fraud on its face, of course, and we canceled the order immediately as soon as we discovered the error, April 23, explaining that we had misread his contract.

We are to-day in receipt of the following letter from this man Sansom:

"We were very much surprised to receive your letter of April 23 stating that you were returning the proceedings of branch, chain, and group-banking investigation after all the hard work we did in filling your signed order which we accepted as bona fide.

"When the packages arrive we shall naturally be compelled to refuse to accept the same, because we feel that we have fulfilled our part of the specific performance contract called for in your signed order, a photostatic copy of which is inclosed herewith. We tried to make it so simple and plain that a child could understand it.

"We must therefore insist that you O. K. our statement for payment as soon as possible. Will you kindly advise your decision in the matter?

"Yours very truly,

"PATENT LAW REPORTERS.
"SANSOM."

Mr. BRAND. What city was that letter sent from?

The CHAIRMAN. New York City.

Mr. DUNBAR. Mr. Chairman, some of the bankers would like to read the proceedings as they occur, during the time we are in session. Now, we can not receive enough copies to send them to all the banks in our district, and possibly to supply that kind of a want when the proceedings are over. As I understand it, we will then receive enough copies so that we can send one to each bank in our districts.

Mr. WINGO. No.

Mr. DUNBAR. We can not?

Mr. WINGO. Do not let that suggestion get "orated" around.

Mr. DUNBAR. Does not this fill a want?

Mr. Chairman, may I ask Mr. Wingo if this does not fill a want?

Mr. WINGO. No; there are some bankesr in my district and yours that would not read them even if we sent them to them.

Mr. BRAND. Some of them have not time.

Mr. WINGO. I move this, that the chairman be directed to investigate this matter fully and take such steps as he deems proper to properly protect the banks against exploitation and the hearings of this committee from being used in an improper way, and that he then advise the committee subsequently what he has done and found out.

The CHAIRMAN. Is there a second to that motion?

Mr. FENN. I second the motion.

The CHAIRMAN. It is so ordered.

Now, Mr. Bacigalupi, Mr. Fort has to be away from here a little later on, and I am going to break the regular program to let Mr. Fort proceed with you at this time.

STATEMENT OF JAMES A. BACIGALUPI—Resumed

Mr. FORT. Let me say, Mr. Chairman, that if there is anyone else in the same boat, I should be glad to have him proceed.

In your various set-ups, Mr. Bacigalupi, have you any rules and regulations which render it certain that there is no cross ownership of each other's securities by your corporations?

Mr. BACIGALUPI. Yes, sir.

Mr. FORT. In other words, to take a concrete illustration from the chart, would it be possible, in the way you are operating, for the Bank of Italy, to be the owner of stock of the Transamerica Corporation?

Mr. BACIGALUPI. No, sir.

Mr. FORT. Would it be possible for the Bank of Italy National Trust and Savings Association to have loans on the stock as collateral of the Transamerica Corporation?

Mr. BACIGALUPI. Yes, sir.

Mr. FORT. Generally speaking, Mr. Bacigalupi, is it not possible for a considerable duplication of resources to occur in any like organization if the subsidiary corporations of a major holding company either own the stock of the parent company or loan on it?

Mr. BACIGALUPI. I would say no. I have not the exact terms of the law that is applicable to that particular point clearly in mind, but the national bank act prescribes very clearly the percentage of the capital of a bank that may be loaned to any individual borrower or the character of security to be given.

Mr. FORT. I think you have got my question a little confused. I do not refer so much to the loan by the Bank of Italy to the Transamerica Corporation. The national banking act does regulate the amount of loans that could be made to one borrower, but it does not regulate the amount of loans that can be made on one type of collateral. For example, we can loan 10 per cent, we will say, of the resources to an individual borrower, but there is nothing in the law as it stands at the present time to prevent a bank lending 100 per cent of its total resources on the identical collateral, whether Government bonds or any other security.

Mr. BACIGALUPI. I do not have that clearly in mind. My impression was that the law was full on that subject and that it did limit it as to the quality or kind of security. Our policy, however, has been that we have been very careful in our loans on any collateral to see to it that not more than a certain percentage was loaned on any type

of security, and then, also, that that particular loan should not exceed a certain percentage of the value that was fixed on that security by the finance committee of the bank.

Mr. FORT. That interests me very much parenthetically, because we have had that question up here, as to whether or not there should be a limitation of the percentage of a bank's resources which should be loaned on an identical collateral. You say that you have such rules?

Mr. BACIGALUPI. We have such a rule, and we apply that.

Mr. FORT. What is that rule, as to the maximum limit of your resources that can be loaned on a certain collateral?

Mr. BACIGALUPI. My recollection of the rule is that they shall not lend more than 50 per cent.

Mr. STRONG. There are just one or two things that I wanted to ask about.

In your statement to the committee, you said:

> Briefly told, the method used by the Bank of Italy in acquiring the stock of a bank prior to the early part of 1917 was as follows: California forbaded and still forbids the bank to purchase the stock of another bank.

Then you went ahead and described how you organized the corporation, first using individuals to buy that stock for the corporation.

Mr. BACIGALUPI. Possibly you misunderstood me or I did not make myself plain.

Section 31 of the bank act, which is the only provision of the California bank act which has to do with the purchase of another bank, deals only with the purchase of assets of the other bank, namely, mortgages, notes, bonds, and the other assets that make up the going concern. Now, naturally, if you were the owner of a bank that was about to be sold, the preliminary negotiations would have reference not to the assets but would have reference to how much you were going to get for your stock in that bank, and you naturally would not consent to the transfer of the assets of your bank, to be incorporated into the assets of the Bank of Italy until you knew definitely how much you were going to get, and in most instances you would want to have the money in hand or the consideration in hand for your stock, which represented your interest in that business.

Inasmuch as the law forbids one bank from buying the stock of another bank, we had to resort to individuals buying the stock, who were friendly to the bank, and then proceeding under section 31 of the bank act to sell, get the two-thirds consent of the stock of the selling bank, get the two-thirds consent of the stock of the purchasing bank, and the resolution of authorization from the boards of directors of the purchasing bank and of the selling bank, and then come to an agreement as to the purchase and sale of those assets pursuant to section 31, and when that operation was completed there was left in the shell of the selling bank in assets and cash, or convertible assets, capital, surplus, and undivided profits, sufficient to retire or to reimburse the individuals for the stock they purchased.

Mr. STRONG. Then, when these friends of the bank bought the stock they bought it for the bank?

Mr. BACIGALUPI. Yes, sir.

Mr. STRONG. And turned it over to the bank?

Mr. BACIGALUPI. Yes, sir.

Mr. STRONG. That was done to avoid the law.

Mr. BACIGALUPI. No, not to avoid the law. It was done to comply with the law.

Mr. STRONG. No. The law forbade a bank from buying the stock of another bank, so the friends of the bank bought the stock and turned it over to the bank, and that gets around the law.

Mr. BACIGALUPI. The bank did not buy the stock; it bought the assets in strict compliance with section 31.

Mr. ATRONG. What becomes of the stock?

Mr. BACIGALUPI. It bought the assets from the then stockholders of the bank, who were the friends of our institution.

Mr. STRONG. But what became of the stock finally?

Mr. BACIGALUPI. It was liquidated; the bank was liquidated and those who purchased it repaid.

Mr. STRONG. To get around the law, which says that one bank can not buy the stock of another, your bank has its friends buy the stock, and then from its friends it buys the assets, and there is nothing left for the institution but to liquidate.

Mr. BACIGALUPI. It was all done legally.

Mr. STRONG. It was done legally to avoid that statute.

Mr. BACIGALUPI. There was not any avoidance of a statute. It was done openly, and with the full acquiesence of the supervisory authorities.

Mr. STRONG. It might be, but it got around the California law.

In the purchase of these banks, was any money made, any increased amount of stock issued? To be frank about it, was any water put into it?

Mr. BACIGALUPI. I do not know exactly what you mean by water.

Mr. STRONG. Oh, yes, you do.

Mr. BACIGALUPI. No; in this connection I do not, because the capitalization of the bank was increased from time to time, as was referred to in my opening statement of this morning, and the dates of the increase of the capital of the bank and the prices at which the various issues were sold for are all tabulated in Exhibit A that is before this committee.

Mr. STRONG. When a bank was bought by friends of your bank and then the assets turned over, was any money made?

Mr. BACIGALUPI. No, sir; not a nickel.

Mr. STRONG. Was any money made or any stock watered, any paper profits made in the building of these subsidiary corporations, or the corporations to take over these various organizations or banks?

Mr. BACIGALUPI. I do not understand your question.

Mr. STRONG. Well, let us take the purchase of these various banks. The Commercial National Bank, the Liberty Bank, and the Bank of America were consolidated into the Liberty Bank of America, and that turned over to the Bank of Italy.

Mr. BACIGALUPI. Yes, sir.

Mr. STRONG. Were any paper profits made in those transactions?

Mr. BACIGALUPI. No, sir. If there were any profits resulting from any of these transactions, they were shared by all of the stockholders of the institution.

Mr. STRONG. Was there any profit?

Mr. BACIGALUPI. I am positive there was not any profit, because they were sold at their actual appraised value.

Mr. STRONG. If the Bank of Italy takes over a bank or organizes a bank or has its friends buy a bank and then buy the assets and that is converted into the Bank of Italy, is there any stock issued in excess of the amount of stock of the original bank?

Mr. BACIGALUPI. No. If the Bank of Italy, for instance, were to buy a bank to-day, its capital is more than ample to accommodate a bank or several banks of rather large structure, and there would be no occasion to issue any additional capital.

Mr. STRONG. I also noticed that in your statement you said that one of the principles you insist upon is total abstinence from politics and all controversial questions.

Mr. BACIGALUPI. Yes, sir; that do not directly affect the weal of the institution.

Mr. STRONG. That is what I wanted to know. If you thought that the good weal of the institution was to be served by getting into politics, would the Bank of Italy get into politics?

Mr. BACIGALUPI. No, sir; not as such.

Mr. WINGO. What is that?

Mr. BACIGALUPI. Not as such.

Mr. STRONG. Not as such. Would its officers get into politics?

Mr. BACIGALUPI. No. I pointed out this morning that there were 125,000 people who owned an interest in these institutions. Naturally they would not take kindly to a deal that they did not consider fair and just.

Mr. STRONG. Have you taken any interest in State politics in California?

Mr. BACIGALUPI. The bank has never done anything of the kind. As far as the last governor's campaign was concerned, I have not any doubt that a number of our stockholders in California voted for the present governor as against Governor Richardson, whose administration was openly and avowedly antagonistic to our institution. In fact, the existence or the further growth of our institution was practically one of the issues of the campaign.

Mr. STRONG. Then the bank does get into politics.

Mr. BACIGALUPI. No; the bank does not get into politics.

Mr. STRONG. Of course, the charter itself does not get into politics.

Mr. BACIGALUPI. I do not even mean to be technical or facetious, Mr. Congressman, in what I am saying.

Mr. STRONG. You say you have 100,000 employees, and, of couse, they have relatives and friends and families, and you say that they got into this governor's fight?

Mr. BACIGALUPI. I did not say we had 100,000 employees. I said we had 125,000 stockholders in the Bank of Italy and in the Bancitaly Corporation——

Mr. STRONG. And they have friends?

Mr. BACIGALUPI (continuing). Who have money invested in these institutions, and it was a most natural thing for them to resent any arbitrary position or any unawful and unjust position in their estimation and contrary to their interests.

Mr. STRONG. Of course, they would be advised by somebody that their interest was affected.

Mr. BACIGALUPI. I do not think there was anybody in the State of California that did not know it was going on. In fact, there was pending at that particular time, and prior to the campaign, a suit in

the supreme court entitled "Bank of Italy *v.* John Franklin Johnson as superintendent of banks of the State of California," which had to do——

Mr. STRONG. Now, let me ask you this——

Mr. BACIGALUPI. Pardon me, but I would like to explain this, because I think that in fairness to the people whom I represent here we should have the facts, since you opened that up.

Mr. STRONG. Go right ahead.

Mr. BACIGALUPI. I read to you purposely this morning the only sections in the California banking act which deal with the right of a State bank to establish branches. That power is vested exclusively in the superintendent of banks, and it is made entirely dependent upon his finding as to whether or not the public advantage and convenience of the locality is to be promoted by the establishment of such a branch. It leaves him practically the czar of the situation.

Now, the Bank of Italy had been operating in the city of Los Angeles since 1912. It entered Los Angeles not brand new, but through the acquisition not of one but of several banks which it operates in the manner I outlined this morning.

When the Bank of Italy entered Los Angeles, Los Angeles was not the great city that it is to-day. Within the last six or eight years, Los Angeles has grown to double, triple, or even quadruple its former population.

Mr. Giannini was one of the first to sense the need or the opportunity of a bank operating in Los Angeles that was not originally designed for a large town, with its narrow streets and the rest of it, and with the outlying area becoming rapidly populated by this influx of people from all parts of the United States, and that it was the opportune thing for a bank to bring itself to the people in these outlying business districts that were rapidly springing up throughout the city.

It was then about 1921 when our competitors in California began to encourage, following the example of the Bank of Italy, the establishment of branches, and they began to work on the superintendent of banks and they got him to enunciate what is known as the de novo rule—in other words, he made a law which we felt was absolutely illegal—to the effect that a bank might establish branches only in the locality where it had its principal place of business, and that was done in the face of a statute which was plain and which made no discrimination between any State banks in California.

So that they began to get permits for all of these branches, and the superintendent of banks found that the public interest and convenience would be promoted in the event that they asked for the privilege of establishing a branch, but to us he would say, "Because you have your head office in San Francisco, under the de novo rule I can not grant you that permission."

In the flyleaf of this brief, which I filed with this committee, our attorney tabulated the branches that were granted to the various banks in Los Angeles territory, and I will read here merely the footnote.

Between June 20, 1921, and June 18, 1925, the date this proceeding was commenced (four years) Superintendents Dodge and Johnson together granted permits for 122 de novo branches in Los Angeles, 2 to the petitioner, 3 to the Bank of America, and 117 to the above-named 5 favored Los Angeles banks.

Now, I wish to present that, Mr. Chairman, and to have it marked the next exhibit letter. (Exhibit V.)

The CHAIRMAN. Without objection, the part referred to will be printed in the record at this point.

(The tabulation referred to is here printed in full, as follows:)

EXHIBIT V

Branches in Los Angeles—(Exs. 114, 102, and 101—See Appendix pp. 3–10)

BRANCHES WHEN SUPERINTENDENT DODGE TOOK OFFICE JUNE 20, 1921

	De Novo	Merger	Purchase and sale	Total
Bank of Italy			3	3
Security Trust & Savings Bank	2		1	3
Pacific Southwest Trust & Savings Bank	7			7
Hellman Commercial Trust & Savings Bank	4			4
Citizens Trust & Savings Bank	4			4
California Bank	2	15		17
Citizens State Bank of Sawtelle	1			1
Yokohama Specie Bank	1			1
Total	21	15	4	40

BRANCHES GRANTED BY SUPERINTENDENT DODGE (JUNE 20, 1921-FEBRUARY 1, 1923)

Bank of Italy	2			2
Security Trust & Savings Bank	11	3		14
Pacific-Southwest Trust & Savings Bank	24	2		26
Hellman Commercial Trust & Savings Bank	8	1		9
Citizens Trust & Savings Bank	17			17
California Bank	11		1	12
Bank of America		1		1
Total	73	7	1	81

BRANCHES GRANTED BY SUPERINTENDENT JOHNSON (FEBRUARY 1, 1923, WHEN HE TOOK OFFICE, TO NOVEMBER 24, 1925)

Bank of Italy			1	1
Security Trust & Savings Bank	9	2		11
Pacific-Southwest Trust & Savings Bank	13			13
Hellman Commercial Trust & Savings Bank	13			13
Citizens Trust & Savings Bank	8			8
California Bank	3	2		5
Bank of America	3			3
Total	49	4	1	54

Between June 20, 1921, and June 18, 1925, the date this proceeding was commenced (four years), Superintendents Dodge and Johnson together granted permits for 122 de novo branches in Los Angeles, 2 to the petitioner, 3 to the Bank of America, and 117 to the above-named 5 favored Los Angeles banks.

The history of the petitioner's 6 branches in Los Angeles (4 purchased and 2 de novo) appears infra p. 4.

The history of the 15 branches acquired through merger by California Bank appears in Exhibit 114 (Appendix, p. 6).

Mr. STRONG. Then, I understand from what you said that the fact that the banks that were your competitors seemed to get more consideration from the superintendent of banks forced the stockholders of your bank to take an interest in politics?

Mr. BACIGALUPI. It forced them to a decision as to what candidate who was running for office they would vote for; yes.

Mr. STRONG. And when that candidate was elected, was the man who was then appointed superintendent of banks satisfactory to your stockholders?

Mr. BACIGALUPI. Neither the stockholdings nor any of our institutions had absolutely anything to do with the naming of the superintendent of banks.

Mr. STRONG. I understand that, but I am asking you if the superintendent of banks that the new governor appointed following this contest was satisfactory to your stockholders?

Mr. BACIGALUPI. He was just as satisfactory to our stockholders as he was to the stockholders of every other bank.

Mr. STRONG. Since he has been in office, have you been getting as square a deal as you did before?

Mr. BACIGALUPI. The Bank of Italy, within a very few days after he was named by the governor, became a national bank, and thus put itself out of the jurisdiction of the superintendent of banks of the State of California.

Mr. STRONG. Have you any State banks in your group?

Mr. BACIGALUPI. We have now the Bank of American of California.

Mr. STRONG. And are they getting a square deal?

Mr. BACIGALUPI. They are getting a square deal.

Mr. STRONG. But before they did not?

Mr. BACIGALUPI. No, sir.

Mr. STRONG. The incentive, then, is to get into politics, for these big institutions?

Mr. BACIGALUPI. I deny that the Bank of Italy or any of its stockholders as such is in politics, and I deny that the Bank of Italy has ever asked for or ever received political favor from any California official.

Mr. STRONG. The proposition I am trying to get at is this: I very much fear, as a citizen, that great banking institutions such as you are building up in California and such others that are being built up will get into politics. The second national bank in the United States did get into politics.

Mr. BACIGALUPI. I do not think you need have any apprehensions on that score.

Mr. STRONG. No, because——

Mr. BACIGALUPI. May I say this? Just to illustrate, there would not have been a chance for the Bank of Italy or any of its affiliations doing anything in politics unless the people themselves who had an interest in this institution felt that they were absolutely being discriminated against.

Mr. STRONG. Certainly.

Mr. BACIGALUPI. All right. The average holding of the 125,000 stockholders of our institution, as I recall it, was about nine shares each. Now, you can not conceive that on any political issue or on any political candidate that there would be any unanimity or that there would be any consensus of opinion, or that there would be any power resting in the hands of the administration of an institution of that type to get Jews and Gentile, Catholic and Protestant, wet and dry stockholders, such as our institutions possess, to agree, unless it was something that was absolutely raw and scandalous and that by its own weight and momentum would force them to assert their rights.

Mr. STRONG. Certainly; unless those 125,000 stockholders thought that their rights were being invaded, they practically would not take

any interest, but if they thought that their rights were being invaded, they would get into politics and help elect a governor that would appoint a superintendent of banks favorable to them.

Mr. BACIGALUPI. That is not a fair statement, Mr. Congressman.

Mr. STRONG. I say they would.

Mr. BACIGALUPI. No; I do not think so.

Mr. STRONG. I was invited to a moving-picture show not long ago, and the man who invited me told me that he would like to go to a certain place because, as he said, "I just bought some stock in that corporation."

So, men are persuaded in what they do by what they think is their personal interest.

Mr. BACIGALUPI. Whether you are a stockholder of an institution or not, you as an American citizen resent arbitarary acts and unfairness, and as an individual you will stand up for what you consider to be your rights as an American citizen.

Mr. STRONG. Yes, sir, and if I had been a stockholder in your corporations and I thought that the superintendent of banks out there was not treating the institution in which I held stock fairly, and there was a contest over the governorship, I would vote for the governor that would appoint a superintendent of banks that would treat my institution fairly, and that is just what I think everybody else would do.

For that reason, I am wondering if there is not a danger in building up these large holding companies, that own thousands of shares of stock.

Mr. BACIGALUPI. Well, I do not see any danger in it at all.

Mr. STRONG. I have in mind the history of the second United States bank, and I am looking ahead to what might come.

Mr. BACIGALUPI. I defy any of our bitterest competitors, and we have some, to cite a single instance wherein the Bank of Italy or anyone directly or indirectly connected with it has ever sought to exercise any political power in the State of California.

Mr. STRONG. That may be true, but, nevertheless, whereas the former superintendent of banks seemed to have leaned toward your competitors, he is no longer in office.

Mr. BACIGALUPI. I will say this, that if to-morrow a similar situation arose, I have not any doubt that the stockholders of our institution would react in exactly the same manner.

Mr. STRONG. That is just what I think; it is just what I am trying to come to.

Mr. WINGO. I believe that you gentlemen are going to agree directly.

Mr. STRONG. I think most anybody would agree to that proposition.

Mr. BACIGALUPI. I know that I can see a very clear distinction in this transaction. I think that as American citizens it is our right to resent abuse and injustice——

Mr. STRONG. Certainly.

Mr. BACIGALUPI (continuing). And to fight for the right—not to use our power illegitimately and to try to force our will upon everyone else.

Your proposition seems to beg the question to this extent, that you are presuming or assuming that in consideration for the political

support that he may have received from our stockholders, the present governor made an agreement with reference to the naming of a superintendent of banks that would be favorable to our institution, which I deny.

Mr. STRONG. No; I only think you got rid of a superintendent of banks who was not favorable.

Mr. BACIGALUPI. He was not; he was decidedly and openly unfavorable, and the governor himself went on record as stating he was doing exactly what the other banks of the State of California wanted him to do, and, as far as he was concerned, they had more votes than the Bank of Italy.

Mr. STRONG. I see. I am not disputing that proposition at all, and I have no doubt that the stockholders and officers of the second United States bank thought that Andrew Jackson was very unfair, and I do not doubt that the superintendent of banks was unfair to you, but I am just pointing out that in the building up of a great financial institution there can be established a great power which might be used in politics.

Mr. BACIGALUPI. The vice of the United States bank was that it was not trying to run its own business, but the other fellow's business—that is where the vice was, and there is no parity between the two cases.

Mr. STRONG. I have no doubt that if the persent managers of the Bank of Italy were to continue for all time, they would always do just and right toward the people and in their politics, but what I fear is that after you build up a nation-wide institution, with hundreds of thousands of stockholders, there might be officers of the bank in the next generation that might use that power in politics.

Mr. BACIGALUPI. I know, and may I say this, Mr. Congressman: I do not know what your politics is, but say that you were a stockholder and owned nine shares in our bank——

Mr. STRONG. That is a violent assumption, from my standpoint.

Mr. BACIGALUPI. And the management of that bank asked you to vote for a candidate of an opposite party: Do you think that your interest in the nine shares in the banking institution would be strong enough of an inducement to warrant your abandoning your party principles?

Mr. STRONG. Probably not, but I might be human enough, if you came along and said, "Don't you know that the governor will appoint a superintendent of banking that is working against us and your interests," and I will say, "Very well, I will not vote for him."

Mr. BACIGALUPI. I do not think your small interest in the institution would prompt you to do it and I do not think any reasonable, sensible business man would be influenced.

You should realize in these days we have no longer institutions dominated by one man. You take the financial interests in our institutions, beginning with any one interest, beginning with Mr. Giannini and going on down, his control is insignificant. Our claim to our right to a tenure in office is that we run our bank and do not meddle with politics or get interested in any business except our own.

Mr. STRONG. I want to say that while the average shareholdings in your institution may be only nine shares, there are a great many of them that have a much larger interest, that are devoting their lives to the institution.

Mr. BACIGALUPI. But they have only one vote.

Mr. STRONG. But they are devoting their lives to it and when they come to a matter of voting for a governor that will appoint a superintendent of banks that will be favorable or unfavorable to that institute, nobody will have any doubt as to whom they will vote for.

Mr. BACIGALUPI. I deny our stockholders had any assurance as to who would be appointed superintendent of banks.

Mr. STRONG. Certainly not. They knew one governor was appointing an unfavorable man and the other might appoint another kind.

Mr. BACIGALUPI. Well, he could not be any worse.

Mr. STRONG. Just another question or two. Are all of your many banks and branch banks and corporations now controlled by the Transamerica Corporation?

Mr. BACIGALUPI. To the extent that I outlined them and as shown by the chart.

Mr. STRONG. How many banks and branch banks does that number?

Mr. BACIGALUPI. I can not tell you offhand. The records will show that, Mr. Strong.

Mr. STRONG. Five hundred?

Mr. BACIGALUPI. Well, we have 292 in the Bank of Italy, 161 in the Bank of America, and I think 35 in the Bank of America of New York. That makes 488 in California and New York.

Mr. STRONG. Have you any in any other city besides New York?

Mr. BACIGALUPI. No, sir.

Mr. STRONG. None on Chicago?

Mr. BACIGALUPI. No, sir.

Mr. STRONG. This bank you have in Italy——

Mr. BACIGALUPI. Yes, sir.

Mr. STRONG. Does the Transamerica Corporation control that?

Mr. BACIGALUPI. I think it has about a little more than control—about 50.49 per cent; not quite 51 per cent. It has a little over 50 per cent and its total investment is some $6,000,000 in American money.

Mr. STRONG. But they have control?

Mr. BACIGALUPI. Yes, sir.

Mr. STRONG. How many banks are there in that group in Italy?

Mr. BACIGALUPI. Thirty-seven offices.

Mr. STRONG. Any other banks in which you have any stock at all?

Mr. BACIGALUPI. Oh, yes; we have shares in a number of banks in the United States, as investments.

Mr. STRONG. In about how many States?

Mr. BACIGALUPI. I could not answer that.

Mr. STRONG. A dozen?

Mr. BACIGALUPI. I would be guessing if I said that.

Mr. STRONG. Have you any interest in other banks in countries besides Italy?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. Would you furnish for the committee, Mr. Bacigalupi, a list of stockholdings in other banks in the United States that you or any of your affiliated companies own?

Mr. BACIGALUPI. Yes, sir.

Mr. STRONG. I want to clear the atmosphere by making plain my purpose in asking these questions. I am one member of this committee who absolutely fears that the building up of nation-wide branch banking is a dangerous thing. You have been operating just a few years and yet you have almost 500 banks. I am wondering whether or not, in 25 years, we will not have money and credit in the United States so monopolized in a few groups that it will really constitute a menace and whether or not, when you get that position, some one will not get into control and seek to dominate and control the national politics.

Mr. BACIGALUPI. I do not think you need fear a monopoly of money and credit. What will result, in my opinion, if anything, would be a battle between giants, rather than a battle between a number of—may I say it—pygmies, and I think the competition will be just as keen, and I think the financial structure of this country will be very much better controlled and the credit situation very much better organized than it is to-day.

Mr. STRONG. But what I am afraid is that it will be a battle of giants against the pygmies.

Mr. BACIGALUPI. The institutions will be controlled by the people who own the institutions.

Mr. STRONG. And there will be a great mass of the people not represented at all.

Mr. FENN. With the permission of the committee and the assent of the chairman, inasmuch as the gentleman from New Jersey (Mr. Fort) has an important engagement, I ask unanimous consent that my time be yielded to him.

The CHAIRMAN. Mr. Fort.

Mr. FORT. Mr. Bacigalupi, we were discussing here a few moments ago the question of duplication of resources in these holding organizations. I have had occasion to see it myself, occasionally, in insurance companies where one has owned the stock in another and the second has owned stock in the first, the net result being that the published statement of the capital and resources contained duplication and is capable of great deception. I know of one notable case where, when they got through, the two insurance companies had nothing left—each owning the other.

That is possible, of course, to the extent that the management permits it in any of these organizations, which contain more than one corporation not in the banking line. That is correct, is it not?

Mr. BACIGALUPI. Yes, sir.

Mr. FORT. We have asked other witnesses who have appeared before the committee from group and branch banking systems if they would be willing to furnish us with their suggestions, based upon their experience, as to the form, if any, that regulatory legislation should take. Would you be willing to do that?

Mr. BACIGALUPI. I would be glad to.

Mr. FORT. And in doing it, would you consider this question as to whether cross ownership should be permitted or whether one of the subsidiary corporations in such a group, being a banking corporation, should be permitted to loan on the stock of the holding corporation or of other corporations in the group?

Mr. BACIGALUPI. I shall be glad to do that, and, incidentally, say that our policy has always been very strongly against indulging in that practice.

Mr. FORT. I have not a doubt it has been, but we would like your judgment as to a way in which we could perhaps avoid it in a management that perhaps did not possess the same judgment.

I also notice your reasons for setting up what is now the National Bankitaly Co. and originally the Stockholders Auxiliary Corporation?

Mr. BACIGAULPI. Yes, sir.

Mr. FORT. I take it that that parallels what is generally called the Security affiliate?

Mr. BACIGALUPI. Yes, sir.

Mr. FORT. And you have, by some legal device, arranged it so that the stock of the National Bankitaly Co. can only be transferred with share by share of the Bank of Italy?

Mr. BACIGALUPI. Yes, sir; all shares of the National Bankitaly Co. are owned by Mr. Giannini, Mr. P. C. Hale, and myself as trustees for the Bank of Italy and the evidence of the beneficial interest of each stockholder is indorsed on the back of the Bank of Italy's certificate, so that the transfer of the Bank of Italy's certificate transfers also the beneficial interest in the National Bankitaly Co.

Mr. FORT. And that is a practice that you thoroughly approve of—that business of tying up nonbanking stock with banking stocks?

Mr. BACIGALUPI. Yes, sir; we have had no occasion to regret it.

Mr. FORT. The functions of such a corporation are not banking functions, are they?

Mr. BACIGALUPI. No; not necessarily.

Mr. FORT. Is your management the same in the National Bankitaly Co. and in the Bank of Italy?

Mr. BACIGALUPI. No, sir; except it naturally came under Mr. Giannini's general jurisdiction.

Mr. FORT. Is the directorate the same?

Mr. BACIGALUPI. No, sir.

Mr. FORT. Do you believe that such organizations should have the same directorate and management?

Mr. BACIGALUPI. No, sir.

Mr. FORT. Under the laws of California, is your bank—of course, it is now a national bank—but under the laws of California are such banks allowed to buy and sell stocks for their own account?

Mr. BACIGALUPI. No, sir.

Mr. FORT. Do you believe they should be allowed to do that?

Mr. BACIGALUPI. No, sir. That is the reason we took it out of the bank and put it into the bank affiliate.

Mr. FORT. And your reason for so believing is what?

Mr. BACIGALUPI. Our real reason was that we did not consider it strictly a banking function.

Mr. FORT. But you do believe it is proper—and I know a great many who agree with you—to tie up the control and ownership and operation, in effect, of a company doing business which is not properly a banking function, with a bank?

Mr. BACIGALUPI. Yes, sir; and we predicate that opinion upon our experience. We have builded a big organization. We have upwards of 5,000 men and women in the Bank of Italy alone. There are a number of legitimate functions not strictly banking that can be availed of by our group for the benefit of stockholders. These functions we have found in many instances to be taken advantage of in many banks by the men who are the paid trustees of the stockholders who convert these otherwise legitimate opportunities to their own personal advantage.

It was always Mr. Giannini's idea that we were to serve our stockholders 100 per cent and to avail ourselves of this instrumentality in every legitimate way for the benefit of the stockholders and we have found that the auxiliary or security affiliate is that type of institution. It helps to keep the bank cleaner for the benefit of the depositors of our bank; it makes it somebody else's specific business to take care these assets that are placed there; it permits us, through our affiliate, to take over such assets as are objected to by the examining authorities or are objected to by our own examiners. Real estate that has been on the books for more than five years must, arbitrarily, be written off and we take care of that through that auxiliary. We have come to believe that our banking structures are becoming more and more the financial emporiums of the country, and that we should departmentalize anything relating or incidental to the banking business, and anything that can not be handled through the bank, can be handled through the affiliate, and handled through that affiliate without additional expense.

We believe the affiliate furnishes an additional backing to the bank and it is for benefit of the depositors of the bank.

Mr. FORT. I notice you use yours for the purpose of taking bad assets out of the bank—and I appreciate any bank like yours must get some bad ones with the best of management—taking them out and putting them in the affiliate so that the eventual loss or possible salvage will go to the bank's affiliate stockholders?

Mr. BACIGALUPI. Who are identical and whose ownership is in the same proportion.

Mr. FORT. Do you think there is any hazard where you have a combined management of the two institutions that the thing might work the other way?

Mr. BACIGALUPI. I do not follow you.

Mr. FORT. That the bank may take over from the securities affiliate very slow moving frozen bonds that it might have gotten loaded with on syndicate operations—is there any danger of that?

Mr. BACIGALUPI. I do not think so.

Mr. FORT. It has never happened with yours?

Mr. BACIGALUPI. No sir; the bank is under examination—

Mr. FORT. The assets might be good, but slow.

Mr. BACIGALUPI. It would soon be detected if that was the policy of the management and a halt would be called.

Mr. FORT. In the operation of your trust department, do you buy for the account of the trusts which are operated by your banks—any of them—do you buy securities from your own securities affiliate?

Mr. BACIGALUPI. Our policy has been unalterably against that. The only securities that we have ever bought from our affiliated

securities department have been United States Government bonds, county, State and municipals.

Mr. FORT. And you believe, as I do, that that is sound practice and should be perhaps enforced?

Mr. BACIGALUPI. Yes sir; that is sound. I think that a trustee should get one fee and one fee alone and that is the fee provided for in the private trust agreement by the express terms of the agreement and, in the case of a court trust, by the award of the court, and he or it should not make any other profit from his position.

Mr. FORT. Do you bank trust funds with your own banks?

Mr. BACIGALUPI. If we do, we do it pursuant to the Federal reserve requirement and the State banking requirement.

Mr. FORT. And what has been the rate of interest allowed trust funds?

Mr. BACIGALUPI. Nothing on commercial deposits, but the law does require that such deposits in the commercial department shall be secured in the manner provided by law.

Mr. FORT. Is there any reason, Mr. Bacigalupi, generally, why a bank should be allowed to make a profit in its banking department out of the funds which they deposit with itself from the trust department?

Mr. BACIGALUPI. I do not see that it is gaining any advantage there because if it gets a deposit from that source, there is no difference from getting it from any other source. If it is deposited in its commercial department, it is putting up securities which it is rendering inactive for other purposes.

Mr. FORT. I have not the law before me, but I understand in the State of Kentucky the law requires a bank which banks any trust funds, with which it is entrusted, with itself, to pay 5 per cent interest, while those funds remain uninvested, to the trust, on the theory that you have just so well and properly stated, that it should make nothing out of the trust except the legal fees and, therefore, to get no benefit from lending that trust fund while it is in its bank.

Mr. BACIGALUPI. I do not know about the laws of Kentucky.

Mr. FORT. Would you feel that some such law requiring the bank to account to the cestui qui trust for funds banked with itself is bad legislation?

Mr. BACIGALUPI. I do not see that it will serve any particular purpose. I do not see why a corporate trustee should be penalized over an individual trustee. An individual trustee has the right to deposit where he cares to. He does not have to give security in many instances.

Mr. FORT. He has to give a surety bond.

Mr. BACIGALUPI. He may be liberated many times from doing that by the terms of the will.

Mr. FORT. If he mingles those funds with his own funds, he would have to account for all losses as well as any profits.

Mr. BACIGALUPI. If he has any left; yes, sir.

Mr. FORT. And would have to account for it if he mixes it with a mortgage fund, for the rate of interest he received on the mortgage?

Mr. BACIGALUPI. Yes, sir; but there is no intermingling of trust funds by the corporate trustee.

Mr. FORT. But when they are deposited and become a part of the general resources of the bank and the bank lends them with other funds, for their own account——

Mr. BACIGALUPI. But they are secured deposits.

Mr. FORT. The law of Minnesota, I will say for your information, we have learned in these hearings, forbids a corporate trustee from banking with itself uninvested trust funds. Do you feel that that is improper legislation?

Mr. BACIGALUPI. I think the law that is incorporated in the Federal reserve act is sufficient.

Mr. FORT. You have spoken very well in your statement and pointed out the very unusually liquid condition of your institution. Now do you feel there is any difference in the need of liquidity in a branch system from the need of liquidity in a unit bank in proportion of the total deposits?

Mr. BACIGALUPI. I would say that possibly we have been a little overconservative because of the fact that we were blazing a trail and we were on trial, if you please, and that it behooved us to maintain a position that was more liquid than we felt was conservative.

Mr. FORT. But I ask you specifically, do you feel that the spread of deposits coming from many communities, as they do in such a branch system as yours, makes it necessary that a branch banking system like yours should have greater or less liquidity than a unit bank with all deposits in one spot?

Mr. BACIGALUPI. We have come to believe that it would be less necessary for us to maintain as high a liquid position than would be required of a unit bank.

Mr. FORT. I notice in your statement that you set up one of your corporations here in part for the purpose of acting as an insurance agent?

Mr. BACIGALUPI. Yes, sir.

Mr. FORT. You also own your own fire insurance company?

Mr. BACIGALUPI. Yes, sir; the Transamerica does.

Mr. FORT. Is it a part of your practice to require borrowers or to suggest to borrowers that they should insure with your own company?

Mr. BACIGALUPI. No, sir; and I should like to explain that.

Mr. FORT. I should like to have you do that.

Mr. BACIGALUPI. When we first started to buy country banks, we invariably found that the president or cashier of the bank was the agent of a number of different insurance companies in his own personal capacity and that when Mary Brown or Jim Smith came into the bank to borrow money from the bank this individual agent always made it his business to say to the individual, "I am an insurance agent and I will grant this loan if I am given the privilege of writing this insurance," and he would write it and put the commission in his own pocket.

Now, that was contrary to the spirit of our organization which, as I tried to point out, was always designed to act for the benefit of the stockholders, and what we would do in those instances was to say to the former president or cashier, predicated upon his personal income from that particular source over a period of three to five years, "How much do you think your business is worth?" And he would fix a price on it and we would pay him in cash, and then we would say to him, "Hereafter you continue to do as you have done before, except you are not to force the service upon anybody. Try to place it if you can, and if you do, whatever profit accrues from that source, goes

into the common treasury to be divided among the stockholders of the institution."

That led to a great deal of opposition on the part of the insurance fraternity of California. It led to legislation in the State which prohibited or sought to prohibit—it never became a law—a corporation from acting in that capacity.

That, however, never became a law, as I say, and through our branches, we place insurance not only on our own properties but whenever the people who deal with us request it. If our representatives find the insurance has already been placed by a customer of the bank, the bank does not seek to interfere with it. If it is something that comes logically, without importuning, it is written and the profit distributed among the stockholders of our institution.

When we bought the Farmers & Merchants Bank of Sacramento, there was in that combination an insurance company, which was purchased along with the bank. It was a small company, but has been built up to about three times its former size, in the last year and a half.

Mr. FORT. And that has not been built up then, by any insistence or suggestion on the part of your bank or any agents that the people should use the Pacific National Fire Insurance Co., if they were placing insurance on mortgages taken by any of your side corporations?

Mr. BACIGALUPI. No, sir; we have never importuned anybody. We believe it would be a very unwise policy to force our services upon the public.

Mr. FORT. But pretty generally they insure that way?

Mr. BACIGALUPI. Where an individual officer has nothing to gain personally, his interest is not going to be as keen as if the money were to go to him.

Mr. FORT. I noticed, in looking at the figures for your company, they indicate that the capital and surplus are very small in respect to resources. Do you reinsure as you go along?

Mr. BACIGALUPI. It reinsures liberally.

Mr. FORT. The chairman of this committee has introduced a bill in the House recently, the effect of which is to stop any further development of group banking systems in this country, pending really, I take it, a decision by Congress on what it wants to do about it. Have you any views on the wisdom or unwisdom of that legislation?

The CHAIRMAN. Just a moment: That is a somewhat drastic statement of what the bill proposes.

Mr. FORT. I can read the act. It is very short:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That after the approval of this act it shall be unlawful for any corporation, copartnership, individual, or trustee to purchase or otherwise to acquire more than 10 per cent of the shares of the capital stock of more than one member bank of the Federal reserve system, whether State or national bank member, except after first obtaining the approval of the Comptroller of the Currency with respect to national banks and of the Federal Reserve Board with respect to State member banks. Any person or corporation violating this act shall be deemed guilty of a misdemeanor and shall upon conviction thereof, in any district court of the United States, be fined not more than $10,000.

I have had sympathy with the viewpoint expressed in this bill, that we have gone pretty fast in this business, and we might do well to stop and digest what we have done. Have you any view as to

whether such legislation would interfere with the legitimate banking practices in this country now?

Mr. BACIGALUPI. I would not be true to the position that I have heretofore enunciated, were I to say, with all due respect to the proponent of the bill, that I favor it. As I stated this morning, I do not see anything wrong with group banking as it exists in the country to-day, and I do not think it presents any occasion for alarm.

The CHAIRMAN. May I say something there?

Mr. BACIGALUPI. Yes.

The CHAIRMAN. I do not think you caught the intent and purpose of this bill. It does not impede it, except as to irresponsible people who are attempting to get hold of groups of banks and build up larger banks, who would first have to get the consent of the Comptroller of the Federal reserve before they can take over a bank, whereas, now they can go out and take over banks without asking anyone's consent.

Mr. BACIGALUPI. But that bank is under the direct jurisdiction of either the comptroller or the superintendent of banks, and subject to examination.

The CHAIRMAN. That is true, but the comptroller has no authority to stop the acquisition of control of stock in a bank by anyone.

Mr. BACIGALUPI. I understand that. I am not aware that there has been any abuse in the country of that. Possibly you are in possession of information that I do not know anything about, but I personally have been in the mill so long that I am never in favor of interposing a lot of hurdles in the natural trend of things; in other words, if the thing is not wrong in principle, it is unnecessary, in my humble opinion, arbitrarily to set up 10 per cent or 20 per cent interest in another institution, as a limit.

Mr. CHAIRMAN. Mr. Bacigalupi, if I may interject here, I have stated many times that this chain or group idea is perhaps all right when in strong hands and properly managed, but history shows that group banking in the past, where it was in weak hands, was very dangerous and usually resulted in failures.

Mr. BACIGALUPI. I can appreciate what you have in mind, Mr. Chairman, but my only objection was to the point that it is necessary by your proposed bill, in the pursuit of what I consider a perfectly legitimate function, to run to an official and obtain his consent. As I understand the bill, there is not any standard; there is not any procedure fixed, excepting an application must be made for permission, irrespective of whether the group that seeks to acquire the 10 per cent in the other bank may be the strongest or the weakest. The strongest one may be refused and the weakest one granted. I say that with all due deference to the comptroller, whom I see in the room. You must make a showing and make an argument every time the thing comes up, and you meet one official who has one view, and run up against his successor, who may have altogether a different view of it, and this makes an additional prohibition that I do not think is necessary.

Mr. FORT. If, however, in the judgment of the committee, our choice was between stopping this thing for a while until we could thoroughly settle what regulatory legislation ought to be adopted, or going ahead on regulatory legislation, without more study, it would

probably be wiser, would it not, for us to stop it than to pass regulatory legislation without really sufficient investigation?

Mr. BACIGALUPI. I think that is true.

Mr. FORT. That is my view of the wisdom of this legislation, that it relieves us from the necessity, perhaps, of doing something that otherwise we might not have the time thoroughly to investigate and study. I think that was somewhat in the chairman's mind.

The CHAIRMAN. Yes. From your own past experience, Mr. Bacigalupi, I can understand your objection to the enlargement of the supervisory provisions over such matters.

Mr. FORT. That is all.

Mr. FENN. I have only one or two questions to ask Mr. Bacigalupi. You say that you got into all the places you wished to in California, with the exception of Sacramento, and I believe you say in your statement that you could not buy a bank in Sacramento. Have you succeeded in getting into Sacramento?

Mr. BACIGALUPI. I stated in my statement of this morning that, pursuant to a popular petition, led by the chamber of commerce, a de novo bank was established there. Subsequently to that time we have purchased in that city the Peoples Bank and the Farmers & Merchants National, with which the insurance company was connected.

Mr. FENN. When you acquired a foothold in Sacramento, what was the effect on the other banking interests in Sacramento?

Mr. BACIGALUPI. I think that will be snown in Exhibit J.

Mr. FENN. You could not tell offhand?

Mr. BACIGALUPI. I am quite certain that it did not perceptibly hurt anyone.

Mr. FENN. It did not?

Mr. BACIGALUPI. No, sir.

Mr. FENN. What effect did it have on the original banking situation—and when I say original banking situation, I mean the banks in existence before you go into a place what effect has your setting up banking institutions in places where you were not before—had on the original banking institutions, as to driving them out of business, or causing their business to fall down, or have you absorbed their business?

Mr. BACIGALUPI. The result is evidenced by one of the exhibits, which shows that in may of the communities a well run unit banking competitor has thrived rather than been hurt by the competition; in other words, to the full extent of their capacity to serve, our competition made them a little more courteous and a little more vigilant and injected some new life into them, and in other instances, through no fault of ours, some of our competitors have gone out of business.

Mr. FENN. I understood in some place you maintain you branches where it is not profitable, in order to serve the public, as a public convenience and necessity?

Mr. BACIGALUPI. Yes, sir.

Mr. FENN. Have you other competitors in California in systems similar to yours?

Mr. BACIGALUPI. Yes, sir; we have none exactly like ours, in that there is no other state-wide branch banking system, but in the Los Angeles area, for instance, we have plenty of competition, and in

the San Francisco area we have the American Bank & Trust Co. that operates all the way from Los Banos up to Oakland. Then up in the Sacramento district we are in competition with another institution that operates a chain of banks in the upper end of the State.

Mr. FENN. And that competition has not been detrimental to you or to your competitors?

Mr. BACIGALUPI. Not that I have noticed, no, sir.

Mr. FENN. I take it it has been what we call fair competition?

Mr. BACIGALUPI. Yes, sir.

Mr. FENN. Supposing that the Bank of Italy, or whatever you may call it, should acquire these other institutions in California—those of which you have just spoken, your competitors at the present time—is it your opinion that that would destroy competition in California?

Mr. BACIGALUPI. No, sir.

Mr. FENN. The result would be that there would be other competition that would arise?

Mr. BACIGALUPI. Yes, sir. I figure there are people in California who would not do business with us on a bet, and as long as there is a profitable field, there will always be other banks spring up to take care of the business that they feel they might command.

Mr. DUNBAR. You are distinctly a branch banking institution?

Mr. BACIGALUPI. Yes, sir; the Bank of Italy is.

Mr. DUNBAR. I understood you to say you had become a national bank?

Mr. BACIGALUPI. Yes, sir.

Mr. DUNBAR. The Bank of Italy is now a national bank?

Mr. BACIGALUPI. The Bank of Italy National Trust & Savings Association; yes, sir.

Mr. DUNBAR. We have heard it stated here that the advantages of branch banking are that it affords a convenient method to promote business or to run business in any part of the country. In small communities it gives the advantages of large banking facilities.

Mr. BACIGALUPI. Yes, sir.

Mr. DUNBAR. That is the idea?

Mr. BACIGALUPI. Yes, sir.

Mr. DUNBAR. My experience has been, although I have never borrowed any money, when a man was in business and had sufficient assets, he could borrow money almost anywhere.

Mr. BACIGALUPI. I do not understand that, Mr. Dunbar. Will the reporter please read the question?

(The reporter read the question.)

Mr. BACIGALUPI. That is true. He could borrow it where he could get it. If the bank in the locality was too small, he would have to go elsewhere. You know, Mr. Dunbar, the law regulates the amount that any bank can lend, and limits it to generally 10 per cent of the capital of that bank. If your note was $20,000 and the lending limit of that bank was only $10,000, of course, you would have to go to another community to be accommodated.

Mr. DUNBAR. Statements have been made respecting competition. You find plenty of competition with the branch bankers?

Mr. BACIGALUPI. Yes, sir; we have plenty.

Mr. DUNBAR. A large bank in New York has a bureau for, say, 2 or 3 or 4 States, and they canvass those 2 or 3 or 4 States with a

view to obtaining good loans. If that is the case, where is the advantage of that system of yours?

Mr. BACIGALUPI. Our advantage lies in this, Mr. Dunbar; take, for instance, our head office being in San Francisco, we operate in one hundred and sixty odd localities in California. If we haven't the opportunity of lending our money in San Francisco, there is always a demand for that money somewhere along the lines, and in each one of those points we have competent officers who are part of our own organization who know the local people and know the local values. We do not have to take the opinion of any local real-estate man, or any promoter, to place our money.

The money is placed through our own organization and watched by our own men, and it makes for greater service to the public and it makes for greater safety to the institution that does the lending.

Mr. DUNBAR. Then your advantage is that where there is a want to be supplied, you can go in through your branch banks and supply that want?

Mr. BACIGALUPI. Yes, sir.

Mr. DUNBAR. I have heard a great deal said about the scarcity of credits. I come from a country neighborhood and my observation has been that a great many of those people in that community have had too much credit. The people have gone to farm-loan banks and borrowed money on their farms when they did not need the money, in the hope of branching out and putting in improvements and they have done so very unwisely and now they find themselves confronted with this loan from which no real advantage or profit has been obtained.

On the other hand, if they had not borrowed the money they would have been far better off.

Mr. BACIGALUPI. There is no question about it. That has been our experience.

Mr. DUNBAR. I know a bank that is being liquidated and its president thought it a good idea to borrow money from the farm land bank where he could get it at a smaller rate of interest and put it into mortgages on farms at a higher rate. That man lent money into channels that have become frozen and now he is liquidating his bank.

I have never been able to understand fully how you are supplying a want, although your success in California is evidence you are supplying a want.

The few questions I asked you were for personal information. I have nothing else.

The CHAIRMAN. I suggest we now adjourn until 10.30 tomorrow morning.

(Whereupon, at 4.15 o'clock p. m., the committee adjourned to meet at 10.30 o'clock Wednesday, May 7, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, MAY 7, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10.30 a. m. in the committee room, Capitol, Hon. Louis T. McFadden (chairman), presiding.

The CHAIRMAN. The committee will come to order. Mr. Busby, are you ready to proceed?

Mr. BUSBY. When it comes my time.

The CHAIRMAN. It is your time now.

STATEMENT OF JAMES A. BACIGALUPI—Resumed

Mr. BUSBY. Mr. Bacigalupi, the resources of your institutions, combined, are about $2,000,000,000, are they not?

Mr. BACIGALUPI. Of Transamerica Corporation?

Mr. BUSBY. Yes.

Mr. BACIGALUPI. I think the statement will show, as filed yesterday, $1,176,000,000.

Mr. BUSBY. Has the Transamerica Corporation issued all of the stock that it is authorized to issue under its charter?

Mr. BACIGALUPI. No, sir.

Mr. BUSBY. What amount is issued and what amount remains to be issued when you deem it advisable to use it in the future?

Mr. BACIGALUPI. My recollection is that the total authorized issue was 50,000,000 shares and of that 50,000,000, about twenty-three million-odd shares have been issued.

Mr. BUSBY. That leaves you about 27,000,000 shares of Transamerica Corporation to be utilized in the future when you need it for further expansion?

Mr. BACIGALUPI. Yes, sir—about, in round numbers.

Mr. BUSBY. Transamerica Corporation stock stands at 44 or 45 on the curb market?

Mr. BACIGALUPI. Between 40 and 45; yes, sir.

Mr BUSBY. In other words, your holdings, under the Transamerica Corporation have not, up to this time, reached half of its possibilities under the present market value of the Transamerica stock as authorized in its charter?

Mr. BACIGALUPI. I do not believe I understand your question.

Mr. BUSBY. Will you read it, Mr. Reporter?

(The reporter read the question.)

Mr. BACIGALUPI. If you mean by your question it has not issued all of its shares yet, I would say yes.

Mr. BUSBY. What else could I mean by the question?

Mr. BACIGALUPI. I do not know.

Mr. BUSBY. In other words, you have 50,000,000 shares of Transamerica to be sold on the market and you have issued 23,000,000 shares of stock, leaving 27,000,000 shares to be issued when you deem it advisable, as a business proposition, to issue it and expand your business with the proceeds of that 27,000,000 shares?

Mr. BACIGALUPI. The 50,000,000 which represents its present authorized capital may, if the occasion require, be increased again. I do not understand your question when you say that we have not reached half of our possibilities.

Mr. BUSBY. Have you, at the present time, any definite idea of the ultimate goal to be reached in the activities of your different business institutions, controlled and operated under the management of the Transamerica Corporation?

Mr. BACIGALUPI. No, sir.

Mr. BUSBY. What would you say is your objective to be reached as business stands now?

Mr. BACIGALUPI. To take full advantage of situations as they present themselves in the future along the lines of our general activities.

Mr. BUSBY. In other words, your intention is to follow up consolidations and absorptions of other business institutions, as the economic advantage appears to your holding company in the future?

Mr. BACIGALUPI. That is correct.

Mr. BUSBY. Is that confined to the United States?

Mr. BACIGALUPI. I think I made it plain yesterday that our view is that it should go beyond the bounds of the United States.

Mr. BUSBY. Do you not think that European countries, at the present time, and possibly other countries in the future, will be just as fertile fields for the activities of your business institution as the United States?

Mr. BACIGALUPI. Well, it is hard to say. Other large banks in this country are operating profitably in foreign countries.

Mr. BUSBY. Of course, the main objective in your expansion, is profitable operation?

Mr. BACIGALUPI. That is the idea.

Mr. BUSBY. And you see no limitation or recognize no limitations in the way of national boundaries or anything like that?

Mr. BACIGALUPI. No, sir.

Mr. BUSBY. The Bank of Italy is what you might term, with many other like institutions, professional bankers, are they not?

Mr. BACIGALUPI. It is a national bank.

Mr. BUSBY. I notice on page 6 of your statement you say "That one of the inflexible rules has been to rigidly require in its (the Bank of Italy) service a full 100 per cent of time, thought, and energy of its officers and employees, without distinction."

Mr. BACIGALUPI. Yes, sir.

Mr. BUSBY. And so far as you are able to do, you make every individual that is connected with your institution bank-minded and very thorough in that particular line?

Mr. BACIGALUPI. Yes, sir.

Mr. BUSBY. You are not interested in your employees developing into other lines other than that in which the duties prescribed by the employment require, are you?

Mr. BACIGALUPI. No, sir; and as an inducement to that, we have adopted our special compensation plan which gives every one of our employees, from the janitor up, an interest in the profits of the institution itself.

Mr. BUSBY. Did it ever occur to you that a situation might arise where, through one element of the population of our country or of any country, becoming professional bankers, that the social status of the country might be thrown out of line by that element working at the problems of organization and getting credits together and wealth together, all the time, while the other people are going out and creating wealth by labor on the farms, in the factories and mills?

Mr. BACIGALUPI. I am sorry, Mr. Busby, that that question I do not understand either; in other words, do I understand that by men devoting 100 per cent of their time in the discharge of duties assigned to them that a situation would develop detrimentally to the other elements of society in which they live? Is that what you mean?

Mr. BUSBY. Yes; I will say that and ask another question.

Mr. BACIGALUPI. I do not think any man discharging any legitimate duty will injure anyone else.

Mr. BUSBY. I am not talking about discharging legitimate duties, but I am talking about one element of the population of our country who are engaged in banking, contriving, legally scheming, and putting together plans and interlocking activities in a banking and fiscal field of operation, to go so far as to affect the general status of the social fabric of the Nation.

Mr. BACIGALUPI. No; I do not think the workings of any group along lines that are lawful is going to militate against any other citizens of the country.

Mr. BUSBY. Well, the wealth of the Nation—political economy tells us that that comes from about three sources, the principal of which is labor and, of course, the mines and soil. You agree with that, do you not?

Mr. BACIGALUPI. I am always reminded, when I hear that assertion made, of the fact that the Italian laborers had that view not many years ago and they dispossessed all of the managements of the industries in Italy, and the managements surrendered the factories over to them and said, "All right; if you can run them better than we can, go ahead and run them," but they found, without capital, labor did not get very far, and I think in three days they welcomed the old managements back again.

Mr. BUSBY. I am not talking about any socialistic scheme.

Mr. BACIGALUPI. You say——

Mr. BUSBY. Do you disagree, for instance, with Henry George, and the best economists in the country? Do you disagree with them?

Mr. BACIGALUPI. I have never read them.

Mr. BUSBY. I am not just simply quoting Henry George. I am talking about this economic situation.

Mr. BACILGALUPI. I say that capital and labor must go hand in hand.

Mr. BUSBY. To make myself plainer, as to one element being professional bankers and others going about their daily activities, we have in this country a military organization. That military

organization is trained in warfare and military tactics and in the art of organizing and applying force; so much so that it has become very efficient, and if it should go out and attack the great masses of our people throughout the Nation, it could, in a sense, exterminate them, until they rose up and met them. I want to say this, that the armed strength is drawn from the people, notwithstanding its proficiency in its line. Its recruits must come from the masses, yet because of the superior training of that element in their line, they can overwhelm millions.

Now, do you see any similarity between the banking fraternity of this country and the example I have drawn to your mind?

Mr. BACIGALUPI. None at all.

Mr. BUSBY. You do not see any at all?

Mr. BACIGALUPI. No, sir.

Mr. BUSBY. Notwithstanding the farmer and merchant and all are daily engaged in applying methods to produce and you folks are applying methods to gather in and developing most improved methods of reaching that result and perfecting that result, still you do not see any danger ultimately to the social fabric of our Nation from that source?

Mr. BACIGALUPI. None whatever, Mr. Busby, because I think without the people, these institutions will not get anywhere.

Mr. BUSBY. And without the people, the Army could not be raised. Is not that true?

Mr. BACIGALUPI. Well, without the people, you could not have these forces that are running these institutions, either.

Mr. BUSBY. Surely, but I call your attention to a statement by Mr. Mellon. According to the Treasury Department's statistics, they show that there are 290 Americans with incomes of over $1,000,000 each; 11 Americans with incomes above $5,000,000 each; several men have $50,000,000 a year each, and one, at least, has an income of $100,000,000 a year.

Does it not seem to you that the wealth and the advantages that come from wealth in our country, are getting very unequally distributed?

Mr. BACIGALUPI. I do not think there has ever been a time in the history of the United States when wealth has been more generally distributed than within the last 10 years, and I further see no connection between that and the matter we are speaking of; namely, group and branch banking.

Mr. BUSBY. All right. I am sure you do not. But do you not think that the systems of banking are of more concern to the people of the Nation, from an economic standpoint than from the banking standpoint?

Mr. BACIGALUPI. I think the people are surely interested in the banking structures of the country.

Mr. BUSBY. Surely they are—and those that are doing the business. But if the banking institutions of the country build up a system that oppresses the people, do you not think the primary purpose of the investigation of this committee should be with respect to the economic situation rather than with your bank as a private institution?

Mr. BACIGALUPI. Perhaps so.

Mr. BUSBY. Do you think our concern should be primarily with your banking institution as a private institution?

Mr. BACIGALUPI. Oh, not at all.

Mr. BUSBY. Is not our interest from the economic standpoint than from the standpoint of the prosperity or lack of prosperity of your institution?

Mr. BACIGALUPI. I think it should be from both points that you should view the question and not from one alone.

Mr. BUSBY. Now, Mr. Fisher says, in an article recently written, that 97.8 per cent of the people do not pay income taxes and that only 2.2 per cent of the people pay income taxes. Do you call that equal distribution of wealth and incomes?

Mr. BACIGALUPI. No; I think that our system of assessing income tax is susceptible of improvement.

Mr. BUSBY. Are you not sure, from the official records that you are familiar with, that the trend is toward larger accumulations of wealth in the hands of fewer individuals in this country?

Mr. BACIGALUPI. No; I do not think so. That has not been my experience.

Mr. BUSBY. Have you not noticed the income-tax returns have indicated that very clearly in the last two or three years?

Mr. BACIGALUPI. I think that a lot of people are paying income tax to-day that were not paying it two or three years ago.

Mr. BUSBY. What I am getting at is the last report shows there were 70,000 less returns made by those making income-tax returns, and with these great increases in the few income-tax returns—you say you are not familiar with that?

Mr. BACIGALUPI. No; I am not.

Mr. BUSBY. You say that you send your representatives among the school children of your State periodically to gather up the pennies and whatever deposits they care to make in your bank?

Mr. BACIGALUPI. Yes, sir.

Mr. BUSBY. What do you assign as your reason for doing that?

Mr. BACIGALUPI. Well, the primary purpose, as I tried to allege, was the encouragement of thrift among the children.

Mr. BUSBY. Is not the primary purpose to get them tied into the Bank of Italy as customers from their infancy, so as to hold them through old age?

Mr. BACIGALUPI. That may be one of the results, but we have not seen very much evidence of that and we have been operating the school-saving system since 1911. While some of them, when they attain majority, come to us as a natural thing, many of them have never been heard of, and naturally we have not made any profit from the venture up to date and it is very unlikely there will be any for some time.

Mr. BUSBY. Do you lose those deposits when they get big enough to know more about the banking business, or what do you mean by that?

Mr. BACIGALUPI. That is hardly a fair question. I do not know the motives.

Mr. BUSBY. I do not mean they leave you because they suspect you or anything like that, but as they get older, do they pull their accounts out? You say you lose many of them.

Mr. BACIGALUPI. Sometimes we lose them when they leave school and we never hear of them again.

Mr. BUSBY. You think that is a proper function for a bank to exercise in the make-up of our social fabric?

Mr. BACIGALUPI. The State banking authorities in California and elsewhere in the United States have been very loud in their praise of the system and logically it can teach them nothing but good and, in fact, in order to qualify as a collector of school savings, there must first come the official appointment by the board of education of the community sanctioning the practice and approving the bank and, in addition to that, there must also be obtained the permit of the State superintendent of banks to the solicitation, so it has the cooperation, in California at least, of the State banking department and of the various boards of education.

Mr. BUSBY. Well, that may be true, but do you regard that as a proper function to be exercised by a bank?

Mr. BACIGALUPI. I surely do.

Mr. BUSBY. It is not a banking function, is it?

Mr. BACIGALUPI. It is.

Mr. BUSBY. Now, that is what I referred to awhile ago. But do you call this helping to educate the people into the right way of thinking financially and supplying a deficiency that the school does not afford?

Mr. BACIGALUPI. Yes; because we feel that if we ourselves are not the direct beneficiaries of that training, that the banking structure of the country is going to receive the benefit of it. Naturally, habits formed in infancy are the ones generally persevered in.

Mr. BUSBY. Do you think this county is overbanked at the present time?

Mr. BACIGALUPI. I think we have a lot more banks than we should have of the type that many are; yes, sir.

Mr. BUSBY. Do you not think they should be consolidated into systems like yours and others of the leading group and branch systems?

Mr. BACIGALUPI. I certainly do; yes, sir. That is what we have been the exponents of during these many years.

Mr. BUSBY. What service would be rendered to the people that they can not have out of their own organization and arrangement, by that kind of consolidation?

Mr. BACIGALUPI. I have endeavored to outline the advantages.

Mr. BUSBY. Then you need not go into that again.

Mr. BACIGALUPI. I have endeavored to outline those advantages in my opening statement.

Mr. BUSBY. What lines of business does the Bank of America Corporation enter, through its subsidiaries and affiliates and various institutions?

Mr. BACIGALUPI. Will you please read that question again?

(The reporter read the question).

Mr. BUSBY. Banking is one of its functions, is it not?

Mr. BACIGALUPI. First of all, let us understand what company you are referring to—the Bank of America?

Mr. BUSBY. The Transamerica Corporation and its institutions, affiliates and subsidiaries. What lines of business—in other words,

what business activities does it enter into with some one or another of these institutions under its control? Banking, of course, is one.

Mr. BACIGALUPI. The leading lines are indicated on the chart—banking, security investment business, fire insurance, and life insurance.

Mr. BUSBY. I noticed a few days ago that the Bancamerica-Blair Corporation bought 7 per cent of General Foods (Inc.), and you put a director on the board of the corporation.

Mr. BACIGALUPI. That was the Bancamerica-Blair.

Mr. BUSBY. That is your institution?

Mr. BACIGALUPI. Transamerica owns 59 per cent of that company.

Mr. BUSBY. And consequently controls the policies of Bancamerica-Blair Corporation?

Mr. BACIGALUPI. Oh, I would not say that it controls the policies. It controls the situation as to who shall be its officers and it is up to them to run a profitable institution along the general lines laid down.

Mr. BUSBY. Is it a holding institution?

Mr. BACIGALUPI. Not that I know of.

Mr. BUSBY. You outline what it is in your statement, do you not?

Mr. BACIGALUPI. Yes, sir.

Mr. BUSBY. Do you know what the activities of General Foods (Inc.), are—what field it enters?

Mr. BACIGALUPI. No; that matter was handled entirely by the New York office of Bancamerica-Blair. It is their business to act as underwriters of certain issues and to enter into certain participations and that is done in the ordinary course of their business.

Mr. BUSBY. Where you put a director on a board; you are not merely underwriting for that institution, are you?

Mr. BACIGALUPI. Well, that all depends on the terms of the underwriting. It may be that if you were to invest in a million shares of a corporation, you would want to have some representation on the board to find out what the policies of that board are going to be and have a voice in the management.

Mr. BUSBY. I am speaking specifically of this purchase. Do you know anything about that happening?

Mr. BACIGALUPI. About which?

Mr. BUSBY. The Bancamerica-Blair purchasing 7 per cent of the stock of General Foods (Inc.), and securing representation on the board of directors of General Foods (Inc.).

Mr. BACIGALUPI. The source of my information in that respect, Mr. Busby, is exactly yours—I saw it in the newspapers.

Mr. BUSBY. Is there any end in any field of commercial activity or industry that the Transamerica Corporation would turn down if it saw good business and a profit in the business?

Mr. BACIGALUPI. Generally speaking, I would say that, pursuant to its powers, it would naturally bestir itself in every legitimate avenue to make a legitimate profit for its stockholders.

Mr. BUSBY. It is organized under the Delaware law, is it not?

Mr. BACIGALUPI. Yes, sir.

Mr. BUSBY. Its powers are coextensive with the explorations that have been made from pole to pole, under that kind of charter.

Mr. BACIGALUPI. Its powers are defined in the articles of incorporation, which are on file with the committee, and we sought to make them as broad as we could, naturally.

Mr. BUSBY. So you holding corporation, with its possibilities, as alluded to, and its policies as just outlined by you, may go into any field of business—grocery chains, dry-goods stores, 5-and-10-cent stores, and so forth; in fact, it is in all of those now as a stockholder?

Mr. BACIGALUPI. Naturally, as an individual may become a stockholder in these concerns, but it is not within the purview of Transamerica to engage in the business of chain stores or in the grocery business or tea business or any other businesses than those of banking or akin to banking.

Mr. BUSBY. Not as supervising the individual stores, but as owning the stock; it finances those institutions, and directs the policies of those institutions?

Mr. BACIGALUPI. I would not say that. It would naturally endeavor to direct the policy in so far as it could, but what one director can do on a board of directors of General Foods, for instance, you know as well as I do. I do not know just how much influence one director has on a board of directors.

Mr. BUSBY. Do you think the building up of that kind of system in this country among the people of the country is for the greatest good of the masses in the outlying districts and sections that can not have a voice in the management of any such gigantic scheme of banks?

Mr. BACIGALUPI. In the last analysis, Mr. Busby, the success of a banking system or the success of a grocery business is dependent upon public patronage, and if they do not get the public patronage they can not survive.

Mr. BUSBY. I recognize that, and all are dependent on having a source of credit.

Mr. BACIGALUPI. Yes, sir.

Mr. BUSBY. If you can control and furnish the source of credit, you do not worry about what will be done by the individual institution, because you know you can dictate how it shall approach the public and almost how the public shall come to it.

Mr. BACIGALUPI. If we were the controllers of the credit of the United States, your conclusion would be correct, but I think our organization is a very small factor in that.

Mr. BUSBY. Well, the banking credit runs around $72,000,000 and you are getting up to where you have a nice percentage of that.

Mr. BACIGALUPI. There is a lot of competition in our line of business—in all lines of business in which we are engaged.

Mr. BUSBY. Taking your records from 1928, since the organization of the Transamerica Corporation, you have been combining and bringing together assets in a very rapid manner, have you not?

Mr. BACIGALUPI. Yes, sir.

Mr. BUSBY. And you are still at that.

Mr. BACIGALUPI. We are still active; yes, sir.

Mr. BUSBY. Still active at that?

Mr. BACIGALUPI. Yes, sir.

Mr. BUSBY. You see no end to your activity along that line?

Mr. BACIGALUPI. I have already stated, Mr. Busby, that we are in the business and we intend to continue in the legitimate pursuit of it; yes, sir.

The CHAIRMAN. Mr. Bacigalupi, in your statement to the committee yesterday, you gave practically an unlimited indorsement to not only nation-wide but to international branch banking?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. That is correct?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. You made practically no limitation, did you, with that, except as to proper management?

Mr. BACIGALUPI. And sufficient capitalization.

The CHAIRMAN. Sufficient capitalization?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. I infer that that was probably your scope. Am I correct in that?

Mr. BACIGALUPI. It is our scope if it can be accomplished legally.

The CHAIRMAN. I rather inferred, from my own knowledge of the development of your institution, which was confirmed yesterday by your very complete statement of accomplishments, that practically from the very beginning, you had a definite plan and your accomplishments to date have been in fulfillment of that original plan of development. Is that correct?

Mr. BACIGALUPI. If I created that impression, it was unintentional. No one connected with our institution visualized at the outset just what the ultimate picture would be. We did set out along lines that we felt were calculated to lead in the right direction and our present accomplishments have been realized in the pursuit of the original plan or the original lines laid down.

The CHAIRMAN. Then am I correct in inferring if now there were no limitations as regards branch banking in the United States, your plan is so developed that you could and probably would establish branches in every State in the Union?

Mr. BACIGALUPI. I would not say in every State, but I would say that we feel that our organization, as now set up, is competent and would be disposed to avail itself of the opportunity of establishing itself through the acquisition of banks in the leading centers of the Nation; yes, sir.

The CHAIRMAN. And if you, as a matter of business policy, decided to go into every State, you would feel that it was good business that you should do so?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. And in that connection I also infer that if the possibilities were favorable, and, in connection with your interests or the interests of your customers, it was found necessary to establish additional branches abroad for your customers, you feel you should do that to render proper service to your customers?

Mr. BACIGALUPI. Yes, sir. That, however, Mr. Chairman, is a privilege that every national bank in the United States enjoys to-day.

The CHAIRMAN. Yes; you so stated yesterday. You stated, in answer to Mr. Busby's question, that the authorized capital stock in the Transamerica Corporation is 50,000,000 shares?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. And you have issued and sold 23,000,000?

Mr. BACIGALUPI. Yes, sir; twenty-three million odd.

The CHAIRMAN. At what price was that stock sold?

Mr. BACIGALUPI. Well, most of it was issued in exchange for the stocks of existing corporations, Mr. McFadden, in the various proportions fixed for each trade. For instance, the first two holdings that were incorporated into Transamerica were those of the Bank of Italy, N. T. & S. A., in which one and three-quarters shares of Transamerica were given in exchange for one share of the stock of the bank and share for share of the Bancitaly Corporation, and if my recollection serves me correctly, the rate of exchange between Transamerica and the Bank of America of New York was one and one-half.

The CHAIRMAN. When Transamerica was formed, how much of that stock was used in exchange for existing companies and how much new capital went into Transmerica?

Mr. BACIGALUPI. Well, my recollection is that practically all of the capital of Transamerica has been made up in this exchange of stocks for existing corporations.

The CHAIRMAN. No new stock has been sold?

Mr. BACIGALUPI. There was one issue authorized at $55 a share.

The CHAIRMAN. How many shares?

Mr. BACIGALUPI. That was when the market for the stock was around $65. But before those rights were availed of, there was a drop in the market October last, together with other market stocks, which brought it below the $55 and, as a consequence, I do not think that much of that issue has been subscribed.

The CHAIRMAN. What was the authorized issue for sale at that time?

Mr. BACIGALUPI. I think a million shares. That is my recollection.

The CHAIRMAN. Your plan contemplates the sale of these additional shares from time to time as they think advisable?

Mr. BACIGALUPI. We have no plan on that.

The CHAIRMAN. For capital needs?

Mr. BACIGALUPI. Yes, sir; and our plan contemplates really the exchange of Transamerica shares for the shares of going concerns that are desirable acquisitions on a basis that will be agreed upon.

The CHAIRMAN. By going concerns, you mean by that financial institutions, banks, and investment companies or business concerns engaged in manufacture and distribution of commerce?

Mr. BACIGALUPI. No; banks.

The CHAIRMAN. Are you engaged now in the sale of your stocks? In other words, I noticed some time ago that Mr. Giannini issued a statement that it was his purpose to extend the stock ownership of the group to all of the States of the Union and, as I recall it, the stock to be held by 500,000 separate individuals?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. Is that program proceeding? Is there an active program for the sale of Transamerica stock and if so, on what basis?

Mr. BACIGALUPI. I think that through a corporation known as the Intercoast Trading Co., which is not controlled by Transamerica——

The CHAIRMAN. Are they interested financially in the company?

Mr. BACIGALUPI. Transamerica?

The CHAIRMAN. Yes.

Mr. BACIGALUPI. I think it owns about 30 per cent of the stock. There is a campaign on looking to the placement of this stock in various States.

The CHAIRMAN. Are actual sales being made and, if so, at what price?

Mr. BACIGALUPI. At the market, at the close of the curb the day previous.

The CHAIRMAN. So that you have an organization of which you own 30 per cent actively engaged in selling the stock of the Transamerica Corporation at the present market?

Mr. BACIGALUPI. Prepared to. I would not say it was under way. I am not familiar with that phase of it.

The CHAIRMAN. Is that directed from California or from New York?

Mr. BACIGALUPI. From New York.

The CHAIRMAN. That is a New York house that has charge of that particular work?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. So that the announced program of sometime ago of increasing the number of shareholders and securing a wider distribution, is in process?

Mr. BACIGALUPI. As I understand it; yes, sir.

The CHAIRMAN. What is the usual commission to be paid on the sale of the stock?

Mr. BACIGALUPI. I do not know as to the details of that, Mr. Chairman.

The CHAIRMAN. And you do not know where it is being sold?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. Mr. Busby, in his questions to you, referred to your taking a position in the stock of General Foods?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. Which is one of the large groups controlling produce and foodstuffs. When you take a position in securities of any company like that, does it also include a voice in the management?

Mr. BACIGALUPI. Not necessarily.

The CHAIRMAN. Does that investment indicate to you that you are going to take an active participation in the operation of General Foods?

Mr. BACIGALUPI. As I stated, in answer to Mr. Busby's question, that matter was a bit of financing by the Bancamerica-Blair of New York, concerning which I know nothing more than what I saw in the paper. As I understand and know of the general custom of underwriting, when there is a material underwriting by any financial house, it does generally require that it have a voice in the directorate of that company, and it seems to me that is what occurred in this particular instance.

The CHAIRMAN. In the colloquy between Mr. Busby and yourself, you referred to the question of directing through a director. I think you stated—one or both of you—that there was a director on the board representing that group?

Mr. BACIGALUPI. I think the newspaper article to which Mr. Busby referred did state there was to be a representative of Bancamerica-Blair to go on the board of General Foods.

The CHAIRMAN. You will agree that, if a director representing your entire group is on that board, he would have quite some influence, backed by the influence of your entire group?

Mr. BACIGALUPI. I think he would be a factor and have considerable to say; yes, sir.

The CHAIRMAN. In the information which you furnished the committee yesterday you included a list of loans made to large groups in California. I notice among those groups that there was a large volume of loans granted to certain concerns, showing that you are intensely interested in concerns which do a produce business; at least, they do the same kind of business General Foods do. I rather gained the impression that you might have more than a passing interest in entering General Foods, by putting yourself in a more favorable position for influencing possible consolidations or the taking over of many of these concerns doing a business similar to that of General Foods. Am I correct in assuming that possible that might be your interest in this investment?

Mr. BACIGALUPI. I would say that you are incorrect, Mr. Chairman. There is absolutely no connection between any loans made by the Bank of Italy to any of its customers and any group that might be financed by the Bancamerica-Blair. I do not know which concerns you mean. However, if you mean any California food concerns engaged in business in California, I would say that each account stands on its own individual basis. It is a reciprocal basis. They carry deposits with us and we agree to take care of their seasonal demands up to a certain extent.

The CHAIRMAN. Perhaps my inquiry was inspired by the fact that some of your associates in the Blair Co. are interested in the food stuffs corporations in California?

Mr. BACIGALUPI. There is absolutely no connection in that. If you will trace back far enough in the history of those accounts, you will see that we are doing no differently with reference to them to-day than we have done over long years past. The accommodations they get from us they get from a number of eastern banks and other banks in California.

The CHAIRMAN. Then as to General Foods—and I am only citing that as one instance, that was brought out this morning in connection with other concerns of similar nature—your only thought is to make an investment and procure for your group its proportionate share of the banking business that would come from a transaction of that kind?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. Now you are a director, are you not, of Transamerica?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. And you are a director of the Bank of America of New York?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. You are not?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. What are your directorships in connection with the affiliated companies now?

Mr. BACIGALUPI. I am past president and chairman of the advisory committee of the bank of Italy, also a director of the bank of Italy; I am vice chairman of the advisory committee of Transamerica, its

general counsel with reference to its western interests, and a director of Transamerica.

I have certain directorships in some of the subsidiary companies that are more or less nominal and I do not recall them offhand. But I shall be glad to furnish you a list, if you desire it.

The CHAIRMAN. Well, I do not think that is material. It identifies you as a leading factor in all of these?

Mr. BACIGALUPI. I have been a sergeant in the ranks from the beginning and have been in all of the wars since 1904.

The CHAIRMAN. Referring to these charts, which have been placed in the record showing the different organizations from the beginning, starting with the bank of Italy down to the final consummation of the Transamerica Corporation, the Transamerica Corporation is purely a holding company?

Mr. BACIGALUPI. Yes, sir; it is not an operating company.

The CHAIRMAN. It has investments outside, of course, of your own group?

Mr. BACIGALUPI. Those that are outlined on the chart which you have.

The CHAIRMAN. Its investments, then, are confined entirely to its investments in the affiliated companies of the Transamerica group?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. It does not go out and buy other securities?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. Purely a holding company in every respect?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. Each one of those companies listed on the chart, as affiliated companies, or controlled companies, are operating now as individual units under their their own management?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. And is it in contemplation that you might merge the whole into one composite group and operate under the name of Transamerica?

Mr. BACIGALUPI. No, sir; it could not be possible.

The CHAIRMAN. But you have not reached the full scope of your possible development in that direction; in other words, you may take over other groups and operate them in particular parts of the country or in other lines of industry?

Mr. BACIGALUPI. That is our hope. I would not say other lines of industry, unless they are akin to banking.

The CHAIRMAN. Your investments in companies like General Foods would be simply listed among the investment funds of your different groups?

Mr. BACIGALUPI. As an investment of Bancamerica-Blair, the security affiliate of the Bank of America of New York, which is, in turn, owned about 59 per cent, I think, by the Transamerica.

The CHAIRMAN. In your affiliation there, through the Blair concern, have you a membership on the stock exchange?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. On any of the stock exchanges?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. You do not own any seats?

Mr. BACIGALUPI. We have an associate membership in the San Francisco Exchange, which was an inheritance from the old stockholders Auxiliary.

The CHAIRMAN. Do any of the directors of your company own, or any company you control have, seats on any exchanges?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. So that whatever stock exchange transactions they have with the different exchanges, they do through regularly constituted stock exchange houses?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. And in that respect they are no different from an individual dealer who may want to buy and sell on the stock exchange?

Mr. BACIGALUPI. That is right, with the exception of the San Francisco Exchange. The affiliated company has an associate membership, like other large banks have, that entitles them to a voice but not a vote, and, I think, to half commissions.

When the San Francisco Stock Exchange was first established, as I recall it, they needed the assistance of the banks in getting the thing started and each of the banks put in $1,200 or $2,500—I forget which. For that, they got an associate membership. But outside of that, there is no connection whatsoever.

The CHAIRMAN. The Bank of America of New York has membership in the clearing house?

Mr. BACIGALUPI. I have no doubt of it.

The CHAIRMAN. Through that institution you can handle for your affiliated companies or your member banks which do business with the New York banks, brokers' loans?

Mr. BACIGALUPI. I am not sure that they do.

The CHAIRMAN. And receive the commissions that are permitted to be paid on that class of loans?

Mr. BACIGALUPI. I do not know anything about the commissions. I am not familiar with the New York practice.

Mr. WINGO. In order that I may understand this, you say, "clearing house"?

Mr. BACIGALUPI. Yes.

The CHAIRMAN. I was asking him whether the New York bank was a member of the New York Clearing House Association.

Mr. BACIGALUPI. And my answer is that I think it is.

The CHAIRMAN. And if, in that capacity, acting as the depositary of country banks or members of your own group, it was not in a position to place brokers' loans on the stock market under the rules and regulations promulgated by the stock exchange?

Mr. BACIGALUPI. I imagine if it is a member of the clearing house—and that is one of its privileges—it would enjoy it, but I am not familiar with what those privileges are.

The CHAIRMAN. You are not active in the management of the Bank of America of New York?

Mr. BACIGALUPI. I have nothing to do with it whatsoever.

The CHAIRMAN. Now, Mr. Bacigalupi, permit me to ask you——

Mr. WINGO. Just a moment, Mr. Chairman. Your question might leave the impression to a person reading the record, that that is the only available source of participating in brokers' loans in New

York City. I think that is the impression the reader of the record would get.

The CHAIRMAN. I did not mean that of course. Mr. Bacigalupi, you referred in your testimony yesterday to the question of segregation of assets. Of course that is provided for under the laws of the State of California.

Do you favor generally—I am asking you now for information in connection with possible legislation here before this committee—the segregation of assets for better protection of depositors who do business with the banks?

Mr. BACIGALUPI. My opinion is that as long as a bank is sufficiently capitalized that the provisions of the McFadden Act or the national banking act, as amended, are adequate in that respect.

The CHAIRMAN. Yesterday, when Mr. Fort was questioning you, referring to the bill which I introduced the other day, certain things were said, and I want to repeat his question to you and see if you are of the same mind now as you were yesterday.

Mr. BACIGALUPI. I have already read the record and I may say that I must have misunderstood him.

You have reference, Mr. Chairman, to the question that he asked with reference to what my opinion would be——

The CHAIRMAN. Let me read his question. I have the minutes right before me:

> Mr. FORT. The chairman of this committee has introduced a bill in the House recently, the effect of which is to stop any further development of group banking systems in this country pending, really, I take it, a decision by Congress on what it wants to do about it. Have you any views on the wisdom or unwisdom of that legislation?

Then the chairman said:

> Just a moment. That is a somewhat drastic statement of what the bill proposes.

Then Mr. Fort read the bill, which is as follows:

> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That after the approval of this act it shall be unlawful for any corporation, copartnership, individual, or trustee to purchase or otherwise acquire more than 10 per cent of the shares of the capital stock of more than one member bank of the Federal Reserve System, whether State or national bank member, except after first obtaining the approval of the Comptroller of the Currency with respect ot national bnaks and of the Federal Reserve Board with respect to State member banks. Any person or corporation violating this Act shall be deemed guilty of a misdemeanor and shall upon conviction thereof, in any district court of the United States, be fined not more than $10,000.

Mr. Fort further said:

> I have had sympathy with the view point expressed in this bill, that we have gone pretty fast in this business, and it might be well to stop and digest what we have done. Have you any view as to whether such legislation would interfere with the legitimate banking practices in this country now?

Mr. Fort, of course, was putting a more drastic thought to that bill than was contemplated in the bill.

Now, in view of what you said yesterday, I should like to have you restate your position or correct the misunderstanding of the question.

Mr. BACIGALUPI. What you have read so far is all right, as far as I can see. The only point I wish to make had reference to Mr. Fort's following question:

> If, however, in the judgment of the committee, our choice was between stopping this thing for a while until we could thoroughly settle what regulatory legislation ought to be adopted, or going ahead on regulatory legislation, without more study, it would probably be wiser, would it not, for us to stop it than to pass regulatory legislation without really sufficient investigation?

My answer was, I think that is true.

I should like the privilege of amending the answer to this effect: that I surely think that the bill as proposed should not be enacted at this time because I feel it will have the effect of placing in the hands of certain officials an arbitrary power, namely, of saying yes or no, without any standard or norm being fixed in the bill itself, upon which these officials are to predicate their consent. But if it came to an election before this committee or before Congress, to pass a bill of this kind or to kill further progress in group banking, which I consider perfectly legitimate and most timely, I surely would favor a bill along the lines as has been prepared; in other words, I favor the status quo until Congress has made its study and is ready to make a comprehensive enactment, but if it feels that something must be done in the interim, then I think that the election should be in favor of permitting the thing to go along in strong hands, leaving it within the jurisdiction of certain constituted Government authorities to regulate.

The CHAIRMAN. In connection with the maintenance of the status quo, some of us are fearful lest, during the continuance of that status quo, developments may proceed to such an extent that it may be fraught with much danger; in other words, weak groups or a weaker group, might acquire a large number of banks and the public might be exploited in the sale of stocks and it might be purely a promotion proposition, not in strong hands.

Of course we, in Congress, must recognize that there are strong groups and weak groups.

Mr. WINGO. Is that the object of the bill? I have not found out yet.

The CHAIRMAN. The object of the bill is to require, before this procedure goes any further, that they consult the Comptroller of the Currency and the Federal Reserve Board before they acquire more than 10 per cent holding in any bank.

Mr. BACIGALUPI. My point, Mr. Chairman, is that if that is the purpose of the bill, it would be a very easy matter, it seems to me, to set up in the bill a standard; in other words, groups possessing less capitalization than an amount which you gentlemen feel adequate or strong, would have to get consent.

The CHAIRMAN. I tried to make clear to you what we are trying to cover here—the possibility of exploitation in weak hands—and you have differed with the methods which have been suggested by me in the form of this bill. I would like very much, if I have conveyed to you my thought, to have your suggestion as to how to meet that situation.

Mr. BACIGALUPI. That would be rather presumptuous on my part. I would not deign to do that. I must confine myself to the statement of my opinion and the resaons as the basis on which I predicate it, that it vests an individual or a group of individuals with too much arbi-

trary power. It would give the impression to the general public that Congress is against this thing and, for that reason, it requires that the acquisition of more than 10 per cent of another bank by any group, irrespective of how strongly capitalized and well managed it is, shall not be permitted.

Mr. WINGO. So that I may follow you, gentlemen, I want to state that I do not yet catch the purport of the bill. When you say "weak hands"—that the object of the bill is to enable the comptroller to see that no group should engage in the further development of group banking except those who are strong financially—is that what you mean?

Mr. CHAIRMAN. In an extreme degree, it would indicate or tend to get to that point; yes.

Mr. WINGO. I am trying to find out what you have in mind.

The CHAIRMAN. That these people who are engaged in consolidating groups of banks in the country must have financial responsibility and integrity and have sufficient knowledge of what they are doing and make that known to the Federal reserve and to the comptroller to justify them in granting them permission in taking over these banks.

Mr. WINGO. The 10 per cent provision is not intended to be similar to the monopoly provision contained in the antitrust law?

The CHAIRMAN. It was to prevent this until they got the approval of the comptroller or the Federal Reserve Board. There are instances where some banks have been taken over or attempted to be taken over by what looks to be totally irresponsible people.

I have in mind one instance where the institution itself is pretty well known to be insolvent, and it seems to me there should be something requiring the submission of situations or developments of that kind, to some supervision. It may be an impossible thing to do.

Now, Mr. Bacigalupi, you referred to your trials and tribulations, more particularly in the earlier days, with authorities in California, in regard to proceeding with your development. I wish you would, for our benefit, elucidate a little upon your difficulties there, and, in that connection, I would like you to go into the matter in quite some detail as to just what your problem was, because in previous hearings before this committee, pretty general reference was made to the alleged fact that you had gone into politics in California and elected a governor, and it was indicated it was done for the purpose of securing your own appointee as superintendent of banks, so that you could get away from the embarrassment you were laboring under in building your picture. An explanation of the difficulties which you were experiencing at that time would be of material benefit to us in the study that is now before us.

From my own knowledge, you were being held up in obtaining branches and taking over institutions that were a part of your program. It not only applies to the State institutions, but you were impeded in Washington in getting branches which you deemed desirable. It seems to me that is exceedingly pertinent to the study we are making here. I wish you would give us the benefit of the troubles you were experiencing at that time.

Mr. BACIGALUPI. I should like very much to do it, Mr. Chairman and gentlemen, but it is a narration of a very long history and just how pertinent it can be, I have my doubts. I tried to explain it in my opening statement, as generally as I could.

Mr. WINGO. May I suggest to the chairman that you made a statement there that was not clear, that he was impeded in Washington. What did you have in mind?

The CHAIRMAN. There were many times when they wanted to open branches and they could not get permission to open them.

Mr. WINGO. From whom?

The CHAIRMAN. The comptroller in Washington, and the Federal reserve people.

Mr. WINGO. In other words, he was impeded in his efforts to get action from the Federal Reserve Board and the Comptroller of the Currency?

The CHAIRMAN. Yes, and I should like to have him explain whether that "impeding" came from the banking officials in California or in Washington. That has a bearing on the study we are making.

Mr. BACIGALUPI. In a very general way, we start with the statements made in my preliminary or introductory report, that, beginning about 1921, other banks in California, principally in Los Angeles, began to emulate the example of the Bank of Italy by establishing branches throughout the southern portion of the State.

Los Angeles, as I stated yesterday, was then undergoing a tremendous development. It was a city on wheels. Thousands of people were coming in from all parts of the country, principally from the Middle West of the United States, and as I stated also yesterday, Los Angeles was never built for a metropolis. Its streets were narrow and traffic was terribly congested in the downtown area. It threatened the life and limb of anyone who came downtown to do much shopping. As a consequence, neighborhood business settlements began to rise up and Mr. Giannini was among the very first to sense the necessity of going to the people and, as I recall it, made a request of the then superintendent of banks for permission to establish a number of branches in and about the outskirts of Los Angeles.

Our competitors got together and caused the superintendent of banks to enunciate what is called the De Novo Rule.

As pointed out yesterday, there are only two sections of the banking code that are applicable to State banks establishing branches in California, which are section 127, which provides that—

> No bank shall transact any business in this State without the written approval of the superintendent of banks

And section 9 which states that—

> No bank in this State, or any officer or director thereof, shall hereafter open or keep an office other than its principal place of business, without first having obtained the written approval of the superintendent of banks to the opening of such branch office—

And so forth.

In the light of that authority, the superintendent of banks enunciated a rule that no bank in the State could establish a branch outside of the city wherein it had its principal place of business unless the public advantage and convenience required it. In other words, he changed the words "promotion of public advantage and convenience" to a mandatory thing—"requiring" advantage and convenience.

Pursuant to that edict, we were forbidden, because of the fact we were the only bank operating in Los Angeles which had its head office outside of Los Angeles, from making an application because, as

he told us on a number of occasions, "It is useless for you to file your application; I can not grant it."

The flyleaf of the brief, which is an exhibit before your committee, which I presented yesterday, indicates that, in the four years, 122 findings of local advantage and conveniences were made by the superintendent of banks in favor of our competitors and but two to the Bank of Italy during those four years, but the two of them had been already committed for by the superintendent of banks before the enunciation or promulgation of the rule.

It happened, however, that we had our International branch, which was the result of the purchase of the old International Savings Bank of Los Angeles. We had been operating in a certain quarter of Los Angeles for a number of years and it developed that the city desired to condemn a stip of land which included that building, the strip of land to be used as a boulevard. That was the center of a continuous area, but by putting in that wide boulevard to provide for fast-moving vehicles through the center of it, it necessitated our election as to whether we would go on this side of the boulevard with our established business or whether we should go on the other. If we went on this side [indicating] we would lose the patronage which we had built up that come from the other side of the circle.

Just about that time, as I was debating the necessity of going to him and saying, "Here is a vested interest and right that we have; your de novo rule is illegal; if you do not accommodate us at any other place, give us an additional license here to accommodate the patrons we have that hail from this side [indicating] and another one to accommodate the business we have already built up that emanates from this other side; it is certain that we shall lose business if this is not permitted. When our manager, a Miss Grace Stormer, manager of our women's banking department, in Los Angeles, who knew the superintendent of banks from former days, when she was secretary of the State senate and he was a deputy in the State treasurer's office, came to me and asked for permission to establish a branch for the women's department in the Women's Athletic Club situated several blocks away on the ground that it would promote the convenience and advantage of the hundreds of women members of that club, I said to her: "It is useless for us to try. The minute we go to the superintendent, he will pull this de novo rule and we are barred before we start; we are prejudged."

She said: "I have already had an informal talk with him and he assures me that the permission will be granted and an exception will be made in this case."

So I then, at the very next meeting of the board of directors, had a resolution passed authorizing the establishment of a branch of the Bank of Italy in the Women's Athletic Club and also a resolution authorizing application for an additional license to operate an additional branch in the divided International branch already established. Applications were made pursuant to that authorization and the denial came back in each instance predicated solely upon the de novo rule; in other words, the letters recognized that public advantage and convenience would be promoted in substance, but because of the existence of this de novo rule, he regretted that he would have to deny the application.

For the first time did those letters present us with an absolute denial predicated upon the de novo rule. Theretofore he was in the habit of finding that public advantage and convenience would not be promoted and that barred us and because we were sure the supreme court would not interfere with the exercise of his sound discretion, we really had nothing upon which we could base a legal action. But these letters, predicated exclusively upon the de novo rule, gave us an excellent opportunity and we decided to make a test case before the supreme court and to mandamus the superintendent of banks to issue the permits feeling that here was a clear-cut issue of law and not of fact, predicated upon two letters that could not be plainer, where the legality of the de novo rule could be determined.

Instead of his coming in and admitting that he had denied them on the ground of the de novo rule; that his attorney had advised him he was acting strictly within his rights, and leaving the matter up to the court to determine whether he had acted within the purview of his powers in enunciating that rule, they insisted on a commissioner being appointed and taking depositions and during the taking of the depositions, which lasted for three months, the superintendent of banks denied he wrote the letters. He admitted he signed them but they were dictated by someone in his office.

The CHAIRMAN. I rather gained the impression from you yesterday that the superintendent, in all of these matters of resistance to the development of your plan, was not acting on his own initiative?

Mr. BACIGALUPI. No; he had as his attorney a man who had been the attorney for his predecessor, who was then the leading factor in the development of a competing branch bank system in Los Angeles, and this ex-superintendent of banks continued to be the de facto superintendent of banks through this attorney of the succeeding superintendent and, in the course of these depositions, it developed that he had made a very thorough study; in fact, he brought in clock counts of pedestrian traffic passing these two given locations, and after very much deliberation, he stated in his testimony that he had been forced to conclude that the public advantage and convenience would not be promoted by the establishment of those branches, changing his tune and making his position in conformity with section 9 rather than the terms of this de novo rule.

Well, the upshot of the whole thing was that the matter went before the supreme court and was argued and the supreme court side-stepped the issue, by first finding that the superintendent had committed perjury when he said he did not sign the letter, but it further stated that, in the course of the depositions taken in the course of the proceedings, he testified that he made a thorough study and found that public advantage and convenience would not be promoted and that that was in strict conformity with the terms of section 9 of the banking act and that, having found that they were unable to interfere with the discretion which the law vested in him, declined to——

Mr. BRAND. In other words, they passed upon the facts instead of the law of the case or the facts and the law of the case?

Mr. BACIGALUPI. The facts as developed in the testimony after the proceedings had commenced.

Mr. WINGO. They permitted him to amend his own record of findings of fact, as set out in the official letter.

Mr. BACIGALUPI. It would take me a month to cover all of the facts, but during all the time of this sparring for position, we had, in the interim, come into the Federal reserve system.

The Federal Reserve Board, listening to the rumblings that were going on in California, not between unit and branch banks, but late-coming branch banks then in the field, sent out a commission to investigate these things and we had hearings such as your committee is having, investigating these things and the economics of the situation.

The CHAIRMAN. All of this indicates that your progress was being fought by established large groups in California?

Mr. BACIGALUPI. They were being established and were sparring for place and they were seeking to catch up by working on the State banking department and also the Federal Reserve Board in Washington to hold us in check while they came along. That is plain language and that is what occurred.

Mr. WINGO. It was not group banks as much as branch banks?

Mr. BACIGALUPI. No, sir; these were branch banks.

Mr. WINGO. In other words, there were two other large branch-banking systems being developed in competition with yours?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. In other words, there was a determined effort to keep your group out of southern California?

Mr. BACIGALUPI. Yes, sir; and we had, in 1923, a hearing here in Washington before the Federal Reserve Board on this general question of branch banking.

Present at this hearing was this former antagonistic superintendent of banks then the leading factor in the building up of a competing branch-banking system in the southern portion of the State, and we had representatives of the California League of Independent Bankers and quite a delegation of Cook County bankers and it developed into a debate between the virtues and merits of unit banking as against branch banking.

During all this time, being dependent on either the superintendent of banks or upon the Federal Reserve Board for permission to establish new branches, there were times when we got the consent of the superintendent of banks of California and were denied or delayed by the Federal Reserve Board in Washington.

But the final outcome——

Mr. BRAND. That is what I want to hear. I have to go. What did they finally decide?

Mr. BACIGALUPI. The final decision was that all the applications we made were eventually granted.

Mr. BRAND. By the Federal Reserve Board?

Mr. BACIGALUPI. By the Federal Reserve Board at Washington and, in this connection, I wish to state this, that this record, as it has been built up before this committee, has an unsavory reference to the one and only case of alleged arbitrariness on the part of our institution in the establishment of branches in California, and that is the celebrated or notorious Santa Maria case, and I want to clear the atmosphere on that.

The first place wherein that was mentioned, was at the hearing before the Federal Reserve Board in 1923. The charge was that the Bank of Italy, in its arrogance, went down to Santa Maria;

that Mr. Giannini went to Mr. Teetsen, the president of the Bank of Santa Maria, who was on his sick bed and endeavored to force him to sell his bank to the Bank of Italy, threatening that if he did not sell the bank, he would start a brand new bank and run him out of business.

That accusation was made by a man who is now in one of our subsidiaries and I believe that he believed it when he said it, but the facts are contained in this brief which I prepared and sent to Hon. M. C. Elliott who was, as I understand it, the original attorney of the Federal Reserve Board and who was then representing us.

I laid the facts of the Santa Maria case out very explicitly in this brief. In that case we had the consent of the superintendent of banks to establish a branch, but were being held up by the Federal Reserve Board and after the filing of this brief and an investigation made by the Federal Reserve Board, through the officials of the Twelfth Federal Reserve District in California, the permission of the Federal Reserve Board of Washington was granted the Bank of Italy to establish a new branch there.

Now, I wish to file this brief in the record.

The CHAIRMAN. Without objection, it will be placed in the record.

Mr. WINGO. What is it? What has it to do with the proposition here?

Mr. BACIGALUPI. It has this to do, Mr. Wingo, that as I recall it, in some proceedings held before this committee, some reference was made to a hearing had two years ago before a similar committee or before this committee, in connection with the McFadden bill and some statement was made that both sides or all sides were represented before that committee. As a matter of fact we were not represented, and as I recall it, some reference was made to this Santa Maria case.

Mr. WINGO. You are referring to the colloquy before this committee in either 1924 or 1925 between Mr. Drum and some witness, referring to the Santa Maria case?

Mr. BACIGALUPI. Yes.

Mr. WINGO. In other words, you contend that you were not represented and Mr. Drum did not present your side as you thought it should be?

Mr. BACIGALUPI. He did not and only our opponents were here.

Mr. WINGO. This is your brief presented when?

Mr. BACIGALUPI. My letter to Hon. M. C. Elliott, under date of January 8, 1924, that fully explains the Santa Maria incident that has been so liberally referred to in discussions of this kind dealing with the alleged tactics of our institution in the establishment of branches in California.

Mr. WINGO. In other words, you contend it is relevant here because the claim is made that branch banks may indulge in driving out unit competitors from business by the same tactics alleged?

Mr. BACIGALUPI. Exactly.

Mr. WINGO. I think it is germane because the Bank of Italy was not represented, and Drum and someone else was engaged in a colloquy in this matter.

Mr. FENN. Is not this a fair statement, that the statement has been frequently made that systems such as this have gone in and driven out unit banks?

Mr. BACIGALUPI. Absolutely, and it is the only case that has been cited by the opposition against us.

Mr. BUSBY. I should like to say about these briefs and unsolicited letters gathered promiscuously from the public—of course this is not as technical a proceeding as a court proceeding, but there is no relevancy between letters such as presented yesterday, gathered from the public promiscuously, and briefs filed on one side of a proposition before a committee such as this one. Of course it may be relevent, but I do not see the relevancy of bringing briefs into questions that deal with the hearings here unless both sides of the issue can be briefed, in order that we may have an opportunity to understand it.

(Discussion off the record.)

Mr. FENN. In accordance with the averments that have been made here, that associations of the character of this one go into communities and drive out unit bankers——

Mr. BACIGALUPI. Not only that, we have been accused of certain things that were not true and this is the first time I have had a chance to answer them and I ask that this go in.

The CHAIRMAN. The accusation is frequently made that groups similar to yours, in taking over a bank, in some community where it seems in your judgment it is desirable to take them over, where you meet with obstacles in the taking over of the bank, it has been the common practice—and this refers to others—to make some definite or side agreement with the officers of those banks whereby you might gain control of the institution and, in doing so, you make a contract with the officers of the bank for a long period of time to stay with you, frequently at good salaries. What is the common practice?

Mr. BACIGALUPI. The common practice is, in the acquisition of an institutition, where we find that one or more individuals in that institution are desirable men, for us to retain them in order to insure our retention of their good offices, and we have entered into contracts of employment with them.

Mr. FENN. Is not that the common practice in the consolidation of two national banks, to combine the officers of the two banks? I know of several instances where that has happened in my own State where two national banks or member banks have combined, where the officers of the combining banks were retained, one being the chairman of the board of directors and the other the president of the bank. It is not an uncommon thing where I live.

(The brief referred to by Mr. Bacigalupi is here printed in full, as follows:)

EXHIBIT W

SAN FRANCISCO, CALIF.,
January 8, 1924.

Hon. M. C. ELLIOTT,
Southern Building, Washington, D. C.

DEAR MR. ELLIOTT: Ever since the copy of your letter of December 20, addressed to our general counsel, Mr. W. G. McAdoo, came to my notice, I have endeavored to find sufficient time to dictate a memorandum of the true facts concerning the so-called Santa Maria case. The wind up and the beginning of a year are generally busy periods in a bank's activities and as a consequence I have been delayed in dictating such a statement. I trust, however, that it is not too late and that the following recital will have the effect of convincing the Federal Reserve Board at Washington that there was positively nothing in the conduct of the Bank of Italy in its efforts to enter the Santa Maria field, pursuant

to repeated urgent invitations of the people of that community, that was in any way unethical or censurable.

The accusations made at the open hearing at Washington in September of last year by the president of the California Unit Bankers, and his colleagues were wholly unjustifiable, came as a complete surprise, and had absolutely no place at said hearing.

In substance, they charged that in 1921 the president of the Bank of Santa Maria was lying ill at a hospital in San Francisco; that his bank was in a frozen condition and in sore straits; that our president, Mr. A. P. Giannini, realizing the precarious condition of both the president and the Bank of Santa Maria, went or sent word to him "demanding" that he sell out his bank to the Bank of Italy on terms arbitrarily imposed by Mr. Giannini, and that in the event of his refusal to comply the Bank of Italy would enter the field by the establishment of a new branch and run him out of business. One of the speakers, as I recall his remarks, stated that when the Santa Maria banker refused to be browbeaten into selling on the impossible terms sought to be imposed by Mr. Giannini, the Bank of Italy employed certain officers of the Bank of Santa Maria and sent them out through the Santa Maria country "buying up the pass books on that bank," and that on one occasion these men, agents of the Bank of Italy, had saved up some 85 of such pass books and took them into the Bank of Santa Maria in a lump, "laid them down on the counter and demanded the money." That on the following day Mr. L. M. MacDonald, then our vice president, called in to see the cashier of the Bank of Santa Maria, and asked him how he "liked" the "wallop" he had gotten the day before from the Bank of Italy, concluding his jeering interview with the flat though positive statement that if the Bank of Santa Maria did not capitulate to the Bank of Italy, the Bank of Italy had many more such "wallops" to administer. It was further charged that because of this harassment the Bank of Santa Maria could no longer operate as a unit bank and that it was immediately thereafter forced to sell out to another institution, the Pacific Southwest Trust & Savings Bank, of which it became a branch.

Now, for the real facts: When, in the early part of 1921, the Bank of Italy entered the field at San Luis Obispo, a county seat situated about 28 or 30 miles from Santa Maria, it did so through the acquisition and merger of the Union National Bank. The former officers of that institution organized an independent State bank in San Luis Obispo and took with them practically all of the employees of our predecessor, it became necessary for us to immediately recruit a working staff for our San Luis Obispo branch. In selecting such officers we naturally looked to men with banking experience who were familiar with men and conditions in that part of the State. For the position of manager of that office, we selected a previously assistant cashier of the Bank of Santa Maria, but who at that time was the retiring president of the California Bean Growers Association; and for the positions of assistant cashiers, we chose and employed two young men previously employed by the Bank of Santa Maria. One came with the Bank of Italy on April 1, 1921, and the other joined our San Luis Obispo staff on April 15, of the same year.

There was absolutely nothing ulterior in the employment of these men. In fact, before employing one of them, I personally took a trip to Santa Maria and interviewed the cashier of the Bank of Santa Maria for the purpose of getting a line on his character and ability. The cashier was most enthusiastic and generous in his statements concerning him and it was largely upon the cashier's recommendation that we employed him.

In the latter part of April or the first part of May, word came to us through our San Luis Obispo manager, that the president and cashier of the Bank of Santa Maria were disposed to sell their institution to the Bank of Italy, and he was told that if such was the case we would be glad to have the president call upon us here in San Francisco on the occasion of his next visit. In due course, both he and the cashier visited our head office and our conference took place in my private office on the sixth floor of the old Bank of Italy Building, situated at Clay and Montgomery Streets. The interview was most pleasant and satisfactory in every way. The president represented to us that he was getting along in years and was desirous of getting out of the banking business; that his private interests were sufficiently large to engage the attention of his son, who had no ambition to become actively engaged in the banking business, and that as long as the cashier and the other employees of the bank would be taken care of in the new order of things he was anxious to quit. I personally drafted the agreement and escrow instructions, pursuant to the verbal understandings there reached, and in due course they were executed by the president and cashier of the Bank of Santa Maria

on the one side, and our president, Mr. A. P. Giannini, on the other. I am inclosing the original agreement and escrow instructions so that you may see the fairness of them, and particularly so that you may notice from the firmness of the president's signature that he was not, as some of our accusers would have the board believe, a poor helpless sick man, languishing on a bed of pain, at the time this agreement was entered into.

Mr. C. B. Wingate, who, as you will observe from a reading of the inclosed agreement, was chosen by both sides to act as the umpire, was then a deputy in the office of Mr. C. F. Stern (now vice president of the Pacific Southwest Trust & Savings Bank, of which institution the Bank of Santa Maria is to-day a branch), and was decided upon after informal assurance had been given us by a former associate of his that he would act in that capacity if called upon. This same gentleman had theretofore acted in a similar capacity, while a deputy under a previous superintendent of banks, on the occasion of our purchase of the First National Bank of Merced and our attempted purchase of the Pioneer Bank of Porterville, so that we had no occasion to doubt for a moment but that he would act in this case if called upon.

I here quote from an original memorandum recently submitted to me by Mr. W. H. Snyder, our chief examiner, who in the last part of May and the beginning of June, 1921, conducted an examination for the Bank of Santa Maria pursuant to the terms of the attached agreement. You will notice that his examination and investigation was not confined alone to the Bank of Santa Maria, but extended, with the consent of the latter, to the affairs of the Valley Savings Bank of Santa Maria and, to a certain extent, the First National Bank. I invite your attention to this, particularly because it is evidence of the fact that the three institutions were then practically under one control. As a matter of fact, even to-day, the Bank of Santa Maria crowd practically dominate the banking situation in Santa Maria. This is what Snyder has to say on the subject of his examination:

"Examination of the Valley Savings Bank of Santa Maria and the Bank of Santa Maria were made by me on a holiday—which I believe was May 30, 1921. On that same occasion I met with the officers of the First National Bank of Santa Maria. It was understood at that time that we were negotiating for the purchase of the Valley Savings Bank and the Bank of Santa Maria with the understanding that we were to have a working agreement with the First National Bank owned by the same stockholders as controlled the other two banks.

"According to my examination of the Valley Savings Bank, I found it in first-class condition. The Bank of Santa Maria, however, I felt was in very poor condition. In that bank there were assets amounting to something over a million dollars, which I did not consider proper banking assets. On these loans I estimated a loss of from $300,000 to $400,000.

"The cashier of the Bank of Santa Maria admitted to me in my room at the Santa Maria Inn that my analysis of the assets was substantially correct but that he could not face the president with conditions as they were. He made an offer to me of a new Cadillac automobile if I would put through on behalf of the Bank of Italy a tentative proposition which was then under their consideration. Within five minutes after this offer had been made to me, I met Dr. L. R. Sevier, a member of the advisory board at Los Angeles, in the lobby of the hotel and made the cashier admit to Doctor Sevier the offer which had been made to me."

It soon became evident after Snyder's examination, early in June, 1921, that we could not get together, so we called upon Mr. Wingate to come in and settle the dispute. Mr. Wingate then advised us that he could not act without permission from his chief, Mr. C. F. Stern, who was in Los Angeles. He reached Mr. Stern over the long-distance wire and Mr. Stern flatly refused to permit Wingate to act.

Mr. Stern was evidently in Los Angeles at the time closing his negotiations with the First National Bank and the Los Angeles Trust & Savings Bank (now the Pacific Southwest Trust & Savings Bank) to enter the employ of the Los Angeles Trust & Savings Bank in the capacity of vice president, for on June 20, 1921, Mr. C. F. Stern resigned from the bank superintendency and became vice president of the Los Angeles Trust & Savings Bank.

Wingate's refusal to act as umpire entirely upset and terminated our negotiations for the acquisition of the Bank of Santa Maria and its affiliated bank, the Valley Savings Bank of Santa Maria.

The moment it became known in Santa Maria that said negotiations had fallen to the ground, a large percentage of the residents and business people of the community, particularly the farmers who were looking to the entry of our institution

for relief in the matter of loan accommodations, which because of local frozen conditions, were not being met by the local banks, a great deal of dissatisfaction ensued, and Jesse, young Rice and Brown, former Santa Maria men and at that time our representatives in the neighboring town of San Luis Obispo, were made the recipients of urgent appeals to do something toward relieving the distressing situation. I have since interviewed our representatives Messrs. Rice and Brown and have their positive and unqualified assurance that there was nothing in their conduct at that critical time which could in any way be construed as unethical by the Santa Maria banks.

As you will note, our negotiations terminated in the beginning of June, 1921, just as the first six months' period was drawing to a close. Many of the disgruntled Santa Maria people, particularly those who were looking for new or additional loans, naturally began to prepare, even at great discomfort to themselves, to transact their banking business and receive their banking accommodations through our San Luis Obispo office, 28 or 30 miles away.

We inclose statement of Santa Maria accounts opened at our San Luis Obispo office, all practically opened during the first seven months of 1921, just furnished me by our representatives Messrs. Rice and Brown. You will observe from the dates thereof that it was an impossibility, at any one time, to present anywhere near "85" pass books. Rice and Brown positively deny ever having "bought up" a single pass book, and as positively deny that they, or either of them, or anyone connected with our institution, ever went into the bank and demanded payment of a single pass book "over the counter." They positively delcare that every pass book which was transferred by Santa Maria depositors was sent through the regular course.

It does appear that at the end of the six months' period, namely, during the month of July, 1921 (a time when deposits are usually transferred so as not to suffer any loss in interest) that the pass books transferred from Santa Maria to our branch at San Luis Obispo did aggregate some $50,000 but no special point can be made of this fact when, as you will observe from the inclosed machine list, the total loan accommodations extended to the same Santa Maria depositors aggregated $335,752. In other words, if the deposits obtained from the Santa Maria territory in 1921 amounted to $113,863.28, we benefited rather than hurt the Santa Maria institutions when we assumed $335,752 in loans from that territory. We submit that a showing such as this, namely, a ratio of loans to deposits of 3 to 1, can only establish the fact that we very materially and substantially helped rather than hurt the situation.

Now, a word as to MacDonald's jeering statements: The following are quotations from a recent written statement submitted by him to me at my request:

"Referring to your request for information regarding the Bank of Italy's application for a branch at Santa Maria, although it is quite a long time since I had a conversation with the cashier of the bank of Santa Maria, I will say without hesitation that the statement which was atrributed to me at the Washington conference, is entirely untrue.

"It may be possible that he mentioned our having taken a number of accounts away from him to our San Luis Obispo branch, but I am wholly unable to recall any such conversation. If it were mentioned at all, I would have assured him that it was quite natural for these former officers of his institution to have friends in his district who would look to them for relief. A number of loans made through our savings department resulted in the distinct benefit of the Bank of Santa Maria, which was at that time unable to supply its clients with sufficient funds to take care of their required mortgage loans."

There can be no question, considering the difficult situation in which the Bank of Santa Maria found itself in 1921, but that if we had even intimated to outsiders what our examination disclosed or had done anything to hurt rather than to help, nothing in the world would have saved them, for there was no large bank in California at that time, other than our own, engaged in State-wide branch banking which would have taken them over.

As a matter of fact, the Bank of Santa Maria continued to operate independently for a full year after July 7, 1921 (during which month we are accused of "buying up" their pass books), and it was not until July of 1922 that the Pacific Southwest commenced its branch-banking operations on a wide scale (under the leadership of the former superintendent of banks, Mr. C. F. Stern) by absorbing this very bank, among the very first of its acquisitions outside of the Metropolitan area of Los Angeles. If the Santa Maria forces were—as charged—forced, because of our harassment and unethical tactics, to unwillingly retreat into the arms of a big branch bank, I sumbit that the retreat was quite leisurely and orderly.

Many of the people of Santa Maria would not accept the situation forced upon them. They insisted in pointing out that all banking facilities in the town were controlled by one group, depriving the residents of any competition; and that for years they had been anxious to get the benefit of the competition and facilities of the Bank of Italy, but monopoly was always strong enough to prevent it.

Acting upon such appeals and a lengthy petition bearing the signatures of hundreds of residents and business men of Santa Maria, we filed a petition for a new branch there on September 7, 1921, with Mr. Dodge, the then superintendent of banks. This was followed by a visitation upon him by a large delegation of Santa Maria's leading citizens, urging that the application be granted. Many of these men took a decided risk in so coming, for they realized what the attitude of the local banking group toward them would be if our application were denied. Their coming, notwithstanding the inevitable result, must demonstrate clearly the seriousness and the urgency of the situation.

Mr. Dodge held the application from September 7 to November 23, 1921, when, as will be noted from the copy of his letter, hereto attached, he dismisses the subject in the following very general and stereotyped language: "I have found that the public convenience and advnatage of the city of Santa Maria, County of Santa Barbara, State of California, will not be promoted by the licensing of the branch office desired by you. I am therefore refusing your application."

We have no means of possessing exact information on the subject, but my personal opinion of the matter is, based entirely on my observations and varied conferences with Mr. Dodge on the Santa Maria situation, that his real motive in denying our application was a desire to maintain a friendship of long standing between himself and the attorney for the Tietzen interests in Santa Maria. Dodge was chairman of the Los Angeles board of supervisors at the time he was made State superintendent of banks, and this attorney was, prior to and during Dodge's incumbency as superintendent, the chairman of the Santa Barbara County board of supervisors, and had occasion to meet Dodge frequently in the State organization of county supervisors, and was generally very aggressive in a political way in his county. He was very active in his opposition to our entry, and Dodge, on several occasions, went out of his way to tell me and others of our bank what a great friend of his this attorney was. I mention this solely because one of the members of the board asked me "why" Mr. Dodge had denied our application, and not wishing to confuse the issue by any undue prolongation of the Santa Maria controversy at the hearing—which controversy was wholly out of order there—I simply replied that I didn't know.

When Mr. Johnson, the present superintendent of banks, succeeded Mr. Dodge, the old appeal was again renewed by many of the people of Santa Maria, who were not satisfied, even though the Pacific Southwest has since entered the field. They argued that the same old interests still controlled the local banking situation, and argued for the real competition which would flow from our establishment there.

Accordingly, on June 22, 1923, we renewed our application, and on July 13, 1923, Mr. Johnson granted our application. A copy of Mr. Johnson's letter is also here attached.

Fortunately, Superintendent Johnson has since expressed himself more fully on the Santa Maria situation in his letter to the Federal Reserve Board at Washington, under date of October 30, 1923, dealing with the question of branch banking generally, reference to which letter is here made. I desire, however, to here quote fully the principal paragraph in said letter which treats specifically with the reasons underlying his granting of our Santa Maria application:

"So far as I am aware, and judging from the reports of the Washington hearing that have come to me, the only instance where the propriety of a branch charter granted by me has been seriously questioned is that granted to the Bank of Italy for a branch de novo at Santa Maria. The Santa Maria situation has been an acute one for a considerable time, far antedating my incumbency as superintendent of banks. No profit can come from my entering into a discussion here of the merits of the Santa Maria situation. I accept the responsibility for the decision and wish to say that it was my own independent decision; that I knew at the time a former superintendent of banks had refused permission and I was well aware of the fact that there would be considerable criticism and a great deal of misunderstanding of my motives in the event that I did grant permission to the Bank of Italy to enter Santa Maria de novo. I felt, however, that they had a right to apply and that I could not escape the responsibility of decision on the ground that some one else had acted or because the situation was very obscure in some particulars or because my motives might be misunderstood. Besides

reviewing a full and voluminous record containing many letters and petitions setting forth the necessity for another bank in Santa Maria, there were many hearings held by me, and I believe that I heard all that there was to be heard on both sides of the controversy before making my decision. The decision was made solely on the grounds of public convenience and necessity and I wish to say here that nothing has since been presented to cause me to change the opinion that I then formed that the people of Santa Maria were entitled to additional banking facilities.

"I do not intend to enter into a defense of my position in this matter any further than this and to state that so far as the conference agreement with reference to branch banking is concerned, the decision in the Santa Maria case was made with that agreement entirely before my mind and that the decision was made, not in violation of that agreement, but rather as coming within the exception laid down in that agreement which had been very carefully placed therein at the suggestion of my attorney at the time the agreement was entered into. He pointed out the fact that to permit the agreement to be made hard and fast so that no banks de novo should be granted to branch banks in communities where there were other banks would be to abdicate the authoroty granted me in the bank act, and would be in violation of my oath to accept the duties and responsibilities of that act, i. e., to refuse to determine for myself in obedience to the mandate of that act in each and every instance where application is made, whether 'the public convenience and advantage would be promoted' by the granting of the charter to the applicant. More than that, it was then pointed out and the logic apparently appealed to all the conferees that discretion should reside in the superintendent to deal with those instances where through failure to keep pace with the demands of the community the local banks had failed to meet the requirements of local service. Instead of incorporating the language of the statute into the exception, the language was changed from the 'public convenience and advantage be promoted thereby' to 'public convenience and advantage require it'; in other words, the shade of difference runs from the rather mild word 'promoted' to the somewhat positive word 'require,' and in my finding after a personal investigation of conditions at Santa Maria I so found and have advised the Bank of Italy that I would give them permission to enter the town of Santa Maria upon the ground that I found the conditions to come within the exception laid down in this limitation, to wit, that the public convenience and advantage of Santa Maria required further banking facilities. The Santa Maria case is the only instance where any question has been raised in all the many cases where charters have been granted since the conference. The very fact that this is the lone instance shows that it is the exception and not the rule."

The foregoing frank statement of the superintendent's findings and conclusions should suffice to lay at rest any and all of the unfounded and wild accusations which have been made by selfish interests. It is not alone a safe assumption, but the fact, that if ever pressure was brought to bear upon any State official to swerve him from his plain duty, that pressure was exercised on Mr. Johnson in this case; and be it said, to his enduring credit, that he fearlessly stood by his findings and honest convictions, regardless of consequences.

We submit that the establishment of a branch of the Bank of Italy in Santa Maria will not injure the Pacific Southwest Trust & Savings Bank or the other banks there and that the introduction of our competition will of necessity insure to the convenience and advantage of that community.

We therefore authorize you to present this statement to the Federal Reserve Board and to petition for a rehearing of our Santa Maria application.

Very truly yours,

JAMES A. BACIGALUPI,
Vice President.

This agreement, made and entered into this 19th day of May, 1921, by and between Paul O. Tietzen, of the city of Berkeley, County of Alameda, State of California, first party, and stockholders auxiliary corporation, a corporation organized and existing under and by virtue of the laws of the State of California, second party, witnesseth:

That for and in consideration of the sum of $10, in lawful money of the United States of America, this day paid to first party, the receipt of which is hereby acknowledged, first party hereby promises and agrees to sell to second party, and second party hereby promises and agrees to purchase from first party, 3,001 shares of the capital stock of the Bank of Santa Maria, a corporation, of Santa Maria, Calif., for the sum of $425,000, subject to the following terms and conditions:

It is hereby further understood and agreed by and between the parties hereto that first party shall on or before the 24th day of May, 1921, deposit the certificates evidencing 3,001 shares of the capital stock of said Bank of Santa Maria, properly indorsed in blank, in escrow with the Crocker National Bank of San Francisco under and subject to escrow instructions in substantially the following form:

The CROCKER NATIONAL BANK,
San Francisco, Calif.

GENTLEMEN: I herewith hand you certificates, properly indorsed in blank, evidencing 3,001 shares of the capital stock of the Bank of Santa Maria, and request and instruct you to deliver said stock to the Stockholders Auxiliary Corporation upon payment by it to you for my account of the sum of $425,000, lawful money of the United States of America, or such lesser sum as you may be advised in writing is due me for said stock by W. H. Rice, James E. Fickett, or W. H. Snyder, and C. B. Wingate, or his nominee, or a majority of them on or before the 1st day of June, 1921, or the same shall be delivered unto said Stockholders Auxiliary Corporation upon my written order.

In the event that no such payment is made on or before said 1st day of June, 1921, then you are to return said stock to me upon my demand therefor.

Very respectfully yours,

PAUL O. TIETZEN.

It is also further understood and agreed by and between the parties hereto that immediately after the deposit of said stock in escrow as aforesaid, the loans of said Bank of Santa Maria shall be examined and appraised by W. H. Rice, acting for first party, and James E. Fickett or W. H. Snyder, acting for second party, and in the event that they are unable to agree upon the value of any or all of said loans, then C. B. Wingate, or his nominee, shall be forthwith called in to decide the value of any and all such disputed loans, and his decision shall be final and binding upon both of the parties hereto. Should the said appraised value of the loans be so found to be not more than $50,000 less than the present book value thereof, then the consideration hereinabove fixed for said shares of stock shall stand and first party shall not be made to suffer any reduction in said purchase price because of said condition; should the said appraised value of the loans, however, be found to be more than $50,000 and not more than $100,000 less than the present book value thereof, then the consideration or price hereinabove fixed for said shares of stock shall be reduced by a sum equal to one-half the amount of such appraised shrinkage or depreciation over and above said first $50,000 thereof; and should the appraised value of the loans be so found to be more than $100,000 less than the present book value thereof, then first party may not be called upon to stand a greater reduction in said purchase price than a sum equal to one-half of the amount of said appraised shrinkage or depreciation over and above the first $50,000 and up to the first $100,000 thereof, but in such event it shall be optional with second party to go through with said purchase on the basis of such reduced consideration or to wholly withdraw and declare this sale voided and canceled, unless first party shall immediately declare his readiness and willingness to accept a reduction in said purchase price equal to one,half of the total amount of such appraised shrinkage or depreciation over and above the first $50,000 thereof.

Payment for said stock in the sum so found to be due pursuant to the method aforesaid shall be made by second party to said escrow holder in the manner and at such time or times after said appraisement as first party may direct.

It is further understood and agreed between said parties, as a further consideration and condition of this sale and purchase, that in the event of the consummation of said sale and purchase said first party will remain with said bank in his present official capacity and at his present salary until January 1, 1923, or as chairman of the advisory board attached to said office, in the event that the business and assets of said bank shall be purchased by and merged into the Bank of Italy before said 1st day of January, 1923; it being understood that first party shall be required only during said time to lend his good will to said institution and to attend meetings of the board, whenever convenient to him, with full right to absent himself from the State for any purpose whenever he may desire to do so.

Time is hereby made and declared to be of the essence of this agreement.

This agreement shall bind the heirs, executors, successors, and assigns of the parties hereto.

In witness whereof, the first party has hereunto set his hand and seal, and the second party has caused this agreement to be executed by its president, thereunto duly authorized, and its corporate seal to be hereunto affixed, the day and year first above written.

[SEAL.] PAUL O. TIETZEN.
STOCKHOLDERS AUXILIARY CORPORATION,
By A. P. GIANNINI, *President.*

This agreement, made and entered into this 19th day of May, 1921, by and between Paul O. Tietzen and L. P. Scaroni, first parties, and Stockholders Auxiliary Corporation, a corporation organized and existing under and by virtue of the laws of the State of California, second party, witnesseth:

That for and in consideration of the sum of $10 this day in hand paid to each of said first parties, the receipt of which is hereby acknowledged by each of them, first parties hereby promise and agree to sell to second party, and second party hereby promises and agrees to purchase from first parties 126 shares of the capital stock of the Valley Savings Bank of Santa Maria, for the price and on the terms and conditions following:

It is hereby understood and agreed by and between the parties hereto that first parties shall, on or before the 24th day of May, 1921, deposit the certificates evidencing said 126 shares of the capital stock of said Valley Savings Bank of Santa Maria, properly indorsed in blank, in escrow with the Crocker National Bank of San Francisco, under and subject to escrow instructions in substantially the following form:

The CROCKER NATIONAL BANK,
San Francisco, Calif.

GENTLEMEN: We herewith hand you certificates, properly indorsed in blank, evidencing 126 shares of the capital stock of the Valley Savings Bank of Santa Maria, and request and instruct you to deliver said stock to the Stockholders Auxiliary Corporation upon payment by it to you, for our account, of such sum as you may be advised in writing is due us for said stock by W. H. Rice, James E. Fickett or W. H. Snyder, and C. B. Wingate, or his nominee, or a majority of them, on or before the 1st day of June, 1921, or the same shall be delivered unto said Stockholders Auxiliary Corporation upon our written order.

In the event that no such payment is made on or before said 1st day of June, 1921, then you are to return said stock to us upon our demand therefor.

Respectfully yours,

PAUL O. TIETZEN.
L. P. SCARONI.

It is further understood and agreed by and between the parties hereto that immediately after the deposit of said stock in escrow, as aforesaid, all of the assets of said Valley Savings Bank of Santa Maria shall be examined, and the actual value thereof shall be appraised by W. H. Rice, acting for first parties, and James E. Fickett or W. H. Snyder, acting for second party, and in the event that they are unable to agree upon the actual value of any or all of said assets, then C. B. Wingate or his nominee, shall be forthwith called in to decide the actual value of any and all such disputed assets, and his decision shall be final and binding upon all of the parties hereto. The price for said shares of stock shall be fixed by said appraisers, and shall be based wholly upon the appraised actual value of the assets of said bank, nothing to be allowed for the good will of the business of said bank.

Payment for said stock in the sum so found to be due, pursuant to the method aforesaid, shall be made by second party to said escrow holder, or in the manner and at such time or times after said appraisement as first parties may direct.

Time is hereby made and declared to be of the essence of this contract.

This agreement shall bind the heirs, executors, successors, and assigns of the parties hereto.

In witness whereof said first parties have hereunto set their hands, and second party has hereunto caused its corporate name to be subscribed, and its corporate seal to be affixed by its president thereunto duly authorized, the day and year first hereinabove written.

PAUL TIETZEN,
L. P. SCARONI,
First Parties.
STOCKHOLDERS AUXILIARY CORPORATION,
By A. P. GIANNINI, *President.*

List of savings accounts transferred to Union National Bank from Santa Maria banks

Date	Name	Amount	Date	Name	Amount
1921			1921		
Mar. 14	E. Palo	$136.16	July 7	A. Flocchini	$2,000.00
May 12	Gin Chong	2,756.00	Apr. 18	F. W. Grisingher	2,000.00
12	....do	1,060.00	May 9	....do	2,000.00
18	Harry Sellars	250.63	Apr. 16	Fillipo Guerra	1,000.00
July 1	Gin Chong	2,278.64	July 9	Silvia Guerra	1,500.00
7	David Richins	5,052.22	7	Chas. Maretti	3,500.00
7	A. L. Brown, administrator	1,076.22	7	J. C. Maretti	25,000.00
7	F. C. Abernathy	227.76	Apr. 16	....do	4,000.00
Aug. 11	James W. Irby	900.00	May 12	Gin Chong	7,000.00
Mar. 21	Jim Margaroli	670.00	July 8	F. L. Novo, treasurer U. P E. C.	422.75
July 15	Elmer C. Rice	543.70	7	Artura Rossi	4,091.08
11	Gin Hong Gin	1,526.00	May 18	Antonio Mossi	2,300.00
4	A. T. Alliani	2,000.00	July 5	Albino Bonetti, guardian J. Bonetti	5,721.16
16	A. Belloni	3,000.00	9	M Lanini	2,000.00
9	John Belloni	4,275.39	Apr. 26	Marion B. Rice	5,000.00
June 20	A. Bondietti	1,000.00	6	W. H. Rice	7,107.34
July 1	A. Cavolla	1,000.00	Jan. 15	Albino Bonetti	5,000.00
Apr. 18	Ernest Degasparis	1,000.00			
July 11	Rina Degasparis	500.00			113,863.28
7	Estate A. L. Stanley	3,668.23			
7	P. C. Bonetti	1,300.00			

Loans made to Santa Maria customers

Date	Name	Amount	Date	Name	Amount
1921			1921		
Apr. 9	F. D. & J. D. Bello	$4,800.00	Apr. 11	W. L. Black	$2,500.00
July 14	J. F. Ventura	6,532.00	May 21	J. J. Branson	400.00
June 16	J. D. Bello	600.00	June 29	P. H. Carroll	1,000.00
8	F. D. Bello	500.00	30	A. L. Novo	4,287.00
Apr. 21	Goodwin Dana	6,000.00	Mar. 15	J. F. Dias	2,000.00
July 16	W. E. Elliott	400.00	24	J. R. Ferini	250.00
Apr. 20	E. G. Fields	500.00	June 25	S. A. Florence	1,225.00
May 14	J. S. Gularti, jr	525.00	Mar. 21	P. Z. Fogle	400.00
Aug. 23	J. F. Kaar	532.98	July 14	Manuel R. Jorge	1,279.00
Jan. 28	W. F. Torrence	2,500.00	5	Frank Gregory	50.00
June 24	C. J. Miehle	985.00	June 30	Raul A. Leal	300.00
Apr. 13	J. C. Munoz	200.00	Mar. 26	Edward Marcill	600.00
Mar. 15	Toney Roderick	1,000.00	June 28	J. D. Martinez	8,500.00
15	A. F. Silva	10,000.00	May 25	M. M. Martinez	4,000.00
Apr. 14	Jacinto Silva	600.00	July 1	Miehle Bros	2,947.02
June 21	A. L. Smith	4,000.00	June 21	A. S. McLaughlin	1,000.00
May 14	C. W. Smith	1,400.00	Mar. 9	Novo Bros	2,800.00
Mar. 10	Albina Bonetti	1,200.00	July 11	M. S. Pereira	5,400.00
10	A. V. Bras	33,000.00	Apr. 23	L. F. Pezzoni	2,000.00
Apr. 1	J. J. Silveira	7,500.00	June 23	P. A. Philbrick	3,200.00
July 19	E. J. Canatry	1,540.00	3	Joe F. Silva	1,300.00
Apr. 4	D. Cavolli	1,250.00	29	Manuel Bento	1,300.00
May 9	J. D. Faria	800.00	July 15	Thom Silva	1,020.00
July 18	Geo. R. Gilb	12,600.00	May 6	F. M. Soares	3,800.00
Apr. 22	F. H. Hamilton	784.00	July 28	J. J. Souza	500.00
June 30	F. W. Haslam	3,000.00	June 9	A. Tomasini	13,000.00
Mar. 24	W. C. Hillier	2,000.00	May 27	M. C. Vincenti	745.00
June 20	J. F. Kaar	5,450.00		Hughes Bros	7,500.00
Apr. 7	F. J. Marcill	3,450.00	Mar. 23	Joe Soares	30,000.00
June 24	Miehle Bros	1,500.00	May 6	Frank M. Soares	25,000.00
Mar. 19	D. M. Muscio	450.00	Mar. 1	John V. Brass	40,000.00
Sept. 7	S. H. McFadden	5,500.00	Apr. 7	F. D. & J. D. Bello	20,000.00
Apr. 13	F. L. Novo	3,750.00	13	F. L. Novo	3,750.00
May 24	Rice & Pulliam	3,500.00	June 7	Julian Garcia	350.00
Apr. 19	Girald J. Sheehy	6,500.00			
June 1	Joe Soares	2,700.00			335,752.00
May 6	Antone Souza	5,500.00			

STATE BANKING DEPARTMENT,
San Francisco, Calif., November 23, 1921.

BANK OF ITALY,
San Francisco, Calif.

GENTLEMEN: Please be advised in response to your application of September 7 for my license to your institution to operate a branch office of your departmental

savings, commercial, and trust company business in the city of Santa Maria, in the county of Santa Barbara, State of California, that in the exercise of the discretion granted me by section 9 of the bank act, I have found that the public convenience and advantage of the city of Santa Maria, county of Santa Barbara, State of California, will not be promoted by the licensing of the branch office desired by you. I am therefore refusing your application.

I acknowledge in connection with your application receipt of your check in the sum of $50 to pay for the license requested. I am therefore returning you to a check in that sum, this representing the return to you of the fee offered for the requested permission.

Yours very truly,

JONATHAN S. DODGE,
Superintendent of Banks.

STATE BANKING DEPARTMENT,
San Francisco, Calif., July 13, 1923.

BANK OF ITALY,
San Francisco, Calif.

GENTLEMEN: This is in reference to your application of June 23, 1923, for permission to establish a branch office in the city of Santa Maria, Calif.

After due investigation I have concluded that the public convenience and advantage requires the establishment of additional banking facilities in this city. Accordingly, your application to establish this branch office is granted subject to the usual permission of the Federal Reserve Board.

We have previously acknowledged receipt of the necessary resolution of your board of directors and the license fee of $50. When you have received the permission of the Federal Reserve Board and have determined upon the date of opening, please advise and our license will be issued as of the dated determined upon.

Yours very truly,

J. F. JOHNSON,
Superintendent of Banks.

Mr. WINGO. I think, Mr. Chairman, before the witness leaves, that we should have an explanation of the obstruction they had here in Washington. The statement was made originally that they were impeded by the comptroller as well as the Federal Reserve Board. I think the record ought to show that, in that proceeding at that time, you were not a national bank. That was before you had joined the national system, and the comptroller did not pass upon that, and the comptroller was not a party to what they contend was a discrimination against you on account of these influences and pressure brought to bear by your competitors here at Washington.

That was simply a hearing before the Federal Reserve Board, because you were a member of the Federal reserve system and the rules that had been made at that time requiring you to get the permission of the comptroller were not involved there?

Mr. BACIGALUPI. That is true. The comptroller had no jurisdiction over our institution at that time.

Mr. SEIBERLING. How are we operating here—on general questions?

The CHAIRMAN. I am asking the questions but I am willing to yield to you.

Mr. SEIBERLING. I want to ask a question at this point.

The CHAIRMAN. Then I yield to you.

Mr. SEIBERLING. Do you contract with these officers prior to taking over the bank or afterwards?

Mr. BACIGALUPI. That is understood in the general transaction.

Mr. SEIBERLING. You would not take over the stock of the bank unless——

Mr. BACIGALUPI. Unless we had the key men to carry on with.

Mr. SEIBERLING. And you assist them to get the stock occasionally?

Mr. BACIGALUPI. They are naturally desirous of consummating the sale, and it is up to them to deliver the 51 per cent or two-thirds of the stock, as the case may be; yes, sir.

Mr. SEIBERLING. In how many instances have you increased their salaries?

Mr. BACIGALUPI. I could not say that.

Mr. SEIBERLING. Could you look up your records and tell us?

Mr. BACIGALUPI. I would say in some instances we have increased their salaries.

Mr. SEIBERLING. Substantially?

Mr. BACIGALUPI. Well, I would say that, in some instances, yes, we have increased the salaries substantially.

Mr. SEIBERLING. The salary is always fixed in the agreement before you take over the bank?

Mr. BACIGALUPI. Not necessarily before. We have had an understanding and the agreement has been consummated in a few cases.

Mr. SEIBERLING. That is all.

The CHAIRMAN. These different groups, Mr. Bacigalupi, that have been appearing before the committee, have voluntarily furnished us with a little more in detail information as regards how and where their stock is held; for instance, the Marine Midland group gave us a list of the distribution of 4,986,000 shares of their stock, indicating that so many shares were held by a certain number of stockholders in Buffalo, so many in New York City, and then they gave the number of stockholders and the total holdings by States. Do you have your stockholders list made up in that manner so you could give the committee the benefit of that same information?

Mr. BACIGALUPI. Yes, sir; you want the list of stockholders?

The CHAIRMAN. A list of stockholders showing——

Mr. BACIGALUPI. The number of stockholders of Transamerica with respect to their residence—is that the idea?

The CHAIRMAN. By States.

Mr. BACIGALUPI. Segregated by States.

The CHAIRMAN. And we should like to know how much is held in New York City and how much in California.

Mr. BACIGALUPI. We can get that and will be glad to furnish it.

The CHAIRMAN. This acquisition by your group of the eastern part of your banking operations—that was done entirely in the Bancitaly Corporation, was it not?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. And Bancitaly was then your holding company for your California interests?

Mr. BACIGALUPI. It was not a holding company of our California interests. The stockholdings of the Bancitaly Corporation were not identical with those of the Bank of Italy.

The CHAIRMAN. The Bancitaly Corporation was not, in the strict sense that the Bank of America is, a holding company?

Mr. BACIGALUPI. No, sir; a holding and operating company.

The CHAIRMAN. Bit it did not have the same stockholding interests?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. Now, there is a unification in the general stockholding interests, through Transamerica so that every stockholder has an interest in all of your companies—the affiliated interests?

Mr. BACIGALUPI. To the extent that Transamerica has.

The CHAIRMAN. In the taking over of these banks, one of the reasons, of course, is concentration of management and elimination of waste, effort and expenses. What has been your experience in that connection? Have you considerably reduced your operating expenses?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. Through the introduction of your own centralized management of these institutions?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. To what extent would you say that is possible in your practice?

Mr. BACIGALUPI. I have never worked it out or had it worked out. I venture to say we have cut down 25 or 30 per cent.

The CHAIRMAN. How do you effect that?

Mr. BACIGALUPI. We effect it by concentration of activities, by standardization in forms, cutting down on advertising, that is, working under more favorable advertising contracts than prevailed in the case of the individual operators when they were operating as individual units. There is also a saving in operating with our general capitalization, which is generally stronger or bigger than is necessary, we can accommodate and handle very many more deposits. We can, through our widespread organization, avail ourselves of a number of opportunities of getting a profit that could not be availed of by scattered units and then our savings on the purchase of supplies, alone, for the system is tremendous; in fact, we are cutting down on that to a great extent even now.

The CHAIRMAN. I understand in your official family, there is no duplication of salaries?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. One man in your organization draws but one salary from one of the institutions—one of your affiliations?

Mr. BACIGALUPI. That is true, with the possible exception of myself. Within the last few months I was placed on a retainer from the Bank of Italy and one from the Transamerica Corporation.

The CHAIRMAN. And as attorney for the bank?

Mr. BACIGALUPI. In my capacity as chairman of the advisory committee; in other words, the Bank of Italy is run by its regular organization. Under the by-laws of the Bank of Italy, however, there is set up an advisory committee. The function of the advisory committee is to see to it that the established policies of the institution are adhered to and being made up of men who have gone through the ranks, holds itself available for consultation and advice in any matter of importance that may arise.

The CHAIRMAN. Now, as to the board of directors and the officers of the Transamerica Corporation, do they draw salaries from the Transamerica Corporation, or do they draw their salaries, remuneration, from their respective institutions?

Mr. BACIGALUPI. Generally from their respective institutions.

The CHAIRMAN. And all are identified with one or another of your affiliates?

Mr. BACIGALUPI. Yes, that is substantially correct.

The CHAIRMAN. Is this particular board and staff of officers actively engaged in the direction of your affiliated companies?

Mr. BACIGALUPI. The board of directors of Transamerica?

The CHAIRMAN. Yes.

Mr. BACIGALUPI. It has nothing to do with them.

The CHAIRMAN. Simply acts in the capacity of a holding company?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. Whose activities are of a modest nature?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. Now, after the advisory board, which is the next step down from the board of the Transamerica?

Mr. BACIGALUPI. Well, as outlined——

The CHAIRMAN. Is that the advisory board?

Mr. BACIGALUPI. No; the advisory board—there is an advisory board connected with each of the branches of the Bank of Italy situated outside of San Francisco that serves in the same capacity as the old board of directors. With reference to the business of that particular branch.

The CHAIRMAN. But those are all tied in one advisory committee, are they not?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. They are not?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. So that the members of the advisory committee draw their salaries from the affiliates in which they are directly connected?

Mr. BACIGALUPI. They draw no salary, but receive a fee for attendance at the meetings of the advisory board, as they did when they were directors of the unit bank, when it was so operated.

The CHAIRMAN. There is no general advisory board?

Mr. BACIGALUPI. There is an advisory committee of the bank, made up of——

The CHAIRMAN. What do you mean by "the bank"?

Mr. BACIGALUPI. The Bank of Italy.

Mr. FENN. Is there a general advisory board over all? Is there a general advisory board over the Bank of Italy, the Transamerica Corporation, and all the subsidiaries, that gives advice to all the subsidiaries?

Mr. BACIGALUPI. No. There is an advisory committee of the Transamerica Corporation, which is made up of Mr. Giannini, chairman; Mr. P. C. Hale, vice chairman; and myself, vice chairman. We act in an advisory capacity to the management of the Transamerica Corporation. Then there is an advisory committee of the Bank of Italy, made up of Mr. P. C. Hale, Mr. L. M. Giannini, Mr. Giannini's son, and myself as chairman.

The CHAIRMAN. Of course, you have a number of affiliated companies here. There has come into this discussion the question of whether or not the supervising authorities should not have the right to examine the financial affairs of all the affiliated companies—for instance, the Comptroller of the Currency to examine the national banks, and the State examining board to examine the State banks.

What is your opinion in regard to that?

Mr. BACIGALUPI. I believe that the Comptroller of the Currency, wherever it is a national bank, or the State superintendent of banking,

wherever it is a State bank, under existing law has the right to trace through any transaction that he finds in the banks that leads either to an individual or to a corporation, and that he has the right, if he finds anything that looks out of order or on which he desires further information, to pursue that matter into the holding company if he chooses.

As to whether he should be vested with the right to go in and investigate the affairs of a holding company that have no direct bearing upon any transaction that he finds in his examination of the bank, I seriously doubt the wisdom or the justice of it.

The CHAIRMAN. Where there is a common stockholding ownership, would that same view prevail?

Mr. BACIGALUPI. Yes, sir. I do not see that that would make any more difference than if it were an individual who owned all the stock of an institution. It would not necessarily vest the supervisor with the authority to go in and investigate the private affairs of an individual owner if, in his examination of the bank, he did not run across any item that indicated any abuse or any transaction that was out of order or that needed explanation.

The CHAIRMAN. Then it is your thought that in cases like that, the supervising authorities now have sufficient authority——

Mr. BACIGALUPI. I think they do.

The CHAIRMAN (continuing). To go into the examination of affiliated companies where those transactions indicate that the affiliated company is participating with the bank——

Mr. BACIGALUPI. In fact, Mr. Chairman, I will say that in actual practice, whenever the Comptroller of the Currency, the Federal Reserve Board, the Federal reserve bank, or a State superintendent of banks has desired to trace through any item, or has demanded any explanation or any statement with reference to a particular transaction that he found in the bank, he has always been given the information and has been given access to the books and the records of the corporation with reference to that particular item.

The CHAIRMAN. With reference to the present method of examination by the comptroller's office—for instance, of a group like yours—you probably have observed that a plan has been worked out, not of simultaneous operation but of asking your branches to report on a certain date, under oath, I believe, the condition of your bank, so that the examining force spends a great deal of time in the head offices of groups like yours.

Do you feel that that is a proper examination of these banks? Have you any suggestion to make as to any improvement?

Mr. BACIGALUPI. Our experience is, and I am glad to say it, that our bank has never received a more thorough or a more satisfactory examination that it has received at the hands of the Comptroller of the Currency pursuant to the method now in force. The examinations we have found most comprehensive and thorough, and satisfactory in every respect.

The CHAIRMAN. Do the Federal reserve people examine your banks separately?

Mr. BACIGALUPI. They have not since we have become a national bank. Prior to our nationalization, we used to be examined jointly by the State superintendent's office and by the Federal reserve bank.

The CHAIRMAN. Some of your banks, of course, are not members of the Federal reserve system and they are under the supervision of the State banking department, are they not?

Mr. BACIGALUPI. Yes, sir; the State superintendent of banks.

Mr. WINGO. I understand that you put a list of the directors of your institutions in the record yesterday?

Mr. BACIGALUPI. Yes, sir.

Mr. WINGO. Does that list cover the Transamerica Corporation?

Mr. BACIGALUPI. Yes, sir. It covers the Transamerica and all of the important subsidiareis.

Mr. WINGO. Does that undertake to show the business connections in the industrial world of these directors?

To show you what I have in mind, when Mr. Decker and Mr. Wakefield, representing group banks, were here, they furnished lists which would show for example, that a certain director was president or vice president of a certain railroad, and another director of their banking corporation was president of a power company.

The point I am getting at is this, that I would like to have the record show the connection of these men who are directors in the Transamerica Corporation and its subsidiary corporations with the business world, such as railroad, power, wholesale, manufacturing, motor interests, and such as that.

Mr. BACIGALUPI. I do not think, Mr. Wingo, that the list as prepared would in all instances show that, but if it is the desire of this committee that it should, we shall undertake to do it.

Mr. WINGO. That would aid, because you will catch the drift of some of the questions of the chairman this morning. We want to see what tie-up there is between some of these banks and the business world. For instance, indicate whether a certain director is president of a railroad company, or of a power company. Edsel Ford, just to give an illustration, was shown to be a director in one of these groups, and we would like to have such illustrations as that.

Mr. BACIGALUPI. I understand. I think the exhibits with reference to the directors of the banks are printed, and I believe that one, of the Bank of America of New York, does set them up with a description of their principal outside connection; and if it is found that that is not the case with respect to the others, we shall undertake to do that.

Mr. WINGO. We would not care for all their business connections, but just the principal ones. For instance, Edsel Ford might be a director in half a dozen corporations, but his principal business connection is with the Ford Motor Co., and, in the case of the president of a power company, that might also be the case. You catch the point?

Mr. BACIGALUPI. Yes.

Mr. WINGO. When you took over a unit bank in California and turned it into a branch of your Bank of Italy, what changes, if any, in the interest rate took place in that particular community?

Mr. BACIGALUPI. Our uniform practice has been to adopt a maximum rate of 7 per cent. For instance, when we entered the San Joaquin Valley, where we found on entry that the prevailing rate of interest on loans was 8, 9, and in some instances 10 per cent, we immediately brought every one of the loans then in the pouch down to a maximum of 7 per cent, and enunciated a rule that interest on such loans should thereafter be at the rate of 7 per cent.

Mr. WINGO. That is on the loans made. Do you have a varying rate at the same time on different loans in these branches?

Mr. BACIGALUPI. Our rates vary all the way from, generally speaking, 6 to 7 per cent.

Mr. WINGO. That is at the same time?

Mr. BACIGALUPI. Yes.

Mr. WINGO. The same date. You might make a loan to-day to one customer at 6 per cent and on the same day make another loan at 6 per cent—is that true?

Mr. BACIGALUPI. Yes, sir. The general rule is 7 per cent. There are exceptions made at 6 per cent, and those exceptions are predicated upon the volume of patronage or the volume of business that we get from the particular individual.

Mr. WINGO. The customary exceptions, that are made in large banks?

Mr. BACIGALUPI. In the ordinary course of business.

Mr. WINGO. Let us take the situation with reference to the seasons, that is, a variation in rate at the particular time. Is there a fluctuation of rates in these smaller towns?

Mr. BACIGALUPI. No, sir.

Mr. WINGO. The same throughout the year?

Mr. BACIGALUPI. Yes.

Mr. WINGO. On deposits, what has been the effect when you took over a unit bank, on the rate of interest paid on their balances?

Mr. BACIGALUPI. Our prevailing rate on savings deposits is 4 per cent. In Los Angeles, for instance, where we have very keen competition, where they have several kinds of such accounts, we naturally seek to meet the competition there; but 4 per cent, generally speaking, is the prevailing rate on savings accounts.

Mr. WINGO. The point I was getting at is the effect on interest rates in these smaller communities where your branches supplanted the unit banks. Does it have any appreciable effect one way or the other, within your knowledge?

Mr. BACIGALUPI. No. My experience is that the prevailing rate paid to depositors has been generally maintained.

Mr. SEIBERLING. May I ask a question there?

Mr. WINGO. Yes.

Mr. SEIBERLING. I suppose you have the very best of accountants?

Mr. BACIGALUPI. I think so. We have a couple of them with us right here, so that I would not dare to say anything to the contrary.

Mr. SEIBERLING. And they get up comparative operating statements?

Mr. BACIGALUPI. Yes, sir.

Mr. SEIBERLING. Do those comparative statements show the operations of the banks prior to acquisition by you, as well as subsequently?

Mr. BACIGALUPI. No; I do not think we tabulate that.

Mr. SEIBERLING. You do not go back into your old operations?

Mr. BACIGALUPI. No.

Mr. SEIBERLING. Well, has the interest rate on deposits, as shown by your operating statements, showed a decrease or an increase?

Mr. BACIGALUPI. I think they would show about the same; in other words, no material variation one way or the other.

Mr. SEIBERLING. How about your interest rate on loans? What would they show as to that?

Mr. BACIGALUPI. They would show less in many instances, particularly when we started. Of course, after we were in business for a considerable time, other banks who were charging more than 7 per cent had to meet our rate.

Mr. SEIBERLING. That is all.

Mr. WINGO. Under the law of California, when you are operating a branch banking system under the State law, and before you converted into a national bank, whenever you established a branch you had to increase your capital stock, your minimum amount representing that particular branch, did you not?

Mr. BACIGALUPI. Not necessarily.

Mr. WINGO. Does not the law of California require it?

Mr. BACIGALUPI. No. The law of California requires that your general capital shall be so much for a bank operating in a city of a certain size, and that it shall be so much more for every additional branch taken on. If your capital at the time you absorb 1, 2, or 10 units is more than that general requirement, there is no necessity for increasing your capital. For instance, to-day if we were operating as a State bank, we could take on about $800,000,000 more in deposits without increasing our capital.

Mr. WINGO. I read some time ago a complaint of the State Bank Commissioner of California and it was stated that there were no such restrictions in the national bank act as there were in the State banking law of California, and that the tendency was to put a premium upon having national charters.

Did you read that statement?

Mr. BACIGALUPI. I did not pay any attention to that.

Mr. WINGO. Since you have become a national bank, you can create as many branches as you please without a requirement as to additional capital to represent those particular branches?

Mr. BACIGALUPI. Yes; I think that is so.

Mr. WINGO. The point I am getting at is this, that I understand that the State law of California does have a statute governing the matter of minimum capital for additional branches, and where the bank already has utilized its capital base, if it wants to increase its operations in the way of establishing additional branches, it has to enlarge its capital structure, and the minimum, I think, is not less than $25,000 for each branch in California. On the other hand, under the national banking act there is no such provision, but if the comptroller approves of the establishment of that branch he may, as a condition precedent, if he so desires, say that you shall have so much additional capital. Do you know of any instance in which that was done?

Mr. BACIGALUPI. No, I do not.

Mr. WINGO. At the time you had this hearing before the Federal Reserve Board in Washington, either in 1923 or 1924, to which you have referred, Judge Elliott represented you as attorney at that time, did he not?

Mr. BACIGALUPI. Yes, sir.

Mr. WINGO. And he was the same attorney that was formerly attorney for the Federal Reserve Board, and I believe he is dead now?

Mr. BACIGALUPI. I did not know he was.

Mr. WINGO. Mr. McAdoo, late Secretary of the Treasury, was attorney for your bank at the same time, was he not?

Mr. BACIGALUPI. Not at that particular time.

Mr. WINGO. I thought he was your general counsel?

Mr. BACIGALUPI. Not at that particular time; he was then no longer acting in that capacity. On the occasion of this hearing at Washington, I appeared personally.

Mr. WINGO. Now, just a few questions about the McFadden proposal in this late bill that he has introduced. I do not understand it, and I do not understand his explanation. I say that with all kindness to the chairman.

As I understand that bill, if it were enacted into law and I were to buy, after the passage of that act, 15 per cent of a State bank in Arkansas that belonged to the Federal reserve system, if I already owned more than 10 per cent of the stock of another member bank I could be fined $10,000 in a Federal court.

Mr. BACIGALUPI. Yes, sir.

Mr. WINGO. Even though the State law of Arkansas, governing that corporation, had no such penalty?

Mr. BACIGALUPI. Yes, sir; as I understand it.

Mr. WINGO. As a lawyer, do you believe that that would stand up?

Mr. BACIGALUPI. I do not know. I doubt it.

Mr. WINGO. Suppose that it did stand up, and Mr. McFadden seems to want this formation of the group banking business to be in the hands of "strong men." I believe is his expression. Suppose that some "strong man" did want to violate that law and get control of a string of large banks involving millions of dollars, say like Mr. Decker's group. He could do so if he suffered a maximum penalty of $10,000 for the privilege of getting that monopolistic control.

Mr. BACIGALUPI. If that is the only penalty provided.

Mr. WINGO. Yes; if that is the only penalty provided, but the other penalties now written in the statutes seem, under the present administration, to have subsided into a state of innocuous desuetude, and so I presume that this is an attempt to revive the statute against monopolies. That is what I thought when the chairman introduced the bill, but he says now that it is to guarantee strength against weakness, but I suggest that no one need be alarmed, for it will not be enacted into law at this session of Congress.

Now, at the time that you were talking about that struggle that you had with two other group bankers that were trying to engage in the branch banking business in competition with you, that were trying to profit by the experience of the Bank of Italy as a pioneer in the branch banking field, I do not think it will hurt anything to refer to the fact that one of those companies was the Pacific——

Mr. BACIGALUPI. Pacific Southwest Bank and Trust Co.

Mr. WINGO. And the other group was called the Security, I think.

Mr. BACIGALUPI. They are now consolidated.

Mr. WINGO. They are now consolidated, but you had more trouble with the Pacific at that time than you had with the Security, did you not?

Mr. BACIGALUPI. Yes, sir. Mr. Stern, who became the executive vice president of the Pacific, had for 18 months, between 1918 and 1920, been the superintendent of banks of California. During his entire tenure of office, we were absolutely denied, by the use, as he

boasted, of his "strong arm," a single permit. He justified himself on the ground that branch banking was obnoxious, was everything un-American and evertyhing wrong, and he could not, as the savior of the State of California, grant us any permission whatever, and then immediately upon his retirement from office he became executive vice president and hired our chief assistant accountant and one of our vice presidents, and proceeded to duplicate the system of the Bank of Italy in southern California.

The CHAIRMAN. The executive vice president of what?

Mr. BACIGALUPI. Of the Pacific Southwest Bank & Trust Co. of Los Angeles.

Mr. WINGO. Your answer to my question was a more complete response than I had hoped for, and it saves my asking some follow-up questions.

What is the name of the man who is the head now of the merged institution?

Mr. BACIGALUPI. Mr. Sartori.

Mr. WINGO. That friction has for the most part been removed, has it?

Mr. BACIGALUPI. Yes, sir.

Mr. WINGO. And there is peace now in the branch banking field in California?

Mr. BACIGALUPI. Peace ever since we have nationalized.

Mr. WINGO. Maybe this "savior" that was so alarmed at branch banking has seen the error of his ways since he has gotten into the game.

Mr. BACIGALUPI. I think he is no longer connected with the Pacific.

Mr. WINGO. And possibly we have been relieved of his connection.

Mr. BACIGALUPI. I am referring to Mr. Stern.

Mr. WINGO. Of course, not to Mr. Sartori. I had Stern in mind, too.

That is all.

The CHAIRMAN. In the discussion that has been taking place here, reference has been made to the control of these groups. Is there in force in your particular organization any plan for the perpetuation and control of management?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. Is there a control vested in the stock in any manner?

Mr. BACIGALUPI. No, sir; no pool, no agreement of any kind. It is up to the stockholders of the Transamerica to clean out if not satisfied.

The CHAIRMAN. And, so long as successful management prevails, the present management will probably continue?

Mr. BACIGALUPI. We hope so. That has been Mr. Giannini's consistent policy from the very beginning. There never have been any pooling arrangements of any kind, and the stock has been scattered and the control at no time has been vested in any limited group.

The CHAIRMAN. Do you maintain a market through any one of your affiliated companies on your stock?

Mr. BACIGALUPI. What do you mean by that?

The CHAIRMAN. Do you support the market on your stock, by purchase or sale?

Mr. BACIGALUPI. Generally speaking, I would say no.

The CHAIRMAN. It was quite necessary in the earlier days of your organization, was it not?

Mr. BACIGALUPI. Mr. Giannini personally took an interest in doing what he could to regulate it indirectly through watching the thing, but beyond that he was powerless to go.

The CHAIRMAN. There was included in the record of these hearings reference to a case where an affiliated holding company whose stock was owned 100 per cent by the stockholders of a national bank owned 77 per cent of the stock of its bank, whereas the national bank law prohibits the ownership by a bank of its own stock.

In that connection, do any of your affiliated companies hold stocks of the Transamerica Co. for investment?

Mr. BACIGALUPI. I think one of the subsidiaries owns some shares of Transamerica.

The CHAIRMAN. Which subsidiary?

Mr. BACIGALUPI. I think it is the Bankitaly Co. of America.

The CHAIRMAN. Is that for the purpose of maintaining stabilization in the market price of that particular issue?

Mr. BACIGALUPI. No.

The CHAIRMAN. It is just held for a specific purpose, as a matter of investment?

Mr. BACIGALUPI. Yes; to have it on hand in event of any prospective consolidation.

The CHAIRMAN. Do you loan on your own stocks to any of your affiliated companies?

Mr. BACIGALUPI. No.

The CHAIRMAN. Do your banks loan to borrowers, with Transamerica stock as collateral?

Mr. BACIGALUPI. Not on Transamerica alone, as a rule. There have been certain instances where there has been some Transamerica added to other assets in order to make the loan better, and there may be some loans on Transamerica alone, but wholly within the law.

The CHAIRMAN. Do any of your banks loan on the stock of any of your affiliated companies exclusively?

Mr. BACIGALUPI. No, sir. There is a general rule against the doing of that where the borrower has no independent financial responsibility.

The CHAIRMAN. But they do permit the stocks to be pledged along with other securities?

Mr. BACIGALUPI. Once in a while when it is deemed necessary to make a loan better, we make them put up whatever Transamerica stock they have, but no loans are ever made to assist anyone in the purchase of Transamerica stock.

The CHAIRMAN. You spoke yesterday of certain pools that were operating in Bank of Italy stock.

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. A couple of years ago?

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. Were any of your affiliated companies members of any of those pools?

Mr. BACIGALUPI. I should say not; no, sir.

The CHAIRMAN. And none of the officers or directors of your bank engaged in any pooling arrangement in connection with those stock operations?

Mr. BACIGALUPI. No, sir; and, furthermore, we refused to accept even an escrow that involved the purchase of our stock on margin.

The CHAIRMAN. Do your banks made it a practice to loan to your officers and directors?

Mr. BACIGALUPI. No sir; long before there was any law against it for State banks.

The CHAIRMAN. So that none of your officers and directors borrow from the banks with which they are connected?

Mr. BACIGALUPI. Whether there has been an exception made since the bank has become a national bank, I am not familiar, but prior to that time there never was.

The CHAIRMAN. But, as far as your State banks are concerned, none of them loan to your officers and directors?

Mr. BACIGALUPI. No, sir.

The CHAIRMAN. Nor to any of their companies in which they are interested?

Mr. BACIGALUPI. No.

The CHAIRMAN. Are there any other questions?

Mr. WINGO. Just one other question on this proposed bill of Mr. McFadden's.

This has been suggested, that we enacted that into law, and assuming that the courts should hold that you could not thus control the purchase or sale of stock in State corporations by an individual, then there would be two things that would appeal to those who would feel that there was nothing inherently wrong in the act that is being penalized. We frequently run up against business men who sincerely and honestly believe that certain restrictive and regulatory statutes are unwise and vicious, and such a man would feel that he had two courses, one to adopt one of several obvious expedients to get around it, and the other would be to say, if it were a national bank, that they will convert into a State bank and will not put it in the Federal reserve system or, if it is a State bank and in the Federal reserve system, they will withdraw it from the Federal reserve system and then they get out from under this proposed $10,000 fine. That is, assuming that a gentleman wanted to buy more than 10 per cent for the obvious purpose of control and you want to prevent that so-called monopolistic control, then it would be the tendency to take the banking business of the country out of the national system or out of the Federal reserve system, when the expressed desire of most people is to bring them in and find ways and means of getting them into the Federal reserve system.

That is one of the chief fears that have been expressed to me with reference to Mr. McFadden's bill. However commendable may be his purpose for checking monopoly, which is always very objectionable here, it is feared by some that it will have the opposite effect.

Has that occurred to you?

Mr. BACIGALUPI. It had not occurred to me specifically, but I follow you.

Mr. WINGO. Is there some possibility of that being the result, in your judgment?

Mr. BACIGALUPI. Since you mentioned it, I think so; I think that it is very likely that that would be the result. As I understand the bill, it penalizes the member State bank or the national bank, does it not?

The CHAIRMAN. It applies to member State banks of the Federal reserve system and to national banks exclusively. It could not reach, of course, nonmember State banks.

Mr. BACIGALUPI. It would not reach the individual who did the purchasing, would it?

Mr. WINGO. Yes; it would.

Mr. BACIGALUPI. Would it?

Mr. WINGO. Yes. The language is that:

> After the approval of this act, it shall be unlawful for any corporation, copartnership, individual, or trustee to purchase or otherwise acquire—

even by inheritance—

> more than 10 per cent of the shares of stock in the capital stock of more than one member bank of the Federal reserve system.

and so forth.

Mr. BACIGALUPI. That is true, but if this member State bank withdraws from the Federal reserve system prior to the sale or the acquisition by the individual, or converts from a national to a State bank, then that individual is not buying 10 per cent of the stock of a member bank or of a national bank, is he?

Mr. WINGO. That is the very point I had in mind. It would have a tendency to drive national banks out of the national bank system and State banks out of the Federal reserve system. Then, if he did own more than 10 per cent in one, and he wanted to buy more than 10 per cent in another, and he came to you or to me as lawyers and said that he wanted to do that and that it would help the banking situation to do it but that he did not want to pay $10,000 penalty, we might say:

> Oh, well, take one of these banks out of the Federal reserve system and let the other one act as the sewer through which you will drain the benefits of the system into it.

That is what I am afraid of. I am afraid that, instead of bringing the banks under the control of the Federal reserve act, this legislation would have a tendency to drive them out.

I may be in error, but I just wanted to suggest that as a possibility.

Mr. SEIBERLING. I would like to ask one or two questions.

I am very much interested in the interest rate that we were discussing, and I am wondering if you would be willing to submit to this committee, but not to be printed in the record, the detailed operating accounts of your banks, together with the comments of the auditor submitted to your board of directors each year since your organization?

Mr. BACIGALUPI. I think we have in that consolidated report done that. It contains everything for the last three years. There is an Exhibit M, Mr. Congressman, which is an authentic copy of the bank's usual semiannual supplemental report of earnings, operating ratios, and so forth, prepared for the information of the bank's chief executives. Mr. Vincent, our cashier, tells me that that covers it.

Mr. VINCENT. For comparative purposes, there are three semi-annual periods.

Mr. SEIBERLING. From the first, since you organized the Bank of Italy?

Mr. BACIGALUPI. We nationalized in 1927, so that you would have it from the time we were a national bank, and that is already in the record.

Mr. SEIBERLING. That is all.

The CHAIRMAN. In view of the discussion which has taken place here in regard to my bill recently introduced, I would like to say this, that this bill was introduced at the time for the purpose of bringing to light particularly this situation that had come about because of the discussion of this particular phase of this subject before this committee, which has tended to point out to the public at large the opportunity for irresponsible people to acquire a group of banks and attempt to build up in this country an independent organization.

Now, of course, in the framing of this bill, which was done hurriedly, I did not cover every angle of the thing. I was trying to point out the possible danger of a development of that kind. In the present state of the national banking law and of any other statutes that may be applicable, this exploitation is permitted to continue, and, so far as I am personally concerned, I would like to see the situation protected in some manner. It may be that it is impossible to do it by legislation. Congress is shortly going to adjourn and, before Congress convenes again, if the pace that has been continuing for some time past goes on, when this committee or the Congress again takes up this subject in the fall it is going to find a very different situation to deal with than at present.

Now, whether it is wisdom on the part of the members of this committee and of the members of Congress to leave this thing wide open and go back to our homes and let these groups proceed uninterruptedly and change the whole trend of our banking situation or not is still yet to be determined. My own thought has been that the introduction of this bill would bring forth discussion which might result in some proper solution, if there was danger of that situation, and correct it.

I think that is about all I care to say about that particular subject at this time.

I think now, Mr. Bacigalupi, that we have finished with you, at least for the time being.

Mr. BACIGALUPI. Thank you.

The CHAIRMAN. And we appreciate greatly your appearance here and the frank way in which you have presented your case, and I extend to you the committee's thanks.

Mr. BACIGALUPI. I wish, in return, to thank you and the committee for your patience, and to reassure you that I have made every effort to be full and frank in everything I have presented to the committee.

The CHAIRMAN. The committee stands adjourned.

(Thereupon, at 1 o'clock p. m., the committee adjourned until Thursday morning, May 8, 1930, at 10.30 o'clock.)

BRANCH, CHAIN, AND GROUP BANKING

THURSDAY, MAY 8, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON CURRENCY AND BANKING,
Washington, D. C.

The committee met in the committee room, Capitol, at 10.42 o'clock a. m., Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order.

Mr. A. P. GIANNINI, the head of the development of what is now the Transamerica Corporation, originally the Bank of Italy, is present.

Mr. Giannini, your associate and technician, Mr. Bacigalupi, has presented to the committee the details of the development of your banking operations up to the present time very lucidly and very completely. However, we recognize you as the directing head of this development from which you have so recently retired as the active head, and at different times in the past, pertaining to the subject of the development of your banking operations, particularly with reference to the novelty of the plan and the development of chain banking and group banking in its various aspects as affecting the national banking situation and the Federal reserve system, your activities have frequently been brought to the attention of this committee, but this is the first time that we have had the pleasure of your presence.

We are very glad indeed to have you here, and because of the importance of your organizations there is much that you can give us relative to the study on which we are now engaged, on the subject of branch, chain, and group banking, a development which at this time is proceeding rapidly and which tends to indicate a possible change in the whole make-up of our financial system.

We want you to feel at ease and hope that you will give us the benefit of your observations as regards this particular development which is so important to our whole financial problem in the United States, if not throughout the world.

I hope you will be perfectly frank with the committee, and if there is anything you feel you would rather say to us off the record, we have permitted other witnesses who have appeared before the committee to make statements off the record, and if in the discussion that you are going to participate in here to-day you feel that there is something which should be said for the benefit of the committee behind closed doors, I will be glad to present that to the committee for action.

STATEMENT OF A. P. GIANNINI

Mr. GIANNINI. Thank you, Mr. Chairman.

There is not anything that I can add to what Mr. Bacigalupi has told you in so far as the Transamerica Corporation and the Bank of

Italy are concerned. If you want me to talk about my experience with them, all right; but in so far as the Transamerica Corporation, the Bank of Italy, and the Bank of America of New York are concerned, I do not want to be considered as representing them at this meeting, but as representing myself only.

The CHAIRMAN. I might say that if it is your wish to be permitted to make an uninterrupted statement as to which the members of the committee may want to ask you certain questions, you may do so if you desire, and I might add at the outset that there are one or two phases of this development of yours which will be of particular interest to the committee.

Mr. Bacigalupi referred quite briefly both in his prepared statement and in response to questioning yesterday to the difficulties which you encountered particularly with reference to the banking department of the State of California and the Federal reserve system here in your earlier days. Since then, however, many of those difficulties have been overcome, but you have largely extended your operations by the acquisition of your interests in New York and the concentration of your control in the Transamerica Corporation, where you have centered in a holding company practically the control of all of your various operations, which were so lucidly set out in the statement made by Mr. Bacigalupi.

We would like, I think, as a committee to have you explain any details of your plan in taking the New York interests into your operation, what effect that had on the Federal reserve system, and what your contacts and connections with that have resulted in.

I am just giving you that as a brief outline of what I think will be of particular interest to us at this time.

Mr. GIANNINI. As I said before, I do not want to be talking for the Transamerica Corporation, the Bank of Italy, or the Bank of America of New York.

I will say that in 1918 we entered New York through the purchase of the East River National Bank, so that the acquisition of the Bank of America in 1928 was not anything new in so far as the Transamerica Corporation was concerned and was merely for the purpose of facilitating and enlarging our existing operations there.

The CHAIRMAN. Would you care to make an introductory statement?

Mr. GIANNINI. I have not any statement to make. I am just here to answer questions. If you want to ask me as to my experience, as to what I may think of branch banking, all right; but so far as the corporations are concerned, I have retired, as you know, and I do not want to speak for them to-day or at any other time.

The CHAIRMAN. Mr. Bacigalupi referred yesterday to the scope of your original plan and the carrying out of that plan as being rather broad——

Mr. GIANNINI. Whatever he says I will back up.

The CHAIRMAN. He made the statement that you were prepared, if the law permitted it, to establish branches not only throughout the United States, but that you saw no reason why, in caring for the needs and requirements of your customers, you should not have branches throughout the world, not necessarily centered in New York, but wherever outside of New York you saw fit to continue.

Mr. GIANNINI. I might say this, Mr. Chairman, that if you want to compete successfully in this business, as is the case in any other business, you have to have a bank in New York. If you will look up the standing of the Bank of Italy you will find that it ranks sixth, seventh, eighth, or ninth in commercial bills and acceptances. We would have difficulty in getting that business unless we had a New York connection, and we never could have secured that business as a unit bank. In the Bank of Italy to-day, as you know, we have nearly 300 branches, and we would not have anywhere near the business that we have if it had not been that the Bank of Italy was big enough to handle it. We to-day rank near the top, along with the big New York banks, because of the manner in which we are doing business, and we are keeping that business on the coast and to that extent lessening the importance of New York.

The CHAIRMAN. I would like to ask you whether, in view of your retirement as the head of the Transamerica Corporation, this change of leadership, by the election of Mr. Walker, will mean that your head office will be in the city of New York?

Mr. GIANNINI. No, sir; the office of the president is in California. Mr. Walker is chairman of the board of directors, Mr. Monnet is vice chairman, and Mr. L. M. Giannini president of the Transamerica Corporation. Mr. Monnet is in charge of the European operations.

The CHAIRMAN. So that the directing head of the Transamerica Corporation is still in California?

Mr. GIANNINI. Yes, and Mr. Bacigalupi is a vice chairman of the Transamerica executive committee, and he has been in close touch with its affairs from the very beginning.

The CHAIRMAN. Mr. Fenn, have you any questions that you would like to ask?

Mr. FENN. Very few. Mr. Giannini, you and the Bank of Italy are pioneers, are you not, in branch banking in this country?

Mr. GIANNINI. I think in state-wide branch banking, yes; that is, the Bank of Italy is the pioneer.

Mr. FENN. And you have extended that system now to New York?

Mr. GIANNINI. Yes, in 1918.

Mr. FENN. And, of course, you would not be in it unless you were thoroughly satisfied that it is a proper banking system, and the only question I care to ask in relation to that is this: This system, I assume, has worked satisfactorily to your customers, to your depositors, to your stockholders, and to the public in the course of the years in which you have had charge of that great enterprise, and I want to ask whether, in your opinion, that system should be extended to parts of the country which do not at the present time admit that branch banking is a proper system of banking? In other words, would you endeavor to put it into certain parts of New England?

Mr. GIANNINI. I would make it nation-wide and world-wide. It is coming, gentlemen, and you can not stop it, and you are bucking up against a stone wall if you try. You can not buck natural economic forces. You can not keep village blacksmiths, stage drivers, and wagon makers in the game. The wholesale grocery house and the investment banking house have to make way for better methods.

Mr. FENN. You would impose, if you had the power to do it, your system on the State of Connecticut, which is a very rich State,

although small in area, and which has very strong banks and which has had very few failures of banks? The numerous failures which seem to have occurred throughout the country have not occurred, generally speaking, in Connecticut, and perhaps not in New England and the East.

Would you impose, if you could, your system on the State of Connecticut?

Mr. GIANNINI. Well, I do not know what you mean when you say "impose," but if Congress permits banks to have nation-wide branch banking, it is up to the banks to do it.

Mr. FENN. Do you think that it would be a good thing for Connecticut, using that small State as an illustration?

Mr. GIANNINI. I think it would be a good thing for Connecticut to have a branch banking system; yes.

Mr. FENN. Despite the opinion of the State of Connecticut that it would not be a good thing—and there are very experienced bankers in Connecticut.

Mr. GIANNINI. There are very good bankers in New England.

Mr. FENN. And strong banks.

Mr. GIANNINI. And strong banks.

Mr. FENN. And the percentage of failures has been very small.

Mr. GIANNINI. But New England would have been very much better off in the last few years if it had had nation-wide branch banking.

Mr. FENN. In what respect?

Mr. GIANNINI. Your textile business and leather business would have been better.

Mr. FENN. Very few things have been bad in New England. Our textiles have been bad, but that has been universal throughout the country.

Mr. GIANNINI. I am only expressing my opinion.

Mr. FENN. I want your opinion, and I am not arguing with you at all.

Mr. GIANNINI. I understand that.

Mr. FENN. Then you are thoroughly committed to the idea of the branch banking system as being the best for the country?

Mr. GIANNINI. No question about it; absolutely no question, especially in these days of rapid communication and rapid transportation, when your small towns are drying up and there is going to be less and less need for these small banks.

Mr. FENN. Why is it that in Connecticut in the last five years a great may small banks have been instituted and organized?

Mr. GIANNINI. Perhaps you have suburban towns in Connecticut that are growing, and in growing towns that is all right.

Mr. FENN. As a matter of fact, to-day there are very few suburban communities there.

Mr. GIANNINI. Are these towns that you spoke of growing towns?

Mr. FENN. They are growing as the Nation has been growing in population, but these towns that I speak of practically are adjacent to the city of Hartford, right within the limits.

Mr. GIANNINI. Do those banks give a complete banking service?

Mr. FENN. I know of two excellent banks there, one in the town in which I live and one in West Hartford, and each one is as strong as it can be within its limitations, and when the stock of those banks

is put out, the capital may be at $50 a share but it is put out at $125, or, if the capital is at $100 a share it is put out at $225. In other words, they start as strong banks.

Mr. GIANNINI. They are making money?

Mr. FENN. They are making money despite the large banks adjacent. I am wondering whether you think your system would be of advantage to a community such as the one of which I speak.

Mr. GIANNINI. I think so. You would give those communities immediately banks with metropolitan facilities; you would give them trust departments, securities departments, and so on, and they would be able to give a service that small banks can not give. I do not know how small these banks are—$20,000 or $25,000?

Mr. FENN. No; $150,000.

Mr. GIANNINI. But there are some $20,000 banks in the country with capital of less than $100,000.

Mr. FENN. I am speaking particularly of New England. I do not think that we have any banks with as small a capital as that.

Mr. GIANNINI. In this country to-day there are many banks with $5,000, $10,000, $15,000, or $20,000 in capital, and I can not see how a small bank, especially in a town that is not growing and that has facilities of communication with nearby and larger cities, can make any money in these days of high costs of operation. Your banks are paying just as much interest to-day as before the war and are getting no more interest on loans to-day than before the war.

Mr. FENN. Your premise, upon which you make that statement, is outside of New England, is it not? Are you familiar with conditions in New England?

Mr. GIANNINI. I am not at all familiar with New England; I admit that. I say this, that if you have nation-wide branch banking, you will get away from this Wall Street influence that we hear so much about. Let us say that we had nation-wide branch banking; you would have on the boards of directors of those institutions men in sympathy with agriculture, oil, livestock, and so forth, because naturally if those directors came from banks in the tenth and eleventh districts they would have representation on the New York boards and you would then have men in New York in sympathy with the rest of the country, and they would see that the rest of the country got what it deserved.

Mr. FENN. Have you looked into Mr. Pole's proposition as to trade areas?

Mr. GIANNINI. No, sir. There is only one way to do this business. If you are going to let the banks do branch banking, give them the same privilege that other businesses have.

Mr. FENN. Your reference to San Francisco and to the branch banks meeting the necessities of the coast in the way of banking was somewhat in line with Mr. Pole's proposition for trade areas. Other trade areas might be, for example, St. Louis, Chicago, and so forth.

Mr. GIANNINI. That might be a good beginning, but I see no reason why you folks should not start right in and permit banks to do what other businesses are doing. For example, the automobile business is on a nation-wide scale; the accessory business is on a nation-wide scale, and to-day a farmer goes to town to buy goods from Sears, Roebuck & Co. or Montgomery Ward & Co.; or he goes there to see a moving-picture show. All of these businesses are on a

nation-wide scale, and why in the world should not banking be on the same basis? If you do that, you can have experts at the heads of the various departments and give a better service to the public.

Mr. FENN. And the small communities will be taken care of by the branches?

Mr. GIANNINI. The small banks in the small communities to-day are drying up. A man goes to the larger town, driving in over the good roads we now have, to transact his business and do his marketing, and perhaps see a picture show, and he does his banking while he is there.

Mr. FENN. But up in New England they carry the moving pictures to the small towns.

Mr. GIANNINI. All right. But even your moving-picture business is on a nation-wide basis. In the old days a farmer or a merchant who had a bank was competing with another farmer or merchant running a bank; but to-day he is competing with experts, and the bank having the experts gets the good stuff and the other bank the poor stuff. Likewise, in the old days your power company, your gas company, and your street railroad company would want a franchise, and the bank had a hand in everything that happened; but to-day those perquisites are gone. The public-service corporations are now nation-wide. You can not do to-day what you did in those days, when banks were used more or less to feather some one's nest. In the old days a man with a family could live well on $250 a month. To-day I do not see how in the world you can make a decent living out of a small bank and pay salaries large enough to keep good men in those small banks, to meet the competition they have to face. How can you expect a farmer to run a bank successfully against the trend of the times? I can not see it.

Mr. FENN. Along the same line, do you think that the same doctrine would apply to insurance companies, life and fire?

Mr. GIANNINI. They are nation-wide; world-wide.

Mr. FENN. They are nation-wide.

Mr. GIANNINI. To-day you have farm troubles. I dare say that you would come nearer a solution of your farm troubles if you had 15 or 20 large banks that cooperated with the Government. For instance to-day the Farm Board is trying to do a lot of things that call for the cooperation of the banks. If you had large banks you might be able to go to these banks and say; "Cooperate with us; don't lend on land that is not fit to grow prunes, that is not fit to grow peaches, and so forth," or "Don't lend over so much on this, or that," and things of that kind, and you might be able in that way to kill over production.

Mr. FENN. Do you think it would be wise for the Government, or proper or useful, that there should be a control of these holding companies?

Mr. GIANNINI. I do not believe the holding companies are the best solution, but the holding company is a better proposition than the unit bank. There is only one way to do banking, and that is on a branch basis, with one capitalization, one charter, and one responsible organization. I do not know what you really mean when you talk about 'chain' banks.

Mr. FENN. Group or chain.

Mr. GIANNINI. They are supposed to be the same thing, are they not? Chain banks are not the same as chain stores.

Mr. FENN. Or chain hotels.

Mr. GIANNINI. Chain stores or chain newspapers are in reality branch organizations. The Hearst papers are probably owned by one corporation, and the chain stores, like Woolworth's, have one organization, one head, one board of directors. But when you talk about chain banking, you mean something of a different character. As a matter of fact, I do not think there is such a thing as chain banking. Group banking is probably what you have in mind; holding company banking. Chain banking—if you use the word "chain" to mean what it does in chain stores is nothing more nor less than branch banking. Chain stores are branch stores, such as the Atlantic & Pacific and Woolworth's, and Liggett's drug stores. You can not get away from the necessity for the same thing in the banking business. The automobile is here and with the congestion in the bigger cities, you have to have neighborhood banks you have neighborhood moving-picture houses, or neighborhood stores and so on down the line. Why in the world should we not have banks, and strong banks, where good banking service is needed?

To-day in California we have in the State something like 4,000,000 population. Yet because of our branch banking system we are able to do things out there that they are doing elsewhere only in cities of 5,000,000, 6,000,000, and 7,000,000. The city of San Francisco, had a $41,000,000 bond issue for its water system, and the Bank of Italy handled the whole thing. I think you will find that Mr. Rand, at Buffalo, can do the same thing. And let me say here that I think in what these large banking systems in cities such as San Francisco, Buffalo, and so on, can do, you have the answer to the question raised by those who fear that Wall Street is going to control all the money. Mr. Rand has probably $400,000,000 at his command, and why in the world should he want to go to Wall Street and put himself under one of these New York bankers? He is going to handle his own affairs and keep all the business he can in Buffalo.

Mr. FENN. Make their own trade area?

Mr. GIANNINI. Absolutely, and he is going to do things for the district that never could have been done before.

The CHAIRMAN. In that connection, Mr. Giannini, Mr. Rand was before us here and he explained the scope of his business.

Mr. GIANNINI. Mr. Decker, at Minnespolis, has an organization with $400,000,000 or $500,000,000, and I do not know why he should want to go to New York to float securities. He is a bigger man at the head of his own business than he would be as vice president of a bank in New York.

The CHAIRMAN. Practically all of the representatives of these groups that are being built up now have admitted their existence to be due to the legislative restrictions now existing. I think without exception that every man who has testified before this committee and who is engaged in group banking has told the committee that it was a makeshift and that he would prefer to do a branch banking business to a group banking business.

Mr. GIANNINI. Of course, it is a makeshift, but it is a mighty good thing that they did what they did, because as a result of it you have a healthier banking situation to-day.

The CHAIRMAN. In other words, you approve of the development of groups?

Mr. GIANNINI. Absolutely, and there is only one way to control it, and that is to give the Comptroller of the Currency the right to examine a holding company. If he says that it is all right then it ought to continue to buy banks until such time as you have branch banking. If you have a good strong holding company, it is much better than to have small, weak, banks in the hands of small, weak stockholders.

The CHAIRMAN. In other words, you would give the Comptroller access to holding companies?

Mr. GIANNINI. I would give him the right to examine them. That was the law in California before we became a national bank. Whenever the Bank of Italy was examined, the affiliates were examined, too, and I think that that is one of the things that should be done. But when you do that, perhaps you should say that the holding companies should have a capital investment no smaller than $2,000,000 or $3,000,000 and that for each new bank that they take on they must have additional capitalization, according to the deposits that they take over, in order to protect the public. By such regulation you are then giving the public better security than you do under the present unit system.

The CHAIRMAN. Mr. Lord testified before this committee to the effect that he did not think it was possible for a unit bank to exist successfully in towns of less than 10,000 population. Would you concur in that?

Mr. GIANNINI. Well, I do not know. I have not looked into that. I am not a very good man at figures, but I do know this, that branches might exist in towns of perhaps 2,000 or 3,000 population, or even less, because they will sell securities, do a trust business, and so on. I do not see how any bank with simply a good commercial and savings business can make a go of it in towns with less than 5,000 population.

The CHAIRMAN. In other words, your thought is that if we had nation-wide branch banking in this country, these small towns and hamlets scattered all over the country, which are now served in many instances by banks unsuccessfully operated and failing, could and would be served by branches?

Mr. GIANNINI. I should say in all growing towns, yes. As to towns that are drying up and that will eventually disappear, they might be served with the idea that when the time comes that the business is no longer profitable it would then be transferred to the nearest branch. They could in that way afford to keep offices in those small towns where the independent bank could not, because, if the branch did not turn out to be a profitable venture, the branch bank could move those deposits over into the next branch.

The CHAIRMAN. If branch banking on a nation-wide basis were permitted, do you visualize a development of them from one center, or would you see this development in groups throughout the country?

Mr. GIANNINI. In groups throughout the country. I am sure you would have large banks in several sections of the country.

The CHAIRMAN. Do you see any possibility there of a centralized control of various groups?

Mr. GIANNINI. I do not know; I do not think so. You have three or four enormous banks in New York, and they could not take in all

of the banks of the country. There are probably in Chicago 75 or 100 banks. I do not know how many a single one might take in, but I do not see how they could absorb everything.

The CHAIRMAN. You would think that certain classes of banking, even though branch banking were permitted on a nation-wide basis, would continue to exist?

Mr. GIANNINI. No doubt about it. First of all, we must get rid of the idea that there is going to be a money trust. There is not a money trust in Europe, and yet they have had branch banking there for years. You can get money cheaper in France to-day and it always was cheaper in England since the war than it is here. You have a tariff on farm products and other things, but you have no tariff against money. In the event money should get too high in this country it would come into the United States from all over the world. It is ridiculous to say that this country could have a money trust. You might have it through international arrangement, but never could you have a money trust otherwise.

Let us say that somebody has a good loan in Lincoln, Neb., and it would cost 8 per cent to get it from the bank there; Chicago or New York could make the loan for 5 per cent. A man does not have to do banking in a particular town in these days of good roads and good telephone service. There can not be any such thing as a money trust in these days in so far as controlling rates is concerned.

The CHAIRMAN. Do you see any possibility of that coming about through the Bank for International Settlements?

Mr. GIANNINI. I have not had a chance to study that; I would rather not go into it. I have certain ideas, but I do not think I would want to express them at this time because I have not gone into that question as thoroughly as I might. I am going over to Europe and will look into things a little bit, and if I get any information, I will impart it when I get back.

The CHAIRMAN. The Comptroller of the Currency has outlined, as you know, a plan proposing the extension of branch banking to trade areas. I infer from what you have said here that you would prefer to see it nation-wide rather than limited to trade areas. Do you see any difficulties confronting the establishment of nation-wide branch banking now?

Mr. GIANNINI. None at all. To be consistent, you certainly should permit banks in this country to have branches here, as well as to have them in Europe and China and Japan. This country is allowing branches of its national banks to be established in every part of the world except our own. Why should not New York banks have branches in New Jersey or Connecticut or anywhere around through there just as logically as in some foreign country?

The CHAIRMAN. That is all.

Mr. WINGO. As I gather, Mr. Giannini, you feel that the changed conditions in the United States by reason of improved means of communication and transportation have enlarged the field of activity of the bank just like it has of the store and every other business, and that that has increased the competition between communities as well, and that in the sharp clash of that competition the larger and the best equipped and more economically run unit is going to take the business?

Mr. GIANNINI. No question about that; absolutely no question.

Mr. WINGO. You have not discovered anyone who feels that there is any reason why a banker should maintain his capital in the banking business after it becomes unprofitable, any more than a man should keep it in the automobile or steel business or anything else? In the last analysis, if a bank in a town does not pay its stockholders, sooner or later they are going to liquidate, unless local pride or some local necessity causes the business men to maintain the institution that is unprofitable—is not that true?

Mr. GIANNINI. Lots of them would liquidate today if they could, but they have loans that they can not cash in on. That is why they stay in business. They have to wait until such time as they can get in shape to liquidate. That is the situation as it is, particularly in the farming sections.

But if you had branch banking, then these little town banks could become part of a big bank and turn over their paper and get cash for it, which they can not do now.

Mr. WINGO. I do not know whether you mentioned this, but a great many people who appeared here have referred to the failures in recent years of so many small banks in small towns. In my study of that question, I have learned to have a great deal of respect for the conclusion of one gentleman who appeared before the committee and who said that in many instances it was the towns that failed before the bank failed.

Mr. GIANNINI. That is true.

Mr. WINGO. In other words, that business had dried up, and it is the same as the situation where the business of the local merchant has gone to the larger store in a larger community. The system of highways we have today and the automobile have caused many a small merchant to go out of business, and that same cause is responsible for many of the local banks going out of business.

Now, something was said about the size of a town in which a bank could be profitably maintained. While as a general proposition it is true that there is some direct relation between the size of the community and the size of its banking activities, yet there are exceptions, and I suspect you will admit that there are small towns where their banking resources and their natural wealth are a great deal larger than in other communities having a larger population. That is true, is it not?

Mr. GIANNINI. Yes.

Mr. WINGO. For illustration, we will take a town that is located in a very rich farming community. In addition to being located in a rich farming community, there may not be many competing towns nearby, so that its trade territory is larger, and it may have larger banking resources and the banking business would be more profitable in that town than maybe in some other town of possibly eight or ten times the population, but which latter town has a larger number of other towns surrounding it, the people in which are maintaining their local merchants. Then, too, it may be that the farming business runs a great deal poorer in the territory surrounding the larger town, because it might be in a hilly country where farming is not so productive.

But it is your opinion, is it, that the main reason why the country bank is failing is because the business is leaving and going to the larger centers, and naturally the banking business has got to follow the other business?

Mr. GIANNINI. Yes, and because of poor methods.

Mr. WINGO. Poor management?

Mr. GIANNINI. First of all, this is what is happening in what you call the chain-store business or the branch-store business. In the old days, the corner grocer had both the cash and the credit customers, did he not? To-day what has he left but the credit customer? In order to make money, he has to charge that credit customer enough to offset his losses, but the chain store has only the cash customer, buys in larger quantities, and has a lower overhead. So I do not see how the corner grocer can compete against the chain store, for the corner grocer has left, as I said, only the credit customer. The same is true with respect to drug stores and shoe stores, for they can not compete with the merchant who gets the cash business. How can they buck against that? I do not see how they can do it, and in the same measure I do not see how the small unit banker can justify his position economically, as against branch banking. I believe branch banking should be extended on a nation-wide and world-wide basis, for if you do not have direct branch banking you are going to have it indirectly through holding companies.

Mr. WINGO. In other words, whether wise or unwise, you feel that the economic trend, the trend of business and of the industrial world, is toward this concentration into larger units, with the alleged resulting economy, more efficiency, and the contended ability to secure more capable executives? You feel that that is a natural trend that is bound to assert itself, and that that business structure will naturally be attracted to a credit structure which serves it and on which it may depend?

Mr. GIANNINI. No question about that; you are going to have in banking something along the line of the department store; you are going to have banks that can give in the financial field just what the department store gives in its line. That is bound to come.

Mr. WINGO. We understand that you have retired from the active management of the organization of which you are the builder, and one reason why we ask you questions is that we realize that you are a man that has succeeded in this business; you are the pioneer in branch banking and if anybody knows it, you ought to.

Based upon that experience and your observation, can you conceive of any practical reason why you should confine banking operations to the arbitrary political line of a State any more than you would confine the automobile business or the grocery business to those political lines?

Mr. GIANNINI. No. The more diversification you can have, the better. The trade area perhaps would be a good start to try it out—just a beginning—but it would seem to me that if you are going to do this thing, it would be better to do it right. You have laws on the books passed 50 years ago that do not meet the conditions of the times at all; that do not meet the new conditions, and I see no reason why, after you have studied this question thoroughly, you should not take whatever action is necessary to give banking the same privileges that other businesses have. So long as a bank has the required capital, I see no reason why it should not be permitted to expand.

Remember this, that a large bank, a bank with $100,000,000 capital, or $125,000,000 or $150,000,000 capital, with many branches, has many eyes, and long before its business goes bad the management will hear about it. You have clearing houses, the Federal reserve and national and State examiners likely to call a halt before its affairs become too tangled. On the other hand, there are no eyes at all on the small bank except the examiner, and (in a one-man institution, with no department heads) everything that man running the small bank does is under his hat.

With a large bank you have it departmentalized with many eyes and many people with their fingers on the pulse, so that really it is difficult to do the things that you can do when one man is the whole works, as used to be the caes before there were any large banks, in the old days.

Mr. WINGO. In other words you subscribe to the theory that some men in business and in banking hold, that in a branch banking system that is unlimited as to its territory, by the very nature of things within that organization there are certain self-protective interests that are self-corrective against abuses and that they are really more efficient than any regulatory or prohibitory statutes passed by legislative bodies?

Mr. GIANNINI. You are right. Let me point out to you one advantage that we have over some of the foreign branch banking systems. I remember years ago going up on the Soo Line to Medicine Hat, which was just opening up. There was a Canadian bank on the ground, with no local officers, no local directors, no local people connected with it. That same system has been in effect elsewhere. But in California we go out and purchase an established institution with local officers and a local board of directors who see to it when they come into the system that their section of the country gets a square deal and who are on the job to see when things go wrong. They are not men sent down there to run that bank, but the old president or vice president of the bank continuing on and with their money invested in the business, of which they have become a part.

In this case of Medicine Hat, they may have had no stockholders in that section at all, but when we went down, as an illustration, and took over an institution like the First National Bank of Fresno, a roll of honor bank, of which O. J. Woodward was president we could not tell Mr. Woodward to do things that he though were unsound. The same thing was true when we took over Mr. Foster's bank in Ventura and Mr. Teefy's bank in Stockton and in the various other cities where branches were established. Mr. Woodward and Mr. Teefy and Mr. Foster became a part of our institution when they saw how we did our business, they became so enthusiastic about it that they got other people in the neighborhood to become interested in our bank as stockholders.

Mr. WINGO. Based upon your experience, you know that one of the chief objections——

Mr. GIANNINI. May I interrupt?

Mr. WINGO. Yes.

Mr. GIANNINI. That reminds me that when we took over the First National Bank of Fresno, I think they were charging from 9 per cent to 12 per cent interest for loans, and we announced in the newspapers

that all loans that were then out at from 9 to 12 per cent would be reduced to 7 per cent, and we did reduce them to 7 per cent. We did that also in many other cases.

Mr. WINGO. That is one point that I was going to ask you about later, but I will take it up now.

Based upon your experience and actual practice in developing a branch banking system in California, what was the effect upon interest rates, first on interest rates on loans?

Mr. GIANNINI. A reduction nearly everywhere. A country banker—and there are a lot of good country bankers and some poor ones; I do not want anybody to get the idea that there are no good country bankers——

Mr. WINGO. This committee has found out that there are really more banks in the country than bankers, and you can proceed on that theory.

Mr. GIANNINI. As I started to say, a country banker has a hard time making a profit in his limited field. Expenses run up and the banks are put to it to show earnings. Naturally the tendency is to charge as high a rate as possible on loans—10, 11, and 12 per cent, and in some cases they even charged commissions. We are tickled to death to get good loans at 7 or 6 per cent, and in the big cities at 4½ or 5 per cent.

Mr. WINGO. This contention has been made, and I want to get your answer to it. You reduced the rate for either of two reasons; either you wanted to help the community by giving a lower rate, or you had surplus funds that you wanted to put out and by making a bargain rate you were able to do it. But the contention has been made that you did that for the purpose of stifling the competition of a unit bank left in that territory.

Mr. GIANNINI. No unit bank in California can accuse us of that; that is not so. It is our position, and has been from the first, that high-priced loans, or high rates of interest on loans, are not desirable, for you are putting the borrower out of business if you charge 10 or 12 per cent, which he can not stand. We contend always that a man who has to pay 10 or 12 per cent is usually a poor risk. The man that will fight hard to get cheaper interest rates is the one that we want to loan money to, and if he is willing to pay any old price, look out. It is these high-priced loans throughout the country in small banks that are causing trouble.

Take the big banks; the sounder bank in the community will take the 6 per cent loan, and the small bank that is not wise takes the 10 or 12 per cent loan because it has to do it to make a showing on the profit end—without considering the losses that will wipe out the difference in the interest rate.

Mr. WINGO. Is not this true, that some of these communities that you are operating in are possibly more highly developed than in some of the other States; that in some of these smaller communities in the agricultural States they have not yet developed their industrial possibilities and that a scarcity of capital and the high cost of doing business are both factors that determine the rate, independent of the risk itself? For illustration, there are some communities where they charge 10 per cent or 8 per cent without regard to the risk. In other words, if you went into the bank to get $500 and put up a $1,000 Government bond, they would charge you their current rate for all

loans, and in most of these smaller country towns in my district they have a fixed rate to all customers at all times of the year. They contend that they have a scarcity of capital in that community and that they can not exist except upon that rate.

Mr. GIANNINI. It is not sound banking when they do it because—and Mr. McFadden will bear me out—these men who borrow have varying accounts; you will have one man who will keep a good balance—he may have a savings account, and he may bring in his friends and employees to do business with your bank, thus increasing your business. He is naturally entitled to a better rate, and I can not see why any bank should indiscriminately charge 10 per cent to good and bad. You ought to discriminate just as you do in commercial paper or in commerical bills—prime commercial bills, so much, and the next grade so much. It should be the same as with notes, as with commercial paper.

Mr. WINGO. In connection with the other phase of interest, interest paid on deposits, particularly on checking accounts or on savings accounts, what effect was there upon that interest rate when you took over a town bak or a unit bank and in its place established a branch of your bank? What effect did that have upon the rate of interest that was paid on daily balances or on checking accounts?

Mr. GIANNINI. You seldom pay interest on daily balances, particularly on small accounts; in fact, we have not been doing that as they do in New York or elsewhere. But the savings account interest was continued; we continued to pay the same rate of interest. Some time after the big fire in 1907, we did pay less than 4 per cent on savings accounts, but it has been 4 per cent nearly all the way through, and while country banks paid three per cent or three and a half, we paid 4 per cent.

Mr. WINGO. Let us take another charge that has been made against your branch banking business, and I am using your bank out there as an illustration of branch banking; I am not referring to a personal charge made against you or your bank, but it is a charge that goes against all branch banking and it represents the fear of those who are opposed to branch banking, and that is that instead of increasing the available capital for a community, by substituting your branch for the unit bank it has a tendency to drain the capital out of the community. What is your answer to that?

Mr. GIANNINI. Mr. Bacigalupi made that clear to you yesterday. Did he not have figures on that?

Mr. WINGO. Possibly he did.

Mr. BACIGALUPI. There is one exhibit that covers that very fully, and I think it shows that in 100 branches out of the 292 that have total deposits of $279,000,000, we have loaned through those branches $277,000,000.

Mr. WINGO. Very well; I will not puruse the question.

Mr. GIANNINI. The head office carries the investment in bank buildings and in bonds, and remember that we have one of the largest holding of Liberty bonds in the United States. In California to-day the Bank of Italy is buying not only Liberty bonds perhaps to a greater extent than any other bank in the United States, but I dare say that we probably buy as many, if not more, Treasury certificates than any other bank in the United States. If you wish, you can check that through the Federal reserve, but I think you will find that by

reason of our branch-banking system, with 4,000,000 people out there in California, the Bank of Italy has probably bought more Treasury certificates and certificates of indebtedness than any other bank in the country.

Mr. WINGO. I was interested in that general proposition, so far as I am concerned.

Mr. GIANNINI. I just want to show you what the Bank of Italy has done in California. It has humanized banking, and has kept in close personal touch with the customer, encouraging small business.

I see that the National City Bank is doing the same thing now; they are making loans on security of $500 and so on. In all businesses they have learned the value of the individual of limited means, the clerk and so on, just as to-day they have learned to treat labor differently than formerly. Big business has changed. Things are not what they used to be, for the poor man of to-day becomes the rich man of to-morrow. The "little fellow" is the best customer that a bank can have, because he is with you; he starts in with you and stays to the end, whereas the big fellow is only with you so long as he can get something out of you; and when he can not, he is not for you any more. The "little fellow" will save $6,000 or $10,000 and then he will build a home, and then come back and save another $6,000 or $8,000 and buy another home.

You know that.

Mr. WINGO. There is another objection that has been urged against branch or group banking, and that is that if you drive the unit banker out of business with the branch banks, there will not be any more opportunity for advancement in the banking world for young men who want to engage in the banking business.

What is your answer to that?

Mr. GIANNINI. I do not know but that Mr. Bacigalupi can cover that better than I, but I will say this, that there are a lot of people in the Bank of Italy to-day who would have still, been small salaried bankers if it had not been for the Bank of Italy taking their bank into the system. The moment that was done they had the opportunity to grow up from a managership or assistant cashiership or teller in that branch to a teller or official in a bigger branch, and finally to the head office.

I can illustrate one case right here. Mr. Vincent, for instance, is our cashier now. We bought a bank in Stockton some 8 or 10 years ago, was it not?

Mr. VINCENT. 1917.

Mr. GIANNINI. What were you then? Bookkeeper?

Mr. VINCENT. Bookkeeper.

Mr. GIANNINI. And I think we brought you to the head office inspection department?

Mr. VINCENT. Yes.

Mr. GIANNINI. And so on down the line. To-day Mr. Vincent is the cashier, near the top, at the head office; then one of our officials in Los Angeles was formerly the manager of a small Livermore Bank, a $1,500,000 bank—Mr. McFadden knows him—and to-day he has passed the million dollar mark; he says that he wants to take things easy. That man was getting $18,000 and an interest in the profits at the time he retired.

Take the former $300 men, and we have many men like that. Mr. Mount, who is now president of the Bank of Italy, and Mr. Blauer, chairman of the general finance committee and the head of the credit department, and so down the line. In fact, we built up our organization mostly through the employees who came into the Bank of Italy in connection with these banks that we have taken over. The moment we take over an institution the bookkeeper, say, there, is aroused to new hopes for the future. We have promoted many of our executives from the branches, and they have developed. We have unquestionably one banking organization that can do nation-wide or world-wide branch banking, because of the fact that we have these men.

Mr. WINGO. In other words, you contend that branch banking opens a wider door because of the opportunities for advancement than is the case with the individual unit bank?

Mr. GIANNINI. Absolutely. To-day there is a dearth of good banking material, but you develop men in branch banking through your departments in a way that you can not develop them in a one-man bank. First of all, the president of a one-man bank, if he controls that institution, does not want anybody around him who amounts to much; he usually wants to run it with "yes" men; whereas in a bank such as ours or in any other big business you have to have men around you who can make their own decisions. If the head of a department wants to surround himself with "yes" men, the general executive committee, representing the stockholders, will see to it that the condition is changed. There are men in our various departments who will be able to take the place of the department head when he goes out. In all big businesses today they see to it that there are men in line to take the place of those above them. That situation can not obtain in the small institution, and in consequence the one-man business is rapidly disappearing.

Mr. WINGO. Some one has suggested that the great danger in the banking business is just like the great danger in the automobile business or the steel business, or in any other great business organization, that these large units are built up by pioneers like yourself, but that when you and men like you pass out we are going to have a dearth of material that will have the capacity to handle these large units, these large organizations, these large systems.

You do not think that is so?

Mr. GIANNINI. They will have better material because they will get it from our ranks, because those who are in the ranks will know that they have a chance and prepare for it, whereas in these small businesses they usually feel that they have to wait until the man ahead dies. In big business today, if a man is in the way, he goes out.

Take my own case: I think I still have a "punch" left in me to-day, but maybe four, five, or six years from now I will be just as some other people who are at the head of institutions; the boys will make believe that they are listening, but it will go in one ear and out of the other. That happens in many institutions, but I did not give them that chance. I retired to make way for others to advance.

Mr. WINGO. Mr. Chairman, that is all.

The CHAIRMAN. Mr. Strong.

Mr. STRONG. Mr. Giannini, I would like to ask you what objection you see to area-wide branch banking?

Mr. GIANNINI. Well, the wider the diversification, the better the thing is. I do not know how you divided your Federal reserve districts, but I certainly would not have branch banking confined solely to the textile business or leather or solely to the cotton or the grain or the wheat business. The wider the diversification, the better. So I say that nation-wide and world-wide branch banking is more desirable. That is the ideal way to do business. To start with, trade areas might be all right, but I can not see any advantages in that over nation-wide branch banking.

Mr. STRONG. It has been suggested that we should have branch banking limited to trade areas. While we have never been able to get a good definition of the term "trade area," except that it should be that area comprising large cities or commercial centers that attract business, it was suggested that perhaps we might have 37 trade areas in the United States.

Mr. GIANNINI. If you had 37 districts it would be too many. That would not be the right way to start off with branch banking. If you started off with 12 districts, or 15, or 6 or 7, it would be much better. I think half a dozen better than 37.

Mr. STRONG. Outside of limiting the opportunity to build a great institution like yours, what objection would you see to limiting branch banking?

Mr. GIANNINI. It might be all right to start out limiting the area. That would simply be a compromise; a halfway measure. We can see no reason why the condition that exists with respect to the tendency toward the elimination of the small unit bank, in the small town should not be recognized. Branch banking is coming ultimately, for things continue to a great extent to take care of themselves, automatically. Take to-day the lumber industry; that has been a great thing in this country, yet to-day the inroads made on the lumber industry through steel have been tremendous. Where they used to have wooden frames for concrete work in building you will find that they are now using steel and cement and things of that kind, and it is the same with the wholesale grocer—the middleman. I noticed yesterday that three wholesale dry goods houses merged—one at St. Louis, one in West Virginia, and one in San Francisco. They had to do it. Business is drying up. The Penney Co., the Butler Co., nation-wide stores, can buy goods cheaper than wholesale firms can in San Francisco. Tillman and Bendel and the Cluff Co. have retired from business. There are houses in New York that are in business to-day, but we know that they are not doing the business they used to do, and so on down the line.

Mr. STRONG. As I understand you, it is your thought that limiting branch banking to trade areas simply retards its scope, which prevents the building up of that great system of banking which you think is desirable and would be most successful?

Mr. GIANNINI. Exactly. You want to get into every community that is available. For instance, American bankers have gone into South America and have won their share of business. I think American business is in strong there, and the credit for getting in there, to the extent we have, is due to the American banks, which have pioneered down there in great shape. If it had not been for our banks

we could not have developed that business. If you want to help all sections of the country, you must give them big banks. In my opinion, the day of the $25,000 bank has passed. How many banks have we now with less than $50,000 capital—probably 20,000?

Mr. WINGO. Possibly 20,000 with capital less than $100,000.

Mr. GIANNINI. First of all you must remember in the olden days, the little banks had all of the prosperous little independent stores in these towns that were doing both a cash and credit business. But to-day the chain store is going in those towns and the chain store keeps its account in a distant city. Of course they still have their little stores, and those stores keep their little accounts in the local bank, but those stores really do not pay the bank because they are not making the money. They have only the credit business now. The cash business that it used to have has gone to the chain stores. In the olden days that little store had both cash and credit. Any store that does business only on a credit basis can not possibly compete with a store doing a cash-basis business.

Mr. STRONG. I think those who are advocating to the committee trade area branch banking do it upon the theory they can have a big bank in the commercial centers and branches all over the trade area and that would be sufficient.

Mr. GIANNINI. I think that is a good beginning, but in that trade area you would have to make changes from time to time, because conditions change. As I said awhile ago, the condition of the little bank is bad and it is going to be still worse.

Mr. STRONG. Is it not your opinion, if we start this trade area branch banking, we must come to nation-wide branch banking soon?

Mr. GIANNINI. I do not know about soon. My own opinion is that if the trade area branch banking should prove better—which I do not think it would—or meet the conditions, naturally you would not want to change.

Mr. STRONG. In your judgment it will extend to nation-wide branch banking?

Mr. GIANNINI. I do not know about that. It may work out very much better with trade area branch banking than I think, and you might not want to change.

You gentlemen, I think, know more about that than I do.

Mr. STRONG. You would not want this committee to limit branch banking to branches within the trade area and have San Francisco the trade area for your particular institution?

Mr. GIANNINI. Oh, we now have already branches in all of California. Limiting the area to San Francisco would not be the right idea. You would want to give us at least California, and you would want to give us probably the twelfth Federal reserve district.

Mr. STRONG. That would be satisfactory?

Mr. GIANNINI. As far as I am concerned, I think nation-wide branch banking is the ideal way of doing it, as well as for any other business.

Mr. STRONG. Now, as to the matter or examination: Is it not true, in the management of your bank, you depend largely upon your own examiners?

Mr. GIANNINI. You mean on credits?

Mr. STRONG. As to the condition of the bank.

Mr. GIANNINI. Well, I would not say largely, and then again perhaps I might say largely. We do have examiners come in there, but we have our own men, who we think are as good if not better than the examiners appointed by the examining authorities.

Mr. STRONG. Your men are probably more experienced and you pay higher salaries?

Mr. GIANNINI. Exactly. I dare say the Government has some good men who work for them, but I think it is with the idea of that job leading to a better job.

Mr. STRONG. When they come to examine such a large system of branch banks as yours, do they not have to depend largely on your examiners?

Mr. GIANNINI. No, sir; because every loan above $500 is scheduled at the head office. They could come into our head office to-morrow and check up every loan above $500 throughout our system, without sending a single man to the branches. But they always do send men to the branches to check each of them.

Mr. STRONG. You have in the neighborhood of 500 banks and branches, we found out day before yesterday. Of course a Government bank examiner's office could not very well send a man to all of the branches at once; they would have to depend largely upon the condition they found in your main bank and as reported by your examiners.

Mr. GIANNINI. They do send a man to every one of the branches. Probably the country has 25,000 banks to-day and they send those examiners to those 25,000 banks and it is much more difficult to handle them than if they were all parts of one big branch banking system.

Mr. STRONG. But when they go into half a dozen of those banks, they can go in on any one day and examine them. They could not do that with your banks.

Mr. GIANNINI. Well, if they were separate and independent banks, things could be done—switching of money could be done. They could not do that in a branch banking institution, but it can be done in separate institutions.

Mr. STRONG. In group banking it could be done?

Mr. GIANNINI. I am not going to say that.

Mr. STRONG. I know you are very generous.

Mr. GIANNINI. I am certain that it would not be done by the gentlemen who are in group banking to-day.

Mr. STRONG. I know that the men in the banking business to-day are all right.

Mr. GIANNINI. You are fortunate in having, in the group banking systems, good bankers. You have, in the First National, the Northwestern, the Marine Group and those others, the very best men in the business.

Mr. STRONG. I agree with you, but I am talking about examinations.

Mr. GIANNINI. It is simpler to examine branch banks than independent banks, who have no system, and often with no credit files and no statements.

Mr. STRONG. Why is it easier?

Mr. GIANNINI. Because the unit banks have no uniform system. When they come to us, we have everything laid out so the examiners

can see everything quickly. The examiner, in a country bank, often has to go there and show the country banker how to run it. Everything with us is right out where it can be seen. The examiners can read our records and take our layout, and can make a confirmation of everything by checking each and every item, if they so desire.

Mr. STRONG. You think a Government organization, having 30 or 40 examiners could check 500 branches very properly?

Mr. GIANNINI. They can check them at different times. They can go into the head office and have the complete picture and go to the branch later and find out whether the head office reflected the true condition.

Mr. STRONG. Of course you have your system organized, and all we can learn is that it is an unusually good and perfect one, but suppose you were charged with the examination of your system and only had 40 examiners, do you think you could send those 40 men out and, in the course of a few months, get an accurate examination?

Mr. GIANNINI. Outside of the several bigger offices, we could do it in a week. Remember, the Government is rich enough, and the branch banks would be rich enough, to give the comptroller a sufficient force of efficient examiners to do it. Also remember, that the banks are paying the bills for these examinations. The men who are employed in the work, however, are paid too little, I think. They ought to pay enough to compete with the men the banks have.

Mr. STRONG. You agree with the proposition that the Government ought to employ as good examiners as the banks do themselves, and charge that expense to the banks?

Mr. GIANNINI. Absolutely; that should be done. I say positively you have to have good examiners and if you do not pay them enough, the Government can not attract good help in that direction, except when a man takes a position with the Government with the view of getting a better job after he has gained experience.

The CHAIRMAN. In your advocacy of nation-wide branch banking, if developed, what effect in your judgment, would that have on the Federal reserve system?

Mr. GIANNINI. The effect would be this: You would bring in the banks that you now do not have in the system. They would all be part of the Federal reserve system. No big commercial bank would want to stay out of the Federal reserve system.

The CHAIRMAN. Do you think changes would be necessary in the Federal reserve system to meet that situation?

Mr. GIANNINI. No, sir. Something was called to my attention with respect to a question asked by come member of your committee. He asked: If a bank capitalized at $10,000,000 should take over a bank with $1,000,000 capital what difference would that make? Do your remember that question?

The CHAIRMAN. Yes.

Mr. GIANNINI. When you take over a bank with a million dollars, you are in the same position as before. If you are taking it over on a consolidation basis, you have $11,000,000 instead of $10,000,000 as before. There is another advantage to the Federal reserve which I think is unfair, and should be corrected. The moment the bank with $1,000,000 capital—to which I just referred—becomes a part of the metropolitan bank, for instance, we are required to put in 2 or

3 per cent more reserve than before. Take the case of the First National Bank in Fresno. When we took it over, the reserve was 7 per cent, but now we are required to keep 10 per cent. So, the Federal reserve is getting an additional 3 per cent of our money.

When the First National Bank of Fresno was independent, it was required to keep 7 per cent reserve, but after the Bank of Italy took it over, the Bank of Italy is required to keep 10 per cent. I say it is unfair. Of course I understand how it happened. You did not foresee branch banking coming along and that is the reason for that situation. However, it is a thing that should be corrected because it is not fair. Every time we take over a bank in a country town, if the reserve is around 4, 5, 6, or 7 per cent, we are required to raise it to 10 per cent. So, we are strengthening banking to that extent anyhow.

The CHAIRMAN. Of course the question of mobilization of reserves is largely an arbitrary matter anyway, and the distribution of the requirements between the central reserve city——

Mr. GIANNINI. Did you get what I just said, Mr. Strong?

Mr. STRONG. No.

Mr. GIANNINI. I said that when we took over the First National Bank of Fresno, that bank was required to keep 7 per cent reserve, but the moment it became a part of the Bank of Italy, we had to keep 10 per cent. Any time we take over a country bank that was required to keep 7 per cent or 5 per cent before, we have to raise it to 10. So, I say, we are strengthening the banking system to the extent of increasing the reserves, at any rate. I think that thing should be corrected. We ought not to be compelled to carry any more reserve than the banks are required to carry before we take them over.

Mr. BRAND. Mr. Chairman, will you yield to me?

The CHAIRMAN. Yes.

Mr. BRAND. Now, Mr. Giannini, my questions are going to be short.

Mr. GIANNINI. All right, Mr. Brand.

Mr. BRAND. And what I want from you is, if you please, answers to my questions as short as possible. It is now nearly 12 o'clock.

Mr. GIANNINI. I will not guarantee that, because nobody can tell what I will do.

Mr. BRAND. I am convinced of that already, though I do not say that offensively.

I want to know from you, in the first place, for the benefit of the committee, what evil, if any, exists in the present banking laws of this Nation?

Mr. GIANNINI. What evil?

Mr. BRAND. What evil exists, if any?

Mr. GIANNINI. That is one that I just spoke about—7 per cent reserve requirement increased to 10 per cent.

Mr. BRAND. Is there any other evil, in your judgment, in the present banking system?

Mr. GIANNINI. I think another evil is the small capitalization at which you allow banks to open. It seems to me no bank should have less than $100,000 capitalization. I think that five, ten, fifteen, twenty, and twenty-five thousand dollars is too little.

Mr. BRAND. What remedy do you suggest to this committee to correct these evils to which you have referred?

Mr. GIANNINI. Branch banking, nation-wide and world-wide.

Mr. BRAND. Nation-wide and world-wide?

Mr. GIANNINI. Yes, sir, to meet changed conditions.

Mr. BRAND. You said something about a money trust awhile ago, and that you did not think a money trust could be formed. I want to ask you if the character of branch banking which you stand for is set up all over the country and the group branch adherents also continue to take over banks throughout the country, don't you think this is calculated to create a monopoly of money and credit?

Mr. GIANNINI. No.

Mr. BRAND. That is the way I want my questions answered.

Mr. WINGO. That was short enough, too, was it not, judge?

Mr. BRAND. Yes. What is your objection to the present group banking system in your State?

Mr. GIANNINI. The only objection is I consider branch banking better than group banking, but group banking is better than the present unit bank. I have no objection to group banking. I think that is a step in the right direction, preparatory to the other.

Mr. BRAND. You think the independent unit bank ought to be destroyed?

Mr. GIANNINI. No. Now, lets get back to this question you asked about monopoly, just awhile ago.

Mr. BRAND. Briefly now.

Mr. GIANNINI. Do you not realize that if a bank is charging too much interest, there is nothing to prevent banking charters being issued in Chicago or New York, which will enable banks to spring right up and take care of the business, if the other banks charge too much?

Mr. BRAND. What rate of interest do you charge borrowers?

Mr. GIANNINI. Mr. Bacigalupi can answer that better than I, but probably all the way from 5 to 7 per cent.

Mr. BACIGALUPI. The average is 6½ per cent.

Mr. BRAND. What do you charge the farmers?

Mr. GIANNINI. I should say not more than 6 or 7 per cent—6 or 7 per cent generally.

Mr. BRAND. What do you pay on savings deposits?

Mr. GIANNINI. Four per cent.

Mr. BRAND. In all your banks?

Mr. GIANNINI. In Los Angeles they have what they call a special savings account against which you can draw checks. I think they pay 3 per cent on that, but on the real savings deposits it is 4 per cent—term savings.

Mr. BRAND. How many banks in your system out of the State of California have you in the United States?

Mr. GIANNINI. I do not know. Mr. Bacigalupi answered that probably yesterday. You mean outside of the United States?

Mr. BRAND. No; in States outside of California.

Mr. GIANNINI. The only bank we have outside of California is the Bank of America in New York.

Mr. BRAND. In what countries in the Old World have you branches?

Mr. GIANNINI. Just the bank in Italy.

Mr. BRAND. What countries are they in?

Mr. GIANNINI. In Italy.

Mr. BRAND. Just one in Italy?

Mr. GIANNINI. Yes, sir.

Mr. BRAND. I though you said something awhile ago about one being in South America?

Mr. GIANNINI. No; I was talking about the other New York banks. The development of American trade down there has been mostly through the advent into that continent of New York banks.

Mr. BRAND. What percentage do you loan to farmers in the country towns?

Mr. GIANNINI. Mr Bacigalupi probably gave that yesterday. Have you any idea on that, Mr. Bacigalupi? In the country towns, practically all of it goes to the farmers.

Mr. BRAND. Do you loan farmers on real estate?

Mr. GIANNINI. Yes, sir.

Mr. BRAND. What do you charge them for loans on real estate?

Mr. GIANNINI. Not over 7 per cent, I think. You must remember that I retired over five years ago from the active management of the Bank of Italy.

Mr. BRAND. But you have not forgotten what went on while you were there?

Mr. GIANNINI. I have a pretty good idea. However, I have not been at the head office of the Bank of Italy over three or four times in the last five years.

Mr. BRAND. What is the average size of the loans that you make to farmers?

Mr. GIANNINI. No good credit risk is ever turned down.

Mr. BRAND. Do you loan on lands?

Mr. GIANNINI. Yes; and loan upon open note. We do not lend, as a rule, on crop mortgages. That is bad banking.

Mr. BRAND. I agree with you.

Mr. GIANNINI. Except with the signature of the landlord.

Mr. BRAND. Do you lend on personal property?

Mr. GIANNINI. The greatest trouble with the country banker to-day is the crop mortgage end of it. You can not get away with that.

Mr. BRAND. I agree with you on that. Do you loan on personal security outside of crop mortgages, to farmers?

Mr. GIANNINI. Yes, sir.

Mr. BRAND. Then, your system supplies all the money the farmers of your country have occasion to borrow?

Mr. GIANNINI. Absolutely. I think the record will show that. I think the Federal Reserve will testify to that and the authorities in California can.

Mr. BRAND. Suppose you had a bank in the State of Georgia, where I come from: Would you continue that policy down there and supply the farmers all the money they needed?

Mr. GIANNINI. No question about that. Do not overlook one thing, that you usually get half a per cent to 1 per cent more on those loans. Now, of course, you will say, "Why?" You naturally ask, "Why do you get more from him than from a business man?" Well, the business man will come in and pay off and the business man will often carry as much again with you as he owes you. The farmer will have nothing with you for nine months and most of that will be required to pay off the debt.

Mr. BRAND. For how long do you loan to the farmers?

Mr. GIANNINI. Until the harvest, and usually, if he has bad luck, we will carry him over untill the next year. We do not like to have to carry over paper, but we do it sometimes.

The CHAIRMAN. I am inclined to think, from the testimony which you have not heard, Mr. Giannini, and the questions Mr. Brand is asking now, that he is going to extend an invitation to you to come down into Georgia.

Mr. BRAND. In a way, I wish he would establish branches in counties down there where at present they do not have banking facilities.

Mr. GIANNINI. You have some goods banks in Georgia, and I think you would have no difficulty in getting all you wanted for the farmers in Georiga if you had farmers on your boards. When we took over the Fresno Bank, for instance, we immediately put men on the board who were interested in agriculture. The same thing was true in Hollister where we put Mr. Hawkins on the board, and so on down the line.

Mr. BRAND. Take a country bank in your State, for instance, one located in an agricultural country, do any of the citizens of that town where the bank is located, own any of the stock?

Mr. GIANNINI. Yes, sir.

Mr. BRAND. About what percentage?

Mr. GIANNINI. In most cases, a great deal more than what the acquired bank had in the way of capital.

Mr. BRAND. But as a rule, you have the controlling stock—you have the majority of the stock?

Mr. GIANNINI. Who has?

Mr. BRAND. Your system.

Mr. GIANNINI. But, Judge, we have 171,000 stockholders.

Mr. BRAND. That is not an answer to the question. Suppose you were to establish a branch, as suggested by Mr. McFadden, in Georgia, and you elect your board of directors. Where do you select those directors?

Mr. GIANNINI. When we take over a bank—say in a country or farming town—we put two or three men from that bank on our board in Atlanta, for instance, representing the stockholders of that bank who have converted their holdings from the stock of a country town bank to the Atlanta bank stock.

Mr. BRAND. What percentage of the stock would you own in that bank?

Mr. GIANNINI. Who would own?

Mr. BRAND. Your system?

Mr. GIANNINI. Well——

Mr. BRAND. Of the bank which you took over.

Mr. GIANNINI. The bank we took over, if it had a capital of $150,000——

Mr. BRAND. Do you get the majority of the stock?

Mr. GIANNINI. We get it all. That bank is liquidated.

Mr. BRAND. But you give the community the opportunity of selecting some of the directors?

Mr. GIANNINI. I think Mr. Bacigalupi should give you the process.

Mr. BACIGALUPI. It is all outlined in the record.

Mr. GIANNINI. When we take over a bank that bank goes out of existence and becomes a part of our institution and its whole capitalization is converted into our stock.

Mr. BRAND. But as I understand you, you let some of the people in that community serve as directors of the bank?

Mr. GIANNINI. Yes sir; but if they are not directors, the advisory board still runs the bank under our supervision.

Mr. BRAND. What is the smallest city or town in which you have a branch?

Mr. GIANNINI. We have some small ones, perhaps Tipton and San Miguel——

Mr. BRAND. Just give me the population.

Mr. GIANNINI. I do not know what they have in population.

Mr. BACIGALUPI. About four or five hundred people. We have banks in many towns under 500, I should say.

Mr. BRAND. That answers the question to my satisfaction.

Mr. GIANNINI. But if this thing continues, and the people continue to leave the small country towns, it will affect our business and we may have to merge them with other banks.

Mr. BRAND. What dividends do you pay your stockholders, as a rule?

Mr. GIANNINI. The Bank of Italy is paying $6 a share.

Mr. BRAND. What is the value of a share?

Mr. GIANNINI. $25 par.

Mr. BRAND. Do you go into a town or city and take over a bank into your system where there is already a bank established in that town?

Mr. GIANNINI. Yes; and in every town we have ever entered the other bankers have become better bankers.

Mr. BRAND. But you do that?

Mr. GIANNINI. Yes, sir. We take over an existing institution. We do not go in there new. We do not add to the banks of that town. We simply enter the town through the acquisition of an established institution. That is one thing that you folks should do, it seems to me—and pardon me for saying so—to restrict a bank to entering a territory through the acquisition of an existing institution.

Mr. BRAND. Instead of forming a new bank?

Mr. GIANNINI. Yes; except in the big cities. In the country town, you should restrict it, as we do in California, to taking over an established institution—no de novo institutions—and in that way you protect the banker, because he gets more for his bank than he could have before. That will protect the 20,000 bankers in this country.

Mr. BRAND. I think that is a wise policy. In other words, you would not go to Broad Street in one town and establish a new bank when there was one across the street established for many years?

Mr. GIANNINI. That is right.

Mr. BRAND. Although you would be willing to take over that bank?

Mr. GIANNINI. Yes, sir. Only once have we entered a town by establishing a new bank, and that was in Sacramento.

Mr. BRAND. Mr. Bacigalupi referred yesterday to something in which I was very much interested—something about the policy which your bank had toward children depositing money in the banks. I

agree with him fully on what he said upon that subject and the reason you do so. My question is, what rate of interest do you pay the children?

Mr. GIANNINI. Four per cent.

Mr. BRAND. What is the statute in your State as to majority?

Mr. GIANNINI. 21 years.

Mr. BRAND. You take money from children under 21 years of age?

Mr. GIANNINI. Yes, sir.

Mr. BRAND. Suppose they want to take out any deposits?

Mr. GIANNINI. They can draw them out any time.

Mr. BRAND. You pay the money back to minors?

Mr. GIANNINI. Through their parents or guardians; yes.

Mr. BRAND. Do you pay it back to the children or to the natural guardian?

Mr. GIANNINI. Pay it back to the guardian.

Mr. BACIGALUPI. They come in with the parents or their legally constituted guardians.

Mr. BRAND. You seem to be following the law pretty well all around. As I understood Mr. Bacigalupi, he said, in reply to a question from some member of the committee, that he thought the status quo, as it exists now, should not be interfered with in regard to any proposed legislation by Congreess in regard to the banking systems of the country. Do you entertain the same opinion?

Mr. GIANNINI. In regard to the Federal reserve, and so forth?

Mr. BACIGALUPI. In regard to this legislation.

Mr. BRAND. In reference to this legislation which we are now discussing.

Mr. GIANNINI. Not to make any changes at this time?

Mr. BRAND. His answer was that there are group banking, unit banking, branch banking and chain banking and, as I understood him, he was not in favor of changing the status quo. You agree with that now?

Mr. GIANNINI. Yes, sir; I think you are doing the right thing to study the matter before you take any action.

Mr. BRAND. You do not want us to do anything to interfere with your system?

Mr. GIANNINI. Which system do you mean? You can not interfere with our system because if you did, I imagine we would then have to go back to the State system because the State permits State-wide branch banking.

Mr. BRAND. How many national banks have you?

Mr. GIANNINI. Only one bank, and while we have 292 branches we are only one bank. That is all we are.

Mr. BRAND. All of your banks belong to the Federal Reserve system?

Mr. GIANNINI. Yes sir; except one bank. We brought the banks into the Federal reserve, because many of the banks we took over were not members of the Federal reserve, and when they came into our system, they became members of the Federal reserve. There is one bank out there that your McFadden Act will not permit to come in; that will come in the moment the law will perimt it. At the present time, it has to remain outside the Federal reserve system, because it has taken on branches since the McFadden act was passed.

Mr. BRAND. I will ask you this question, as an experienced banker: What benefit is it to a State bank, for instance, or any unit bank, to belong to the Federal reserve system when it has no occasion to borrow any money from the Federal reserve banks or from any correspondent bank in New York or elsewhere.

Mr. GIANNINI. Only for the prestige it will gain and perhaps added business. I think it ought to get business through membership in the Federal reseve that it otherwise would not get. There are people who will not do business with a bank unless it is a member of the Federal reserve system.

Mr. BRAND. You think there are advantages besides the ones I mentioned?

Mr. GIANNINI. Yes, sir. I think a big bank can not do without the Federal reserve. You have to transfer money, for instance, from Boston to Chicago or to Baltimore or other places, and you can do it in a couple of minutes through the Federal reserve.

Mr. BRAND. Referring to Georgia, I wish you would establish some branches in Georgia, in the counties of the State in which there are now no banking institutions. I want to know if you have any branches in Georgia now?

Mr. GIANNINI. No, sir. But Mr. Young, Mr. Maddox, and Mr. Ottley down there are very good bankers.

Mr. BRAND. You have no banks there now?

Mr. GIANNINI. No, sir.

Mr. BRAND. Have you any stocks in banks down there?

Mr. GIANNINI. I would not want to say. We did have stocks in banks all over the country.

Mr. BRAND. I am talking about Georgia. Have you any stocks in banks in Georgia?

Mr. GIANNINI. I think not. If we have a holding there it is very small.

Mr. BRAND. In one bank or more than one?

Mr. GIANNINI. We would not have more than 50 or 100 shares, if we did have. I know we did have 100 shares in a bank in North Carolina.

Mr. BRAND. How came you to invest in stocks in a bank down there?

Mr. GIANNINI. Because we thought good bank stocks three or four years ago a good investment, and it turned out so. We have sold most of them.

Mr. BRAND. How old are you?

Mr. GIANNINI. I am 60 years of age and have retired.

Mr. WINGO. Now, Mr. Giannini, ask him how old he is.

Mr. GIANNINI. He is about 55.

Mr. BRAND I am 69.

The CHAIRMAN. Mr. Giannini, in connection with this concentration, of course, of banking business which would come through the establishment of branches nation-wide, under the Federal reserve plan of operation, we have the country divided up into 12 districts. The banks in each one of those districts are compelled by law to keep their legal reserve requirements with the Federal reserve bank in that particular district?

Mr. GIANNINI. Yes.

The CHAIRMAN. Under this plan of permitting branch banking to extend nation-wide, of course, there would be a concentration of banking assets other than in each of the Federal reserve districts. That would bring about a change, would it not, in the character of business of the Federal reserve system? It would affect the mobilization of the reserves for each Federal reserve district within that district. It would cause the transfer of some of those funds into other districts.

Mr. GIANNINI. You would have to enact legislation to make those banks have divisonal offices or district offices. In fact, under the right kind of nation-wide branch banking would have (just as the railroads or the telephone companies or other concerns)—they would probably have a supervising office in each district.

The CHAIRMAN. If the law permitted nation-wide branch banking, and it should so develop that your institution, with its headquarters in San Francisco, would have branches in every State in the Union——

Mr. GIANNINI. Yes.

The CHAIRMAN. The Federal reserve under the present law would require the legal amount of the reserves to be kept in the twelfth district in San Francisco?

Mr. GIANNINI. Yes, sir.

The CHAIRMAN. In other words, what you are suggesting is, if such a condition as that came about, it would be necessary to figure up the amount of business from each district and keep the necessary balance in each district?

Mr. GIANNINI. Yes, sir.

The CHAIRMAN. There would have to be an amendment to the law in that respect?

Mr. GIANNINI. Yes, sir.

The CHAIRMAN. That would cover it?

Mr. GIANNINI. Yes, sir.

The CHAIRMAN. Such a plan as that would obviate the possibility of the concentration in any one or perhaps three districts, if there were three systems doing business over the country—the concentration of reserve in any one district?

Mr. GIANNINI. Exactly.

Mr. WINGO. What would follow? If you wanted to retain the 12 districts, and if you wanted to divide it up equally between the 12 different banks, you would have to give some of the banks larger territory than they now have or reduce some of them.

The CHAIRMAN. Such a plan would either require redistricting the federal reserve system or some fund to protect the funds originating in the 12 districts, so as to keep them in the districts in which they originate.

Mr. GIANNINI. I think you would find, with nation-wide branch banking, we would have, naturally, an office in St. Louis, and if St. Louis was the main town in that district, we would have a head office or main office watching the business or supervising the business in that district.

The CHAIRMAN. In other words, you would have a suboffice in each of the districts?

Mr. GIANNINI. Yes, sir.

Mr. GOODWIN. If branch banking were permitted nation-wide by legislation, what, in your opinion, would be the effect on the independent unit banks?

Mr. GIANNINI. The effect would be that those who would have enough business to warrant going into branch banking would profit largely because their banks would net them probably three times what they do to-day.

Mr. GOODWIN. Do you think it could exist side by side against a powerful branch bank?

Mr. GIANNINI. I do not see what chance a small independent bank has against a branch bank having the best talent passing on things. The stronger bank will discover weak paper long before the little bank will know about it and in many cases will get rid of it to the little bank.

Mr. GOODWIN. Is not the inevitable result that the little bank will either be required to liquidate or be absorbed by the branch banking institution?

Mr. GIANNINI. I would not want to say liquidate. The little bank would be foolish to continue on when it could sell out and merge with the bigger bank and receive stock in exchange worth two or three times as much as that of the little bank previous to the merger.

Mr. GOODWIN. But the branch banking system would not take in a weak-unit bank.

Mr. GIANNINI. If it has business enough to justify it it would. It may be that a bank has not deposits large enough to enable it to run profitably, because it is known to the people in the community that the bank is weak; but if it were a strong bank, it would get the business and, in that way, the bank would be getting back all of the deposits in that town.

Mr. GOODWIN. You have one branch of your institution in Italy?

Mr. GIANNINI. That is a separate institution and not a branch.

Mr. GOODWIN. Is that institution self-sustaining by the capital provided in Italy?

Mr. GIANNINI. Yes, sir. The National City Bank has branches there and London banks have branches. However, we have not. We have a separate institution.

Mr. GOODWIN. So that the bank in Italy has no connection with your institution in the United States except that it is owned partly by your own interests here?

Mr. GIANNINI. About 50 or 60 per cent.

Mr. GOODWIN. Are the profits in that bank proportionate to the profits that you make in this country?

Mr. GIANNINI. I would not say so up to this time, but they have been paying dividends. I think they have done perhaps as well as any other bank there.

Mr. BRAND. What is the average salary of your clerical force in these banks in these small communities?

Mr. GIANNINI.—About $220, so Mr. Vincent advises.

Mr. BRAND. Is that the average?

Mr. VINCENT. Yes.

Mr. BRAND. What do you pay your stenographers?

Mr. VINCENT. Their compensation varies.

Mr. BRAND. What do you pay your stenographers and tellers in these small banks?

Mr. VINCENT. We have a more or less extended salary rate for each step. Stenographers range from $90 to $135 and savings tellers range from $115 to $150 and commercial tellers range from $125 to $190 or $200.

Mr. BRAND. What do you pay your cashiers?

Mr. VINCENT. The small community banks have no cashier. The assistant cashiers range by gradual steps up.

Mr. GIANNINI. But all participate in the profits and in many cases, it is equal to their salary. All employees interested in the business from the president down, and that is the big thing.

The CHAIRMAN. I should like to ask a question of Mr. Bacigalupi. In Exhibit G I notice you say in 100 branches over 70 per cent of the local deposits are loaned in the local communities.

Mr. BACIGALUPI. Yes, sir.

The CHAIRMAN. Where are they located?

Mr. BACIGALUPI. Those places are specified in the exhibit.

The CHAIRMAN. I got the impression that these branches are mainly located in Los Angles and San Francisco. Am I correct in that?

Mr. BACIGALUPI. I do not think so.

The CHAIRMAN. If it is not made clear, will you not clarify it by an explanation?

Mr. BACIGALUPI. It is clear. The name of the branch is given. It is given in detail.

Mr. GIANNINI. There is one observation I should like to make and that is when you have a bank of one hundred or two hundred million capital, it becomes a public institution. The Government is interested in it. You can not have anything happen to that. Even the other banks will come to its rescue unless it is too bad. But they are not interested in the little bank.

Mr. BRAND. Did any of your banks or customers make any call loans last fall when the interest got so high?

Mr. GIANNINI. We may have made some, but not to any extent.

Mr. BACIGALUPI. No; very little, about three days in all.

Mr. DUNBAR. Are you incorporated under the laws of the State of Delaware?

Mr. GIANNINI. The Bank of Italy is not. The Bank of Italy is a national bank now. You mean the Transamerica Corporation?

Mr. DUNBAR. Yes.

Mr. GIANNINI. That is a Delaware corporation.

Mr. DUNBAR. And that relieves you from double liability?

Mr. GIANNINI. Yes; except in California. I think in California the law applies there. In California they hold that in so far as business is done in California, there is an unlimited liability.

Mr. DUNBAR. If every State in the Union should have extablished branch banking systems, and you ran your systems according to the charter of the State of Delaware——

Mr. GIANNINI. You could own them through stock ownership, but you could not run them in the various States except by conforming to the State laws.

Mr. DUNBAR. The banking laws of Delaware do not apply when you operate your institution in the State of California?

Mr. GIANNINI. Our bank really operates under the Federal law. It is a national bank. Previously to that it was a State bank.

Mr. DUNBAR. The national law gives a bank the right to have branches in its own territory.

Mr. GIANNINI. Yes, sir. You can buy a bank in existence provided it has its head office in our city, which is San Francisco. In other words, we could buy another bank in San Francisco and merge it into the Bank of Italy.

Mr. BACIGALUPI. That is, if its branches were operating at the time of the passage of the McFadden Act.

Mr. GIANNINI. Yes, sir.

Mr. DUNBAR. Under the McFadden bill, you said one of your banks was not a member of the Federal reserve system?

Mr. GIANNINI. Because it had acquired branches afterwards.

Mr. DUNBAR. I do not understand how you can operate branches; I do not understand how you have 200 branch banks in the State of California under the existing law.

Mr. WINGO. Possibly you overlook one provision, Mr. Dunbar. Under the McFadden Act the Bank of Italy which was at that time a State bank, could come into the national system bringing with it all the branches that were in existence at the time the McFadden Act was enacted into law.

Mr. DUNBAR. No other State bank could duplicate that now?

Mr. WINGO. In a State where a State bank has now branches, it can go into the national system and retain any branch it had in existence at the time the McFadden law was enacted.

Mr. DUNBAR. Any State can enact a law which will permit branch banking within that State?

Mr. WINGO. Certainly.

Mr. DUNBAR. What you want the Federal Government to do——

Mr. GIANNINI. I do not want them to do anything. I am only talking as an outsider. I am no longer in the banking business.

Mr. DUNBAR. Oh; you are only talking?

Mr. GIANNINI. I do not want you to do anything. I am out of the game, as far as I am concerned. I have retired.

Mr. DUNBAR. Your idea would be if you were in the banking business that it would be best for the banks of the United States to have branch banking authorized by the Congress of the United States all over the United States?

Mr. GIANNINI. Yes; the same as any other business.

Mr. DUNBAR. Have you any idea about how many banks we would have of the size of the Bank of Italy in the United States?

Mr. GIANNINI. It would depend upon whether they would be able to buy the banks. There might be so much competition they could not get any.

Mr. DUNBAR. There would be competition?

Mr. GIANNINI. Yes, sir; and the little banks would profit by it. Therefore I say that the little bank who opposes us is a darn chump.

Mr. DUNBAR. What is the advantage of having a Federal law on the subject when a State now can authorize branch banking?

Mr. GIANNINI. The State can authorize it within the State, but nation-wide branch banking would permit it to be established throughout the country.

Mr. DUNBAR. How did you get into the bank in New York City?

Mr. GIANNINI. Through the Transamerica Corporation.

Mr. DUNBAR. You could not take over a bank like that now?

Mr. GIANNINI. Yes, by purchasing the stock through the Transamerica Corporation.

Mr. DUNBAR. The Bank of America of New York is not a part of the Bank of Italy, except through the holding company?

Mr. GIANNINI. That is right.

Mr. DUNBAR. You can do that with any bank?

Mr. GIANNINI. Yes, sir; but it is not an ideal way of doing business.

Now, let me point out another advantage in this branch banking: The moment we entered Santa Clara, for instance (which happens to be the town that Mr. Bacigalupi comes from), when we bought that bank the lending limit was $10,000. There happens to be a large business there which has seasonal requirements running up to $200,000 or $250,000. Before we took over the bank in Santa Clara, it was impossible for that business to satisfy its needs in the local field, because the bank there could not legally lend so large a sum. In consequence, the business had to get its accommodation in some distant city. The moment we took that bank over we were able to handle that business locally, and to extend the same lending facilities there as obtained everywhere else throughout our system. So, when we establish branches in the farming communities, we are bringing into the farming sections banks with metropolitan facilities. And if we had nation-wide branch banking in the farming sections we would have the same banking facilities as obtained in New York City, so far as loans are concerned. The moment a branch of the Bank of Italy enters a town it could lend $10,000,000 in that town unsecured, if it wanted to.

Mr. DUNBAR. Just one or two more questions: From what you have said, I judge that anybody, unless he is a hermit who lives out in the woods and is unknown, who has credit, can borrow money, and does not have to depend upon the local bank. For instance, you said that New York banks were lending money all over the lot.

Mr. GIANNINI. Only in New York. They have no branches outside of New York, except in Europe.

Mr. DUNBAR. But, instead of having branches, do they not have a department that deals with the making of loans in every State in the Union?

Mr. GIANNINI. They have customers in every State in the Union. To-day all the big firms of the country borrow in New York because the local banks can not take care of them. However, we have concerns to-day in San Francisco that used to go to New York but now get all their accommodations in San Francisco. Perhaps I can cite the prune growers, without mentioning names and, I think, for instance, the raisin growers and others who used to go to New York but now they get all they want at home.

Mr. DUNBAR. I know that the representatives of the large banks going over the country looking for loans, number almost as many as the commercial travelers. My experience out in my country is that a man can borrow money as easily as he wants to.

Mr. GIANNINI. That is what I have said.

Mr. DUNBAR. Therefore, branch banking would not affect that region except in this way, that they would be making their business transactions closer at home.

Mr. GIANNINI. Yes, sir; and with people in the banks familiar with local conditions. The loans would be made out there locally and not in New York.

Mr. BACIGALUPI. In other words, the branch bank has a local interest whereas the outsiders who come in lend when money is plentiful, but when they need it they have no hesitancy in calling it in.

Mr. GIANNINI. Yes. But your branches will take care of your customers all of the time.

Mr. WINGO. My attention has been directed to the fact that this thing takes the cream of the business from the independent banks.

Mr. GIANNINI. Certainly. When money is plentiful the outsiders go out and seek these loans from New York, but when money is not plentiful, they expect the little fellows in the local places to take care of the localities' needs. It is much safer for any one to do business in his own territory than through New York. Some banks have gotten into trouble in California, because, when they had too much money, they went out into other sections of the State and were bitten." They took up loans the other banks would not take.

Mr. DUNABR. The trouble in my district is that it has been too easy to borrow money and they have borrowed money to get richer and have gotten into trouble.

Now, Mr. Chairman, I should like to ask Mr. Bacigalupi a question. I want to know, in your system, if you can go into a State which has no branch banking law and establish a bank?

Mr. BACIGALUPI. No, sir.

(Discussion off the record.)

The CHAIRMAN. I suggest that the committee adjourn.

(Whereupon, at 12.45 o'clock, p. m., the committee adjourned to meet at 10.30 o'clock a. m., Tuesday, May 13, 1930.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

AUTHORIZING THE BANKING AND CURRENCY COMMITTEE TO STUDY AND INVESTIGATE GROUP, CHAIN AND BRANCH BANKING

MAY 13, 14, 15, AND 21, 1930

VOLUME 2

Part 12

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1930

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, MAY 13, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met in the committee room, Capitol, at 10.45 o'clock a. m., Hon. James G. Strong, presiding.

Mr. STRONG. The committee will come to order.

We have with us this morning Mr. C. G. Shull, the commissioner of banking of the State of Oklahoma, who will speak to us on this question of branch, chain, and group banking.

Would you care to proceed without interruption until you have finished? If so, the members of the committee will then want you to answer some questions.

STATEMENT OF C. G. SHULL, COMMISSIONER ON BANKING, STATE OF OKLAHOMA

Mr. SHULL. I might say that if you care to interrupt me, it will be entirely satisfactory.

As a prelude to the few remarks I shall make, I want to state that no effort was made by me to be called as a witness before the committee and when I received the notice I was likely to be called it was quite a surprise to me.

The question under investigation is naturally a matter of much interest and one to which I have given a great deal of thought. However, I have not had access to statistics from which I could do much research work. I have read, rather hurriedly, with a great deal of interest, that part of the proceedings heretofore had by your committee, which was furnished me, and as I view the trend of this investigation it narrows itself down to whether Congress shall extend or enlarge branch banking privileges to national banks.

Comptroller Pole has laid the foundation of the argument favoring further extending the privileges of branch banking to national banks and as the remarks I shall make will be against that viewpoint, favoring unit banking, I shall necessarily refer quite often to Comptroller Pole's remarks and the statistics which he has furnished, but I desire the committee to understand that the references I do make are for the sole purposes of throwing light on the merits of the subject under investigation and not for the purpose of being argumentative.

I think further, in order to simplify matters, we may as well realize that we are investigating a question as to whether the banking business of the United States shall be carried on under the system of branch banking or unit banking, for I believe that the discussion so far must have convinced the committee that if branch banking privileges are enlarged or extended that ultimately all banking will be of

that nature and will be nation-wide in scope. History of other nations clearly demonstrates that fact. Canada, England, and other branch-banking countries do not have unit banks.

The two basic reasons advanced by Comptroller Pole in advocating branch banking are: First, that it is necessary to preserve the national system; second, that it is necessary in order to furnish the country banking communities, especially in agricultural sections, with adequate banking facilities.

I disagree with him on both these points. It is true that during the last 10 years the resources of State banks have increased more rapidly than the resources of national banks. A large per cent of this increase has been brought about during the last few years by reason of several large banks in New York and Chicago merging and surrendering their national charters and taking out State charters. This increase has been rather spasmodic and there is no reason to expect this movement to continue. Naturally to one in a supervisory capacity this action on the part of those national banks was a matter of some concern, but I hardly think anyone views with alarm the safe position and the future growth of the national banking system in this country. I have talked with a number of national bankers about this very point and none of them is uneasy about the fate of the system to which they belong, and let it be remembered that the Federal reserve system has not lost in its membership by reason of these conversions and in spite of these losses of banks the system itself shows a very healthy growth indeed and considering the enormous volume of international business which is being transacted through our national banks I am sure they are handling their share of banking business in this country.

Great stress is being laid by the comptroller that the national banks are the fiscal agencies of the National Government and that the Government can only rely on national banks in times of Nation stress or war. I quote from a recent paper of the comptroller:

> It is not criticism of the State banks and trust companies to say that the National Government can not rely upon them to serve as instrumentalities in the enforcement of a Federal fiscal policy. Banking, like other business enterprises, is entered into by stockholders for the purpose of realizing a return upon their investment.

The same can be said of national banks. The control of national banks is in the board of directors and aside from the supervision allowed the Comptroller of the Currency, the National Government can no more dictate the affairs of the national banks than they can of State banks, corporations, or individual citizens.

Since the establishment of the Federal reserve system, the Federal reserve banks are in fact the real fiscal agency of the Government.

The idea that the Government can not depend on the officers and directors of State banks to respond to needs of their Government in times of need is nt well founded, as was demonstrated during the late war. State and national bankers, business corporations, and our entire citizenship responded horoically to meet the needs and demands of the Government. I think we will all agree to that. No power is in the National Government to compel a contribution of service or money of national banks or national bankers other than the power which could be enforced against State banks and bankers, business corporations, and provate individuals. I can see no reason for

changing our banking system on the theory that national banks are instrumentalities of the National Government.

I feel sure some people feel that one system of banking, and that the national system, would be preferable to the two systems which we now have. Possibly some people may think our system of government would be better if we had simply a National Government and no independent State governments, but the great majority of our people are in favor of two systems of banking. This is evidenced by the great volume of business handled by the State institutions.

I have no prejudice against the national system and most of my active banking experience has been as a national banker, and to my mind, to say the least of it, the merits of the national system and its advantages are equal to those of the various State systems. There are advantages inherent to each system and these advantages can not and should not be destroyed by law as they are for the best interests and welfare of the banking public. The closer personal, sympathetic, and more understanding supervision of the State banks is a very decided advantage to both the bank and the customers of the bank. On the other hand, the unity of the national system and the stability and uniformity of the laws and the supervisory powers are inherent advantages to the national system.

The two systems working side by side with healthy competition have created a banking condition in this country which has contributed largely to the prosperity of this country and the development of its virgin resources to the distinct advantage of the people of this country and an unparalleled progress and rapid development of the resources of our country has been the result. Banking policies and practices which have emanated from the comptroller's office, and especially many rules and regulations of the Federal reserve banks have done much to raise the standard of banking in this country. The State banks have been benefited along with the national banks as they have had to raise their standards and meet this healthy competition. On the other hand, the fact that national banks have had State banks as competitors has had the salutary effect of keeping the banking business closer to the people and more responsive to the people's needs.

The two systems working side by side have demonstrated that commercial transactions growing out of production, manufacturing, and transportation of goods and commodities from one section of the Nation to the other are not now hampered but can and are now being handled satisfactorily by banks in each system.

The two systems of banking are in keeping with our form of government. One system is a check on the other, and having the State banking system prevents the banking bysiness from becoming too autocratic and the national system prevents the State banks from becoming too loose and lax in their practices and have done much to unify and standardize banking methods and policies in the several States.

Our country has prospered well indeed under the two systems. Certainly our national progress and national wealth compare favorably with other nations having but one system.

Branch banking, when permitted to extend beyond State lines, will result in but one form of banking. We have but to look to

Canada, England, and other countries to see that this will be the result.

The second point urged against the present system of unit banking system is that the unit banking system has broken down and is not furnishing adequate banking facilities to smaller banking communities, expecially in the agricultural sections. I do not subscribe to this view of the situation. Our unit banking system has not failed and is not breaking down but is making vast strides keeping pace with the rapid development of the country in general and with other business organizations. As proof of the failure of the unit system the Comptroller has submitted figures showing 5,640 bank failures in the United States since 1920, the deposits in these failed banks amounting to $1,700,000,000 and the number of depositors suffering losses in these institutions numbering 7,264,957. These are large and imposing figures and are likely to create the impression that unit banking is more hazardous than it really is. As a matter of fact the banking business in this country is the safest business, for the safety of the creditors, that we have, and as a matter of fact it should be the safest business we have.

Mr. Pole further states that the recovery to depositors of failed national banks equals 80 per cent; in other words, the loss was 20 per cent.

One billion seven hundred million, the amount of all deposits in all the banks that failed during the last nine years divided by 7,264,957, the number of depositors, equals $234 as the average deposit of each customer in all of these failed banks. Each depositor recovered 80 per cent of this $234, which is $187.20, which subtracted from $234 leaves a loss to each depositor of $46.80. Not a bad loss to the banking public during the 9-year period following the deflation beginning in 1920.

Risk can not be eliminated from business, and banking is no exception to that rule. Please do not misunderstand that I look lightly upon bank failures and their results. I deplore them as much as any member of this committee and as much as the comptroller himself, but I do know the bad results have been greatly exaggerated and I do know the people of this country lost many times as much money by reason of investments in land and in stocks of various kinds, and while I do not have the figures and do not know that they are available, I am inclined to think that very comparable losses were occasioned by investments in Liberty bonds, direct obligations of our great country, by reason of having paid par for these bonds and having to sell them as low as 82 and 83 cents on the dollar. The loss to many purchasers of Liberty bonds amounted to $18 for each $100 invested and the depositors in the failed banks of this country during the last nine years have lost $20 for each $100 of deposits in those banks.

We must not lose sight of the fact that for several years prior to 1920 we were operating under an unusual and unprecedented period of inflation. Beginning in 1920 and thereafter we were operating during a period of unusual and unprecedented deflation and great losses were inevitable in all lines of business. As stated above, we know that many, many purchasers of Liberty bonds, the obligations of this great Government of ours, lost a great deal of money, yet I have heard no one suggest that we change our form of government to correspond to that of Canada, England, France, or other countries.

Mr. BRAND. I did not get that.

Mr. FENN. Will you say that over again?

Mr. SHULL. I had previously brought out the fact that the people had lost money in the purchase of Liberty bonds, but that has not been given as a reason why we should change our form of government.

The fact that seven and one-quarter millions of people, or 18 per cent of our population—and I am just approximating those figures—incurred a loss of $20 per head by reason of their deposits in failed banks is not so alarming as we might think, and creates no banking situation demanding a change. These losses were inevitable and small indeed compared with the losses in other classes of investments. The losses in land, in cattle, in wheat, in corn, in horses and mules, in every conceivable form of investment in each community, even losses in Liberty bonds, were reflected to a greater or less extent in each bank serving each community.

I have heard much said depreciating the ability of the small-town banker. This opinion of his ability or lack of ability has arisen since 1920. Before that he was considered a respectable and fairly average capable citizen and good banker, but his bank has failed and they are still failing. I want to make this statement, that I am fully convinced that better than 95 per cent of the bank failures since 1920 were caused, and are really traceable to the abnormal inflation and abnormal deflation caused by our late war conditions.

In Oklahoma—and you will pardon me for referring to Oklahoma for naturally my sources of information come mostly from that State—only five State banks which were organized since January 1, 1920, have failed up to this time. All other State banks which have failed in Oklahoma during this 9-year period were those chartered prior to that date and of course those affected by the conditions existing during the inflation and deflation period. One hundred and seventy-four State banks failed during this period and only five failures of banks chartered after that period of deflation began have failed, showing 98 per cent of the failures were caused as a result of conditions brought about by the war and 2 per cent which you could say were not caused by this same reason.

Lately we had 12 banks to fail in one day, each one of these in better shape the day they failed than they had been any time during the last 10 years, and each failure caused by the result of war conditions.

Lately a national bank failed in our State, the continued condition of which during the last 10 years I happened to be acquainted with and I am sure it was in better shape the day it failed than it had been for 10 years, but it had lots of losses in its assets dating back to the war period which simply could not be eliminated. War conditions brought about losses, abnormal and unprecedented and inevitable losses, and a great per cent of the bank failures are directly traceable thereto.

Much has been said about the earning ability of small banks, especially in agricultural sections. Of course, my source of information comes solely from my knowledge of State banks in Oklahoma.

I have had prepared an analysis of the earnings of Oklahoma State banks for the year 1929. We have 325 State banks in Oklahoma at this time; 199 of these banks paid dividends during the year 1929; 126 did not. Sixty per cent of the banks did pay dividends. The average net earnings of the State banks in Oklahoma on their capital

stock for 1929 was 16.6 per cent. The net earnings figured against the capital and surplus was 12.6 per cent. Dividends paid figured against the entire capital stock of all the banks equaled 11.2 per cent. Those percentages were figured counting all the capital stock of all the banks in the State, whether they paid dividends or not, and the average was 11.2 per cent.

Group 1. I have had analyzed the net earning capacity of banks according to size of capital stock. Banks having a capital of less than $25,000 earned 17.9 per cent on the capital stock and 14 per cent on the capital and surplus. Dividends paid last year by these small banks equaled 11½ per cent on the capital stock of all banks in this group. Of this class of banks, 221 in number, 131 paid dividends; 90 did not; or 60 per cent paid dividends.

Group 2. Banks having capital of $25,000 up to and including $50,000, number 89, 64 of which paid dividends; 25 did not, or 70 per cent of which paid dividends. Net earnings on the capital stock of these banks equaled 17.7 per cent. Net earnings on the capital and surplus equaled 13½ per cent. Dividends paid last year equaled 11½ per cent on the capital stock of all banks in this class.

Group 3. Capital stock in excess of $50,000. Number, 15. Four paid dividends, 11 did not, which equals 26.6 per cent paying dividends. Net earnings on capital stock 12.6 per cent. Net earnings on capital and surplus 9½ per cent. Dividends paid equal 10½ per cent on the capital stock of all banks in this class.

Remember, we have 325 State banks in Oklahoma; 199 paid dividends; 126 did not. Out of the 126 banks which did not pay dividents, only 8 were chartered since 1920 and 3 of these 8 were chartered during 1929 and 1 during 1928, and these 4 banks would not be expected to pay dividends so soon after their organization, thus leaving only 4 State banks in Oklahoma organized since 1920 which did not pay dividends. This all goes to show that the failures in our State banking system in Oklahoma and the present dividend-paying ability or earning ability are directly chargeable to war conditions rather than to banking ability or local conditions.

You can not, in my opinion, get away from the fact that war conditions are still causing the trouble we are having to-day in our banking situation; not 100 per cent, but very nearly that per cent. The failures we will have for the next few years or so will be traceable to the same cause.

There is no need to change our system of banking. What we should do is to improve the present system where possible, and in my opinion the bankers of this country are doing that very thing themselves. Our country bankers are able to meet the present day local demands of banking. They are wide-awake business men and have revised their business methods to meet the changes which have occurred in economic conditions.

Our records show that out of 151 State banks organized in Oklahoma since January 1, 1920, 5 have failed during this 10-year period. Not perfect, but, to my mind, a very good record.

Branch banking will not stop the failures of banks which are yet to come, because of war conditions. These large branch banks will not acquire these particular banks on account of the condition of their assets. In my opinion, it will cause the failure of some of these

banks still carrying on and still having losses in their assets chargeable to war conditions and which in many instances may be able to pull through. My reason for this is that if branch banking is permitted, there will be many instances where a branch office will be opened in the community where these banks are now operating and thus deduct from their volume and lessen their possibility of working out of their trouble.

My thought is this, that there will be a great many points where it would not be possible to get another bank chartered there, but it would be possible to get a branch; in other words, it might justify a branch office of some large bank, but it would not justify two unit banks there, and my thought is that this branch office will finally get established in such points as that.

Canada has had some bank failures. I understand a bank there having about 80 branches failed. I further understand there are about 12 or 13 banks operating in Canada. This would show 1 bank out of every 13 failing. I further understand another large branch bank with between 300 and 400 branches was on the point of failing and the Canadian Government donated $15,000,000 to enable another banking institution to take it over. I further understand that three banks in Canada do a very large per cent of the banking business of that country. Statistics will show the per cent.

I have seen the percentages, but they were not available to me at the time I secured these figures.

In 1885 Canada had 41 banks. They now have 12 or 13, with 3 doing a very large per cent of the business.

England has, I understand, 20 banks, with 5 doing a very large per cent of the banking business of that great nation.

How can we imagine that branch banking will decentralize banking business in this country? Admit, for the sake of argument, that branch banking is safer than unit banking. I am not admitting this and would like to see a comparison of the failures in Canada on a percentage basis, compared with the failures in this country. I would like to have the committeemen get those figures; it is not possible for me to get them.

But, admitting there is some greater degree of safety in branch banking, there are other advantages to unit banking which offset the additional risk, if any. There is no doubt that the unit bank is more responsive to the needs of its customers in the smaller community, both to the borrowers and the depositors. There is no question that the people who live in the very communities which Comptroller Pole states has need of branch banking facilities do not want branch banks and are, in fact, opposed to them and are decidedly in favor of unit banking. These people realize that even if not as safe, the small risk incurred in the unit bank is worth the money and that the extra safety, if any, is offset by the local independence and self-development which the unit bank encourages and makes possible. This idea is deeply ingrained in the minds of the American people. These people realize that they will not receive the banking accommodations to which they are entitled and can obtain from the local banker who knows them intimately, who knows their integrity and ability. I have reference, especially, to the average citizen in the smaller communities. They know that the result will be that branch banking will gladly take their deposits and in many, many instances will not

loan the small borrower the money to which he is entitled, especially the small farmer and the small merchant.

We know, further, that the independence of hundreds of country bankers will be lost under this system and I firmly believe that if branch banking is once adopted on the plan outlined, that we have committed ourselves and this Nation to a policy which will bring about centralization of wealth in the hands of fewer people and will be the greatest stride this Nation has ever taken toward the elimination of the greatest asset to the middle class, the small and worthy individual comprising the great and large per cent of the citizenship of this country.

From the standpoint of safety alone, nation-wide branch banking is preferable to trade area branch banking. More diversity in investment would follow in nation-wide branch banking. I am firmly convinced that if we had, during the war period, branch banking in trade areas, and if these banks had served their communities with banking facilities as was necessary during the war period, many of these banks would have failed also.

The greatest reason for greater safety to branch banking on a nation-wide scale, is the fact that the few banks we would have under this system would be so large that the results of their failure would be so great and so nation-wide that the National Government would have to step in and save them, as was done in Canada, and I understand, in other countries. This, of course, is paternalism, and around the corner is socialism.

Branch banking is all right for the people who are accustomed more or less to a monarchial form of government, but the people of this country are not ready for it and the business conditions of this country do not demand it.

The Canadian Government guarantees bonds issued by some of the railroad companies and some of the bonds issued by municipalities. Great centralization of banking with branch banking fits into their scheme of government, but not ours.

Group banking has been in vogue in this country for years and many failures have occurred in operating groups and chains. The recent enthusiasm for group banking has, in my opinion, been occasioned by the thought of the possibility of branch banking. Many enterprising and ambitious people are entering the group banking field, with a view to selling out to larger branch banking organizations which will be in operation, if permitted.

In submitting figures showing the growth of branch banking in this country, these figures are, to my mind, misleading. For instance, since the passage of the McFadden act the large national banks in New York and other cities have established branches in other points in the city. The resources of this large bank have been transferred from the unit-banking column to the branch-banking column. This character of branch banking is not the kind of branch banking now under consideration. These so-called branches in the same city as the parent bank are no more than offices. The parent bank is no more doing a branch banking business than it was before. It is still serving the same community and the same customers that it was serving before. That is not the kind of branch banking we are talking about now.

Judging from the figures given for Oklahoma, chain and group banking have not made the inroads into our banking that the figures would indicate. We do have one group-banking organization, and only one, and I think it has probably 20 banks, in quite a number of which they are not owners of a majority of the stock; in other words, the majority of the stock is not owned by the holding company, and quite a few of these banks that are now in the group were in a chain system before.

I notice listed 15 chain banks under the Thurman Bros. in Oklahoma. As a matter of fact, there are three or four of those brothers that own a control of those banks, but those banks are operated absolutely as unit banks. I would not class them as chain banks. Technically they might be, but in operation they are not.

Mr. Douglas, of Shawnee, owns nine banks which can be classified from every standpoint as chain banks, and R. A. Vose is interested in three, but does not have a controlling interest in all of them, the banks being absolutely operated as unit banks.

Gentlemen, this is about all that I am prepared to say on this subject. I did not have as much time to devote to the preparation of my remarks as I would have liked to have had, for I did not get the notice to come until a short time ago, and meanwhile had other duties to perform.

Mr. STRONG. I would like to ask you with respect to the amount of money involved in State and national-bank failures prior to 1920. We have had a good deal of testimony regarding bank failures from 1920 to date, but what do you say about the situation prior to that time?

Mr. SHULL. The only information I have on that is that I noticed in Comptroller Pole's figures that he furnished to the committee that there had been a great many more State banks that failed than national banks, and that is true. Somebody on the committee asked him to furnish the amount involved in dollars and cents in the failures of banks under these two systems, and if that information was ever furnished, I was not able to find it in the proceedings that were furnished to me. I would really like to see that information furnished.

Mr. STRONG. Mr. Awalt, do you know whether that information has been furnished or not?

Mr. AWALT. The comptroller did not have the information from State banks.

Mr. STRONG. And he can not get it?

Mr. AWALT. As far as I remember it, we did not have the figures for State banks, nor did the Federal Reserve Board have them.

Mr. STRONG. Did not the comptroller furnish that from 1920 to date?

Mr. AWALT. The number of failures, but I do not think he furnished the amounts.

Mr. WINGO. What I think Mr. Shull has in mind is this, that the comptroller furnished the numbers and pointed out the fact that, measured by numbers, there had been more failures in the State banking system than the national, and Mr. Shull suggests that if we will procure information showing the volume of banking assets, and not simply the number of banks, there would be a different comparison.

I presume that the inference you want us to draw is that, measured by assets, there was not a greater volume of banking assets involved

in the State bank failures during that period than in the national bank failures, though the number of units was greater.

Mr. SHULL. Yes. I would just like to know. I do not know.

Mr. WINGO. That would be interesting.

Mr. CHAIRMAN. I am wondering if Mr. Awalt could not procure from the State bank commissioners the figures on that, so as to make that comparison.

Mr. STRONG. I hope that, if he can, Mr. Awalt will do that.

Mr. AWALT. I understand that the Federal Reserve Board is in the process of getting that now and it will be furnished to the committee, but it will take some time.

Mr. WINGO. I wish, if you would, that you would get for us that information. However, I understand that the information that they are preparing is for the Senate committee and that they do not intend to complete it before the expiration of this Congress. It ought to be furnished at this Congress.

Mr. STRONG. It would not take very long to write to each one of the banking commissioners of the States for that information.

Mr. WINGO. My point is that they would include it with a whole lot of other information that they expected to procure, but we ought to have this information right away.

Mr. STRONG. Yes; we ought to see what the loss to the Nation was in money, not in number of banks, by reason of failures.

Mr. WINGO. I do not know what it would be worth, but we ought to have that point of comparison.

Mr. AWALT. We will try to get it.

Mr. STRONG. All right.

Mr. Shull, I would like to have you give us your comment on the condition in which a community finds itself when a bank fails, whether the failure of a bank robs the community of much of its assets, or what the situation is, in your opinion, in a community when a unit bank fails.

Mr. SHULL. I see. Well, I should say this: Of course, we do not like to figure on a system on the basis of taking care of failed banks as much as we do in keeping them going, but I would like to say this, that if you do have a failure of a big branch bank the damage to the scattered communities would be worse than the failure of a unit bank operating in a community, because of the fact that in a unit bank operating in a community, naturally the larger percentages of the loans are made to the citizens of that community and the money is still there in that community somewhere. It may have changed hands from one fellow to another, but still the money is in that community, and my idea is that the individual community would be hurt less by that.

Mr. STRONG. By the failure of a unit bank than by the failure of a branch bank?

Mr. SHULL. I think so.

Mr. STRONG. We have had a good deal of information here about trade areas. Will you give us your idea upon that proposition?

Mr. SHULL. Well, I think Comptroller Pole has probably given about the best description of what a trade area is that you have had. I think I made a note of it somewhere. He said that "A trade area is that geographical territory which embraces any city's flow of trade."

I think that it has been demonstrated by the number of questions asked on that point that it is pretty hard to tell what a trade area is, and I think unquestionably that granting branch banking privileges on that basis would cause a great deal of conflict of territory. It seems to me that it would be very easy to point out that the entire United States is in the trade area of New York City, because our little merchants in the little country towns in Oklahoma and in that western country come to New York regularly to do their trading.

Mr. STRONG. They come about once a year?

Mr. SHULL. Once or twice a year.

Mr. STRONG. To buy their stocks?

Mr. SHULL. Yes, sir.

Mr. STRONG. And they also go to Chicago.

Mr. SHULL. Chicago and St. Louis.

Mr. STRONG. And in the meantime they go to Kansas City.

Mr. SHULL. Yes; a few of them down there do.

Mr. STRONG. So that the proposition of trade area, followed to its logical conclusion, would simply mean nation-wide branch banking?

Mr. SHULL. I think so.

Mr. STRONG. In your opinion, will branch banking tend to decentralize, either nation-wide branch banking or trade-area branch banking?

Mr. SHULL. I certainly think it will not. We only have to look to other countries which have branch banking privileges to see that the number of banks operating is becoming smaller and smaller each day and covering a wider territory.

As I said before, Canada has three banks doing a very large percentage of the business. I wish I had the figures, but I am sure it was better than 75 per cent of the business of the country, and five banks in England are doing the same thing.

I think the Fedearl reserve system of this country has done much toward decentralization.

I have noted with a good deal of interest the gain in total resources of banks at different points as brought out in somebody's testimony here before the committee; I think Comptroller Pole's—for instance, Detroit had gained 46 per cent; Dallas, 437 per cent; Atlanta, 234 per cent; Cleveland, 225 per cent; Chicago, 210 per cent; and Minneapolis, 284 per cent. It seems to me that our present Federal reserve system has done much along that line.

Mr. STRONG. What do you think will become of the Federal reserve system if we have nation-wide branch banking?

Mr. SHULL. Well, I do not know. My personal opinion is that in the course of years—I do not know how long, for we do things pretty fast nowadays—we would have a few large banks in this country and would not have the need for the Federal reserve system that we have to-day.

Mr. STRONG. And they would rather dominate and overpower?

Mr. SHULL. I understand that in Canada—and, of course, the things I am giving I would like to have checked up, because my information is not definite information, but I have read it from reliable sources that they virtually have no supervision of the banking business in Canada, that the Government does not. If I am not mistaken, they just make a report about once a year, and they have virtually no supervision as we understand it in this country.

Mr. GOLDSBOROUGH. Mr. Chairman, I would like to ask one question there.

Isn't that because, instead of the Government being able to control the banks, the banks largely control the Government?

Mr. SHULL. Yes; they are just in absolute partnership.

Mr. GOLDSBOROUGH. Assuming that it is conceded that branch banking is becoming more and more necessary, with which proposition I do not agree, do you not believe it would be better for metropolitan banks to be allowed to establish branches within their areas, and then have the rural districts conduct their own branch systems, disconnected from any metropolitan banks?

Mr. SHULL. Well, I have thought about that a great deal. I think that unquestionably there are some advantages to branch banking, and I think branch banking in large cities is good, but I do not think branch banking should ever be permitted to cross State lines. That is my idea.

Mr. GOLDSBOROUGH. But if you allow branch banking to be on a state-wide basis, is there not bound to be some legislation which will allow it to cross the State lines?

Mr. SHULL. It is pretty apt to come.

Mr. GOLDSBOROUGH. Now, with respect to the definition of the term "trade area" which you referred to a moment ago as involving the city's flow of trade, the necessary implication being that Mr. Pole's idea of a branch banking system is a system which has its inception in the cities, do you think that is necessary at all? Do you not think that sufficiently strong branch systems could be set up in the rural districts without having a parent bank in a city?

Mr. SHULL. Yes, sir; I do.

Mr. STRONG. I want to ask you now about that supervision. You have charge of the supervision of banks in your State. What is your opinion as to the ability of a superintendent of banks to examine large systems, when they have 1, 2, 3, or 100 banks?

Mr. SHULL. Well, I attended the supervisors' convention of all the State bank commissioners of the United States held in San Francisco this last summer, and while there I had occasion to talk with, I think, the chief auditor of the State banking department of California, and he told me that in the examination of chains in that country, of branches, that they paid very little attention to the actual audit of the bank. You understand that an examination of a bank by a State department comes under two heads, one an audit and the other more of an analysis of its solvency, and he said that it was absolutely impossible for them to go very far into the auditing part of branch banking, that they left that principally to the auditing department of the parent institution.

Mr. STRONG. Of the branch bank itself?

Mr. SHULL. Yes, sir.

I would like to state further along that line, since you brought it up, that I noticed in Mr. Pole's discussion of that that he admitted that it would virtually be necessary for his office to be examining those banks all the time, almost a continuous examination, which to my mind suggests that you just have that department helping to operate those banks, and you are getting the Government right in the banking business.

Mr. STRONG. Have you any suggestion as to what policy might be used to strengthen the banks of the country?

Mr. SHULL. Well, I do not know whether I have anything that is practicable or not. I have one pet theory that I have thought about.

Mr. STRONG. The committee would like to have it.

Mr. SHULL. I have often wondered, in the organization of a bank, if it would not be possible to provide that each stockholder, in addition to paying in the capital and surplus required, should purchase an equal amount of good bonds, of a class to be determined, of course, to be deposited by a national bank with the Comptroller of the Currency and by a State institution with the banking department of that State, as a guarantee to taking up losses as they occurred. Now, banks do not fail over night; it is a trend that a certain bank gets into, usually, that causes failure. I am talking now about normal banking conditions, and eliminating the war period. It is a trend that a bank gets into, and many times in my department, and I am sure in others, we realize that we should levy assessments before we do, but for various reasons we do not do it; the banker thinks it will ruin his business, break him, and we do not do it, and the trend of his business, instead of getting better, gradually gets worse, and the first thing that happens, we wake up and his capital is lost.

Now, if these bonds were pledged with the banking department, the loss in that bank could be taken care of gradually out of the sale of those bonds, and then whenever those bonds got down to a point, say, of 50 per cent of the amount originally deposited, you could require them to replenish.

I do not know whether that is a practical idea or not. As I said before, you can not eliminte risk from business altogether.

Mr. STRONG. It would tend to bring the stockholders to the important realization of the fact that losses were occurring and cause them to take more interest in the affairs of the bank, would it not?

Mr. SHULL. Yes, and one of the biggest things about it that I did not mention was the fact that it would assure you of a better class of stockholders than you now have. There are a great many people that in the organization of a bank have become interested in it through stock ownership that have no interest in the banking business at all, and this would tend to prevent that kind of a citizen from becoming interested in the organization of a bank.

Mr. STRONG. We have had a good deal of controversy before this committee regarding the taxation of banks. I would like to ask you if you have any views in that regard.

Mr. SHULL. I have been bank commissioner about two years and a half, I think, in Oklahoma, and I have advocated how I think banks should be taxed. I think it would be right and equitable for banks to be taxed at about 60 cents on $100 of their capital stock; that is about in line with other taxable property on an ad valorem basis. Then I think that the surplus of a bank should be exempt from taxation, or certainly only a very small amount of tax levied on it, perhaps as much as is levied against money in the different States, which in our State is two-fifths of 1 per cent, I think, provided the bank carries a certain per cent of its earnings to the capital each year until it got equal to the surplus.

In our State our court has just lately rendered a decision that is favorable to the State banks, because we have a law to the effect that you can not tax a State bank greater than a national bank; that

you can only tax bank stock on a basis equal to money in banks, deposits in banks, which is two-fifths of 1 per cent, which virtually means we do not have any taxation against bank stock.

Mr. STRONG. You do not think that the capital of banks should be put in a preferred class, do you? You think that it ought to pay the same rate as other property?

Mr. SHULL. I do; and I want to say this in fairness to the bankers, and, as I said before, I am giving you more or less the localized viewpoint, because that is all I have, but the bankers of my State are very much in favor of paying a just and equitable tax. They think they have too much relief now. They felt until this court decision that they had been taxed too much, and they know that we have gone too much in the other direction now and they want to pay an equitable tax, and I think the bankers in other States feel the same about it.

Mr. STRONG. What do you think of applying Gresham's law to the banking proposition?

Mr. SHULL. Well, I noticed that something was said about Gresham's law in these hearings. I believe the idea of Gresham's law is that the baser metal drives out the good, and I was rather surprised to see it applied to banking. However, I think it was brought out later in the controversy that it did not apply to business but simply to metals, and certainly banking is not metals; its chief business is not to deal in metals but in credits. It is a business like any other business, and I think it was brought out in the hearings here that that theory worked adversely in business, and I think it would have no application.

Mr. WINGO. If I may say this, others referred to that, and I think I referred to it in this connection, that a superior service and better quality of goods had a tendency to drive out of existence the competitor who dealt in the inferior service and the inferior quality of goods, and I think I incidentally remarked that was just the reverse of Gresham's law, that, in so far as metal and money are concerned, the baser drives out the superior, whereas in business service and quality of goods, the superior drives out the baser.

Mr. SHULL. Yes, sir. I do not know who brought it out, but I know some one did, but my point is that I do not think it has any reference to the banking business. I may be mistaken about that, but that is my idea.

Mr. WINGO. I still seem to be enable to make myself understood. I did not say that.

Mr. STRONG. I know you did not.

Mr. WINGO. The point I made was this, that it was just the opposite applied to business, that in business the superior drove out the inferior, whereas in currency the baser drove out the superior.

Mr. SHULL. I agree with you on that; yes, sir.

Mr. WINGO. It is just the reverse of Gresham's law.

Mr. SHULL. Yes.

Mr. STRONG. What do you think the States will do if Congress acts favorably on a law to permit nation-wide branch banking?

Mr. SHULL. Well, I think unquestionably the States would follow suit in allowing branch banking within their States, and possibly there would be some attempts made to allow banks in different States to reciprocate with each other across State lines.

Mr. STRONG. And it would eventually result in nation-wide branch banking?

Mr. SHULL. Yes; a bad condition, I think.

Mr. STRONG. You have pointed out that in England they only have five banks with 8,000 branches, and in Canada, only three large banks with numerous branches, and that they exist in countries where they have practically two classes of people; that the middle class in these countries is largely eliminated. Do you think the establishment of nation-wide branch banking in this country would tend to eliminate the middle class here?

Mr. SHULL. I think it would be the biggest step this country has ever taken toward decentralization and toward making it impossible to insure that the smaller business interests in this country would get the line of credit that they are entitled to.

Mr. STRONG. The trend now is toward mergers and chain stores—big organizations. Do you think that if we permitted a banking system that would eventually result in a few banks having control of all the money and credit that the outcome would eventually be that the middle class of people in this country would be eliminated as they are in other countries? Is that your idea?

Mr. SHULL. I think it would be the biggest step we have ever taken in that direction.

Mr. STRONG. Mr. Wingo wishes to question now.

Mr. WINGO. I just desire to ask a few questions. Just take the question you have just left, that of banks having branches established beyond the State line; that is, by State charter: You said something about reciprocity between the States. What did you mean by that?

Mr. SHULL. I meant it would be possible—at least I think it would be possible for the State of Arkansas, as I believe you are from Arkansas, to allow a bank in Oklahoma City, we will say, to establish branches in your State provided the State of Oklahoma would allow a big bank in your State to do a branch banking business in Oklahoma.

Mr. WINGO. You are not a lawyer, are you?

Mr. SHULL. Well, I graduated from a law school and I practiced some, but I do not claim to be much of a lawyer.

Mr. WINGO. I was under the impression you were not a lawyer and I was prepared to ask some questions that you would not appreciate if you were not a lawyer. If branch banking is a blessing and a good thing, why confine it to geographical limitations?

Mr. SHULL. I tried to bring that idea out in my talk at the start. I think we might as well face the proposition and look at it as a nation-wide branch banking, because you will remember that Mr. Young's testimony virtually admitted it would come to that. He said that it would take 50 years, but it is a matter of opinion whether it would be 25 or 50 years.

Mr. WINGO. Well, take as a practical proposition, two towns in my district—two largest ones—Texarkana and Fort Smith: If branch banking is a good thing, why say to the banks of the city of Fort Smith that "You can not cross the river to a town on the other side of the river in Oklahoma and establish branches there?"

Mr. SHULL. As a matter of fact, they do own several banks in Oklahoma.

Mr. WINGO. You mean gentlemen connected with them——

Mr. SHULL. It is a chain proposition; I mean the head officers. For instance, the First National Bank of Fort Smith owns the controlling stock in several banks of Oklahoma.

Mr. WINGO. You do not mean the bank itself owns that controlling stock?

Mr. SHULL. No——

Mr. WINGO. You mean the dominant persons in those banks in Fort Smith are also stockholders in smaller banks in your State?

Mr. SHULL. Yes, sir.

Mr. WINGO. You say the First National. Mr. Nakdimen, of the City National also owns some, does he not?

Mr. SHULL. Yes, sir.

Mr. WINGO. You do not call them chain or group banks either?

Mr. SHULL. I have not thought about what I call them.

Mr. WINGO. What they set up is this, that they are separate corporations, of course——

Mr. SHULL. Yes, sir.

Mr. WINGO. Some National and some State banks?

Mr. SHULL. Yes, sir.

Mr. WINGO. And the same man who is an officer or lage stockholder in one of these Fort Smith banks is also an officer and, in some instances, a director in these State banks and National banks in your State?

Mr. SHULL. Yes, sir.

Mr. WINGO. But to get back to the proposition I started on, if it is a good thing, and aside from that barrier, I have not found out what is the argument in favor of confining the blessings of this system of branch banking to any given geographical area. I can not catch the point. Have you heard of any reason for it? You suggested you thought it should be confined to State boundaries. I wondered what reason you had in mind for that?

Mr. SHULL. Well, there are communities, in my State, and I am sure in other States, that have no banking connections or facilities. Some have them, but they are, in reality not supported, and I wonder some times if it would not be all right to permit a bank at a county seat to establish offices out in other towns in the county, to say the least. I do not know how much further it should go than that.

Mr. WINGO. In other words I think the though that is back in your mind is that you would maintain more of an intimate connection and intimate knowledge of conditions to be met and the services to be rendered, by confining it closer to the parent bank?

Mr. SHULL. Yes, sir; a more localized community.

Mr. WINGO. What is there in the present decisions of the courts that would prevent a bank in Oklahoma or in Delaware from establishing branches in States whose corporate laws authorize the domestic banks to establish branches?

Mr. SHULL. I could not tell you.

Mr. WINGO. It is all governed by the decisions of the courts in reference to foreign corporations coming into the States and doing business, is it not?

Mr. SHULL. Yes, sir, but there is a special statute on banking, you know. It does not come under the general corporation statute—the banking privilege of our State.

Mr. WINGO. Suppose they tie up, like the telephone and telegraph companies did. Take the Western Union: The Western Union is the one that tested what is known as the Wingo Corporation Act, of which I was author, when I was State Senator, governing corporations coming into the State and doing business. Suppose some Oklahoma banking corporation got control of some banks in my district, in Arkansas, and subsequently they wanted to make them branches and went into the court and showed they had established their business there and made the same plea that the telephone companies did—set up that they are engaged in interstate business: Have you any reason in your mind, as a lawyer, why the modern trend of the Supreme Court would not hold that the State laws could not discriminate against them by classification of business?

Mr. SHULL. Well, of course, you have asked me quite a legal question and my thought is this, that the only right to establish banks in the several States is purely a statutory right and there is a special statute on banking in my State and in most of the States, I presume, and that statute would govern the organization of a bank.

Mr. WINGO. It is true we used to have the idea that a State could determine whether or not a foreign corporation could come into the State and do business, but we have had to modify that to some extent, have we not?

Mr. SHULL. I think so.

Mr. WINGO. Well, take the trade area. You have read the definition of the trade area that Mr. Pole gave. Under his definition and the rule he lays down, Oklahoma would be included in the trade area of Kansas City, would it not?

Mr. SHULL. Oh, no; I would probably say more so in St. Louis. St. Louis does a great deal of business in Dallas and a great deal of business in Wichita, Kans.

Mr. WINGO. Kansas City merchants——

Mr. SHULL. The western parts of the State would deal with Kansas City and the eastern parts of the State with St. Louis.

Mr. WINGO. In the eastern part of the State, Kansas City merchants have a big business in Oklahoma and as far south as Grannis on the Kansas City Southern—Grannis, in Arkansas, and as far down as DeQueen. They call that their trade territory. Their business is done there. I mention that to get your view on this, that if you undertake to say the trade area shall be the rule, necessarily that would be a fluctuatig rule, would it not; that the boundaries would have to be changed to meet the fluctuating trend or course of trade and commerce?

Mr. SHULL. Yes, sir; and there would be a very great overlapping of territory.

Mr. WINGO. Could you conceive of a legislative rule to be laid down? Would it not be necessary to leave that to a bureau to define, and, in the last analysis, would it not practically mean nation-wide branch banking?

Mr. SHULL. Yes, sir; I think the only way you could define it would be just an arbitrarily defined area.

Mr. WINGO. I was interested in two of your suggestions, and I want to see if I understood you correctly. One was that you had studied your banks and that the failures that had been taking place

in recent years were not in the banks that had been recently organized—that is, the abnormal percentage of bank failures—and that this abnormal rate had been confined to those banks in existence prior to 1920?

Mr. SHULL. Yes, sir.

Mr. WINGO. And that the failure of those banks that were organized and in existence prior to 1920 was occasioned not by any new business so much as it was by the continued hangover of paper and credits that they had extended or acquired prior to 1920?

Mr. SHULL. There is no doubt about that in my mind.

Mr. WINGO. I had been told that it was true in my State and I was interested in your suggestion that, as a matter of fact, banks failing in your State and in my district are not failing on account of any mismanagement or misjudgment of extension of credit in recent years, but because ever since 1920 they have been hoping against hope, renewing paper and getting interest whenever they could in driblets on the principal, but finally they had to face the fact that it was hopeless and that they could never, however long they might carry some people, get cleaned out and they might as well clean house and acknowledge they were broke?

Mr. SHULL. I think you are right.

Mr. WINGO. You contention is that, and you draw from that, that the cause of the abnormal bank failures in the small country banks throughout the agricultural sections of the country is not the failure of your present banking system to meet changed economic conditions, but that it was attributable mainly to the reasons you give, namely, the hangover, first of the inflation and then the drastic deflation?

Mr. SHULL. Yes, sir.

Mr. WINGO. I notice you grouped your banks into about three different groups. I think I gathered from your analysis that instead of the smaller banks being the less profitable, as we have been led to believe, in your State they seem to be more profitable?

Mr. SHULL. That is true; yes, sir; but I will find out for sure.

Mr. WINGO. In other words, you undertook to show how many had paid dividends. As I recall, there was a larger percentage of the smaller banks paying dividends than there was of the larger banks.

Mr. SHULL. The largest percentage of banks paying dividends was Group No. 2—$25,000 to $50,000 capital.

Mr. WINGO. In that group was there a smaller number than there was in Group No. 1?

Mr. SHULL. There is a slightly larger number paying dividends. In other words, 70 per cent to 60 per cent of banks less than $25,000.

Mr. WINGO. The point I was trying to get at is this: Measured by total number of banks in groups, which was the greater, No. 1 or No. 2?

Mr. SHULL. No. 1, but I would hate to put that into the record without having the paper before me.

Mr. FENN. I think the reporter has it.

Mr. WINGO. The percentage you gave there was the percentage of the dividends on the whole system; you did not give the percentage measured by the capital of the banks that simply paid the dividends? You just took all the banks, did you not?

Mr. SHULL. I took all the banks, for instance, in Group 1, and figured the earnings against the capital stock in all of the banks in that group, and it averaged so much. If I figured just against the capital of a few of them, of course the figure would be very much different. The dividends were figured against the capital of all the banks in the particular group.

Mr. WINGO. Measured by the future stability of your banking system in Oklahoma, this abnormal number of failures in the last few years is attributable to the major causes which you described—the hangover of bad paper in 1920—and the fact you have finally cleaned house tends to give more stability in the future and promises fewer bank failures in the future, does it not?

Mr. SHULL. Yes, sir; but I will state this: We have not fully cleaned house 100 per cent yet.

Mr. WINGO. I realize that. You have still some that you think will have to face the inevitable. I will not say a lot, but several, as they have in all States, that are still trying to clean up. However, you have one abnormal condition that some of the members of this committee not acquainted with the conditions in our section, do not realize, that in four years in Arkansas and Oklahoma, you have faced a complete failure due to the failure of the cotton crop either quantity or price, and to floods and the depressed price of the cotton crop, and if you had had one good cotton crop in the last four years a large number of the banks that are failing would have cleaned up and gotten back on their feet?

Mr. SHULL. I think so; yes, sir.

Mr. WINGO. And the floods and the evil effect, first, of the inflation and then of the deflation, are more responsible in your judgment for the numerous failures in your State than any deterioration or failure of the banking system to adjust itself to changed economic conditions?

Mr. SHULL. Yes, sir.

Mr. WINGO. Now, you suggested, or named some chain banking systems in your State and I was struck by your failure to list some that I understood were chain banks and I will ask you to give your definition of the distinction between a chain and group system of banks. First, what do you call a chain bank? Let us get that first.

Mr. SHULL. Well, a chain bank, as I understand it and think of it, is a bank where one or probably several people own the control or exercise the control over a number of unit banks.

Mr. WINGO. Before you go to your definition of the group system of banks, will you state whether that is on the increase or decrease in Oklahoma?

Mr. SHULL. Chain banking?

Mr. WINGO. Yes.

Mr. SHULL. I do not think there is as much chain banking as there was 12 or 15 years ago in our State. I do not think there is.

Mr. WINGO. What do you define as a group bank?

Mr. SHULL. Well, a group bank is where a company owns stock in a number of different unit banking organizations.

Mr. WINGO. In other words, a holding company?

Mr. SHULL. Yes, sir.

Mr. WINGO. That has different unit corporations?

Mr. SHULL. Yes, sir.

Mr. WINGO. Is that on the increase or on the decrease in Oklahoma?

Mr. SHULL. We have one company of that kind in Oklahoma that has come into existence right lately. Probably 10 or 12 years ago there were several groups of banks in our State, but during the last four or five years, group banking has almost entirely disappeared in the State up until the late group was organized.

Mr. WINGO. Speaking about your tax proposition—and I will not pursue the matter any further—I was interested in the decision of your Supreme Court, under whidh your banks were relieved from State taxation. That was a decision some time last fall, as I recall?

Mr. SHULL. Yes, sir.

Mr. WINGO. It was furnished me by a gentleman who was interested in the exemption of national banks in my State from their new tax bill that passed the State Legislature. The real test should be, in your opinion, should it not, not so much the rate as the burden? It is possible for a bank or any other taxpayer to have the same rate applied to them yet, measured by the actual burden, the burden may be greater or less, may it not?

Mr. SHULL. I think the rate should be the same and the assessment should be the same as against other property taxed on that basis. That has been the trouble. Banks heretofore have been overassessed, compared with other property.

Mr. WINGO. To show you what I had in mind, I found, in examining some tables the other day, that the general counsel for the American Bankers' Association furnished us that whereas the national banks will not have to pay one species of taxation the State banks will in Arkansas, yet, measured by their earnings and possibly on one other basis, the percentage taken from their earnings by the State of Arkansas in taxes was greater on the national banks than on the State banks, whereas the popular impression is down there that national banks, by reason of developments, are bearing a smaller taxation than the State banks.

The point I have in my mind is that it is possible to have an apparent equality of treatment measured by rates, but when you come to measure the actual tax burden sometimes there would be a discrimination that would not be apparent upon the face of it; and in the last analysis, in Oklahoma and other States, is not this true, that the insufficiency and discrimination that takes place in the assessment is frequently a thing more to be condemned than any lack of uniformity or any discrimination that may exist in the law itself?

Mr. SHULL. Well——

Mr. WINGO. Take the other circumstance you cited, that you have been overassessing your banks measured by the way other properties have been assessed.

Mr. SHULL. Yes, sir; but all banks in both systems have been assessed alike.

Mr. WINGO. I am taking banking as a business and not distinguishing between banks, either State or national, because in your State you have a law that is different from the law in my State. Whereas in your State the very moment the court decides that the tax levied against a national bank can not exceed a certain amount—that is, a very small tax applicable to money and intangibles—under your State, the moment the national banks defeat the collection of that tax under another statute, the State banks get the benefit of that; whereas in Arkansas when the new statute conflicts with section 5219, as far as national banks are concerned, the State banks

do not get the benefit, but the State banks have to bear the burden and have to pay that tax. There is a discrimination and a distinction in the two States?

Mr. SHULL. Yes, sir.

Mr. LUCE. Bearing upon the situation of the depositors in these matters, will you tell us what reason you find in your community for the prevalence of a higher rate of interest at large than we have in the east. We understand the prevailing rates for money in the West and South are higher than in the East, and we were given to understand that if we had the Federal reserve system it would tend to equalize the rates of interest all over the country.

Mr. SHULL. Yes, sir.

Mr. LUCE. Why has it not been done?

Mr. SHULL. Simply for the reason that there is more money in the East and more demand in the West in proportion to the amount of money available than in the East.

Mr. LUCE. We were told when the Federal reserve system was established, that it would facilitate the flow of money back and forth over the country and that its transfer by telegraph and by the devices the Federal reserve system has followed, would make it as easy to borrow $10,000 in Oklahoma as it is in Buffalo.

Mr. SHULL. I do not think you could expect the Federal reserve system to bring about just that result. I think the Federal reserve system has assisted in lowering the rates in the West and making the money in the East more available in the West, but the actual money owned in the West is less, in proportion to the demand than it is in the East. Individuals loaning money individually can simply get more for their money there, and it affects banking to some extent, too.

Mr. LUCE. The next question is: Do you share the apprehension that the creation of branch banking systems will result in bringing still more money into the East away from the West and, if so, how do you reconcile it with the higher earning power of money in the West?

Mr. SHULL. On account of the reason you have a greater risk there, especially for an organization in the East lending that money in the West. Unquestionably a local banker in a local community can lend money and be satisfied with it and do it more safely, whereas, when lending money away out of the territory, that can not be done. That is one reason why the money is cheaper in the East. The people have the money and they would rather lend it in the East than in the West. I think if you take it individully, you would rather do it. You would take the loan closer at home to people you know personally and intimately rather than lend it in the West at even a greater rate of interest.

Mr. LUCE. I find it hard to reconcile that with the recent era of stock speculation. Great quantities of money were pulled out of the West and out of the South into the New York market.

Mr. SHULL. Of course that was not an average condition; it was an abnormal condition.

Mr. LUCE. What opportunity does the man with a little money in Oklahoma have to share in the larger profits that are made by banks that charge higher rates of interest? To put it concretely, in my own neighborhood, in Massachusetts, the depositors in savings accounts,

get now from 4 to 5 per cent income on their money. How do you explain the fact we do not find that apparently in any of the smaller communities of the West?

Mr. SHULL. They do. That is the rate they get in our State—4 per cent. Our law provides that the banking commissioner shall fix the rate and that has been fixed at 4 per cent. The State bank is not supposed to pay more than that. However, some of them do do it where they have competition that makes them do it. But 4 per cent is the general rate over the State.

Mr. LUCE. To depositors?

Mr. SHULL. Yes, sir.

Mr. LUCE. Does your State give any particular protection to savings or time deposits by requiring their segreagation?

Mr. SHULL. No, sir; they do not.

Mr. LUCE. We have thought, in the East, that there was a particularly sacred character, shall I say?—that is hardly the word—but that it was more important to safeguard the savings of the people than the money that is used for commercial purposes?

Mr. SHULL. I think there is good room for thought along that line. I think the losses to that class of depositors cause a great deal more harm than the same losses in the commercial department.

Mr. LUCE. Do you think that it would be probable or improbable that the development of either branch or chain banking would increase the safety of such depositors?

Mr. SHULL Well, as I brought out in my talk, I think this: I think eventually the banking business of this country will be done by a very few parent institutions and I think the size and the result of a failure would be so big that probably the Government would step into the picture and, on that theory, make it safer. It would be so big you could not allow it to fail. I think that is the biggest element of safety that there is in it.

Mr. LUCE. It has been brought to my attention, outside of these hearings, that where branch banking is developing, there seems to be a tendency to cut out the little fellow as much as possible—I mean the small depositor. Do you think that is a probability, that when aggregations of banks become prevalent, they will make it harder for the man with a little money to do business with them?

Mr. SHULL. I think it will be a little more expensive for them to do it. I think they will always take their money, but as the large banks in the country are doing now, they will probably charge for taking their money. I think that will be enlarged upon. I think the greatest element involved is the borrower under our unit system, who is entitled to make loans. I think that privilege, to make small loans, will be taken from him.

Mr. LUCE. Your statement leads up to something that I wanted to ask next. There is growing dissatisfaction with the tendency of banks to slough off, so to speak, the small business; to refuse to carry accounts having small balances, or to impose something in the nature of a fee for the privilege of checking accounts for household purposes and other similar purposes of daily life. Is that noticeable in Oklahoma?

Mr. SHULL. Yes, sir.

Mr. LUCE. You think it is a good policy on the part of the banks?

Mr. SHULL. Yes, sir; I think it is worth the money.

Mr. LUCE. In other lines of quasi-public utility—for example, electric lighting, and the telephone as well as the purely public Postal Service—it has come to be recognized that it is just, wise, and profitable to maintain certain services at less than cost for the sake of the whole structure. Might that not also apply in banking?

Mr. SHULL. Well, I do not know. I do not think the condition of affairs in our State justify it. Personally, I have been advocating the putting on of a reasonable service charge, because the earning capacity of banks in our State is not as large as I would like to see it.

Mr. LUCE. But the little fellow is the fellow that becomes a big fellow in course of time.

Mr. SHULL. I had a man who came into my office recently to organize a bank and his thought was to run a bank without a service charge and I asked him what he would do if he was a merchant—would he sell his goods to a customer at a loss for a period of time on the theory that, after a while, the customer would buy from him on a profitable basis. I think that principle applies to banking. I think they are entitled to a legitimate profit on the service they render.

Mr. LUCE. Are they not, in their nature, quasi public? The argument has been advanced from time to time, that the public interest is greatly concerned with the present tendencies in banking and that they are not purely private institutions.

Mr. SHULL. I have never been able to conceive how you could consider them anything else. They get their charters from the State, it is true, but their busines is really private.

Mr. LUCE. But have you any official charged with the supervision, for instance, of grocery stores?

Mr. SHULL. No, sir.

Mr. LUCE. Does not your very existence, as an official, show that the State is taking the ground that banking is quasipublic in its nature?

Mr. SHULL. I did not mean to convey the idea that it was not somewhat quasipublic in its nature. I did not mean to go that strong, but I think it is really over-emphasized on the other side too and that it is not as much so as some people think. I think banking is entered into by stockholders rightfully from the standpoint of legitimate profit. I think legitimate profits is one of the greatest safeguards that a bank can have.

Mr. LUCE. Did I correctly gather from something you said, that you are apprehensive that the development of branch and chain banking might result in more difficulty in the matter of getting credit by the small merchant or the rancher or farmer?

Mr. SHULL. Yes, sir; I think it will.

Mr. LUCE. I do not quite follow your logic there. You have led me to understand that the interest rate will be higher, or is naturally higher in Oklahoma than it is, say, in Pennsylvania.

Mr. SHULL. Yes, sir.

Mr. LUCE. Why would not a branch-banking system send its money where it could get the most profit on it?

Mr. SHULL. There is an element of risk and the knowledge of the risk that they are assuming, that would enter into that. The loans they would make in the territory, I am sure, would be made at as low a rate of interest or probably lower, but there are a great many loans

in the territory that a unit bank can safely make and that a parent or branch bank would not make.

Mr. LUCE. Gentlemen who have represented the present group systems have insisted that they would be just as liberal and anxious to do business in the small places as the unit banker has been.

Mr. SHULL. Well, I am giving you my opinion and I have talked to some bankers in California that verified my statement. At least that is their opinion about what is going on out there. I know from the very nature of things that the small merchant or small farmer—lots of farmers in our State want to borrow $100 or $200 or $300, and in making that loan the question of interest is not, by any means, the only charge that could be made against that loan. It takes a great deal of time to wait on that customer. It is not a profitable loan, even if the interest rate is large. If I was in a bank away off somewhere I would not approve of such business because I do not think I could do it safely. If I was in close touch with it and had personal knowledge of that class of customer that I was doing business with, it could be done safely.

Mr. LUCE. That is all.

Mr. FENN. I have only one or two questions to ask. Under your State law, there can be no branch banking—I mean branch banking in Oklahoma?

Mr. SHULL. No, sir.

Mr. FENN. The State law forbids it?

Mr. SHULL. The State law does not forbid it. It is silent on the subject, but the attorney general of our State has ruled that it can not be done.

Mr. FENN. Group banking has started in your State?

Mr. SHULL. Yes, sir; one group of banks.

Mr. FENN. Of course, by group banking, you refer to several banks held by a holding company?

Mr. SHULL. Yes, sir.

Mr. FENN. Do you think there should be a control of that holding company by authority?

Mr. SHULL. Yes, sir; I think so.

Mr. FENN. I think the mention was made here either by Mr. Wingo or by yourself, in regard to foreign corporations coming into a State. Now, we will presume that your holding company for one of your groups in Oklahoma, is chartered in Delaware or in Connecticut or in some State that gives favorable charters for associations of that character.

Mr. SHULL. Yes, sir.

Mr. FENN. How would your State be able to control that Delaware corporation—to use that expression as an illustration—control the operations of this out-of-your-State corporation, which controls, to a large extent, the banking facilities in your State?

Mr. SHULL. I could not answer that. I do not know how they would do it. I said I thought they ought to have some control.

Mr. FENN. If the branch banking association is made up entirely of national banks, that control might be taken by the Government, but it has occurred to me, under this system of group banking, the holding of a chain of banks by an out-of-the-State, ultra-State corporation, the State was losing control of that unit, and that some

system should be devised by which control could be given over the controlling corporation.

Mr. SHULL. I think so, too.

Mr. FENN. What do you think of that?

Mr. SHULL. I think there should be.

Mr. FENN. In regard to direct branch banking, you say—and we have always known it—that interest rates are higher in States like Oklahoma and in some other midwestern States and southwestern States, than it is in other States. How is it in California where branch banking has been developed to the highest degree—I mean the charges to the borrower?

Mr. SHULL. I do not know.

Mr. FENN. I do not know whether Mr. Giannini brought that out the other day or not.

Mr. SHULL. Personally, I do not know.

Mr. FENN. I am curious to know what the rates in California, just west of you—and that is a remote State from the east, as remote as anything can be in the United States to-day—are. I believe the rates in California are not very much higher, if any, with branch banking, than they are here.

Mr. SHULL. I do not know.

Mr. FENN. Do your people look with favor upon the proposition of this group banking in Oklahoma, as far as you are able to ascertain?

Mr. SHULL. They do not.

Mr. FENN. They are fearful that the present banking system would not be able to furnish as good facilities to your people under the group system as under the existing system—is that the idea?

Mr. SHULL. Yes, sir; you will find that the people—and I am not referring to the bankers, but to the people themselves in these agricultural towns—are not in favor of branch banking.

Mr. FENN. I just want to say, in passing, in regard to Mr. Luce's statement about charging for carrying small accounts, I know of a bank—the fourth oldest bank in the United States—where, years ago, the president of an insurance company gave up his presidency of that company to organize a bank, which is now a part of this big bank of which I speak. Three or four banks were consolidated, and that bank this man had organized is one of the units of that consolidated bank. One day one of the tellers said, "We ought to get rid of a lot of these small accounts; some do not carry over $12," and this very successful insurance president said to his teller, "Don't you let one of them go." He said, "Some day they may be the largest depositors in this bank." That happened; some of them turned out to be the largest depositors in that bank.

Mrs. PRATT. The first question I have is on a subject which was very strongly brought out here both by the Comptroller and by the Governor of the Federal Reserve Board, and that was that the purpose of branch banking was the mobilization of credit in a great many different centers, for the purpose of decentralizing it. Would you be in sympathy with that purpose? Their idea was that that could be done more easily through a branch-banking system.

Mr. SHULL. My idea is that it will not be done through the branch banking system.

Mrs. PRATT. But you think it would be a good thing to bring about?

Mr. SHULL. Yes.

Mrs. PRATT. How would you suggest it could be done without branch banking?

Mr. SHULL. I think it is done with the Federal reserve system, as far as you can do it. I think any country, in the nature of things, will have one financial capital, and I do not think you can eliminate it. I do not know that it is necessary.

Mrs. PRATT. You think the decentralization is done sufficiently through the Federal reserve system as it now stands?

Mr. SHULL. I do.

Mrs. PRATT. Another point that has been brought out is the advantage of the branch banking system as a diversifier of credits. Would you think, in the situation about which you were talking with Mr. Wingo, where the failures were due to loans on cotton crops, that had your banks been members of a branch system they would have had greater diversity of credits and they would not have depended on loans on one type of security? Is it not a fact that if their loans had been diversified, they might have been able to pull through, but, having all of their loans in one type of security, when that was wiped out they had nothing to fall back upon?

Mr. SHULL. I think possibly there would be somewhat more diversification. However, if you will attend a bankers' convention at any point of the country, you will find that diversification is the one thing preached and practiced by the banks to-day.

Mrs. PRATT. You think the small unit bankers could do that?

Mr. SHULL. Yes; they are doing that to-day—diversifying their investments by purchasing bonds to an extent that was unheard of 10 years ago.

Mrs. PRATT. That is a recent development?

Mr. SHULL. Yes; for the country bankers. But you will hardly find a country banker now who has not substantial holdings in securities of various kinds.

Mrs. PRATT. I think that is all.

Mr. STRONG. Without objection, we will take a recess until half past 2.

(Whereupon, at 12.30 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS

Upon the expiration of the recess, the hearing was resumed, Hon. Robert Luce presiding.

Mr. LUCE. The committee will come to order.

Mr. Brand, I understand you want to ask some questions?

Mr. BRAND. A few questions only.

How long have you been Banking Commissioner of the State of Oklahoma?

Mr. SHULL. About two and a half years; since October, 1927.

Mr. BRAND. Were you connected with a bank at the time you were appointed to that position?

Mr. SHULL. No, sir; not at that time.

Mr. BRAND. I am interested in an independent unit bank, and therefore I was very much interested in your statement and your attitude toward the different systems of banking, branch, chain, and group.

Did I understand you to say that, as an experienced banker, your preferred the unit banking system either to chain banking or branch banking?

Mr. SHULL. Yes, sir, I do.

Mr. BRAND. How much experience have you had tin the banking business?

Mr. SHULL. I was in the banking business for about 15 years.

Mr. BRAND. As an active banker?

Mr. SHULL. Yes, sir.

Mr. BRAND. What positions did you hold?

Mr. SHULL. Cashier and president in one, and vice president in another.

Mr. BRAND. And you were actively engaged in banking during those 15 years in the State of Okalahoma?

Mr. SHULL. Yes, sir.

Mr. BRAND. President of one, you say, and vice president of another, and then cashier?

Mr. SHULL. Yes, sir.

Mr. BRAND. During these years that you were engaged in the banking business, were you connected with unit banks exclusively?

Mr. SHULL. Yes, sir. At one time I did have some stock in other banks at close-by points, but not a controlling interest.

Mr. BRAND. What were the figures you gave us this morning, as to the number of failures of banks in Oklahoma, from the beginning of the deflation period in 1920 down to 1929?

Mr. SHULL. There were 174 State banks that failed during that time.

Mr. DUNBAR. What time is that?

Mr. SHULL. From 1920 to 1929.

Mr. BRAND. What character of banks were they? Were they State banks exclusively, or some national banks?

Mr. SHULL. Well, those were the State banks that failed. I think there were only about 53 national banks that failed during that time.

Mr. BRAND. Do you recall how many banks you had in 1920?

Mr. SHULL. Not for sure, but Oklahoma at that time had in the neighborhood of 600 State banks.

Mr. BRAND. Beside the national banks?

Mr. SHULL. Yes, sir.

Mr. BRAND. Do you recall about how many you have now?

Mr. SHULL. They have about 325 State banks now.

Mr. BRAND. And you had 600 State banks in 1920?

Mr. SHULL. Yes.

Mr. BRAND. Do you recall how many national banks you had in 1920?

Mr. SHULL. No, I do not know, but quite a number; more than they have now.

Mr. BRAND. The figures you gave were very significant to me, in regard to the amount each depositor lost in these failed banks. I felt that they had made a very good showing. What per cent was it that you gave us?

Mr. SHULL. There were 5,640 failures which occurred during the 9-year period, and the average deposits were $234. I am taking the comptroller's figures to arrive as to the number of depositors involved in the failed banks.

Mr. BRAND. What per cent did you say that was?

Mr. SHULL. The recovery in national banks was 80 per cent, just a fraction under that, and I am using that figure all the way through. That made the net average loss $46.80.

Mr. BRAND. The net loss?

Mr. SHULL. Yes, sir.

Mr. BRAND. To each depositor?

Mr. SHULL. To each depositor—the average loss to each depositor, you understand. Of course, some lost more and some less, but that is the average loss.

Mr. BRAND. You spoke once or twice about the deflation period. I take it, then, that you recognize that the inflation period was succeeded by a deflation period.

Mr. SHULL. It certainly was.

Mr. BRAND. How long did it last in your State?

Mr. SHULL. The deflation period is still there, really. Land values in our State have never anything like recovered to the normal values before the war.

Mr. BRAND. You stated, as I recall, that these failures were largely due to the war period and the deflation period.

Mr. SHULL. Yes, sir.

Mr. BRAND. Which one of these periods caused the greater number of failures of banks?

Mr. SHULL. Well, I would say that both periods were the cause of it. During the period of inflation, the banks were doing business on the basis of values at that time, and then, of course, the period of deflation, which came about, as I remember it, about the middle of 1920, found us with values that were very materially decreased.

Mr. BRAND. I asked that question because we had bank failures in Georgia, but none failed during the inflation period.

Mr. SHULL. They did not fail during the inflation period, but they were laying the foundation for failure during that period.

Mr. BRAND. They were becoming shaky during the period in your State?

Mr. SHULL. They were not exactly shaky during that period, but the loans that they were making during that period were being made on a basis that ultimately did result in the losses.

Mr. BRAND. All of our failures, as I said, occurred during what we call the deflation period, after the war.

Mr. SHULL. Ours did, too.

Mr. BRAND. Did any of the banks with which you were connected fail during that deflation period?

Mr. SHULL. Yes, sir.

Mr. BRAND. I believe you stated your connection was only with State banks.

Mr. SHULL. My official connection now?

Mr. BRAND. No; but at that time; during the 15 years that you were connected with the banking business.

Mr. SHULL. Only about a year was I with a State bank. I was with a national bank at that time.

Mr. BRAND. During that 15 years experience in the banking business, how many of those institutions that you were connected with, if any, became insolvent?

Mr. SHULL. I think they have all since failed. Practically every bank in our county failed, except one.

Mr. BRAND. In the county in which you live, you mean?

Mr. SHULL. Yes, sir.

Mr. BRAND. Do you mean during that period, or since then?

Mr. SHULL. Since the deflation period; 1924, 1925, and 1926.

Mr. BRAND. Including and since the deflation period?

Mr. SHULL. Yes, sir.

Mr. BRAND. How many banks have you in your county?

Mr. SHULL. We have three.

Mr. BRAND. We have a few counties in Georgia where all the banks have failed and where they have no bank now. That is true, I understand, in some sections of Alabama and in some sections of South Carolina.

When a bank fails in your State, Mr. Shull, a State bank, for instance, does the State superintendent of banking take charge of the bank?

Mr. SHULL. Yes, sir; the bank commissioner, under the statute, is made the liquidating agent of the bank.

Mr. BRAND. Just the same as a receiver for national banks?

Mr. SHULL. Yes, sir. Then he appoints some man to act for him in liquidating the bank. We call him a liquidating agent.

Mr. BRAND. Who was the commissioner of banking at the time of the failure of the banks in your county? Who was in office, then?

Mr. SHULL. You understand, I was in the national banking business at that time, but I think a man by the name of Walcott was State commissioner at that time.

Mr. BRAND. Was he a banker?

Mr. SHULL. I do not know anything about him. I do not know enough about him that I would like to answer that.

Mr. BRAND. Have you lived in that county all your life?

Mr. SHULL. Since 1902.

Mr. BRAND. Where were you born?

Mr. SHULL. In Missouri.

Mr. BRAND. I thought you made a good showing this morning in regard to the small amount of losses sustained by the individual depositors.

Mr. SHULL. I just took the figures themselves and analyzed them.

Mr. BRAND. And I am not questioning them, but in our State the losses were much heavier.

What do your agricultural people grow in your county?

Mr. SHULL. Cotton is the principal commodity, and wheat. Part of our State, in the northwestern and western sections, is quite a wheat section.

Mr. BRAND. Did you make loans to farmers on lands?

Mr. SHULL. No. I would not say it was never done. It was done in some instances, but it was not a practice to do it. Most of the land loans you find in failed banks were not originally made as such, but they were taken as additional security on a line that had become enlarged, you know.

Mr. BRAND. If you did not loan on land, then, you would not loan to farmers on crop mortgages as the only security, would you?

Mr. SHULL. We do not have as much share-cropping in our State as they have in your State. We have more of tenant farming. We do loan a good deal of money on tenant-farms and take mortgages on the cattle, horses, or mules to secure the loan, but very seldom would the loan itself be secured just by the crop.

Mr. BRAND. As I understood you to say this morning, the banks that did fail usually were in a better condition at the time they failed than they were prior thereto?

Mr. SHULL. That is right.

Mr. BRAND. I do not exactly understand that.

Mr. SHULL. They had generally improved; in other words, they had been able to collect a lot of paper that looked a few years ago as if it would be a loss, but by keeping the bank open they were able to realize on a good deal of that paper.

Mr. BRAND. Could you not get assistance that would help to put them in a better condition?

Mr. SHULL. They could be in a better condition and still be in a bad condition as a matter of fact.

Mr. BRAND. I will tell you why I asked that. We had in Athens, Ga., my home town, a national bank called the Georgia National Bank. I was a director in it, and we were in a better condition than we had been at any time during the preceding five years, gradually discharging the obligations of the bank to the satisfaction of the Federal reserve bank, to whom we owed a good deal of money, with collateral notes as security. Governor Wellborn, of the Atlanta Federal Reserve Bank, wanted to afford us more assistance and let the bank go on, but some member of the Federal Reserve Board here in Washington would not let him do it—so it was reported to me; I do not know whether that is true or not. But, in any event, the Federal reserve bank refused to loan the Georgia National Bank any more money, when the bank was compelled to close its doors, at which time the bank was in better condition than it had been in five years.

I was wondering if the same situation existed with you at the time your banks failed, and other banks in the same class as yours.

Mr. SHULL. Well, as a matter of fact, the bank I was with failed in 1925.

Mr. BRAND. 1925?

Mr. SHULL. 1925.

Mr. BRAND. That is the same year ours failed.

Mr. SHULL. In our particular bank, the directors just closed up, because of a deal that had been made in taking over another institution.

Mr. BRAND. You were not refused help by the Federal Reserve Bank?

Mr. SHULL. We were refused help, all right; but that was not the only thing that did it.

Mr. BRAND. I think the refusal of the Atlanta Federal Bank to help our bank is the chief reason why the Georgia National failed.

Now, I want to ask you this question: As I understand it, you said that if you established a branch bank in a given community or town where an independent unit bank, was then located, one or the other would have to fail, and it was your judgment, as I understood you to say, that the unit bank would likely go under?

Mr. SHULL. No, you misunderstood me.

Mr. BRAND. Then clarify that.

Mr. SHULL. What I said was this, that we have banks which were chartered, we will say, prior to 1920 which have many losses in them and that are still operating and which, under favorable circumstances, will pull through, but there is not room enough in the towns where some of those banks are located for two unit banks, and I am very much afraid that if we had branch banking there would be a possibility of some larger institution—and you know there is no getting away from the fact that larger institutions do have some power in the way of getting done what they want to get done—putting a branch in that particular town, which would make it a good deal harder for this unit bank to work itself out of its present condition than it would be if it did not have that competition.

Mr. BRAND. And it would be the unit bank that would go down?

Mr. SHULL. Yes, but I am assuming that it is a unit bank that is now in first-class condition. We have some banks yet that are not in 100 per cent perfect condition.

Mr. BRAND. You are opposed, as I understand your statement, to the plan of branch banking as outlined by Mr. Pole, the Comptroller of the Currency?

Mr. SHULL. Yes, sir.

Mr. BRAND. Do you mind briefly giving your reasons for this conviction of yours? I not only want to know on account of being a member of this committee, but I want to also know as a citizen interested in the banking situation in Georgia.

Mr. SHULL. In the first place, I think it is rather unworkable to define and determine what is a trade area. I think you will have to fix the areas in a more or less arbitrary fashion, or do a great deal of overlapping.

In the second place, I do not think there has been the demonstration of any need for branch banking in this country. The unit banks are handling the banking business of this country on a satisfactory basis. We financed the Great War, and we are financing to a very large degree the world itself to-day, and the unit banks are doing it, and the failures which have occurred have been, in a very large percentage, 95 per cent at least, caused by the deflation which followed the war, and branch banking is not going to correct the failures that come from that source.

Mr. BRAND. Are you of the opinion that if these branch banking systems continue to pursue their present policy, and the group banking systems continue their present policy of taking over in one way or another different banks into their respective systems, it will in the end become nationwide and that it will create a monopoly of the capital and credit?

Mr. SHULL. I think it will very largely tend to monopoly. I do not know that it will be an absolute monopoly of it, but it will certainly be in fewer hands than it is to-day.

Mr. BRAND. It will, in your opinion, either create to a certain extent a monopoly of money and credit or tend to do so?

Mr. SHULL. Yes, sir.

Mr. BRAND. That is your firm judgment about it?

Mr. SHULL. Yes, sir.

Mr. BRAND. I believe you are the only witness that has been before our committee who would admit unconditionally that that would be the result; and that is the way I feel about it myself.

What is the average salary you paid for your clerical force in your unit banks?

Mr. SHULL. You mean, among the banks themselves?

Mr. BRAND. Yes, sir; the clerical force in the country unit banks.

Mr. SHULL. Well, of course, they vary in size, but I would say the average salary for a cashier in a bank of $25,000 capital in our State would be about $200 a month.

Mr. BRAND. What would be the average salary of the bookkeepers, stenographers, and so forth?

Mr. SHULL. From $100 to $150.

Mr. BRAND. You are paying them pretty good salaries for $25,000 banks.

Mr. SHULL. I do not think that is a very high salary for them.

Mr. BRAND. Are the agricultural classes in your country now prosperous?

Mr. SHULL. No; not very prosperous.

Mr. BRAND. Are they in debt?

Mr. SHULL. Yes, sir.

Mr. BRAND. In what size town in your State, as a rule, is a bank of not over $25,000 capital located?

Mr. SHULL. The law provides that a town with 6,000 people shall have a bank of $25,000 capital, as I remember it now.

Mr. BRAND. What rate of interest do you charge your tenant farmers, as you call them, where you lend money to them in order to make crops?

Mr. SHULL. Pretty universally 10 per cent.

Mr. BRAND. What is the legal rate in your State?

Mr. SHULL. Contract rate, 10 per cent. Legal rate, 6 per cent.

Mr. BRAND. As I understand you, you prefer independent unit banking to chain banking, branch banking, and group banking?

Mr. SHULL. Yes, sir.

Mr. BRAND. Mr. Chairman, I do not believe I care to ask any more questions.

Mr. GOODWIN (presiding). Mr. Dunbar is next.

Mr. DUNBAR. Mr Shull, you said, if I understood you correctly, that if branch banking becomes nation-wide and they operate under national charter, that in time three large banks will control all the branch banks in the United States.

Mr. SHULL. No; I did not make that statement.

Mr. DUNBAR. What statement did you make?

Mr. SHULL. I made the statement that in Canada three large banks control a very large percentage of the business there.

Mr. DUNBAR. Then I understood you to say, after you had made that statement, that three large banks in the United States with many branches would drive the Federal reserve system out of existence.

Mr. SHULL. I did not make that statement exactly as you have it.

Mr. DUNBAR. Please state it as you said it.

Mr. SHULL. I did state that in my opinion, in the course of years, you would have only a few large banking concerns in the United States. Just what number, of course, would be hard to guess, but I say very few, comparatively, and that when you do have just those few banking concerns I was very doubtful if this country would have a Federal reserve system any more than England and Canada and other countries have, which have reached that degree of concentration.

Mr. DUNBAR. That is what impressed me this morning, your statement to that effect. Suppose that our Federal reserve system were forced out of existence by a few large banking institutions that controlled all of our national banks, how would we get our circulating medium?

Mr. SHULL. Well, of course, we had a circulating medium prior to the inauguration of the Federal reserve system.

Mr. DUNBAR. That consisted of national bank and Federal notes only to the extent of $500,000,000 in circulation, so that it would make our circulating medium possibly only one-third of what it is now.

Has it occurred to the gentlemen what would be the alternative if such a thing occurred? I know that you are opposed to branch banking, but is it one of the evils that you would predict would come about as a result of a nationally authorized branch banking system?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. Have you any idea as to how the circulating medium would then become restored to its necessary amount?

Mr. SHULL. No; I do not feel competent to make suggestions along that line.

Mr. DUNBAR. Yet you do realize it would be necessary to do something?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. Now, when Mr. Strong asked you what the effect in a community was when a bank failed, your reply was that all of the property, all of the money, remained there, and that the effect from a money standpoint did not in any way add to the disaster because of the failure.

Mr. SHULL. No; I did not make it that strong.

Mr. DUNBAR. How strong did you make it?

Mr. SHULL. I said that I did not think that failure would be as disastrous to the community as if that community had a branch bank there that failed.

Mr. DUNBAR. But it would be practically impossible for a branch bank to fail, would it not? Is not that your idea?

Mr. SHULL. No; that was not my idea.

Mr. DUNBAR. What was your idea?

Mr. SHULL. I tried to bring out this idea: We are going to suppose that everyone of the banks there failed, whether unit or branch banks. My idea is that the community situated maybe 200 miles or 500 miles from the parent organization will be hurt worse by the failure of a bank operating under the branch banking system than it would be with the unit bank, because with the unit bank a larger percentage of its loans is loaned locally and that money would still be in the community.

Mr. DUNBAR. I have been led to believe that it is almost impossible for a branch bank to fail.

Mr. SHULL. Well, I do not think that is true, because we had failures in Canada.

Mr. DUNBAR. I mean in the United States.

Mr. SHULL. I think upon investigation that you will probably find that a branch bank failed in California. I would suggest that you investigate that.

Mr. DUNBAR. Was that connected with a parent bank which itself was solvent?

Mr. SHULL. Well, that condition could not exist under branch banking.

Mr. DUNBAR. What condition?

Mr. SHULL. A parent bank would have to fail if any branch of it failed.

Mr. DUNBAR. That is what I thought.

Mr. SHULL. My information is—and I am suggesting this for your investigation, because I may be mistaken—that there was a bank in California that was a branch bank that did fail. I would suggest that you investigate that.

Mr. DUNBAR. I have no doubt that, with a small bank having a small number of branches, such a thing would be possible, but their safety, as I understand it, is based on the fact that they have such an immense amount of capital and surplus that they are able to finance any emergency arising in any of the branch banks under their jurisdiction, and then this morning you added another reason why they might be made secure, which was that when only a few branch banking systems operated our banks in the United States, in event of their failure our Government would have to come to their assistance in order to save chaos.

Mr. SHULL. I think that is the biggest element of safety in branch banking.

Mr. DUNBAR. The prospective help of the Federal Government in the event of a threatened failure?

Mr. SHULL. Yes, sir; I think that is right.

Mr. DUNBAR. Now, a few questions along the line asked you by Judge Brand and Mr. Wingo, respecting the number of failures of banks since 1920. You stated, as I remember it, that of the banks organized in Oklahoma since 1920, but eight of them failed?

Mr. SHULL. I think that is right. It is either five or eight.

Mr. DUNBAR. That is near enough; whereas about 150 failed altogether.

Mr. SHULL. Yes, sir.

Mr. DUNBAR. And Mr. Wingo brought out the point that the failure of these 150 banks was due to obligations that they had assumed during the inflation period, and the deflation period caused them to have to suspend payments.

Mr. SHULL. Yes, sir.

Mr. DUNBAR. And that the banks which had been organized since then had been organized under new fundamental conditions then existing and that they had been able to go along and take care of their customers and operate successfully.

Mr. SHULL. Yes, sir; that is the history of our State.

Mr. DUNBAR. Now, I remember, in corroboration of what Mr. Wingo said this morning, that when I was on the Committee on Banking and Currency some years ago, we had private, confidential information that in one of our prosperous Western States—of coure, I will not name it—if all the banks there had to liquidate in two years' time, 95 per cent of them would not succeed in doing so.

That is in accord with your theory that the banks that have been failing since have been among that 95 per cent and that it was the

actual result of the inflation before 1920, and that that could not be used as an argument against the continuance of unit banking?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. So, your judgment is that if these unit banks were going into business now and were not overburdened, as they would not be, with past obligations, there is no reason why they should not prosper and succeed—is that your idea?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. And that a unit bank would be better able to serve the public than a branch bank?

Mr. SHULL. Yes, sir.

I think one other point is worthy of consideration I understand that in the State of Iowa which is probably the most typical agricultural State in the Union, more banks failed with a capital stock of over $50,000 than under $50,000. In other words, more large banks failed in that State than small banks.

Mr. DUNBAR. Now, your contention is, as I understand it, that branch banking will not stop the failures of smaller banks in these various communities?

Mr. SHULL. I think they certainly will not

Mr. DUNBAR. On the other hand, you think that branch banking would have a tendency to hasten the failure of these small banks, because of the competition?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. How much interest do you pay on deposits?

Mr. SHULL. Four per cent is the present rate.

Mr. DUNBAR. How much do you lend your money for?

Mr. SHULL. It is from 6 to 10 per cent.

Mr. DUNBAR. The 10 per cent loans being the risky loans, if I understood you correctly?

Mr. SHULL. There is more risk involved in them.

Mr. DUNBAR. How do banks in some communities pay 4 per cent interest on savings and lend that out at 6 per cent?

Mr. SHULL. That occurs in the larger banking points. A small bank with a small volume of business could not loan out money at 6 per cent and at the same time pay 4 per cent on deposits.

Mr. DUNBAR. You brought out this morning a thought on a subject that I spoke to you previously about, and that is that if we were to have Federally authorized branch banks, they would drive out the Federal reserve system, and, if they drove out the Federal reserve system, there would have to be some solution of the problem arising in connection with our currency. You are firmly of the conviction that unit banks organized now and properly managed can be a success in the communities in which they exist, are you?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. What size community would you think would be the smallest in which that situation could come about?

Mr. SHULL. We have some banks that are as good banks as we have in the State in very small communities, of 300 or 400 population, and some of the safest banks and the best earning banks that we have are in those small communities.

Mr. DUNBAR. And they draw their business for miles around?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. Have you much branch banking in Oklahoma?

Mr. SHULL. We have none.

Mr. DUNBAR. The law of your State does not permit it?

Mr. SHULL. No; the attorney general has ruled that it does not, but the statute is silent on that question.

Mr. DUNBAR. That is all.

Mr. GOODWIN. If branch banking becomes legalized on a nation-wide basis, or within certain defined trade areas, what effect would the branch banks have upon the independent unit banks that are now existing?

In other words, do you believe that an independent bank and a branch belonging to a large system can exist side by side, or must one inevitably go under?

Mr. SHULL. Well, I am looking up the histories of the countries that have had branch banking for quite a while, and the result in those countries is that there is just one system of banking now, branch banking.

In California there are some good unit banks in operation to-day that are competing successfully with branch banks.

Mr. GOODWIN. But the branch banking system in California has been of comparatively short duration?

Mr. SHULL. Yes, sir.

Mr. GOODWIN. This group has been increasing tremendously within the last few years?

Mr. SHULL. Yes, sir.

Mr. GOODWIN. Well, I want to get your own opinion as to whether an independent unit bank can exist for any length of time with the increased competition that a branch bank would give to the unit bank?

Mr. SHULL. I did not catch the question.

Mr. GOODWIN. What I am anxious to know is if, in your opinion, an independent unit bank—even a strong one—can exist against the competition of a strong branch bank with a vigorous management and powerful influence that it carries with it?

Mr. SHULL. Well, there might be exceptions in the cases where they could, but I would say generally they could not.

Mr. GOODWIN. We have been told in this committee repeatedly that there is nothing quite so fluid as money; that wherever there is a demand for money, money will be available. Do you have any apprehension that if there is established legally a branch banking system, nation-wide, or within a trade area, there will be any restriction of credit in different localities?

Mr. Shull. I think there will be. You will have to interpret what that demand is. There would not be a restriction of credit even in any section of the United States, to certain classes of enterprises, but there would be to others. I think unquestionably these large banks would not make loans to the small farmer and certain classes of people—small merchants—because they would simply prefer a larger line of business and a large line of business which they could take a little more time and get more information about.

Mr. GOODWIN. In other words, the little fellow who may want to borrow a small amount for the development of his business would not have the same opportunity to obtain credit from a large branch banking system that he would from an independent unit bank where he

was known by the officers of the bank and trusted and relied upon for his integrity?

Mr. SHULL. I do not think so.

Mr. GOODWIN. Have you given any thought to the taxation of branches of a branch bank in the different communities where branches would be located?

Mr. SHULL. Well, I do not know whether there would be any way to correct it or not. Under the present law of taxation all the taxes would be paid where the charter was taken out by the parent bank. There might be a way to get around that, but I do not know what it is. That would have to be changed to provide to smaller communities where the branches are the benefit of that taxation.

Mr. GOODWIN. On the basis of money used by that particular bank in the community?

Mr. SHULL. Yes, sir.

Mr. GOODWIN. In your State, Mr. Shull, where have the bank failures been most pronounced—in the agricultural sections or industrial sections or in the oil fields?

Mr. SHULL. Of course, the entire State of Oklahoma is more or less an agricultural State, even in the oil districts. The number of failures in our States have been pretty well distributed. The southeastern section of the State, which is strictly the cotton section, had their failures first. The northeastern section, which is the oil section, is getting their failures now. However, there was more financial strength in that section and they have been able to carry on longer, but in the last year and a half the most failures have been there.

Mr. GOODWIN. As I understood you, you charged the deflation that followed the war as being the cause of many of these failures?

Mr. SHULL. Yes, sir.

Mr. GOODWIN. Do you have in mind anything in reference to the War Finance Corporation activities and the policy it pursued in calling loans it had made to banks to carry agriculture?

Mr. SHULL. Yes, sir.

Mr. GOODWIN. What do you think of that policy they pursued at that time? Was it either necessary or justified?

Mr. SHULL. I had wondered what the losses were to the Government under that policy. Of course I had no way of finding out.

Mr. GOODWIN. I understand the Government lost nothing, but had a substantial profit.

Mr. SHULL. They may have; I do not know.

Mr. GOODWIN. But losses were sustained by agriculture, mostly, I understand?

Mr. SHULL. I know some good that was done by that system.

Mr. GOODWIN. If that money had been made available continuing for some length of time, so as to permit the farmers to recover entirely, in your opinion, would many of these bank failures have followed or would many of them have been saved?

Mr. SHULL. Those failures might have been lessened somewhat. However, in speaking of bank failures, the men in a supervisory capacity like to speak of frozen loans. As a matter of fact, most of those loans were just losses. We just had losses that happened, and the bank failure in a community itself is not the bad thing. These losses that they had that caused that bank failure are the things that hurt so much. It is the losses.

Mr. GOODWIN. Those are all the qusetions I have to ask. Is there any other member of the committee who wishes to ask Mr. Shull any further questions?

Mr. WINGO. I think I will take the liberty of thanking Mr. Shull on behalf of the committee for coming here. I understand, Mr. Shull you are one of the outstanding banking commissioners in the country and we appreciate very much your coming here and giving us your views.

Mr. GOODWIN. The committee thanks you very much.

(Whereupon, at 3.25 o'clock, p. m., the committee adjourned to meet at 10.30 o'clock, Wednesday, May 14, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, MAY 14, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met in the committee room, Capitol, at 10.45 o'clock a. m., Hon. Robert Luce presiding.

Mr. LUCE. The committee will come to order. Mr. Reichert, will you please give your name, address, and official position to the reporter.

STATEMENT OF RUDOLPH E. REICHERT, COMMISSIONER OF BANKING, STATE OF MICHIGAN, LANSING, MICH.

Mr. REICHERT. My name is R. E. Reichert, State banking commissioner of Michigan, Lansing, Mich.

Mr. LUCE. Mr. Reichert, you understand we are here to learn what we can about branch, chain, and group banking. We shall be glad to have you tell us what you know about it and what you think about it.

Mr. REICHERT. Would you like to have me make a statement?

Mr. LUCE. If you will, please.

Mr. REICHERT. Mr. Chairman and members of the Banking and Currency Committee of the House of Representatives, I greatly appreciate the courtesy of being invited to appear before your committee and take part in this very interesting discussion, which is of such vital importance to the banking world. You are seeking a solution of a very perplexing problem, and both the bankers and the public should appreciate the time and labor that you are giving in your efforts toward finding its solution. I shall be very happy if I can assist you and possibly contribute something to your study of this question as a result of my observations and experiences in connection with the duties as commissioner of banking for Michigan. I must of necessity confine my statements principally to the operations of banks in Michigan.

A report from the Comptroller of the Currency, advising your committee that under the present State and national banking systems there have been 5,641 bank suspensions in the last nine years should, of course, call for an investigation and study of our present systems. It should, however, be definitely kept in mind that the comptroller referred to suspensions when giving these statistics and not failures.

I have read all the testimony available to me, and with particular interest that of the Comptroller of the Currency and the governor of the Federal Reserve Board. I shall endeavor to make my statement

as brief as possible, and in it will attempt to anticipate as many of the questions as I think you might ask, judging from your previous hearings. I shall also refrain in the main from using statistics that have already been furnished to you, except in so far as they pertain to my own State.

Michigan has had three banking laws during its existence. In 1837 the first act was passed. The banks chartered under this act immediately went into land speculations and the issuing of what was known as wildcat currency. It was the dismal failure of these corporate banks that brought about private banking, and with the exception of those corporate banks which went into liquidation, they were succeeded by private institutions. Private banks still exist in Michigan.

In 1857 the second act was passed and was amended in 1871. This did not prove successful and wildcat banking continued, and along with it bank failures. This condition brought about a demand for a complete revision of our banking laws, placing definite powers in the commissioner of banking, including discretionary power for the granting of charters. It is the latter provision, so wisely administered by previous commissioners, that has contributed more to the success of our banking system than any one other thing. In 1887 the present act was passed, and in 1889 the department of banking was organized. This act was recodified in 1929 by the department with the assistance of a committee from the Michigan Bankers Association, and this act was passed by the legislature in that year.

In our State at the present time there are 581 State banks, 8 industrial banks, 23 trust companies operating under State law. These institutions have total deposits of $1,419,488,000. The number of national banks operating in the State is 130, and their deposits are $536,147,000. According to the latest statistics available to me, the average ratio of banks to population in the United States is one bank to every 4,554 people. Michigan has one bank to 5,371 of population. In some States this runs as high as one bank to 1,150 of population. The principal difficulties have arisen in States where the ratio of banks to population is high.

As far as the operation of our banks under our act since 1889 is concerned, we do not feel that we have had an unusual number of bank failures. Since 1889 we have actually had 24 chartered State bank failures. The amount of money involved in these receiverships amounted to $13,141,355.24. The amount that has been paid to creditors up to date is $5,110,505.81. We have at present four active receiverships, the amount involved in these being $1,187,815.34. For the last nine years, which is the time covered by the comptroller's report, we have had six chartered State bank failures. The amount involved in these six banks is $2,964,702.45. Four of these are still active receiverships. Up to date there has been returned to creditors $703,853.53. This covers the period of the last nine years. Comparing this amount with the total assets of our chartered State banks and trust companies on March 27, 1930, which amounted to $1,780,698,856.96, you will find that the losses to creditors approximate $6,000,000 in these banks for a period of over 40 years, and after the present receiverships are closed, a loss of approximately

$1,500,000 to $1,700,000 in the receiverships for the last nine years; this in banks with assets aggregating $1,780,698,856.96. The percentage of loss on this basis would be approximately one-tenth of 1 per cent.

The question which naturally comes to your minds after comparing this statement with that made by the comptroller, reporting 66 banks suspensions in Michigan for the last nine years, is concerning the nature of the other 60 suspensions. As previously stated, six banks of the 66 were State banks that are now or have been in receivership. One of these is listed twice in his report because it suspended business in 1924, was reopened, and finally closed in 1925. Four were State banks that were temporarily closed and reopened after regoranization took place under a new management. Three were State banks that were closed while sales were being effected with other institutions so that in these instances the deposit liability was cared for. Two were national banks, and the balance of 50 in number were private banks which now must, under act 284, P. A. 1925, go into liquidation or organize under the State or national banking law should the individual or partners die. Under this act, private banks can no longer be established, nor can the private banks in existence at the present time be sold. In the last three years we have taken over 11 private banks. During this period, 33 banks have given up their charters by virtue of consolidations. In some instances these latter banks did not have sufficient earning power.

The matter of earnings is one item in the reports which we watch very closely. We consider earning power one of the most important factors in a bank. In order to have earning power, the bank must have a clientele and management. The best managed bank in the world without customers can not be successful. In connection with the subject of earnings, I might state that we have prepared with the cooperation of the Federal Reserve Bank of Chicago, a chart showing the distribution of gross earnings of Michigan banks according to their relative sizes.

I have those charts with me and if you should like to see them, I shall be glad to present them to you. They are charts that the examiners use to fit the banks into the group to which they belong, using these charts to acquaint the board of directors with the average experience of institutions of like size.

Mr. HOOPER. Did you intend to place one of them in the record?

Mr. REICHERT. If you so desire; yes. I though possibly you might have had those charts furnished you by the Federal reserve bank.

Mr. HOOPER. Do you not think it is proper to have those charts inserted in the record at this place?

Mr. LUCE. Yes. It is not a diagram chart, is it?

Mr. HOOPER. We might look at them first, before inserting them.

Mr. LUCE. I do not feel that I want to take the responsibility of inserting this type of chart into the printed record.

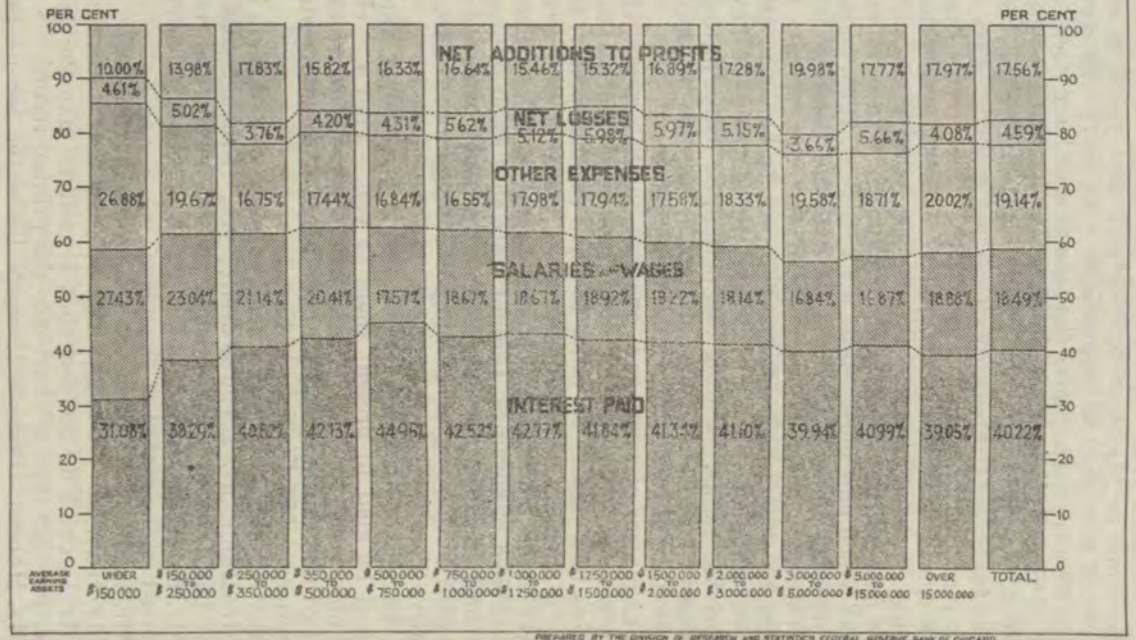
Mr. HOOPER. Perhaps it would be better for us to examine the charts first.

Mr. LUCE. However, after consultation with the clerk, I find that the chart can be inserted.

(The charts referred to are reproduced on following pages.)

DISTRIBUTION OF GROSS EARNINGS OF 673 MICHIGAN BANKS IN 1928

INCLUDING STATE BANKS + TRUST COMPANIES, AND NATIONAL BANKS IN PORTION OF STATE WITHIN SEVENTH FEDERAL RESERVE DISTRICT.



PREPARED BY THE DIVISION OF RESEARCH AND STATISTICS, FEDERAL RESERVE BANK OF CHICAGO.

	Number of banks	Interest and discount received divided by gross loans and investments	All other earnings divided by gross loans and investments	Total gross earnings divided by gross loans and investments	Total expenses divided by gross loans and investments	Interest on deposits divided by gross loans and investments	Intersets and discount on borrowed money [1] divided by gross loans and investments	Salaries and wages divided by gross loans and investments	Taxes divided by gross loans and investments	All other expenses divided by gross loans and investments	Net earnings divided by gross loans and investments	Net losses divided by gross loans and investments	Net addition to profits divided by gross loans and invest ments
		Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
Under $150,000	47	7.72	0.56	8.28	7.07	2.57	0.16	2.27	0.45	1.78	1.21	0.38	0.83
$150,000 to $250,000	84	7.46	.36	7.82	6.34	2.99	.08	1.80	.30	1.24	1.49	.39	1.09
$250,000 to $350,000	64	7.25	.44	7.69	6.03	3.08	.45	1.63	.29	1.00	1.66	.29	1.37
$350,000 to $500,000	99	6.89	.30	7.19	5.75	3.02	.06	1.47	.33	.92	1.44	.30	1.14
$500,000 to $750,000	99	6.73	.27	7.00	5.55	3.14	.03	1.23	.32	.86	1.44	.30	1.14
$750,000 to $1,000,000	76	6.56	.36	6.92	5.38	2.92	.08	1.29	.31	.83	1.54	.39	1.15
$1,000,000 to $1,250,000	45	6.50	.36	6.86	5.45	2.93	.08	1.28	.34	.89	1.41	.35	1.06
$1,250,000 to $1,500,000	25	6.24	.31	6.55	5.15	2.73	.06	1.24	.35	.82	1.40	.39	1.00
$1,500,000 to $2,000,000	30	6.37	.42	6.79	5.24	2.81	.01	1.24	.37	.83	1.55	.41	1.15
$2,000,000 to $3,000,000	33	6.25	.48	6.73	5.22	2.74	.11	1.22	.34	.89	1.51	.35	1.16
$3,000,000 to $5,000,000	22	6.11	.53	6.64	5.07	2.62	.16	1.12	.37	.93	1.57	.24	1.33
$5,000,000 to $15,000,000	30	5.83	.71	6.54	5.01	2.64	.06	1.10	.44	.79	1.53	.37	1.16
Over $15,000,000	19	5.37	.52	5.89	4.59	2.24	.30	1.11	.41	.77	1.30	.24	1.06
Total	673	5.78	.51	6.29	4.90	2.49	.17	1.16	.39	.81	1.39	.29	1.11

[1] Data computed on national bank figures only, as State bank report of earnings and dividends does not segregate the item from interest paid on deposits.

	Gross loans and investments divided by invested capital	Net addition to profits divided by invested capital	Salaries and wages divided by total gross earnings	Interest on deposits divided by total gross earnings	Total expenses divided by total gross earnings	Net losses divided by total gross earnings	Net addition to profits divided by total gross earnings	Dividends divided by total gross earnings	Interest on deposits divided by gross deposits	Time deposits divided by gross deposits	Invested capital divided by gross deposits	Net earnings divided by invested capital
	Per cent	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*	*Per cent*
Under $150,000	428.64	3.55	27.43	31.01	85.39	4.61	10.00	7.59	2.52	54.14	22.87	0.18
$150,000 to $250,000	602.90	6.59	23.04	38.27	81.01	5.02	13.98	9.53	2.88	58.24	15.98	8.96
$250,000 to $350,000	824.65	11.31	21.14	40.05	78.41	3.76	17.83	9.91	2.86	63.82	11.28	13.69
$350,000 to $500,000	798.34	9.08	20.41	42.06	79.98	4.20	15.82	11.59	2.86	65.84	11.85	11.49
$500,000 to $750,000	870.97	9.96	17.57	44.90	79.36	4.31	16.33	10.22	2.98	69.11	10.88	12.58
$750,000 to $1,000,000	861.74	9.92	18.67	42.23	77.74	5.62	16.64	11.77	2.78	66.90	11.03	13.27
$1,000,000 to $1,250,000	882.79	9.36	18.67	42.64	79.42	5.12	15.46	10.79	2.81	65.09	10.87	12.46
$1,250,000 to $1,500,000	838.41	8.41	18.92	41.62	78.70	5.98	15.32	11.45	2.59	60.67	11.34	11.70
$1,500,000 to $2,000,000	894.33	10.26	18.22	41.33	77.15	5.97	16.89	9.39	2.69	63.22	10.70	13.89
$2,000,000 to $3,000,000	896.39	10.42	18.14	40.79	77.56	5.15	17.28	9.97	2.59	62.76	10.52	13.53
$3,000,000 to $5,000,000	686.96	9.11	16.84	39.43	76.36	3.66	19.98	11.29	2.59	63.99	14.40	10.78
$5,000,000 to $15,000,000	795.75	9.25	16.87	40.44	76.57	5.66	17.77	11.29	2.60	57.77	12.34	12.19
Over $15,000,000	758.90	8.03	18.88	37.97	77.95	4.08	17.97	10.94	2.15	52.96	12.69	9.85
Total	779.36	8.62	18.49	39.50	77.85	4.59	17.56	10.90	2.40	57.18	12.37	10.87

Mr. REICHERT. In this manner we felt that we could assist our banks in determining whether or not they conformed with the average in their group. There are many things which enhance or impair earning power. The forcing of the discontinuation of exchange charges by banks and the resultant free use of checks has contributed quite largely to the expense of handling commercial business. Banks are making analyses of costs covering these floats which are very enlightening, and as a result are installing systems to take care of these costs. These systems, however, are quite complicated and would not only be costly but difficult to operate in country banks. There is some argument for the old system of exchange charges and passing it back to the customer. As I go on in my work, I find that these old bankers have thought of a lot of things that we apparently again have to learn from experience.

Whenever some one had authority to restrict the organization of banks to cases of necessity and had the courage to carry it out, the result has not been so unsatisfactory. There is, of course, one factor of which we must not be unmindful, and that is that we have come through an economic readjustment after the World War, which has, of course, along with everything else, upset our financial system. During the war we played an important part in world banking, and we did become the principal producer of food. We virtually had the whole world for our customer. Following the cessation of hostilities, foreign countries again looked to their former sources of supply, which, of course, greatly interfered with our production program; and in view of this it is not at all surprising that we have had some very definite disturbances in attempting to readjust our selves to existing conditions.

On January 21, 1927, at the time of my appointment, there were 581 State banks. Eleven charters have been issued to acquire private banks, and 30 consolidations have been effected. On March 27, 1930, we had 581 State banks, so it must be quite evident to you that we have not been very liberal in the granting of charters. We have insisted that no charter be granted in a community unless a bank is absolutely necessary. I have thought that it was better to err upon the side of conservatism, feeling that there would be less harm in not having a bank in a certain community if it was not apparent tht sufficient business was available to make it a success, than in granting a charter.

Since January 21, 1927, a period of a little over three years, we have had one State bank failure. The total amount involved in this bank was $723,097.76. This failure occured in May, 1929. We have already paid a dividend of $146,309.60, and permission has just been granted to pay another dividend of 10 per cent. This failure was caused by forgeries, both in notes and mortgages on the part of a father and son who were president and cashier respectively.

The question naturally arises in your minds just where the private bank suspensions which were included in the comptroller's report should be charged. Certainly they can not be included with chartered state banks or national banks, and a claim made that because of the failure of these private banks, these systems are inoperative. As stated before, it was not until 1925 that the act prohibiting the establishment of private banks was enacted in this State. Private

banks are neither under the supervision of the banking department nor under any other department.

Our State allows branch banking in municipalities. This has worked out very satisfactorily. The bank can absorb the expense of the operation of these branches until they begin to pay. These branches, as operated by our banks, are purely a convenience to their customers. The bank is limited in the extension of branches to an investment of 50 per cent of its capital and surplus in banking house.

In 1929, our act was amended to give banks the right to establish industrial loan departments for the purpose of taking care of the small borrower. Our law also provides for the segregation of savings assets to cover savings deposits, and designates the class of securities that these deposits must be invested in. Our statute also provides for trust powers to be given banks when they have the combined capital required for a trust company and a bank in a given locality. Trust companies may also have banking powers under certain circumstances.

During the past year, group banking came into prominence in this State. Upon the affiliation of the first State bank with one of these groups, an opinion from the attorney general was asked for. He was asked to rule upon the following questions:

(1) Is there any difference between the purchase or ownership of one share of stock and the purchase or ownership of two-thirds or all of the stock of a bank or trust company by a holding company?

(2) Do these holding companies, by the ownership of two-thirds or all of the stock, by the absolute power vested under our statute to such owner, constitute operation of such institution?

(3) Banks and trust companies receive their charters from the State to have offices in a city or village for the purpose of doing a banking or trust business. Such corporations can not be organized under the general corporation statute. Does the organization of a holding company, organized under the general corporation statute, owning two-thirds or all of the stock of such corporation, do by indirection that which can not be done under either statute?

There are other points at issue such as the voting of stock, the stockholders' liability in each of the institutions so owned by the holding company, directors' qualifying shares, machinery to be set up to collect assessments should one be necessary. In fact, the whole question involved seems to be, Can all the statutory provisions pertaining to the organization and operation of banks and trust companies as set forth by the legislature in these two statutes, be complied with by this method of organizing holding companies to own and control banks and trust companies?

To the above he replied that all the provisions of our statute could be complied with by the organization of a corporation under one statute and owning all the stock but directors' qualifying shares of a corporation organized under another statute, provided the holding company did not attempt to operate under the statute governing the corporation whose stock it holds. I can furnish you with a copy of his opinion if you so desire.

Mr. SEIBERLING. That is an opinion from your attorney general?

Mr. REICHERT. Yes.

Mr. LUCE. Is it long?

Mr. REICHERT. Seventeen typewritten pages.

Mr. LUCE. Do you desire it put into the record?

Mr. SEIBERLING. I do not know that I want it to go into the record, but I should like to see it. Have you printed copies of the opinion?

Mr. REICHERT. No, sir; only the one copy.

Mr. LUCE. I think this had better be inserted in the record at this point.

(The opinion of the attorney general is printed in full, as follows:)

OCTOBER 9, 1929.

Hon. R. E. REICHERT,
State Commissioner of Banking, Lansing, Mich.

DEAR SIR: You have asked the following questions with reference to the purchase of stock in State banks;

"(1) Is there any difference between the purchase or ownership of one share of stock and the purchase or ownership of two-thirds or all of the stock of a bank or trust company by a holding company?

"(2) Do these holding companies, by the ownership of two-thirds or all of the stock, by the absolute power vested under our statute to such owner, constitute operation of such institution?

"(3) Banks and trust companies receive their charters from the state to have offices in a city or village for the purpose of doing a banking or trust business. Such corporations can not be organized under the general corporation statute. Does the organization of a holding company, organized under the general corporation statute, owning two-thirds or all of the stock of such corporation, do by indirection that which can not be done under either statute?

"There are other points at issue such as the voting of stock, the stockholders' liability in each of the institutions so owned by the holding company, directors' qualifying shares, machinery to be set up to collect assessments should one be necessary. In fact, the whole question involved seems to be, Can all the statutory provisions pertaining to the organization and operation of banks and trust companies, as set forth by the legislature in these two statutes, be complied with by this method of organizing holding companies to own and control banks and trust companies?"

A discussion of the issues involved depends upon the structure as well as the relation of the holding company and the individual banks. It must be remembered at the outset that State banks can be organized and chartered only under the banking act of Michigan. The holding company has been organized under the general corporation law of the State and is, of course, not chartered for banking purposes. The plan, is, however, to exchange shares of bank stock for shares of stock in the holding company so that the shareholders of holding company stock may indulge in what is termed "group banking."

The holding company's chartered purpose is stated to be as follows:

"To acquire, own, hold, dispose of and deal in stocks, bonds and other evidences of indebtedness and securities including those issued by any corporation, domestic or foreign, and to possess and exercise in respect thereto all the rights, powers, and privileges of individual owners thereof including the right to vote the same and to execute proxies therefor."

The first consideration therefore is whether the holding company may legally carry out these purposes with reference particularly to the ownership of bank stock in banks located in the several cities of the State.

Section 1, part 1, chapter 1 of Act 84 (Pub. acts of 1921), provides:

"Any number of persons * * * may incorporate for the purpose of carrying on any lawful business for pecuniary gain."

The general corporation law of Michigan previous to the amendment of 1929 was in part as follows (sec. 8, pt. 1, ch. 3):

"Subject to the limitations of the laws of this State and the United States with respect to monopolies and illegal restraints of trade, any corporation organized for pecuniary profit shall have power, in furtherance of the objects of its existence, to purchase and hold shares of stock of other corporations organized under the laws of this or any other State for purposes similar to those of such corporation."

Under this previous act the purchase and holding of corporate shares by a corporation was strictly limited to the purchase, etc., of those shares of another corporation organized for similar purposes. (See opinions Attorney General

Kuhn, 1911, p. 332; Attorney General Fellows, 1916, p. 277; Attorney General Wiley, 1921–22, p. 239.)

However, the 1929 legislature, recognizing the trend of modern economic change, has seen fit to change the corporation act in this respect (Act 267, Public Acts 1929) by eliminating the limitation upon the right of a corporation to purchase the shares of other corporations, and to give unlimited authority to incorporate for the purpose of purchasing and owning stock in other corporations. Section 8, pt. 1, ch. 3, Act 84 (Public Acts 1921), as amended by Act 267 (Public Acts 1929), reads as follows:

"Subject to the limitations of the laws of this State and of the United States with respect to monopolies and illegal restraints of trade, any corporation organized for pecuniary profit, or organized on a stock share of nonstock basis not for pecuniary profit, shall have power in furtherance of the objects of its existence, to purchase and hold shares of stock or memberships of its own or other corporations organized under the laws of this or any other State (jurisdiction or sovereignty)."

Since the legislature has seen fit to give this broad power, the following language is significant:

"A corporation therefore may take and own stock in another corporation whenever it is expressly authorized to do so." (2 Fletcher on Corporations, 2075.)

I am therefore of the opinion that a corporation, organized under the general corporation laws of the State, may legally buy and own shares of stock in State banks if the scope of its charter is broad enough to include these purposes.

Granting then the right to purchase and own stock in banks by a holding company, the second consideration is whether this power conflicts with the banking law by permitting a corporation organized under the general corporation laws of the State, and not under the banking laws, to do a banking business.

The banking laws (Act 66, Public Acts of 1929) clearly contemplate the localizing of the business of banking in Michigan by the conducting of such business within the city or village where such bank is located, thus negativing branch banking outside the municipality of a chartered situs. (See secs. 1 and 70, Act 66, Public Acts 1929, Op. Atty. Gen. Dougherty, 1925–26, p. 90.)

But, is the owning, holding, and voting of stock by a holding company the conducting of a banking business in law? I think not. There is a distinct legal difference in the corporate entities of the bank and the holding company. There is also a legal difference between the ownership of the shares of a bank and the management of the bank itself. The shares of stock do not legally constitute the bank itself, nor the conducting of the business of the bank while the corporate entity is maintained. The chartered powers of the holding company are limited solely to the ownership of shares and the privileges incident thereto. This is the entire scope of the holding company's business under its charter. If it transcends this power, it acts ultra vires, and if it remains within this power and the bank's corporate entity is maintained, there can be no legal objection.

This question has been foreclosed it seems to me, by decisions of our courts that the ownership of stock in a holding company with its attendant incidents, does not in and of itself imply that the holding company is carrying on the business of the company whose stock it may own. In the case of Peterson *v.* Chicago, Rock Island & Pacific Ry. (205 U. S. 364) at page 391, Mr. Justice Day said:

"It is true that the Pacific Co. practically owns the controlling stock in the Gulf Co., and that both companies constitute elements of the Rock Island system. But the holding of the majority interest in the stock does not mean the control of the active officers and agents of the local company doing business in Texas. That fact gave the Pacific Co. the power to control the road by the election of the directors of the Gulf Co., who could in turn elect officers or remove them from the places already held; but this power does not make it the company transacting the local business.

"This record discloses that the officers and agents of the Gulf Co. control its management. The fact that the Pacific Co. owns the controlling amounts of the stock of the Gulf Co. and has thus the power to change the management does not give it present control of the corporate property and business. Pullman Palace Car Co. *v.* Missouri Pacific Co. (115 U. S. 587, 597)."

In Cannon Manufacturing Co. *v.* Cudahy Packing Co. (267 U. S. 333; 69 Law Ed. 634), Mr. Justice Brandeis said:

"The main question for decision is whether, at the time of the service of process, defendant was doing business within the State in such a manner and to such an extent as to warrant the inference that it was present here. * * *

"Through ownership of the entire capital stock and otherwise, the defendant dominates the Alabama corporation, immediately and completely; and exerts

its control both commercially and financially in substantially the same way, and mainly through the same individuals, as it does over those selling branches or departments of its business not separately incorporated which are established to market the Cudahy products in other States. The existence of the Alabama company as a distinct corporate entity is, however, in all respects, observed. Its books are kept separate. All transactions between the two corporations are represented by appropriate entries in their respective books in the same way as if the two were wholly indepdenent corporations. This corporate separation from the general Cudahy business was doubtless adopted solely to secure to the defendant some advantage under the local laws."

The court then held that the holding company was not in anywise transacting the business of the subsidiary in the State of Alabama.

In Monongahela Co. *v.* Pittsburgh & Birmingham Traction Co. (196 Pa. St. 25), the court said:

"It does not follow, however, that the city is the owner of the property of the company because it purchased its stock. We have been referred to no authority, and we know of none, that asserts the doctrine that the purchaser of all the shares of the capital stock of a corporation thereby becomes the owner of its property. On the contrary, the principle is well established that the shares of the capital stock of a corporation are essentially distinct and different from the corporate property, and that the owner of all the stock of a corporation does not own the corporate property or become entitled to manage or control it."

As long as each company maintains its full, separate corporate identity, and the individual bank is managed and operated in fact by its own respective officers and board of directors, and the conducting of the business of such bank is real and not a sham, then, in my opinion, the holding company would not, although owning all except the qualifying shares, be conducting a banking business in a legal sense. It is only when the practices or activities becomes such that the local banking power, control, and management are usurped by the holding company, and abdicated by the local bank that the holding company may be said to be conducting a banking business under the guise of operating as a holding company. It is only in such a case that the State would be justified in exercising its right to file an action in quo warranto against either the bank, the holding company, or both. The mere domination of the bank by the holding company having a controlling interest in its stock is not a wrong, nor does it affect the legal existence of the bank, nor the relationship of these two companies. But what the company and the bank do might affect this relationship. It is the practice or activity that governs. In short, it is only when a holding company, organized under the general corporation laws, attempts to do by indirection the business of banking, which it can not do by direction, that the practice might be said to become unlawful and subject to restraint.

"Where a corporation is so organized and controlled and its affairs so conducted as to make it a mere instrumentality or agent or adjunct of another corporation, its separate existence as a distinct corporate entity will be ignored and the two corporations will be regarded in legal contemplation as one unit. In re Muncie Pulp Co. (139 Fed. 546); Interstate Telegraph Co. *v.* B. & O. Telegraph Co. (51 Fed. 49); Wormser on Disregard of the Corporation Fiction, 54. When a corporation exists as a device to evade legal obligations, the courts, without regard to actual fraud, will disregard the entity theory. Higgins *v.* Cal. (Pet. & Asp. Co., 147 Cal. 363; 81 Pac. 1070); Brundred *v.* Rice (49 Ohio St. 640; 32 N. E. 169, 34 Am. St. Rep. 589); Donovan *v.* Purtell (216 Ill. 629; 75 N. E. 334; 1 L. R. A. (N. S.) 176)." (Peoples *v.* Mich. Bell Tel. Co., 246 Mich. 198, at p. 204.)

As banking commissioner, it would be your duty to continue to deal directly with the individual banks, to conduct examinations and exact compliance just as though no change had occurred in the ownership of the shares of stock in any bank, but it would also be your duty to scrutinize the practices of each local bank concerned from time to time, to determine whether in fact its business continues to be done by such bank as a local unit just as the law contemplates.

The next consideration would perhaps be the matter of stockholders' liability. Assuming that the holding company owns all of the stock of the bank, the question then arises, how can the statutory liability be enforced? This liability is found in section 48, Act 66, Public Acts 1929, as follows:

"The stockholders of every bank shall be individually liable, equally and ratably, and not one for another, to satisfy the obligation of said bank to the amount of their stock at the par value thereof, in addition to the said stock; * * * Such liability may be enforced in a suit at law or in equity by any such bank in

process of liquidation, or by any receiver, or other officer succeeding to the legal rights of said bank."

In addition to this section 44, act 66, Public Acts of 1929, provides for the making of an assessment upon shares of stock to repair deficiencies and other remedies against the stock.

The charter of the holding company, I am informed, contains the following clause in this regard:

"The holders of the stock of this corporation shall be individually and severally liable (in proportion to the number of shares of its stock held by them respectively) for any statutory liability imposed upon this corporation by reason of its ownership of shares of the capital stock of any bank or trust company."

With this express provision in the charter, the question narrows itself to whether the stockholders liability, if expressed in the charter (which is declaratory of the statute) can be enforced against the stockholders of the holding company.

Fletcher on Corporations (vol. 1, p. 1077), after discussing the effect of such a provision in by-laws, says:

"Thus, in the absence of a charter or valid statutory provision therefor or an express agreement, a by-law can not render a dissenting member or stockholder liable to assessment by the corporation beyond the amount which he is required to pay by his contract of membership."

This would, therefore, imply that if the provision was found in the charter, the same would be enforceable.

Fletcher on Corporations (vol. 6, p. 7148), says:

"It is not within the power of a corporation, unless it is authorized by the charter or by some other statute, to bind the stockholders to personal liability for its debts, without their consent, by agreement with its creditors, by resolution or otherwise. A bank, for example, can not make its stockholders liable on its notes or bills by printing thereon a notice that they are so liable; and, in the absence of charter or statutory authority therefor, a corporation can not make a valid by-law imposing upon stockholders personal liability for its debts, unless they consent."

At page 7149 it is said:

"Stockholders, of course, may render themselves personally liable for debts of the corporation by express agreement or consent, provided their promise has a consideration to support it, and is in writing, when this is necessary under the statute of frauds, but their liability in such case is not as stockholders, but as individuals."

The general rule will be found in 3 R. C. L., page 410, where it is said:

"Though the liability is imposed by statute it is regarded as contractual in its nature, rather than penal. The undertaking is as if one subscribing for stock expressly agreed to take and hold it under a previously prepared contract in writing that all who should become holders of the stock should pay the amount of their subscriptions to the corporation when needed, and should pay the additional sum to create a fund for creditors if the corporation should become insolvent, * * *."

In Duncan *v.* Freeman (110 S. E. (Ga.) p. 5), the court says:

"The liability of the stockholder of a national bank, though statutory, rests at last on the stockholder's subscription or on his receipt and acceptance of his stock."

A general discussion of the question will be found in Western National Bank *v.* Lawrence (117 Mich. 669), wherein the bank brought an action in assumpsit against defendant Lawrence to enforce his individual liability as a stockholder in a Kansas corporation. The court, at page 672, said:

"While the liability is statutory, it is one which arises on the contract of subscription to the capital stock, * * *.

"If the company's charter provides that the shareholders shall be subject to a special individual liability to creditors, persons becoming shareholders agree to become liable, both in a corporate capacity and individually, to all persons who shall give credit to the corporation."

In this case, the defendant was a stockholder in an ordinary corporation, not a banking corporation, and while such liability was sanctioned by the constitution of Kansas, the domicil of the corporation, the court held that the liability is one of contract.

It is, therefore, my opinion that shareholders may be bound to an added liability when the same is properly expressed in the charter of the company, and this liability may be enforced as provided by law.

Under section 44, the sale of stock provides a definite means of collection if the stock has any value, but in case of insolvency such remedy is inadequate, because the stock is without value.

The question arises as to how this liability can be enforced when the stock is owned by a holding company. If the stock has sufficient value so that its sale will produce enough to satisfy the assessment, it makes no difference whether the stock is owned by an individual or a holding company. If the stock has no value (as in the case of insolvency) recourse must be had to the personal assets of the individual, or in case of holding company ownership, to the assets of that company.

If the company is uncollectible, the court would probably look through the company to its stockholders and enforce the liability against them. Particularly would this be true where the stockholders assumed liability as here expressed in the charters of the holding company.

In 3 R. C. L., 400, it is said:

"In some instances the courts have gone beyond the registered stockholders. This is upon the principle that the parties who by reason of being the actual owners of the stock are entitled to the profits and benefits of the business carried on by the bank, must respond to the burdens and debts up to the statutory limit. In the enforcement of this liability against stockholders it is well established that the actual owners of the stock can not shield themselves against such liability by putting the title of the stock in the name of some irresponsible third party. Creditors have the right to call upon the actual stockholders for contribution; and this right can not be defeated by a merely colorable transfer of the legal title to some third party, who in fact holds the same for the benefit of the real owner of the stock. * * * The object of the statute is not to be defeated by the mere forms of transactions between shareholders and their creditors. * * *"

In Chicago, Milwaukee & St. Paul Railway Co. *v.* Minneapolis Association (247 U. S. 490), the court said:

"In such a case the courts will not permit themselves to be blinded or deceived by mere forms of law, but regardless of fictions, will deal with the substance of the transaction involved as if the corporate agency did not exist and as the justice of the case may require."

I therefore answer your first three questions in the negative and your last question in the affirmative and reach the following conclusions:

First. A holding company may organize under the general corporation laws of Michigan and may, if its charter is broad enough, purchase, own, and hold shares of stock in State banks.

Second. The ownership and exercise of incidents of ownership of stock in a holding company owning all but qualifying shares in several banks is not legally doing a banking business in the State, in violation of law.

Third. It is only when the practices of a holding company become such as to usurp the functions of the bank in fact and in reality, so that a banking business is being done by the holding company, that intervention can be sustained.

Fourth. A holding company can, by expression in its charter, meet the double indemnity of statutory liability under the banking act.

Fifth. It is the banking department's duty to continue to treat individual banks concerned in stock purchased by a holding company in all respects as individual units for examination and all other purposes; and also to scrutinize the operation of such banks in their factual relationship with the holding company.

Very respectfully yours,

WILBER M. BRUCKER, *Attorney General.*

Mr. REICHERT. The proposition which we felt confronted us from a supervisory standpoint was that we could see in this program the combination of investment companies, trust companies, joint-stock land banks, national banks, and State banks all under one head and virtually the same directorate, but under different supervisory authorities. In other words we felt that by the organization of these groups under present law, it would be possible to defeat the principal restrictive provisions in banking and trust laws, both National and State, should these holding companies be organized by individuals who were not sufficiently conservative. In Michigan we have been

very fortunate that the two groups which have organized holding companies have voluntarily thrown around their organizations, through their by-laws and articles of association, all possible protective provisions that have been suggested by the comptoller's office or our office, and have provided further that these provisions are subject to change only with the consent of the supervising authorities. They have also made available to our examiners the records of all of their affiliated corporations. If group banking could be confined to groups such as these, no anxiety should be felt either by the public or the supervising authorities.

One of these groups has confined itself in its ownership of bank stock to banks in the metropolitan area where its main office is located. The other, in addition to that, has gone out into the industrial centers of the State. From the standpoint of our securities commission, we have now made a ruling that no more stock of holding companies will be approved for sale in Michigan, or for exchange for Michigan bank or trust company stocks, unless it has similar provisions as are incorporated in the articles of association and by-laws of these corporations.

Whatever argument may be advanced against our unit banking system, one thing must be admitted—that it has developed our progressive United States. Through it, initiative has been permitted to develop local communities in which the banker and other individuals had a community interest. I doubt whether this could have been accomplished under any other system. Whether we now have arrived at a time when this sytem should be abandoned due to bank failures in certain sections, and some other system adopted—be it group or branch banking—is a question for careful consideration. There is also some force to the argument that banking units must be established to be able to take care of credit requirements of large business units.

Difficulties will be experienced in enacting laws to provide for protective and restrictive provisions governing groups, the units of which are operated under National and State laws with different supervisory authorities. This difficulty would not arise in a branch banking system.

When considering the high mortality of banks which has principally occurred in territories where the issuing of charters was very freely done, you should not lose sight of the fact that there is some argument for the soundness and serviceability of a system that has had but one bank failure during the last 3 years and six during the last 15 years, which is the record of our State for State-chartered banks. The record for national-chartered banks in this State is equally satisfactory. If, however, it is determined to establish a branch banking system, due consideration should be given to the unit banks already in existence in the establishment of branches. Any changes should have as their prime consideration the safety of the depositor. Provision must be made to avoid ruinous competition with existing unit banks,as such a procedure tends to impair the position of the depositor.

If State lines are disregarded as suggested in the comptroller's plan of establishing branch banking for trade areas, I would feel that the matter of taxation as it pertains to the States would be quite a problem. If branch banking is to be extended, limited to States, or established trade areas, the question of capital structure should have

your consideration. As branches are extended, capital should be increased, otherwise you would be liable to approach mutual banking rather than banking supported by stock capitalization. I am sure that these matters have all had your consideration.

The Federal reserve system should also be given consideration because I feel that the enactment of that law was the greatest piece of progressive financial legislation that Congress has ever passed. In this connection I would, however, like to make one observation, and that is that with changes that have taken place in financing, less and less paper becomes eligible for borrowing and rediscount, and in order this system to be of real service to banks, changes should be made looking toward the liberalization of loaning restrictions. Especially is this true as it pertains to State member banks.

Governor Young, in his testimony, referred to the earnings of the Federal reserve banks. In this testimony he pointed out that $147,109,573 had been paid over to the Government in franchise taxes by these institutions, and $276,934,000 had been added to surplus, and that their capital at the present time is $170,975,500. These earnings have accrued largely as a result of the free balances of the member banks, and I am entirely in accord with his plan for the distribution of a portion of these earnings based upon deposits, but there should be no definite rate set up in the form of interest on deposits. In other words, I think there should be a distribution of earnings at the end of the period to member banks either on capital or deposits, but preferably on deposits, in lieu of interest.

There are other phases of this subject that I feel have been adequately covered by previous testimony, and in order to save time, I will refrain from making any further statements other than to say that we in our State are watching with interest the developments in this exhaustive study that your committee is making of this subject. Your recommendations to Congress will be given consideration by every legislature which will convene next year, because your recommendations will be based upon a more thorough study than andividual States could make and upon information which would not be available to them except through your committee. On this information and your recommendations the various supervising authorities will largely base their recommendations to the legislative bodies in their States. I want to assure you of our interest in the work that your committee is doing and offer you the facilities of our office, if we can be of service to you.

Mr. LUCE. Mr. Reichert, in giving the number of your State banks and the number of national banks, you do not go to the point of telling us what the tendency is in this particular. It would appear that your national-bank deposits are a little more than one-third of those companies operating under your State law. Is the tendency, in your State, for capital to turn to the State form of organization rather than the national form?

Mr. REICHERT. I do not think that is the case to an unusual degree. In Detroit we have had some consolidations where State banks have been taken over by national banks and then again some national banks which have been taken over by State banks, and that is true throughout the State. I would not say that the increase in assets in the two systems have been showing any tendency particularly one way or the other. I should say that the ratio of assets in the two systems have been going along as they have been for some time.

Mr. HOOPER. It seems that the locality governs considerably; for instance, in the locality in which I live, there were 3 national banks and 1 State bank and they have become 3 national banks. On the other hand, in other communities, the tendency seems to be the other way, so it about strikes a balance.

Mr. REICHERT. Yes, sir; there are some cities where there are only State banks and others where there are only national banks represented.

Mr. LUCE. We are watching these two systems competing with each other and interested in knowing which system is forging ahead and which is dropping behind, if that thing is happening.

Mr. REICHERT. As far as our State is concerned there has been no competition with the comptroller's office in the granting of charters. Wherever a group in a city has applied for a State charter, we have only granted it where the situation seemed to warrant it, and in case of national charters, the comptroller's office seems to have reciprocated in that respect very well.

Mr. LUCE. How many national banks are there in Detroit?

Mr. REICHERT. Two national banks.

Mr. LUCE. Two national banks in Detroit out of how many banks?

Mr. REICHERT. There are eight State banks and two national banks in Detroit. I should like to check that figure a little later, but I am sure that is correct.

Mr. LUCE. You pointed out that the comptroller, in his figures, had referred to suspensions and not failures. I have not caught that distinction and have been accustomed to speak of these totals as failures. You referred, later on, to suspensions but did not bring out, with definiteness, what you had in mind in drawing the line between suspensions and failures.

Mr. REICHERT. In his statement he refers to suspensions and that includes banks that were temporarily closed and then reopened and also banks sold to other institutions and their deposit liabilities cared for, and one bank is in his figures twice. What actually happened, as far as State banks' charters are concerned, we have had six failures and there are 50 private banks that have either gone into voluntary liquidation or are actually in receivership for the 9-year period.

Mr. LUCE. Have you any idea that should modify his statement as to the 5,641 bank suspensions in the last nine years in the country; would the point that you bring out make any serious difference in the alarming feature of the situation?

Mr. REICHERT. I think it possibly would, because I presume that the experience in other States has been similar to ours; that is, in many cases, banks have suspended and they have reopened either by sale to other institutions or have opened up under new management. I do not know how far-reaching it would be, but I know it makes a very definite difference so far as Michigan is concerned.

Mr. LUCE. In these cases that you referred to, of reorganization, and so forth, has there been material loss, nevertheless, to depositors?

Mr. REICHERT. Not to depositors, in any instance. There was no loss to depositors in those reorganizations or where they were taken over by another bank.

Mr. LUCE. You referred to your act of 1925, preventing the organization of further private banks. Does that extend to prohibiting individuals from engaging in the banking business?

Mr. REICHERT. Unless they have a State or national charter; yes.

Mr. LUCE. Do you know of other States that have adopted that type of law?

Mr. REICHERT. I do not. The act was passed to prevent the continuation of private banking and also to provide for orderly liquidation. We have a number of private banks, however, that still exist in the State.

Mr. LUCE. The matter has become of considerable interest to the committee in its efforts to straighten out the tangle of taxation produced by private and other banks and incorporated banks. Is it your judgment that that law has been a useful one?

Mr. REICHERT. Yes; I think it has been. It has prevented anyone else going into the private banking business and has had a tendency toward the elimination of private banks.

Mr. LUCE. Does it go to the extent of preventing the individual from loaning money while engaged in business as a broker?

Mr. REICHERT. Oh, no; not as a broker. Would you like to have me read the act? It is very short.

Mr. LUCE. I think it is well worth while to have it in the record.

Mr. REICHERT (reading):

The people of Michigan enact:

SECTION 1. *Private banks—when unlawful to organize.*—On and after the effective date of this act, it shall be unlawful for any individual, person, or unincorporated association of individual persons, to engage in the business of banking as defined in Act No. 205 of the Public Acts of 1887 as amended and other laws of this State relating to banks and banking: *Provided*, That this act shall not apply to any individual person or unincorporated association of individual persons engaged in the business of banking at the time of the passage of this act.

Then there is the penalty for the violation.

Mr. LUCE. Would that prevent partnerships similar to Morgan & Co., Kuhn, Loeb & Co., and other big banking houses of New York City from engaging in business in your State?

Mr. REICHERT. I should think so, if they took deposits or engaged in the banking business such as is provided under the general banking law of the State of Michigan. They can only engage in the banking business under that law or the national act in the State at the present time.

Mr. LUCE. You have told us of provisions for the segregation of savings assets to cover savings deposits. That is, of course, not the case with national banks?

Mr. REICHERT. No.

Mr. LUCE. Does any uneasiness result from the fact that your State banks are compelled to give protection to savings deposits while the national banks are not?

Mr. REICHERT. That would be rather difficult for me to answer. I have never heard the subject brought up, however.

May I go back to your former question in reference to Kuhn, Loeb & Co. and Morgan & Co.?

Mr. LUCE. Yes.

Mr. REICHERT. If they took deposits, I think it would prevent them from doing business in Michigan. It would not prevent their engaging in the sale of securities. Was that the point you wanted to bring out?

Mr. LUCE. Yes. This matter of savings deposits interests me particularly, because in my own State of Massachusetts, we have the same requirements in the matter of trust companies and we find our national banks, within a few rods of a trust company, enabled to mix all their money at the close of the day, without any particular protection to the savings deposits.

In your national bank failures in Michigan, have depositors suffered notably by the failure of segregation?

Mr. REICHERT. I would not be qualified to answer that because I do not know what the outcome of national bank failures has been. There have been two over the period of nine years, that the comptroller speaks of. I think that probably one reason that State banks have had large deposits, especially savings deposits, than national banks is because they have had branches in the municipalities and the national banks did not have them. Consequently, State banks have more savings deposits in proportion to national banks.

Mr. LUCE. What is the customary rate of interest now being paid on savings deposits by your State banks?

Mr. REICHERT. Three and 4 per cent—3 in the larger centers, and in some sections they are paying 4 per cent.

Mr. HOOPER. In my neighborhood they pay 4 per cent—largely in the south central portion.

Mr. LUCE. You tell us there are two groups that have organized holding companies in your State?

Mr. REICHERT. Yes, sir.

Mr. LUCE. Has that been done recently?

Mr. REICHERT. I would say that has been done within the last ten months.

Mr. LUCE. Are they apparently at work to add to their groups?

Mr. REICHERT. No; I do not think so. I think they have purchased all the banks that they desired and I do not know of their engaging or negotiating for any banks at the present time.

Mr. LUCE. Do you know of any other movement on foot to create other groups?

Mr. REICHERT. Not at the present time.

Mr. LUCE. You have told us of a ruling that you will approve no more stock issued by holding companies for exchange of Michigan bank or trust company stocks, unless there are provisions incorporated in the articles of incorporation or the by-laws of these associations similar to those you apply to your State banks. It is not clear to me whether that results in what I might call a quadruple liability. Tell us about that.

Mr. REICHERT. In the organization of these holding companies, after the Attorney General's ruling, the holding companies agreed—they possibly agreed to this prior to the ruling—agreed to incorporate the provisions that were in the banking law, and carry that on the certificate of stock in the holding company, which carried the liability through to the holder of a certificate. They also provided for various other requirements that are in the statute. Those were Michigan corporations. When foreign corporations came in to ask for their stock to be approved, as holding companies, we felt that it would be unfair to hold our Michigan corporations to certain regulations and conditions, and approve the stock of a foreign corporation without the same provisions, so that after this opinion of the Attorney General,

we passed a ruling of the securities commission that we would not approve any more stock of foreign holding companies unless they had similar provisions as the holding companies organized in Michigan.

Mr. LUCE. What I am driving at is to find whether the mathematical result is that in the case of, say, the Farmers Trust Co., the stockholders of the Farmers Trust Co., have, in addition to the double liability, further accompanied by a double liability on the part of the stockholders in the holding company, making twice the score—the mathematics of it are all I am after.

Mr. REICHERT. The holding company owns the stock of the bank—all except the qualifying shares.

Mr. LUCE. Yes.

Mr. REICHERT. The individual owns the stock of the holding company and, in accepting that certificate of the holding company, he assumes the stock liability that the holding company has in these respective banks—his proportionate share of the stock liability. That is according to the certificate.

Mr. LUCE. And there is no increase in his security?

Mr. REICHERT. No.

Mr. LUCE. You referred to the matter of taxation as perhaps presenting difficulties. Would there be any difference in that matter from the situation brought about by foreign corporations doing business in your State, as well as in other States, where the taxation is measured by the amount of capital employed in the State?

Mr. REICHERT. Well, you have got to consider the deposit liability and its ratio to capital. It could possibly be worked out, but I think there would be more of a difficulty in working it out as a banking matter than it would be in other corporations.

Mr. LUCE. It is only the taxation feature as to which I inquire.

Mr. REICHERT. Yes. The question of taxation of bank stocks is up before the special committee of our State at the present time—the special committee on all taxation.

Mr. LUCE. You point out the fact that less and less paper is becoming eligible for borrowing and rediscounting and think that changes should be made looking toward the liberalization of the loaning restrictions. Will you specify just what you have in mind in that regard?

Mr. REICHERT. The changes in refinancing of corporations which are going into financing themselves through stock issues. There is less and less paper now coming into the banks from that source, but banks have a large number of municipal bonds. Not having this rediscountable paper, they might have several million dollars of municipals and, being a member of the Federal Reserve System, they could not go to the Federal Reserve and borrow on that, but would have to go to their other correspondents for that service, in case of definite withdrawals.

Mr. SEIBERLING. You think that the law should be amended so as to permit them to borrow on municipal bonds?

Mr. REICHERT. Municipal bonds of a certain type, based on population of communities and ratio of indebtedness to assessment.

Mr. SEIBERLING. And the total value of the tax duplicate?

Mr. REICHERT. I do not know what you mean.

Mr. SEIBERLING. The total value of the taxable property in the district?

Mr. REICHERT. Yes, sir. I would not want to advocate that all municipal bonds should become eligible as collateral.

Mr. HOOPER. I should like to ask one or two questions of Mr. Reichert. In Michigan, Mr. Reichert, the limit of branch banking to State banks is the boundary of the municipality, is it not?

Mr. REICHERT. Yes.

Mr. HOOPER. And how is that working out around through the State outside of the large cities? Is branch banking being used in the small towns and cities, say, of 25,000 to 100,000, considerably?

Mr. REICHERT. Possibly these tables [exhibiting] will give you the best idea.

Mr. SEIBERLING. Have you placed the totals in the record?

Mr. REICHERT. No; I did not know whether you would call for them. There are 52 State banks having a total of 354 branch banks. Eight banks in Detroit have 259 of these branches. Two banks in Grand Rapids have 27 of these branches, and that leaves a total of 68 branches for the balance of the State.

Mr. HOOPER. Has there been any consideration given in Michigan to the extension of branch banking beyond the limits of the municipality at all?

Mr. REICHERT. No.

Mr. HOOPER. Then branch banking, as it exists in our State, corresponds, in a general way, with national branch banking as defined by the McFadden bill?

Mr. REICHERT. Yes, sir.

Mr. HOOPER. Now, Mr. Reichert, we have been hearing here some men from all over the United States on this question, including the Comptroller of the Currency and some very distinguished men. Many of them at least attributed the decline of the banking business in small towns throughout the country, for instance, to the lack of diversification of business in the small country towns. What has been your observation about that in Michigan among the small banks? Has that played much part in the banking business there? Has it tended to injure the banking business of the small towns?

Mr. REICHERT. The banks in the small towns are not increasing their deposits. I think that is generally conceded, that the automobile, of course, has made some difference in regard to where a man can do his banking conveniently.

We still have a great many banks in small towns that are being operated at a profit and are soundly operated. The difficulty, of course, in operating a bank in a small town is to secure management at the price that you can afford to pay.

Mr. HOOPER. And then retain them after you secure them?

Mr. REICHERT. Yes; retain them after you secure them.

Mr. HOOPER. I suppose the same situation prevails in Michigan as in other States—that there is a lure from the big city banks for the small bank man?

Mr. REICHERT. Yes, sir.

Mr. HOOPER. Generally the small bank in Michigan, in the small villages throughout the State, has the same sort of competition as it would have in Georgia or Iowa or other states?

Mr. REICHERT. I would say so.

Mr. HOOPER. But you have shown us to-day that the small bank in Michigan has been a fairly successful bank and there have been

very few failures; that while similar conditions have prevailed there, it has not militated against the small bank in Michigan. That is what you have been showing?

Mr. REICHERT. Yes, sir. This chart [exhibiting] will answer your question as quickly as anything. It will show the net profits in banks under $150,000 or from $150,000 to $250,000.

Mr. HOOPER. I think that is all.

Mr. SEIBERLING. You referred, awhile ago, to the Comptroller of the Currency confusing the terms "failures" and "suspensions."

I notice on page 12 of volume 1, part 1 of the hearings, the comptroller states he is using the term "failure" as synonymous with the term "suspension," although these two terms are not always so used. He further states, "The statistics of the Federal Reserve Board for bank failures are based upon suspensions," but that the comptroller has not counted such a bank as a failure that suspends and reopens and continues to do business. I wanted to clear that up.

Mr. REICHERT. Yes, sir. The reason I mentioned this is also to clear it up because I found in later testimony that you were referring to that being the number of bank failures in Michigan, especially in the testimony that Mr. Lord gave here.

Mr. SEIBERLING. When you incorporate or permit a chain banking company, incorporated in another State, to do business in your State, how does it qualify?

Mr. REICHERT. It has to qualify before the securities commission which only pertains to the sale of stock.

Mr. SEIBERLING. What does it state its business is when it qualifies?

Mr. REICHERT. I would think that would probably depend upon the individual application. I have no recollection of any specific application, but I would think that their application would be a request to sell stock in Michigan, collaterally supported by bank stocks as assets in our State or other States.

Mr. SEIBERLING. You do compel these chain companies to qualify in order to do business?

Mr. REICHERT. All stock in Michigan must be qualified before the securities commission, with the exception of bank stock chartered under Michigan law or the national bank act.

Mr. SEIBERLING. The company has to qualify too?

Mr. REICHERT. Yes, sir.

Mr. SEIBERLING. When one of these foreign companies qualifies to do business, they must state that they are going to acquire bank stocks; they can not state they are going into the banking business?

Mr. REICHERT. No, sir.

Mr. SEIBERLING. Do you think there is any difference between a chain company owning the capital stock of a great many banks and managing them and a company doing a banking business?

Mr. REICHERT. That was the purpose of my inquiry of the Attorney General and he said under our law it was possible for them to own as long as they did not operate.

Mr. SEIBERLING. I am asking you what you think about it.

Mr. REICHERT. Of course I concur with our Attorney General.

Mr. SEIBERLING. As a matter of law that might be true under your statutes, but do you not think——

Mr. REICHERT. I think, as an economic matter——

Mr. SEIBERLING. They are in the banking business, are they not?

Mr. REICHERT. I would not want to accuse them of it, but——

Mr. SEIBERLING. Now, you have six State banks, I believe, in Detroit and two national banks.

Mr. REICHERT. No; we have eight State banks.

Mr. SEIBERLING. And two national banks?

Mr. REICHERT. Yes, sir.

Mr. SEIBERLING. You have other large banks in Michigan—Flint, Grand Rapids, and I guess over where you live, possibly. If we had a law permitting branch banking in trade areas and these banks found it convenient to take advantage of the law, you can not see any reason why your entire State should not be furnished with banking facilities and why it would not be of great assistance to your cities to have a concentration of credit and capital in your large cities, instead of having that concentration going somewhere else through chain or group banks?

Mr. REICHERT. Do you refer now to the benefit to the small community?

Mr. SEIBERLING. To your whole trade area, the small and large community as well?

Mr. REICHERT. I would think there would be a tendency, of course, under a branch banking system, to concentrate capital in the locality where the main office is located. That would be quite natural.

Mr. SEIBERLING. That would be in Grand Rapids or Flint or Detroit and you would still have plenty of competition and if your industries wanted to finance temselves they could be financed in the State of Michigan, could they not?

Mr. REICHERT. Yes, sir.

Mr. SEIBERLING. Do you not think it would be a great advantage to the country to have trade areas of that kind where people could finance close at home where they knew the people and there was a personal interest in the community rather than go to the large metropolitan center far away?

Mr. REICHERT. I think that would be preferable, and I think if you are going to establish branch banking, it would be preferable to establish it on State lines.

Mr. SEIBERLING. Branch banking would be more economical?

Mr. REICHERT. I will grant you that.

Mr. SEIBERLING. And even under your group system, you would have to have some plan of branch banking because, as a number of bankers have stated here, group or chain banking can not take care of these small centers that need banking facilities.

Mr. REICHERT. I do not think that groups would be interested in the small centers.

Mr. SEIBERLING. Or chain banks either?

Mr. REICHERT. No, sir.

Mr. SEIBERLING. Under those two systems, you do not take care of the small communities with those facilities, do you?

Mr. REICHERT. No.

Mr. SEIBERLING. Of course these eight State banks that you have in Detroit have branches all over the city of Detroit?

Mr. REICHERT. Yes, sir; all over the city of Detroit.

Mr. SEIBERLING. But they do not extend outside of the county?

Mr. REICHERT. Not outside of the city—outside of the municipality.

Mr. SEIBERLING. Do you not think it would be of great advantage if a general banking law could be passed by Congress which would permit more banks to come into the national banking system under the branch-bank plan?

Mr. REICHERT. As I read the law, there is very little difference between our State law and your national law at the present time, and to take care of most communities I think, as the law is now, you can do it as well under one system as under the other. Of course, if you are going to disregard State lines in the matter of branch banking then it would necessarily have to come through a national banking system.

Mr. SEIBERLING. Do you not feel it is unfortunate to have a Government such as ours lose its national banks and get entirely out of contact with the banking business of the country?

Mr. REICHERT. Yes; that would be true. I do not feel that that is happening in our State, however.

Mr. SEIBERLING. You have only two national banks in Detroit.

Mr. REICHERT. Well, of course, one of those came out of a consolidation of two national banks.

Mr. SEIBERLING. You have large cities in Michigan where you have no national banks, have you not?

Mr. REICHERT. Large cities?

Mr. SEIBERLING. Yes.

Mr. REICHERT. No; I do not think we would class those as large cities that have no national banks. I would think that the largest city that I recall now that has no national bank is Owosso.

Mr. HOOPER. That has no more than 20,000 population.

Mr. REICHERT. Probably not more than ten or twelve thousand.

Mr. HOOPER. Twelve thousand, perhaps?

Mr. REICHERT. Yes, sir.

Mr. SEIBERLING. What percentage of your failures has been due to mismanagement? Have you any idea?

Mr. REICHERT. The only receivership that we have had that has been due to mismanagement has been due to forgery.

Mr. SEIBERLING. And you have had no difficulties in Michigan in the depreciation of lands which were security for loans with failures following, due to that?

Mr. REICHERT. We have had some depreciation, but not failures. We have had depreciation of the lands, but not failures of banks.

Mr. SEIBERLING. The depreciation has not been so rapid the banks could not protect themselves?

Mr. REICHERT. No, sir.

Mr. SEIBERLING. That has not been true in the agricultural districts of the Middle West and Northwest?

Mr. REICHERT. I could not say as to that, but I understand that your testimony here bears that out.

Mr. WINGO. Mr. Reichert you come to us with the reputation of being one of the most capable State bank commissioners we have. For that reason you were selected as one of three to come down here. I should like to get your judgment on some things. You say you favor branch banking?

Mr. REICHERT. I should like to keep an open mind on that until you have concluded your study, because I know I will be called upon

to make recommendations to the State legislature, no doubt, and should I change my mind between now and then, due to your investigation, Iwould not like to be definitely committed to one program or the other. I think there is some argument for and against branch banking. So far as our State is concerned, the same necessity at present does not exist as in some other States you refer to.

Our unit banking system has served our communities well. It has been free from failures; that is, I am speaking of the corporate banks, both national and State, and with few exceptions, the banks have had an earning power sufficient to take care of losses and wherever they have had them we have advocated consolidations or reorganizations, and we do not feel that banking institutions in Michigan have any unusual problem at this time.

Mr. WINGO. You feel, then, that your present unit banking system has proved successful, but naturally you are open to such convictions as may come to you from the further study that you think the present investigations will afford?

Mr. REICHERT. Correct.

Mr. WINGO. I suspect that you are not alone in the view that you are willing to consider whatever may develop in the way of changed conditions, and you naturally do not want, as a public official, to be embarrassed by some statement that may be predicated upon your past conclusions. In other words, after taking into consideration some changes that might be brought to your attention, you might feel that you wanted to reform your judgment?

Mr. REICHERT. That is correct.

Mr. WINGO. I have no desire to embarrass you. I appreciate that that is a very proper position for a public official who is to be called on for recommendations to take.

Suppose that it should be decided to amend the national bank act so as to permit a greater extension of branch banking privileges for national banks. Based on your experience and on your observation, would you advise that that extension be limited either to State lines or to trade areas, or nation-wide? What is your judgment on that or have you matured your judgment?

Mr. REICHERT. I have not matured my judgment on that. I would, however, feel that to confine it to State lines would be much eas er to operate from a legislative standpoint when you come in competition with the State banks. Of course I appreciate that business does not recognize State lines.

Mr. WINGO. Of course, if you are thinking about it from the standpoint of your State banks, it would be easier, possibly, from a regulatory standpoint to confine the branches of a State bank to your State lines, but possibly you have overlooked the fact that you could still thoroughly inspect any branch bank that your State bank might establish, say in one of your adjoining States or anywhere else; you could still have supervisory control over the parent corporation, could you not?

Mr. REICHERT. Over the parent corporation?

Mr. WINGO. Yes.

Mr. REICHERT. I would not be qualified to pass upon the point whether we could go into another State and examine a branch there.

Mr. WINGO. You are not a lawyer?

Mr. REICHERT. No, I am not.

Mr. WINGO. Then I will avoid some of those questions that might be purely legal.

But we will take the trade and economic situation. There are other illustrations that can be used, but I will use one that is in my district. Texarkana, Ark., is in my district. Texarkana, Tex., and Texarkana, Ark., are in reality but one city, the dividing line being nothing but an imaginary line between the two States running down the center of one street. Banks on both sides of the line have business connections. For illustration, some gentlemen may live on the Texas side, may be officers in a Texas bank, and yet have business on the Arkansas side, or just the opposite. So that in a case of that kind there would be a practical necessity, assuming now that branch banking is right and that it is wise and good for the public, that would somewhat handicap providing for any geographical limitation or branches, would there not?

Do you see what I have in mind?

Mr. REICHERT. I see what you have in mind.

Mr. WINGO. But that is a matter, I presume, that you think you had better leave to the lawyers when they come to figuring on the legal requirements and the legal right of a State bank commissioner to go outside of his jurisdiction?

Mr. REICHERT. I think so.

Mr. WINGO. I will suggest that you had better go into that study, and I suspect you will find that, as a matter of fact, there would be no legal difficulties in having branches beyond State boundaries. The question of permission of foreign corporations to do business in Michigan is one that your law would control, but the real law is a line of decisions that the Federal courts have built up passing upon the State laws that undertake to restrict and govern that.

I was interested in one suggestion that you made—and I believe it was an answer to a question by Mr. Seiberling—that you did not think that a group or chain bank would be interested in banks in small centers. I believe you used the term "small centers," and you said that they would not be interested in them.

Will you explain to the committee what you mean by that—why you think they would not be interested?

Mr. REICHERT. Did I answer that they would not be? Possibly, I might qualify that in our State they do not seem interested, and I would question whether they would be interested in small centers.

Mr. WINGO. That is your experience in Michigan, is it? That is the reason I was interested. I happen to know that there are groups or chains that are made up entirely of banks in small towns. Those are chain banks, and, I believe, group banks.

Mr. REICHERT. What I tried to convey to you is that this activity in our State has been confined to large institutions in industrial centers.

Mr. WINGO. Your State has reached that point where I suspect it classes itself and is as a matter of fact an industrial State?

Mr. REICHERT. Yes.

Mr. WINGO. That is its major business?

Mr. REICHERT. That is its major business.

Mr. WINGO. And the major bulk of your capital is invested in industrial enterprises?

Mr. REICHERT. I would say so.

Mr. WINGO. Your State has been fortunate in its business activities in the last 10 years, and you have not been troubled so much with bank difficulties, have you?

Mr. REICHERT. No.

Mr. WINGO. I believe you said that you have only had one receivership of a State bank, and that that was caused by forgeries and misconduct, and not by any economic condition or any bad judgment in making loans and things of that kind, but purely misconduct upon the part of the managing officers?

Mr. REICHERT. Yes. That is over a period of three years.

Mr. WINGO. How many State banks did you say you have in the State, approximately?

Mr. REICHERT. Five hundred and eighty-one.

Mr. WINGO. How many of those are in your larger cities? If you do not have it definitely, just approximate it. What proportion of them is in the larger cities? You have 8 or 10 cities there that might be called industrial cities, have you not?

Mr. REICHERT. Yes; there would be a small proportion in number, but a large proportion in assets.

Mr. WINGO. The great bulk of your banking capital—and I am talking now about capital invested in State banks in the State of Michigan—is in the cities of your State, is it?

Mr. REICHERT. Yes.

Mr. WINGO. The bulk of it would be limited, I suspect, to possibly five cities?

Mr. REICHERT. There would be Detroit, Saginaw, Kalamazoo, Battle Creek, Jackson——

Mr. HOOPER. And Lansing.

Mr. REICHERT. I would say about 8 or 10 cities.

Mr. WINGO. You have several cities or industrial centers with over 100,000 population, have you not?

Mr. REICHERT. Yes.

Mr. WINGO. What is the population of the largest city?

Mr. REICHERT. That would be Detroit—1,600,000.

Mr. WINGO. And you have another city there that has over a million in population, or near it, have you not?

Mr. HOOPER. Grand Rapids has 250,000, perhaps.

Mr. WINGO. Now, how many banks did you say that you have in the city of Detroit?

Mr. REICHERT. Ten.

Mr. WINGO. How many of them are State banks?

Mr. REICHERT. Eight.

Mr. WINGO. Do you recall offhand the percentage of the banking capital of the State banks that is in the city of Detroit?

Mr. REICHERT. I have not any figures on the national banks.

Mr. WINGO. I am talking about State banks, Mr. Reichert. Unless I specifically say so in any question, I am limiting the question to the banks under your jurisdiction.

Do you have that information at hand?

Mr. REICHERT. Could I send that on to you?

Mr. WINGO. No; we will just abandon it now for the present. Suppose that you do this: It might be worth while if you will give us the total banking capital in your State in State banks.

Mr. REICHERT. I can give you that. The total capital is $78,960,-924; surplus, $72,145,598.25; and undivided profits, $19,961,786.

Mr. WINGO. Now, if you will give us a statement when you get back and send it to us, or possibly you can make it before you leave here, showing the total banking capital in your State, State banking capital, then the total banking capital in the city of Detroit, and then the total banking capital in cities of your State over 100,000 population, we will appreciate it.

Do you recall whether or not you have very many State banks in towns under, say, 2,500 population?

Mr. REICHERT. Yes, we have quite a few.

Mr. WINGO. Most of the banks in towns having less than 2,500 population in the State of Michigan are State banks, are they not?

Mr. REICHERT. Yes.

Mr. WINGO. Very few small national banks?

Mr. REICHERT. Yes.

Mr. WINGO. You have no tabulation there available showing the number of your banks that have a capital stock of less than $100,000, have you?

Mr. REICHERT. No, I have not. I have on the basis of assets, but not on the basis of capital stock.

Mr. WINGO. And, of course, you have not the same information or the number of banks that you have with less than $50,000 capital, have you?

Mr. REICHERT. No, I have not.

Mr. WINGO. And the assets of those banks?

Mr. REICHERT. I will be very pleased to get that for you.

Mr. WINGO. It will not be necessary. We can get that in another tabulation that will be condensed. Just let that go.

Here is one statement that I read in your prepared statement:

> The bank is limited in the extension of branches to an investment of 50 per cent of its capital and surplus in banking house.

Now, that, of course, is clear to you, but it is not to me, and I do not mean that as a criticism. But that does not mean anything to me. Just what do you mean by that?

Mr. REICHERT. We have a State law that prohibits a bank from investing more than 50 per cent of its capital and surplus in a banking house; consequently the extension of branches, which would also be its banking houses, must be limited to that investment, unless they should lease the property, then, of course, they would not have any of their capital funds invested in the branch site.

Mr. WINGO. In other words, you say one of the limitations on branch banking in your State is that restriction on the banks as to the amount of their capital that may be invested in banking houses?

Mr. REICHERT. That is right.

Mr. WINGO. That does not include furniture and fixtures, does it?

Mr. REICHERT. No.

Mr. WINGO. Do you authorize branches beyond the city limits in your State?

Mr. REICHERT. No; we do not.

Mr. WINGO. It is confined to the city?

Mr. REICHERT. Yes.

Mr. WINGO. The great number of the branches that there are in the State are in the city of Detroit, are they not?

Mr. REICHERT. Yes.

Mr. WINGO. And most of them are branches of State banks, are they not?

Mr. REICHERT. Yes.

Mr. WINGO. The national banks only having about 8 or 10 branches?

Mr. REICHERT. No, they have more than that.

Mr. WINGO. I mean in the city of Detroit.

Mr. REICHERT. Yes. This is purely an approximation, but I would say that the two national banks had about 50 branches in the city of Detroit.

Mr. WINGO. Will you do this? Will you prepare for the record a statement limited to the city of Detroit and confining it to those banks that have intracity branches, and give the number of the State banks that have branches and the number of branches of each?

Mr. REICHERT. Of each bank?

Mr. WINGO. And the resources of each of these banks. In other words, separate it both by national and State, giving the number and giving the resources of each one of these banks that have branches.

Mr. REICHERT. Yes, I will be gland to do that.

In previously giving you the number of banks in Detroit I did not take into consideration the banks located in territories recently annexed to Detroit. There are 12 State banks in Detroit as follows:

Name of bank	Number of branches	Resources	Name of bank	Number of branches	Resources
Detroit Savings Bank	26	$50,651,619.96	Bank of Detroit	20	50,760,690.20
Peoples Wayne County Bank	152	449,564,027.07	Michigan State Bank	5	3,254,500.10
American State Bank	27	52,928,115.49	Northwestern State	2	2,257,820.62
Guardian Detroit Bank	None.	63,433,944.06	Redford State Savings	None.	2,326,531.98
Commonwealth-Commercial Bank	22	23,125,047.88	Peoples State Redford	None.	3,253,799.12
			United Savings	None.	19,467,965.90
			Union Savings	None.	537,833.05
Total number of banks					12
Total number of branches					254
Total resources					$721,561,895.43

There are two national banks in Detroit as follows:

Name of bank	Number of branches	Resources
First National Bank	34	$173,817,387.95
National Bank of Commerce	20	108,704,024.95
Total number of branches		54
Total resources		$282,521,412.90

Mr. WINGO. Have you any restriction in your law comparable to that in the State of California with reference to the amount of capital stock as to branches? For illustration, if you wish to establish a branch in the State of California, as I recall, the minimum additional capital required is $25,000. Have you any such provision in the statutes of Michigan?

Mr. REICHERT. No; the only provision as to capital is the provision that carries the capital up to $400,000, based upon $5,000,000 of deposits. From there on there is no provision as to deposits, but the capital is also based upon population. For instance, in the city of Detroit the capital is $500,000.

Mr. WINGO. In other words, that is the minimum capital for a bank?

Mr. REICHERT. Yes.

Mr. WINGO. Let me take an illustration. Suppose that you have a State bank now that has a minimum capital of $500,000, and it has no branches. It applies to you for permission to establish 10 intracity branches in the city of Detroit, and you find that those branches should be established. Is there any requirement that you contemplate with reference to an increase of capital by reason of the establishment of these branches?

Mr. REICHERT. No. The only restriction there would be would be one that was previously given, and that is that their investment could not exceed 50 per cent of their capital and surplus.

Mr. WINGO. I am not talking about what your law is; I am talking about your judgment, for which I have a great deal of respect. Would you not think it would be wise, if you do not have it in the law, to have some provision that would require an increase of capital whenever you established a branch?

Mr. REICHERT. Yes; I absolutely agree with you.

Mr. WINGO. Am I in error when I assume that that is one question upon which all bankers agree, and that is that the capital base must bear a proper proportion or a proper relation in size to deposits, loans, and discounts?

Mr. REICHERT. Yes.

Mr. WINGO. In other words, the volume of business that a bank is transacting must have a sufficiently large capital base, measured by the experience of bankers, to support that structure that is resting on that capital base?

Mr. REICHERT. Correct.

Mr. WINGO. The bankers agree that that is a practical necessity?

Mr. REICHERT. Yes, sir.

Mr. WINGO. So, if we should authorize or if we should not authorize further extension, in your judgment would it be wise for us to make some requirement with reference to the establishment of branches by national banks that would insure the necessary increase in the capital base? That requirement ought to take into consideration the fact that it might be that the bank at the time already has a sufficient capital base to support a given number of branches, but there should be some standard there like there is a standard of population, because we have found by experience, although there are some exceptions, that there is a direct relation between the volume of banking business in a community and its population.

Mr. REICHERT. Undoubtedly.

Mr. WINGO. Of course, there are some exceptions. Now, there should be the same assumption that there is some relation between capital requirements and the number of branches that the parent institution has, should there not, and do you think that that would be wise to have appear in the statutes?

Mr. REICHERT. Yes, I think that could be done in two ways, either based upon branches or based upon the ratio of deposits to capital.

Mr. WINGO. In other words, this thought has come to me, and I wanted to get your judgment, with the thought not of laying down so much an iron-clad rule such as, for example, that so much population shall have so much minimum capital, but the point is this, that if we use any fixed standard at all, it should be the volume of business, and that the Comptroller of the Currency should take that into consideration and that in enlarging a business by having additional branches, while there might be a nominal requirement for additional branches, yet the major requirement and the determining factor should be the volume of business which those branches and the parent bank is engaged in, and require the capital base to be sufficiently large to safely support that volume of business.

Mr. REICHERT. Yes, I quite agree with you.

Mr. WINGO. I understand from the Deputy Comptroller, who is present, that while there is no requirement in the National Bank act now, the Comptroller's office does take into consideration the capital base and will refuse to grant the establishment of a branch if the capital base is not sufficient to justify the enlargement of the business that is supposed to flow from the establishment of the additional branch.

There would be nothing whatever wrong in confirming that judgment by proper limitations and definitions in the statute itself, would there be, in your judgment?

Mr. REICHERT. I think that is a proper way to arrive at it, because if you are having branch banks outside of municipalities, you must of necessity get away from population as your basis and go to the ratio of deposits to capital base.

Mr. WINGO. There is another statement in your prepared statement that I have marked, that I do not exactly understand. I will read it.

> Difficulties will be experienced in enacting laws to provide for protective and restrictive provisions governing groups, the units of which are operated under national and State laws with different supervisory authorities. This difficulty would not arise in a branch banking system.

What do you mean by that?

Mr. REICHERT. I mean by that——

Mr. WINGO. I am not asking that in an argumentative sense. I have respect for your judgment, and I want to see if there is something there that I have not thought about before.

Just what do you mean by that statement?

Mr. REICHERT. With branch banking it would either have to be a national bank or a State bank; there would be no two supervising authorities, while in group banking you might have a State bank or several State banks, you might have several national banks, you might have an investment company organized under the general incorporation law or under our finance act, which is under the supervision of the State Treasurer, and you might have joint stock land banks, all under different supervisory authorities, and if those institutions were operated by people that were not as conservative as they might be, they could transfer assets, and it would be difficult, unless you arranged to have all of these agencies go in there and make their examinations simultaneously——

Mr. WINGO. I see what you are driving at. Your point is that with a double character in a group, both State and National, there would occur a confusion of regulation and examination.

Mr. REICHERT. Yes.

Mr. WINGO. Now, if we undertake to meet the formation of groups and chains by such regulatory measures as will guard against abuses such as the one you mentioned and some others, do you think, then, that it would be proper to have some requirement that would make the different units that have a State charter submit to the regulation or investigation or examination of the comptroller's office?

Mr. REICHERT. I think so.

Mr. WINGO. In other words, the banking business breaks over State lines?

Mr. REICHERT. Yes.

Mr. WINGO. A great many of our banks now are just as much engaged in interstate commerce as the Steel Trust or General Motors?

Mr. REICHERT. Without question.

Mr. WINGO. So that if any banking operation is being carried on by a corporation, whether it be a national bank or whether it be a holding company organized in Delaware or Michigan, you feel that lodged in the Comptroller's office there should be proper authority which would enable the Comptroller to protect the public along the same lines that the Comptroller protects the public and the depositors and the stockholders in national banks now? In other words, so that he can have a proper investigation and examination of this tie-up that is multiple in its character, that would be proper?

Mr. REICHERT. I would think that the records of these corporations that are a part of the holding company should be open to the different supervising authorities, in order to make a thorough investigation of their affairs. I think that that would almost have to follow in both directions, whether they were institutions of a State or National character.

Mr. WINGO. Can you conceive of any other way that we can protect the public interest and at the same time protect legitimate banking activities? It is just as necessary to protect men engaged in legitimate banking and doing it through group formation, because some very capable and able men, just as sincere as you and I, believe that group banking is ideal——

Mr. REICHERT. Yes, I understand that.

Mr. WINGO. And that under present conditions it is an admirable way to meet certain conditions, and you feel that those who are engaged legitimately, honestly, and fairly in trying to conduct legitimate banking business through the group system should, as well as the public, be protected along the line you suggest, by having the records open to the supervising authorities so that they can detect either mismanagement or maladministration?

Mr. REICHERT. Yes.

Mr. WINGO. There is another phase of that subject that you touched on here in your statement. You said:

> From the standpoint of our securities commission, we have now made a ruling that no more stock of holding companies will be approved for sale in Michigan, or for exchange for Michigan bank or trust company stocks, unless it has similar provisions as are incorporated in the articles of association and by-laws of these corporations.

Of course, your blue sky law and your securities commission can, under a State statute, control the question of sales even of these holding companies organized under the laws of Delaware, but suppose that a citizen of Delaware sought to sell his stock in a Michigan bank to a holding corporation that is incorporated in Delaware; you might have some difficulty.

Mr. REICHERT. Oh, yes.

Mr. WINGO. So that is one of the reasons why I see no escape from not only the right but the duty of Congress to supplement what you are trying to do in Michigan, and very properly, not only in connection with the question of sale of securities but in connection with the general tie-up and control of the banking business, by the Federal Government having restrictions and regulations with reference to these purchases and transfers. I do not mean by that to either approve or disapprove the suggestion of the chairman of this committee in his famous 10 per cent bill that he has introduced; I am not committing myself to that until I know more about it.

I believe that is all.

Mr. LUCE. Judge Brand is next.

Mr. BRAND. As I understand your testimony, you have no statewide branch banking law in Michigan?

Mr. REICHERT. We have not.

Mr. BRAND. And I also take it that you have no law authorizing chain banking systems?

Mr. REICHERT. No; we have not.

Mr. BRAND. You have a law, however, that allows branches to be established in municipalities, as I understand your statement.

Mr. REICHERT. There is no specific mention in our statute of it, but branches have been established in municipalities for a good many years. The law is silent on the matter of branches.

Mr. BRAND. But you said that your State allows branch banking in municipalities.

Mr. REICHERT. Yes. There is no mention of it in the statute, but for 40 years, by consent, branch banking has been permitted in municipalities.

Mr. BRAND. Does that custom limit the capitalization to any particular population?

Mr. REICHERT. The bank capital is based upon population in the rest instance, and then the capital must grow with the increase in deposits up to $400,000 of capital, and from there on there is no provision for increase.

Mr. BRAND. I confess that I do not understand the following part of your statement, taken in connection with your evidence:

> Under this act—
>
> Referring to the act of 1925—
>
> private banks can no longer be established, nor can the private banks in existence at the present time be sold.

I understand that that is the kind of banks that you now have in Michigan, private banks.

Mr. REICHERT. I beg your pardon?

Mr. BRAND. As I understand your testimony, that is practically the only kind of banks that you have in your State, private banks.

Mr. REICHERT. No; we have very few private banks.

Mr. BRAND. Do you draw a distinction between a unit bank and a private bank?

Mr. REICHERT. Yes. Unit banks are corporate banks organized under the statute, while private banks——

Mr. BRAND. Practically all of your banks are the independent unit banks, are they?

Mr. REICHERT. Yes.

Mr. BRAND. Then you said:

> It was not until 1925 that the act prohibiting the establishment of private banks was enacted in this State. Private banks are neither under the supervision of the banking department no under any other department.

Do you mean by that to say that there are now private banks in your State that have no supervisory regulation?

Mr. REICHERT. That is correct. There always have been, but they are getting smaller in number, and they are mostly banks in very small communities.

Mr. BRAND. Are they supplying the needs and the demands of the communities, as a rule?

Mr. REICHERT. It would be rather difficult for me to say, because I am not very familiar with their operations.

Mr. BRAND. Are you in accord with or opposed to Mr. Pole's proposition as to authorizing branch banking, as outlined by him in his statement?

Mr. REICHERT. As previously stated, I would like to keep an open mind on the question of branch banking until the conclusion of your committee is reached, because I might possibly be placed in the position of being asked to make recommendations, which might not be in accord with the way I feel now.

Mr. BRAND. I did not catch that part of your testimony before. Then you made a statement that is very significant and interesting to me, which reads:

> If, however, it is determined to establish a branch banking system, due consideration should be given to the unit banks already in existence in the establishment of branches. * * * Provision must be made to avoid ruinous competition with existing unit banks, as such a procedure tends to impair the position of the depositor.

I am in full accord with that proposition. Now, my question is, if we authorize branch banking as recommended by the Comptroller of the Currency, what suggestion have you to make in order to protect these unit, independent banks?

Mr. REICHERT. It would almost have to be cooperative, I would think, between the State department and the Federal department, because they certainly ought to recognize a State bank in a community that is going along and is prosperous, and not without some consideration put a branch bank in there.

Mr. BRAND. I do not think they should, either, and I feel very strongly about that. The State of Georgia at present has no branch banking law, and if this branch banking system should be authorized as outlined by the Comptroller of the Currency, how could the State have anything to do with it? In other words, if we should pass a branch banking law in the United States, this Federal law would become operative and effective in a State like Georgia.

Mr. REICHERT. No question about it.

Mr. BRAND. And the suggestion that I want from you, and I think it would be valuable, is, what manner of legislation or what suggestion can you make which would protect the unit bank against a branch bank establishing itself there?

Mr. REICHERT. It would necessarily, I think, have to be put in your Federal legislation, to recognize——

Mr. BRAND. I realize that it should be put there, but what would you suggest that we put there?

Mr. REICHERT. I would like to have a little further thought on that matter. My thought now would be that it would almost have to be cooperative with State departments—I would not say it would be necessary to get their approval, but there would certainly have to be cooperation there.

Mr. BRAND. I know, but there could not be any cooperation in the case of a State where they have no branch banking law.

Mr. REICHERT. Don't you think the State would pass a law to meet that contingency?

Mr. BRAND. They might do so, but suppose that they did not?

If you are not ready to give a matured opinion on that, as one of the members of this committee I would like to have you think over my question and, when you are ready to submit your recommendation or opinion, let us have it.

Mr. REICHERT. I will be very glad to do that.

Mr. BRAND. You are willing to do that, are you?

Mr. REICHERT. Yes, sir.

Mr. BRAND. I think that is a very important matter, Mr. Reichert, in States where they have no branch banking law, to see that, if we establish a nation-wide branch banking law, the present existing unit banks which are prosperous and making money and serving the people are not destroyed or their capital structure not impaired.

Mr. REICHERT. I agree with you absolutely.

Mr. BRAND. I am much obliged.

That is all, Mr. Chairman.

Mr. LUCE. Mrs. Pratt, have you any questions?

Mrs. PRATT. I am sorry I was not here to hear his statement. I presume that many of the questions have been covered.

Mr. SEIBERLING. I would like to ask him a few questions.

How do the earnings of your Michigan banks in 1929 compare with other years?

Mr. REICHERT. Without looking it up, I would say the earnings are probably at a greater per cent than they were the previous years.

Mr. SEIBERLING. How do you account for that?

Mr. REICHERT. The call loan rate, for one thing.

Mr. SEIBERLING. Do you mean the call money rate in New York?

Mr. REICHERT. Yes, on the short-time investments.

Mr. SEIBERLING. Have you any estimate as to how much Michigan money was sent to New York, or Chicago, or Philadelphia, on account of the high call-money rate?

Mr. REICHERT. From banks?

Mr. SEIBERLING. Banks and individuals; taken out of banks, of course, by individuals, and sent down there.

Mr. REICHERT. No; I would not want to attempt to estimate it.

Mr. SEIBERLING. Was it a large amount?

Mr. REICHERT. Yes; a fair sized amount. Some large corporations and also many individuals sent money to these centers for investment in call loans.

Mr. SEIBERLING. Do you think it would amount to a good many millions of dollars?

Mr. REICHERT. Yes, sir.

Mr. SEIBERLING. Do you think that the withdrawal of this money from the banks there and sending it to the stock exchange had any effect upon your commercial and industrial business, or your agricultural business?

Mr. REICHERT. Well, that would be rather difficult to say. I would not think so.

Mr. SEIBERLING. Do you think that there was just as much money available as was needed?

Mr. REICHERT. I think there was plenty of money available.

Mr. SEIBERLING. Did not some banks send their money on call to New York?

Mr. REICHERT. Some. Not many, however.

Mr. SEIBERLING. In the cases where these individuals withdrew their money and sent it to New York, or these corporations, did the banks have to go to the Federal reserve banks to borrow?

Mr. REICHERT. Not to an unusual extent; no. I think our borrowings were not exceptionally high until the close of the year. They were rather high then.

Mr. SEIBERLING. That was what month? Have you the figures there?

Mr. REICHERT. Yes; I have the figures.

Bills payable on December 31, 1929, $45,487,000; rediscounts, $10,503,000.

That is for all the banks in the State.

Mr. SEIBERLING. Can you give the total amount borrowed from the Federal reserve?

Mr. REICHERT. No, I could not do that. I haven't it segregated.

Mr. SEIBERLING. How did those figures you gave compare with July 1, 1929?

Mr. REICHERT. On July 1, the total notes and bills rediscounted amounted to $3,723,000; bills payable, $34,233,000.

Mr. SEIBERLING. What is the difference between those two totals?

Mr. REICHERT. About $17,000,000.

Mr. SEIBERLING. Did the rates of interest to borrowers in Michigan go up during the high call-money rate?

Mr. REICHERT. Possibly in the large centers. Our rates in banks are quite stationary, especially in the smaller banks.

Mr. SEIBERLING. You do not think that the small banks said to their borrowers that they would have to charge them 1 per cent more on account of the high call-money rate?

Mr. REICHERT. I do not think so; no.

Mr. SEIBERLING. But you do think that that was done in the cities?

Mr. REICHERT. I think their rates went up; yes.

Mr. SEIBERLING. What are the rates under your usury law in Michigan?

Mr. REICHERT. The legal rate is 5 per cent; the amount you can charge is 7 per cent. The limit is 7 per cent.

Mr. SEIBERLING. That has been very satisfactory; has it?

Mr. REICHERT. Yes.

Mr. SEIBERLING. That is all.

Mr. LUCE. Unless there are other questions, the committee will thank Mr. Reichert for coming before it, and adjourn until to-morrow morning.

(Thereupon, at 12.30 o'clock p. m., an adjournment was taken until Thursday morning, May 15, 1930, at 10.30 o'clock.)

BRANCH, CHAIN, AND GROUP BANKING

THURSDAY, MAY 15, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met in the committee room, Capitol, at 10.45 o'clock a. m., Hon. Robert Luce presiding.

Mr. LUCE. In view of the memorial exercises to-day at 12 o'clock, if the committee should be in session at a quarter of 12, and I am in the chair, I will declare a recesss in case we have not finished with the witness, and then we will resume this afternoon. It is possible, however, that we may finish with the questioning by a quarter of 12, and that will give us an hour.

Mr. Hovey, the bank commissioner of Massachusetts, is here to-day. Mr Hovey, we shall be glad to be informed by you of your views on branch, chain, and group banking, and on any other features of the banking situation that you care to discuss.

STATEMENT OF ROY A. HOVEY, COMMISSIONER OF BANKS, STATE OF MASSACHUSETTS

Mr. HOVEY. Mr. Chairman and gentlemen of the committee, perhaps I can best approach my views on branch, chain, and group banking by a résumé of the history of such forms of banking in Massachusetts.

Branch banking made its first appearance in Massachusetts in 1902, when the legislature by a general law authorized trust companies, our only State chartered commercial banks, to establish branch offices subject to the approval of the supervising board. That act limited to one the number of branches that a trust company might have and confined its location to the same town or city in which the main office was located and with the restrictions that it be operated solely for the purpose of receiving deposits, cashing checks, and maintaining a safe-deposit business. At that time there were 37 trust companies having total assets of $164,000,000. To-day there are 101, with assets of $777,000,000. Their distribution in cities and towns classified as to population is indicated by a table which I am submitting. The figures are as of March 27, 1930.

(The table referred to is as follows:)

Population	Number			Per cent of banks	Assets	Per cent of assets
	Cities	Trust companies [1]	Branches			
(1) 100,000 or more	8	37	25	36.64	$477,580,801	61.44
(2) 50,000 to 100,000	7	13	14	12.87	110,591,459	14.23
(3) 25,000 or 50,000	13	12	7	11.88	76,702,271	9.87
(4) 10,000 to 25,000	42	20	9	19.80	69,605,957	8.96
(5) Less than 10,000	285	19	5	18.81	42,777,964	5.50
Total	355	101	60	100.00	777,258,452	100.00

[1] Members of the Federal reserve system: (1), 14; (2), 4; (3), 2; (4), 5; (5), none; total, 25.

Mr. HOVEY. Only four of our 101 trust companies have a capital of less than $100,000, the minimum statutory requirement being $50,000, and then only in towns of less than 10,000 inhabitants. The smallest town in which a trust company is located has a population of approximately 1,800.

In spite of the fact that there are many towns within which there are no banking facilities, there is no town in all the State which is not within approximately 15 miles of the main office of a trust company or national bank.

Under our statutes the authority for the establishment of branch offices of a trust company is granted by the board of bank incorporation, which consists of the commissioner of banks, commissioner of corporations and taxation, and the treasurer and receiver general, and only after a public hearing has been held and it has been shown that the public convenience will be served by the establishment of the branch. In 1914 the policy was also adopted through legislation to allow consolidating banks to maintain the offices of the consolidating bank as branches provided both banks were located in the same city or town and that the commissioner of banks was satisfied that the public convenience would be served thereby. In 1920 we had our first instance of a branch being established outside of the town in which the main office is located. This was accomplished by a special act of the legislature. Similar privileges have been similarly granted four times since then, but only for the purpose of establishing a branch where no other bank existed. Three of these branches are located in communities which adjoin the town in which the main office is located, the others being in towns within 12 miles of the main office.

In view of the number of special bills which were being introduced in the legislature seeking branch privileges for trust companies not authorized under the general laws and which appeared reasonable and desirable for the extension of banking facilities to our citizens, the banking department was convinced that general legislation should be passed and in 1926 made such a recommendation. This sought to remove the restriction on the number of branches in the town in which the main office was located and also sought to allow the establishment of a branch office in an adjoining city or town provided no other trust company was located therein. The recommendation, which was intended mainly to extend banking facilities to communities where such facilities were lacking, also carried provisions which

would prevent the consolidation of trust companies which were not located in the same town or city. At that time we were opposed to a policy of state-wide branch banking and the most that the bill would have accomplished would have been to provide additional banking facilities within the same or adjoining towns in which the main office of the trust company was located. While the operation of such a law would not have permitted any of the trust companies located in Boston to establish branches in neighboring cities and towns it would have been of advantage to some of the smaller communities in other parts of the State which are unable to support a bank of their own. However, attempts to obtain such a change in 1926 and in 1927 were unsuccessful. Misunderstandings and the opposition of the national banks undoubtedly prevented the adoption of such a measure.

In 1928 an amendment was passed which removed entirely the numerical restriction of branches in cities of more than 100,000 population, and restricted to two the number permitted in cities of 50,000 to 100,000, and to not more than one in cities and towns under 50,000; thus bringing our law more in line with the McFadden Act of February, 1927. These are the restrictions which are in force to-day.

The total number of trust companies having branches is 42. Thirty have one branch, 8 have two, 3 have three, and one has 5; 60 in all.

In 1908 the legislature granted a similar privilege to our mutual savings banks but the conditions under which they were allowed to establish branches varied from those of trust companies at that time in that they might establish one or more branches in the same town where the banking house was located or in towns not more than 15 miles distant, where no savings bank existed at the time. The branches of savings banks were not established for competitive purposes but for the encouragement of thrift and to furnish facilities for savings in communities not sufficiently large to support or maintain a bank of their own.

Among the 196 mutual savings banks only 30 have branches; 22 have 1, six have 2, and two have 3; forty in all. Ten of these banks have branches outside of the town in which the main office is located.

We have never been in sympathy with a state-wide branch policy for Massachusetts, but recognize, however, that conditions in other sections of the country might warrant its adoption.

Concerning chain banking, our experience has been limited to two or three cases several years ago in which one or two persons were the dominating influence. These were made up of trust companies and banks located in Boston and suburbs. These chains were, however, eventually terminated, local interests taking over the control and management in each instance. One resulted in the suspension of the parent bank which caused losses to stockholders and directors to an amount exceeding $4,100,000. Failures among our banks are, it should be noted, few and except for the situation in 1920 and 1921 the record of Massachusetts among its trust companies is exceptionally clear, there being to date but 11 failures since trust companies were first organized in 1869. Among the national banks in Massachusetts there have been but 15 failures.

Group banking in Massachusetts has developed within the last two years, although not as widespread as in other sections of the country. At the present time there are six groups, all but one of which include both national banks and trust companies. The schedule which I will submit exhibits these groups as constituted at the present time, their assets comprising 45.5 per cent of the aggregate assets of national banks and trust companies in Massachusetts. The trust companies involved aggregate 14.4 per cent of the banking assets of all trust companies, while the national banks represent 59.1 per cent of the assets of all national banks in Massachusetts. At the present time all of these groups are controlled by national-bank interests and include the largest of our national banks.

The success of chain or group banking of course depends upon the character of management the same as in individual banks. Group banking may have its advantages and benefits and much can be offered in its favor as your committee knows. I have no quarrel with the system in theory and would not object to it if proper operation could be guaranteed, but, granting that there are advantages, in actual practice it can too easily be subjected to improper use and when composed of banks operated under more than one code of laws and more than one supervising authority the opportunity for misuse is enlarged. For this reason and from the standpoint of a supervisor, I am forced to look with disfavor on such a system. I much prefer to see local management of a unit bank if the locality can furnish proper support, and believe a community is better served thereby than by the branch of a distant bank. If, however, I were to choose between group and branch banking, I should prefer to see the branch system, with all the difficulties it carries in examining, but I question whether permitting the establishment of branches will of itself stop or even check the growth of the group method. It is realized that regulations governing national banks must necessarily be national in scope but it must also be recognized that conditions differ widely in various parts of the country and policies and methods which may be beneficial in one section may be detrimental in another. Each State should know its own needs best and for this reason it appears to me that if a change is made in national bank branch regulations, the privileges granted thereby should not exceed those granted to state-charactered institutions. This would, of course, necessarily limit branch banking in its widest latitude to the State in which the bank is located.

In Massachusetts more than one-half of the banking assets are made up of savings or time deposits. In the smaller or suburban centers the ratio of savings is greater than in the large cities. Outside of the larger cities banking resolves itself more or less into an investment service. This raises the question of whether the centering of control and management of a group of banks of this type may not open a way for unwise or unscrupulous investment of savings deposits, which deposits we in New England for more than a century have given the greatest possible protection. In so far as Massachusetts State chartered banks are concerned, I feel that they are well protected by the statutory requirement that such savings be segregated from commercial deposits and invested only as savings bank funds may be invested, savings depositors being protected by an elaborate statutory

system regulating the investment and management of their funds. Our experience has demonstrated that such segregation and investment is of great advantage to the savings depositor, who has always been given the utmost protection. Therefore, in considering this subject, it would seem to me that some form of segregation and regulation of assets representing savings deposits should also have attention, if it is within the scope of this investigation.

When a large proportion of the deposits consist of time or savings accounts I do not see how any better service can be rendered by banks in a group than could be worked out by a unit bank under an arrangement with a larger city bank as correspondent or investment counsel.

In view of the limited experience of Massachusetts in these different forms of banking it is difficult at this time to arrive at a definite conclusion. I appreciate that my views have offered no solution of the problem confronting you, but only reflect my opinion as a supervisor and that of may others in my State, namely, that there appears to be no real or immediate necessity for group banking nor wide extension of branch banking privileges in Massachusetts.

I shall be glad to have you call upon me if I can be of any further assistance.

I am submitting herewith the table I previously referred to, showing the group banks in Massachusetts.

(The table referred to is as follows:)

Group banks in Massachusetts

[Hundreds omitted except in columns showing number of banks]

Group	National banks					Trust companies					All banks				
	Number	Capital	Surplus	Undivided earnings	Assets	Number	Capital	Surplus	Undivided earnings	Assets	Number	Capital	Surplus	Undivided earnings	Assets
First National, Boston	12	$47,950	$36,520	$7,200	$693,941	9	$7,975	$7,913	$2,278	$82,669	21	$55,925	$44,433	$9,478	$776,610
National Shawmut, Boston	4	20,450	10,295	2,936	255,196	2	250	300	172	4,620	6	20,700	10,595	3,108	259,816
Federal National, Boston	4	2,150	850	296	45,866	4	800	331	296	15,394	8	2,950	1,181	592	61,260
Worcester County	5	2,163	1,675	567	40,050	1	200	100	143	3,774	6	2,363	1,775	710	43,824
Cape Cod	2	150	175	82	2,720	2	325	175	270	5,902	4	475	350	352	8,622
Western Massachusetts Banking Associates, Greenfield	3	425	481	324	6,664						3	425	481	324	6,664
Total	30	73,288	49,996	11,405	1,044,437	18	9,550	8,819	3,159	112,359	48	82,838	58,815	14,564	1,156,796
Total for State	153	112,651	90,829	35,648	1,765,736	101	49,440	46,307	23,468	777,258	254	162,091	137,136	59,116	2,542,994
Percentage in groups	19.6	65.1	55.0	32.0	59.1	17.8	19.3	19.0	13.4	14.4	18.9	51.1	42.9	24.6	45.5

Mr. LUCE. Mr. Hovey, am I right in my understanding that what we in Massachusetts call trust companies are in all practical aspects the same as State banks in other parts of the country?

Mr. HOVEY. That is right. They are our only State chartered commercial banks.

Mr. LUCE. We in Massachusetts seem to have a monopoly of the use of that term for State banks, and I thought the record would better show that.

Mr. HOVEY. We have no State banks; none as such.

Mr. LUCE. About 20 years ago there was a tendency in Boston toward the amalgamation of banks, and, as I recall it, after 5 or 10 years of experience therewith, there came a revival of demand for charters for smaller banks, the allegation being made that the big banks did not give that personal service and attention which a small bank would.

Am I right in that?

Mr. HOVEY. I think you are; yes.

Mr. LUCE. Now there seems to be a return to the idea of amalgamation. What do you think the tendency is going to be in Massachusetts in the immediate future—toward more amalgamation?

Mr. HOVEY. I think the record shows that in the last few years there has been a lessening tendency in that direction. In 1922 and 1923 we had quite a little activity among the banks toward consolidations, but since that time it has been falling off.

Mr. LUCE. Is one warranted in the inference that if these consolidations fail to give as much service as might be desired, the result will be competition from new, independent units?

Mr. HOVEY. I think that would follow.

Mr. LUCE. That has a rather important bearing upon what we are considering, because of the apprehension in many quarters that consolidation means monopoly and a prevention of the benefits of competition.

In the matter of these consolidations of trust companies, will you set forth, for illustration, the story of the Newton Trust Co.? Tell us what happened to the Newton Trust Co.

Mr. HOVEY. The Newton Trust Co. consolidated with the Newtonville Trust Co. located in the same city. Then there was a new trust company formed under the name of the City Trust Co., which had a branch, and then consolidated with the Newton Trust Co. The Newton Trust Co. had a branch de novo authorized by the Board of Banking Incorporation. So that, after the consolidation it had practically, I should say, five or six offices in Newton. Then there was a trust company organized in Needham, an adjoining town, and I think the directors of the Newton Trust Co. owned the controlling interest. Then, the Newton Trust Co. itself owned the control of the Dedham National Bank, which was located in an adjoining town, and also a national bank located in Westwood, so that they had several offices right in Newton and the adjoining towns, all practically under the same control and management. Then, when the Old Colony Associates began forming their group, the Newton Trust Co. was one of the banks taken, the control of which was taken over by the Old Colony Associates.

Mr. LUCE. This has a bearing, of course, upon one of the more serious problems before the committee at the present time. Evi-

dently this amalgamation has taken place because the persons concerned thought it more profitable. We, of course, are here to guard the welfare of the public, the depositors and borrowers as well as that of the owners of the banks.

Do you hear any criticism of this series of transactions in their bearing on the convenience and business prosperity of the communities affected?

Mr. HOVEY. Not as much at the present time as when the idea first took shape.

Mr. LUCE. The criticism then was one of expectation?

Mr. HOVEY. Yes.

Mr. LUCE. In actual results, does anything indicate to you that this has worked any injury to the public?

Mr. HOVEY. Not in this instance; not in the instance you speak of.

Mr. LUCE. You expressed, however, some apprehension that the system, generally applied, might have unfortunate results.

Mr. HOVEY. It all depends upon the character of the group, that is, of those managing the affairs of the group.

Mr. LUCE. It is easy to understand how the disposition of funds might be fortunate or unfortunate, according to the temper of the management, but it is not so easy to understand, assuming honest management, how an injury will result to the depositors and borrowers, and if there be such injury, it is important that we should know it. For example, we are told by some witnesses that consolidations of this sort injure the borrower because of less generous treatment than would be received from the management of an individual unit, and injures the depositor because of giving him less interest and also exposing him to the new practice of restricting deposits to the larger accounts.

What have you to say on that?

Mr. HOVEY. I have not seen any evidence of that occurring, of having a tendency to act to the disadvantage of the depositor or the borrower, so far as our experience in Massachusetts has gone.

Mr. LUCE. Then, assuming honest management, what is the basis for your own disposition to object to branch banking?

Mr. HOVEY. From the use that may be made of it, where a group contains banks having both Federal and State supervision, from the standpoint of the supervising examiner.

Mr. LUCE. The mechanical phase of it?

Mr. HOVEY. Yes.

Mr. LUCE. Am I right, then, in thinking that in principle you see no objection to branch banking?

Mr. HOVEY. You are speaking of branch banking?

Mr. LUCE. Yes, branch, or any other form of consolidation—in principle.

Mr. HOVEY. No; I can not see any disadvantage to the group system, if that is what you are speaking about just now.

Mr. LUCE. I am speaking of the broader question of the consolidation of banking capital in one form or another.

Mr. HOVEY. I imagine that it could be carried to excess, but so far as our experience has gone I have not seen anything that would lead me to believe that it has worked an injustice yet to the depositor or borrower.

Mr. LUCE. Turning to another aspect of the general subject, of course you and I are familiar with the mutual savings banks and their growth and value, but many of the members of Congress are not so familiar with them, coming as they do from States where mutual savings banks are few or there are none at all, and I think it would be serviceable if between us we brought into there cord something more about the mutual savings bank system.

How many States now enjoy the blessings of that system?

Mr. HOVEY. I think there are 17 States in which there are mutual savings banks. The majority of them are located in New England and New York.

Mr. LUCE. What is the prevailing rate of interest being paid now by the Massachusetts savings banks on deposits?

Mr. HOVEY. Practically one-half of our banks are paying 5 per cent per annum on savings deposits, and the rest of them are paying between 4½ and 5 per cent.

Mr. LUCE. I have inquired of various witnesses in the course of these hearings, and have yet learned of no State where the mutual savings banks do not exist where depositors of savings are getting more than 4 per cent, and they are running from that down to 3 per cent.

Does your general knowledge of the situation lead you to think that this difference is due to the fact that where the mutual savings bank is found, it profits by the unpaid or the little paid services of men who are engaged in it partly through philanthropic motives, or is it due to the fact that where there are no mutual savings banks the banks are not paying as much on their savings deposits as they could pay?

Mr. HOVEY. No. I think it is because the expense of operation of a savings bank is very small compared with that it costs to operate a commercial bank, and in a savings bank after the statutory amounts which are required to be set aside for surplus and all expenses are taken into consideration, the remaining earnings belong to the depositors, and I think that has a great effect on the increased dividend Then, again, the investments of savings banks are so regulated that they are not subject to the same risks and hazards as are the investments of the assets of commercial banks, so that the losses in savings banks are very small.

Mr. LUCE. Let me inquire further about the matter of comparative expense. My observation would not lead me to think that the employees of savings banks are paid on a greatly different scale from those of national banks.

Mr. HOVEY. No; I think they compare about the same.

Mr. LUCE. And the rent, apparently, is not essentially different. As you and I know, there are several savings banks in Boston that occupy some of the most costly real estate in the city.

Mr. HOVEY. That is right.

Mr. LUCE. Then just what is the item of greater expense in the savings department of a national or State bank?

Mr. HOVEY. Well, the number of employees in a commercial bank is much greater.

Mr. LUCE. It is greater, of course, because of the diversified business, but I mean just confining ourselves to the comparative cost of running a savings bank and the savings department in a national

bank, exclusive of the other national bank business. You will see that I am trying to find out, if I can, any excuse for the payment in a place like the District of Columbia, for example, of only 3 per cent or 3½ per cent on deposits of poor people, when in Massachusetts they can get 4½ per cent to 5 per cent. Nobody has ever given me an adequate explanation, and I wanted to know if there is a reason for it.

Mr. HOVEY. Our savings banks' assets are made up more than 50 per cent of real estate loans, on which the uniform rate practically is 6 per cent, and that forms the bulk of the investment, and the rest is in bonds which are legal for investment and which may not return more than between four and a half and five per cent, but the expense of management is so small that the surplus funds which have been accumulating over a period of years produce an income which carries the overhead, so that it allows the investment of income realized from the investment of deposits to be paid in dividends.

Mr. SEIBERLING. Will you have him put into the record what commissions or other charges are paid in connection with real-estate loans outside of the 6 per cent interest, if any?

Mr. LUCE. Yes. Will you answer Mr. Seiberling's question on that?

Mr. HOVEY. The borrower, you mean?

Mr. SEIBERLING. What the borrower has to pay in addition to 6 per cent when he gets the loan.

Mr. HOVEY. There is nothing paid to the bank outside of the interest.

Mr. SEIBERLING. What does he have to pay?

Mr. HOVEY. He does not have to pay anything unless he goes to a broker to get a loan for him.

Mr. FENN. The borrower can go directly to the bank.

Mr. HOVEY. The borrower can go directly to the bank and make an application for a mortgage loan, and there is no expense entailed in connection with that.

Mr. FENN. There may be a slight expense for examination of title.

Mr. HOVEY. Of course, the borrower pays the title expense.

Mr. SEIBERLING. That is very unusual.

Mr. FENN. Not in New England, even with an insurance company or a bank.

Mr. LUCE. If we should put into the banking law requirements for segregation and stipulations about investments corresponding to those in Massachusetts and of the other mutual savings bank States would it be reasonable to expect or would there be ground for hope that throughout the rest of the country the savings of the poor might be safeguarded and that those savings might bring a rate of return comparable to what they bring in the mutual savings banks States?

Mr. HOVEY. I would think that would depend upon whether conditions would be comparable to those in our States.

Mr. LUCE. What particular conditions?

Mr. HOVEY. In regard to real estate. Practically all of our real-estate loans are on improved property, what we call improved property. Now, that might not be possible for banks in other sections of the country to loan such a proportion of their assets in that manner and thus bring them the income that we get for the same amount of security.

Mr. LUCE. When we passed the McFadden Act, you may remember that we increased the amount that national banks might lend on real estate. This was done in response to the averments from various parts of the country that if the banks were given this privilege they could easily find the mortgages; that they wanted the power to take advantage of the opportunities which they said existed. So I should doubt if the consideration you suggest would greatly affect the situation.

I am asking these questions because I am so anxious to acquaint the rest of the country, as far as I can, with the blessings of our mutual savings bank system.

Now, in the matter of the segregation of deposits, would there be anything unfair, anything in the nature of hardship, if we should make it a part of the national banking act that savings deposits everywhere shall be segregated?

Mr. HOVEY. I should think not.

Mr. LUCE. Turning to another aspect of the savings bank question, it has been brought to my notice recently that persons interested in the present movement toward bank consolidation are seeking to get control of certain Massachusetts mutual savings banks; is that correct?

Mr. HOVEY. There have been attempts made to do that very thing.

Mr. LUCE. I do not understand how it can be done under our laws.

Mr. HOVEY. Only under the guise, you might say, of liquidation of the savings banks, but that is only possible with the approval of the banking department or the commissioner, and I have withheld any such approval.

Mr. LUCE. What advantage would the trustees of a savings bank get out of liquidating? Is this thing done by offering some money gain to them if they will liquidate?

Mr. HOVEY. Well, I do not know just what the consideration has been, but a great many of the savings banks have on their boards men connected with either trust companies or national banks, and it can be readily seen, where only a two-thirds vote of the board of trustees is required to liquidate a savings bank, that it would be easy to have that proportion predominate to the interest of a commercial bank.

Mr. LUCE. I would like to put it on the record, sir, that for one I strongly approve your course. I think it would be a calamity if commercial interests were allowed to invade the mutual savings bank field in that way.

Mr. HOVEY. There is a bill pending in the legislature—I think it is probably in its final stages of passage—that will make it much more difficult for the savings banks to liquidate, and before they can liquidate they will have to try to make arrangements with a neighboring mutual savings bank for consolidation.

Mr. LUCE. I am glad to hear that, and I hope the bill may become law.

Mr. Hovey, to myself at least it seems that in the study we are making here we are confronted by a condition rather than by a theory. We see in every direction a tendency of consolidation making headway in the banking field. Some of the committee are reluctant to approve or support that tendency, but how are we going to stop it? Assuming that it would be desirable to protect and preserve the unit bank, what can we do about it? There are very few,

if any, witnesses who have told us how to stop it if we want to do it. Have you any idea on that?

Mr. HOVEY. I have not any solution of that question.

Mr. LUCE. We seem to be in the dark as to what can be done about it.

Mr. HOVEY. I may add that the only statutory regulation we have in Massachusetts is that two trust companies can not consolidate without the approval of the commissioner, and I know of one instance where such consolidation was contemplated and the approval was denied.

Mr. LUCE. We have nothing to prevent John Jones from owning the majority control of the stock in two trust companies?

Mr. HOVEY. No.

Mr. LUCE. Has there been any suggestion in Massachusetts that it ought to be prevented?

Mr. HOVEY. The only regulation regarding stock ownership is that a trust company may not own more than 10 per cent of the stock of another trust company. Of course, that does not prevent individuals from holding the stock of another trust company for the benefit of another bank.

Mr. LUCE. Is there any marked tendency in our State or in New England, so far as you know, for national banks to turn to the State banking system?

Mr. HOVEY. No. There has been no indication of that, lately at least. I think in the past 10 years there were three trust companies that converted into national banks at the time of consolidation, and three that converted from national banks to trust companies, so that it has been even as far as that is concerned. There were several that converted into national banks for the purpose of consolidation, however, within the last five or six years.

Mr. LUCE. Mr. Fenn, do you desire to ask any questions?

Mr. FENN. I just wanted to ask a few questions, sir. I am very much interested in what you have said about the savings banks, for that same system prevails in my State, Connecticut, as in Massachusetts.

Have you found that this privilege, if I may term it such, granted to your State banks or your trust companies to carry on savings departments, has diminished the interest in mutual savings banks? In other words, has it reduced the number of depositors in mutual savings banks? Has there been competition between the savings departments of your trust companies and the purely mutual savings banks?

Mr. HOVEY. All the competition that there has been has been beneficial, I should say.

Mr. FENN. Been beneficial to the mutual savings banks?

Mr. HOVEY. It helped the mutual savings banks as well as the trust companies.

Mr. FENN. In relation to these dividends or this interest money which is paid to depositors in savings banks—and in Connecticut the same rate is paid, practically, as in Massachusetts, 4½ or 5 per cent—it occurs to me that this difference in interest rates between that paid in Massachusetts and Connecticut and in other parts of the country is due in a measure to the long existence of those banks and to the fact that during that time they have accumulated a surplus,

and I do not know at the present time whether or no the investments prescribed for savings banks and trust funds are the same in Massachusetts as they are in Connecticut. I take it they are very much the same, but in Connecticut the savings banks are allowed to purchase stocks in national banks, and investments have been made by mutual savings banks in Connecticut for a long term of years in those bank stocks, some in New York and some in Massachusetts, as well as some in Connecticut, and by reason of the increased value of those bank stocks which has come about because of the prosperity of the country, the banks have built up a considerable surplus in addition to the surplus by actual accretion in the purely mutual savings banks, and I want to ask you if that has not had a great deal to do, or considerable to do, with this high rate of interest paid to our depositors, and I use the term "high rate of interest" in comparison with the interest paid in other sections of the country.

Mr. HOVEY. I agree that it has helped to build up a surplus.

Mr. FENN. And that surplus has had its effect in the amount distributed to the depositors?

Mr. HOVEY. Yes.

Mr. FENN. In regard to the question raised by Mr. Luce of the difference in expense between a savings bank and a commercial bank, in an ordinary commercial bank in a large city, that has a large capital, surplus and undivided profits as well as a large amount of money, there are several more executive officers, are there not, than in a savings bank?

Mr. HOVEY. Yes.

Mr. FENN. Does not that add largely to the salary expense, if I may term it such of the commercial bank?

Mr. HOVEY. I think there is no question about it.

Mr. FENN. I have in mind one of the largest savings banks in New England where the affairs of that bank are administered practically by the treasurer, one executive officer, and while they have a large number of employees, necessarily so in a bank of that size, with six or seven millions of deposits, on the other hand a commercial bank with, we will say, $20,000,000 in deposits, which would be a good sized commercial bank anywhere outside of these great aggregations of capital in New York City, would reqire several more executive officers—for instance, there is the chairman of the board of directors, there is the president of the bank, and there are several vice presidents, men who on account of their knowledge of banking draw considerable salaries in comparison with the salaries received by one or two men in a savings bank of the kind I am referring to.

Has that not been your experience, Mr. Luce?

Mr. LUCE. Yes. Mr. Fenn, I was trying to bring out, if I could, the fact that the expense of handling the savings department of a national bank ought to be no larger than the expense of handling the same amount of money in a savings bank.

Mr. FENN. I see. Of course, we are very much interested in his savings matter, and our mutual savings banks in New England are a matter of pride with us.

I inferred from what you said here that attempts had been made by some commercial banks to take over mutual savings banks and make them a part of their banks?

Mr. HOVEY. That is right.

Mr. FENN. Under the Massachusetts law, that would entail a supervision of the savings department, to see that the savings department complied with the law in regard to investments?

Mr. HOVEY. In a trust company?

Mr. FENN. Yes. I am speaking purely of a trust company.

Mr. HOVEY. Yes.

Mr. FENN. Do you think it would be wise to allow the combination of the commercial department and the savings department under the same roof and practically under the same management?

Mr. HOVEY. You mean, the investments mingled?

Mr. FENN. No; I do not mean mingled; I mean the carrying on of the business. In other words, would a man who is thoroughly versed in commercial banking be as competent to manage a savings department as a man thoroughly versed in mutual savings banking?

Mr. HOVEY. Possibly I can illustrate that by our experience with trust companies that we closed in 1920 and 1921. They all had quite sizable savings departments. In liquidating those 4 trust companies, 3 of them paid 100 per cent to their savings depositors and 1 paid 92.04 per cent. In the commercial department, the most that was paid was 66 per cent, and one paid only 38.07 per cent.

Mr. FENN. In other words, the savings department was the most profitable; that is, dollar for dollar?

Mr. HOVEY. To the depositor, yes.

Mr. FENN. Well, the bank must have had it or it could not have given it to the depositors.

Mr. LUCE. I think it was due to the segregation of deposits in the trust companies, to the fact that the savings deposits were invested in accordance with the laws covering savings funds. They were more safely invested. Am I right on that?

Mr. HOVEY. That is right, and the capital stock liability first goes to help to make up any deficiency in the savings department.

Mr. FENN. Of course, those were well-managed banks?

Mr. HOVEY. No, they were not.

Mr. FENN. Why did they liquidate?

Mr. HOVEY. Because of their poor management and bad condition.

Mr. FENN. Despite that poor management, it did not particularly affect the savings department? In other words, that savings department was controlled absolutely by the law of Massachusetts?

Mr. HOVEY. The same law that controls our mutual savings banks.

Mr. FENN. As I asked before, have you found any ill effects from this competition of the savings departments of the commercial banks with the mutual savings banks? In other words, has it been detrimental at all to the mutual savings banks?

Mr. HOVEY. That would be hard to prove.

Mr. FENN. Do not the people of Massachusetts turn to the old mutual savings banks for the safeguarding of their savings?

Mr. HOVEY. I think they do.

Mr. FENN. It is more or less traditional and historic with them?

Mr. HOVEY. Yes.

Mr. FENN. And it is the same with us in Connecticut.

As Mr. Luce said, we scarcely know what to do in regard to this question of branch, group, and chain banking; it is a very troublesome problem. Has chain banking prevailed to any great extent in Massachusetts?

Mr. HOVEY. No.

Mr. FENN. Is there not a large bank in Boston that has a group of banks?

Mr. HOVEY. You are speaking of chain banking and group banking as being the same?

Mr. FENN. I speak of them as practically the same. Branch banking we would consider different.

Mr. HOVEY. We have one large group—probably not large compared with some others, but I submitted a table which shows 21 banks in that group.

Mr. FENN. Are those banks trust companies or national banks?

Mr. HOVEY. Both.

Mr. FENN. I was very much interested in what you said in regard to the supervision of an organization of that character, that the State examiner could not supervise the national banks, and, contra, the national bank examiner would have nothing to do with the State banks. What solution could you give to rectify or cure that defect? How can we get a national act that will provide for the supervision of both classes of banks, when they are combined in a group?

Mr. HOVEY. I do not know that legislation would be necessary. Full cooperation between the Comptroller's department and the State banking departments would accomplish it.

Mr. FENN. Of course, the only thing I can see that could be done—and I do not advocate it, because I have not studied it enough—would be for the Government to say that in an organization of that kind State and national banks should not be mixed. We certainly could pass an act of some sort to prevent consolidations of State banks with national banks, or their control by holding companies. We have already given that some thought, and will continue to do so.

Mr. HOVEY. That would be the only way.

Mr. FENN. I do not know that that should be done. While it may be practicable, I doubt if it can be done, because, as you suggested, of the two classes of supervision, of the State banks in a group by the State examining authority and of the national banks in that same group by the national authorities, and it would be rather difficult to determine the exact condition of that group. Of course, if they were all national banks in the group, or all State banks, it would not be so difficult.

I think that is all.

Mr. LUCE. Mr. Seiberling, have you any questions?

Mr. SEIBERLING. Outside of real estate loans, what other securities are your mutual savings banks investing money in?

Mr. HOVEY. Government and municipal bonds, certain bonds of gas and electric companies that meet the statutory requirements, and railroad bonds.

Mr. SEIBERLING. Bank stocks?

Mr. HOVEY. Yes, bank stocks of national banks in New England, or trust companies in Massachusetts.

Mr. SEIBERLING. But not outside?

Mr. HOVEY. No; and then there are certain classes of personal loans that they are allowed to make.

Mr. SEIBERLING. Have your mutual savings banks made a good deal of money out of investments in bank stocks?

Mr. HOVEY. I should say yes.

Mr. SEIBERLING. And those stocks generally carry a double liability?

Mr. HOVEY. Yes.

Mr. SEIBERLING. Then their profits may have come from other sources beside that 1 per cent differential between the interest paid on deposits and the interest received on real estate loans—is that true?

Mr. HOVEY. Some of that surplus is made up of profits made in the sale of securities.

Mr. SEIBERLING. They are allowed to speculate to a certain degree?

Mr. HOVEY. If you want to term it that. It is the purchase of bonds.

Mr. SEIBERLING. This segregation of deposits has worked a hardship on the commercial depositor, has it not?

Mr. HOVEY. I do not know what you have in mind.

Mr. SIEBERLING. In your trust companies and State banks, where you segregate the savings deposits and commercial deposits, it has worked a hardship on your commercial deposits, has it not?

Mr. HOVEY. No; I would not say it has worked a hardship on them.

Mr. SEIBERLING. They did not get so much on their deposits as the other people got.

Mr. HOVEY. That was because of the difference in the nature of the assets of the savings department and the commercial department.

Mr. SEIBERLING. If they had all been together and the money had all been mingled, and the loans and securities combined, they would all have received the same percentage.

Mr. HOVEY. It would have worked a hardship against the savings depositor.

Mr. SEIBERLING. But they got their money in full.

Mr. HOVEY. Yes; because the investment of their deposits is regulated by law.

Mr. SEIBERLING. I understand, but I say that it has worked a hardship on your commercial depositors, who did not get 100 cents on the dollar.

Mr. HOVEY. That is right.

Mr. SEIBERLING. They had the security of double liability, too.

Mr. HOVEY. The capital stock liability first went to take care of the savings depositor, who received the greatest protection.

Mr. SEIBERLING. Irrespective of what your law may be up there, do you think that one depositor in a bank is entitled to any more security than any other depositor?

Mr. HOVEY. We treat the savings depositor the same as a beneficiary under a trust. Those are trust funds.

Mr. SEIBERLING. But I am asking you for your opinion about that. Do you think that one depositor is entitled to more security than any other depositor in a bank?

Mr. HOVEY. I think so, yes.

Mr. SEIBERLING. And your reason for that, I suppose, is because he can not draw it out right away—is that the reason?

Mr. HOVEY. Not necessarily. The deposit is made under different conditions. The savings deposit is something that may be a person's entire investment; it often is the entire investment of a small wage

earner or a man of small means, whereas in the commercial department——

Mr. SEIBERLING. You put it entirely on a philanthropic basis?

Mr. HOVEY. Two different bases altogether.

Mr. SEIBERLING. That is all.

Mr. LUCE. It is a quarter of 12, and I presume that members of the committee will want to be on the floor of the House. So we will adjourn to 2.30 o'clock.

(Thereupon, at 11.45 o'clock a. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS

The hearing was resumed at 2.30 p. m., at the conclusion of the recess.

Mr. LUCE. The committee will come to order.

STATEMENT OF ROY A. HOVEY—Resumed

Mr. LUCE. Mr. Wingo, do you desire to address some questions to Mr. Hovey?

Mr. WINGO. Unfortunately I had to be at another meeting this morning and I did not hear his original statement; so I am hardly in a position to question him.

Mr. LUCE. Judge Brand.

Mr. BRAND. In answer to one of Mr. Luce's questions, and in discussing group bank systems, you stated that you had not seen any deleterious effect and had not had discord or any trouble up to date due to existing group banking system, but it did afford means to affect the standing of depositors and borrowers in the banks; that it might become injurious to depositors and borrowers in one of your savings banks, referring to State banks.

Now, did you mean to exclude stockholders or was your failure to do so due to inadvertence. As I understood your statement, it is your opinion that this group banking system might arrive at a point where it would interfere with the banking system of Massachusetts—might injure depositors and borrowers, but you did not include stockholders.

Mr. HOVEY. Well, if it was the result of poor management which resulted in loss, of course it would affect the stockholders. It might become necessary to levy an assessment to make good any losses that might be incurred.

Mr. BRAND. The stockholders would be affected first, it would seem to me. What is the liability in the banks in your State?

Mr. HOVEY. One hundred per cent.

Mr. BRAND. Now, in another part of that statement, Mr. Witness, you stated that the time might come when the group system would have a bad effect on banks generally up there. That is the part that I had marked in your statement and which I wanted to read to you. You used the word "trouble" or it would be productive of trouble to the other banks now doing business successfully in your State. Do you recall that part of your statement?

Mr. HOVEY. I do not recall just what you have reference to.

Mr. BRAND. I refer to page 7 of your statement and this portion thereof:

> I have no quarrel with the system in theory and would not object to it if proper operation could be guaranteed, but, granting that there are advantages in actual practice it can too easily be subjected to improper use and when a company of banks operated under more than one code of laws and more than one superseding authority the opportunity for misuse is enlarged.

Mr. HOVEY. It might bring trouble.

Mr. BRAND. Well, now, amplify that statement. In what way would it bring trouble to the other banks? You have in mind what I am trying to call your attention to?

Mr. HOVEY. Well, I do not know as I could answer that in just the way you are looking for. Other than that portion of my State quoted by you.

Mr. BRAND. Will the time ever arrive if this group system of banking gets a foothold in your State and continues to take over banks and go into other States where other unit banks are established, would it be injurious to the banks now in existence?

Mr. HOVEY. That would reflect back on the character of the management of the group. Some groups might be managed very ably which would be beneficial for the smaller bank and also the reverse might be true if the character of the management was not looking toward the proper conduct of its various group members, but rather to its own profits.

Mr. BRAND. If it is bad management on the part of the group bank, how would the other banks be hurt?

Mr. HOVEY. The management of the individual bank as well as of the parent bank——

Mr. LUCE. I think the judge has in mind not the bank in the group but an independent unit bank in the same community.

Mr. HOVEY. You mean a competitor?

Mr. BRAND. Yes. It is not material to my inquiry whether group banks are successfully managed or not. I am more interested at the present in the competitors of the group systems, the independent unit banks. The chairman has the right idea about it. What effect would bad or good management or group banking have on competitors?

Mr. HOVEY. A group bank, in a large group of banks, might furnish more facilities than a smaller bank could alone which might draw business away from the other banks.

Mr. BRAND. Would it not have that effect?

Mr. HOVEY. It is quite apt to—that is, a properly managed group bank would.

Mr. BRAND. Ultimately, is it not possible that it could drive out a competitor?

Mr. HOVEY. I have in mind also another effect. A group bank might offer a higher rate of interest than it could afford to pay to get business from the other banks and thus jeopard its own depositors.

Mr. BRAND. And would it not also hurt the competitors?

Mr. HOVEY. It would hurt both.

Mr. BRAND. I am not now interested in the group bank. I am making my inquiry relative to the independent unit bank.

Mr. HOVEY. Undoubtedly it would feel the effect.

Mr. BRAND. Would it not have the effect of taking depositors away from the competing bank?

Mr. HOVEY. I think so.

Mr. BRAND. Suppose, for instance, this branch of a group system offers to pay 5½ per cent to savings depositors, the other banks not paying over 4 per cent: Would not that hurt?

Mr. HOVEY. Yes.

Mr. BRAND. Suppose the old independent unit bank is lending money at 8 per cent, and the branch of a group bank comes in and says, "We will lend money at 6 per cent:" Will not that hurt them?

Mr. HOVEY. Yes, sir.

Mr. BRAND. Is not there a possibility of a number of group banks or of branch banks setting up this institution in a county where now only unit banks exist of breaking down the unit and independent banks.

Mr. HOVEY. Quite possible.

Mr. BRAND. Would you say that there would be a probability that such would be the effect?

Mr. HOVEY. I do not know that I would want to go as strong as that. The chances are it would.

Mr. BRAND. These group banks would not hesitate to do that if they wanted to?

Mr. HOVEY. They might go to any length to get business.

Mr. LUCE. Is that all?

Mrs. PRATT. I have looked through your statement very briefly but I judge it is largely based upon condition in Massachusetts. I think you stated that almost any village of any size is within 15 miles of a bank?

Mr. HOVEY, Almost any; yes.

Mrs. PRATT. I know Massachusetts very well. That means there is not a rural, or very little rural, community in Massachusetts. Almost all of those little towns flow one into the other. Of course the problem before us is not applicable to an old grown-up State like Massachusetts where I judge you are opposed to anything but the unit bank; that is, you feel that the unit bank——

Mr. HOVEY. It is favored in our State.

Mrs. PRATT. It is favored in your State?

Mr. HOVEY. Yes.

Mrs. PRATT. How would you meet the situation where you have great expanses of country and very scattered communities at long distances from central banks? You could not have, perhaps, a unit bank; it could not exist, and yet those people are entitled to banking facilities and that is the situation I think we will have to meet. I assume from your statement that possibly it will have to be done by each State.

Mr. HOVEY. That is what I mean when I said while we are opposed to a State-wide policy, we realized conditions in other states might warrant its adoption.

Mrs. PRATT. You think it should be confined to state branch banking and not national branch banking?

Mr. HOVEY. That is the way I feel.

Mrs. PRATT. You would be opposed to the suggestion brought

forward here of trade areas or areas coterminous with Federal reserve districts? You think that is too wide?

Mr. HOVEY. I think for the present such changes as come should come gradually. That may eventually be a desirable plan, but I do not think any wide extension should be granted all at once.

Mrs. PRATT. Along the line that Judge Brand has been speaking, about the possibility of a branch bank or a bank belonging to a group coming into a locality where there was a unit bank: After all, the banking business is not altruistic any more than any other business. Do not banks have to meet competition as much as any business? Have you not a perfect right to go in and establish——

Mr. HOVEY. Yes, to some extent, but in Massachusetts we would not approve the establishment of a branch in a community that was already served, unless we thought there was a field there for another successful bank.

Mrs. PRATT. Even though it offered the possibility of giving the people better service and higher rates of interest?

Mr. HOVEY. We would not allow the establishment of a bank just for competitive purposes.

Mrs. PRATT. Do you believe that is perfectly fair to a community?

Mr. HOVEY. If they are receiving ample facilities already, yes; because if you overbank a community you will probably have weak banks instead of strong banks. The trouble is, in many places, there are too many banks.

Mrs. PRATT. I think it has been brought out in the hearings, especially in the Western States, that the various agencies set up during the war, together with the banks already in existence, provided too many banking facilities. You would not be in sympathy at all with the idea of branch banking?

Mr. HOVEY. In my statement I said I would favor branch banking over group banking, but I was not ready to see it become too widespread—that is, the privilege become too liberal.

Mrs. PRATT. You are opposed to such mergers as have taken place in New York? You call those mergers group banking, such as the Bank of Manhattan and the Chase National? That is what you call group banking, is it not?

Mr. HOVEY. When I had reference to group banks, I had reference to a number of banks under the same control; not where they have been consolidated into one bank.

Mrs. PRATT. You are not opposed to these consolidations or mergers but only to group banks or branch banks?

Mr. HOVEY. I have not taken any definite stand.

Mrs. PRATT. You do not wish to?

Mr. HOVEY. No.

Mr. LUCE. Mr. Wingo, has anything else occurred to you?

Mr. WINGO. Nothing else, thank you.

Mr. LUCE. There is one other matter I should like to inquire about for the purposes of the record, and that is in the matter of trust companies that failed, of which you spoke this morning. Am I correct in my impression that the underlying cause for these failures was the advancing of money for promoting?

Mr. HOVEY. I do not know just which ones you refer to.

Mr. LUCE. The Tremont and others?

Mr. HOVEY. There was quite a little evidence of that, but I think the real cause was poor management and poor judgment in making their loans.

Mr. LUCE. Was it in any considerable measure due to making loans on real estate?

Mr. HOVEY. No; I do not think it could be laid to that. Possibly the report of the commissioner in 1922 will give the reason a little clearer. I quote from that report:

> A small group of Boston trust companies, controlled by men who lacked the ability, the training, and, in some cases, the moral character requisite to the proper administration of a bank, were so glaringly mismanaged and in such an unsound condition that the most drastic of actions became necessary in order to quickly avert a situation which was inviting a financial crisis in the city of Boston.

Mr. LUCE. We have had some reference in the hearings to what seems a change in the character of banking which has marked the last 10 or 20 years—the lessening of discount of commercial paper and the increase in the investment in securities and the financing of corporate enterprises. Another phase of this question arose when the McFadden bill was under consideration, the testimony at that time showing a marked desire, on the part particularly of the western banks, to have larger opportunities to place their funds upon mortgages.

Do you look without any apprehension on the increasing part that the banks are playing in the matter of securities?

Mr. HOVEY. I do not know as I have given any particular attention to that phase of it. Some of our trust companies have organized corporations for that purpose which have been controlled by banks. The prime purpose was for the purpose of buying and selling of securities, which previously had been carried on by the banks themselves; that is, they separated the two businesses.

Mr. LUCE. The allegation is made that this development of which you are speaking, has tempted some financial institutions to unload on trust funds the less safe securities which the bank may undertake to handle in an allotment for placing securities throughout the country, and that affiliated investing institution finds it almost impossible to exercise independent judgment as to the value of the security when the possibility of a profit on the part of the bank is a factor in the situation. Have we been troubled with that in Massachusetts?

Mr. HOVEY. No. I think I can say quite definitely that the trust companies have been very careful in the investment of trust funds in their keeping and they have not taken advantage of any issues in which they may have been interested in selling. Some of them have even gone so far in their trust department as not to purchase any securities from their investment corporation.

Mr. LUCE. Would it be desirable to enforce that rightesous principle by law or can it be safely left to the consciences of the banks of the country?

Mr. HOVEY. Speaking for Massachusetts only, from our experience I think it can be left to our own banks. As you know, we have no statutes that regulate the investment of trust funds. I think the record has been exceptionally clear in that matter and the losses have been very rare.

Mr. LUCE. I think, sir, that concludes our inquiry unless you think of something else you would like to volunteer.

Mr. HOVEY. I do not think of anything just now, but I shall be glad——

Mr. LUCE. If any further suggestions occur to you or anything you wish to cover, I am sure that Chairman McFadden will be very glad to insert them following your statement in the record, for all the information and advice you can give will be very much desired.

Mr. BRAND. I have one more question I would like to ask.

Mr. LUCE. Very well.

Mr. BRAND. Do your banks belong to the Federal reserve system?

Mr. HOVEY. Twenty-five out of one hundred and one trust companies are members of the Federal reserve system.

Mr. BRAND. Of the regular commercial banks?

Mr. HOVEY. Yes, sir; but none of the mutual savings banks are members. Twenty-five of the trust companies are members.

Mr. BRAND. What percentage of all banks in the State belong to the Federal reserve system—approximately?

Mr. HOVEY. When you say "all of the banks," do you want to include the savings banks or trust companies?

Mr. BRAND. No, just the commercial banks, including, if the words include trust companies, in your State. What percentage?

Mr. HOVEY. Twenty-five per cent, approximately.

Mr. BRAND. I am very much obliged to you, Mr. Witness.

Mr. LUCE. The committee will stand adjourned until to-morrow morning at 10.30.

(Whereupon, at 3 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m., Friday, May 16, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, MAY 21, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met in the committee room, Capitol, at 11 o'clock a. m., Hon. Robert Luce presiding.

Mr. LUCE. The committee will come to order.

Mr. Nahm, we are sitting for the purpose of getting such information and judgment as we can in the matter of branch, chain, and group banking, and we shall be grateful to hear your views in the matter.

STATEMENT OF MAX B. NAHM, VICE PRESIDENT, CITIZENS NATIONAL BANK AND BOWLING GREEN TRUST CO., BOWLING GREEN, KY.

Mr. NAHM. Banking is a business, the people's business. It has common law rights. It deals in credits which grow out of commerce and agriculture, in the production and exchange of the needs of human life.

In a nation where over 90 per cent of the business transactions are settled by check, where the humblest worker carries a bank account, where the bank and its facilities are indispensable instruments to sustain modern life and enterprise, any profound structural change should arrest attention and invite study.

The individual in the banking business is the genius of the American people in financial action. The history and development of the individual began only with our Declaration of Independence, that all men are born free and equal. All history before that time was the story of the overlord.

Right into the beginning of banking went the evolution of the individual, the unit banker. His history has run parallel with our changing fortunes: Under his financial administrations this country has grown great and rich.

In the last decade business in general has tended toward larger operating units with huge capital funds, more efficient and trained management, grinding out mass production. Banking is following at the heels of this movement.

The depositing public must be protected but there should be no experimenting about it. Theories should be well considered, but only slowly adopted. Changes are needed to adjust the banking business to new conditions but only such changes as will accomplish that, and no more.

It is too early to arrive at definite conclusions or to make positive determination upon the various systems of banking that are now

being put into operation. However, there seems to be a feeling in some minds that the unit system has broken down. To this I desire to address myself.

The total number of all banks in the United States at the end of 1929 was 24,645 head offices; adding branches numbering 3,547 gives a complete total of 28,192.

Of these, 21,839 were unit banks; that is, banks having no branches and belonging to no group or chain, or about 70 per cent of all.

The loans and investments of all banks were $58,461,000,000; of unit banks $28,445,000,000, about 48 per cent.

This large proportion of banks with a business so great is too vast to rest under the imputation of failure. Is it not incumbent upon us, while we are studying branch, chain, and group banking, to analyze all statistics concerning unit banks and attempt to arrive at definite means to protect them by laws and by well thought-out conclusions? If the unit banks need adjustment to the changing conditions of to-day, and no doubt they do, is not this our first duty before we convert ourselves to some new theory of banking, perhaps not germane to our theory of life?

Fortunately, the recent hearings before the House Committee on Banking and Currency furnish us with ample statistics for complete analysis as to bank failures.

Let us separate banks according to capital into three groups, banks of $1,000,000 and over, banks of $100,000 and over, and banks of less than $100,000.

In the last 10 years, no banks with $2,000,000 capital and over failed, and only four banks, one national and three State, failed with capital of $1,000,000 and over. So this first class is practically eliminated.

In the 8-year period ending in 1927, out of a total of 4,513 bank failures, only 12 per cent had a capital of $100,000 and over.

Eighty-eight per cent of failed banks fell in the third group, under $100,000 capital.

Now in the 9-year period, 1921–1929, 4,985 banks failed, 91.6 per cent in towns of 10,000 inhabitants or less.

Therefore, the great middle class of banks, the typical American unit banks, in towns of over 10,000 inhabitants, were responsible for only 8.4 per cent of the failures, and the banks of $100,000 capital and over up to $1,000,000 capital were responsible for only 12 per cent of the failures. These banks which we may class closely together have a fair record, and may well demand study with a view to the protection of the law and betterment of their fairly good condition. They are not great sinners in the failed class, and need only to be adjusted to the changing conditions of our generation. They are surprisingly clear of trouble.

Then let us consider the third class of banks where really all the trouble lies. The banks in towns of less than 10,000 inhabitants are responsible for 91.6 per cent of bank failures, and the banks of less than $100,000 capital for 88 per cent of the failures.

The last decade that we have selected for study has been subjected to the severest of all tests, inflation and deflation following a great war. The agricultural States have borne the brunt of this. We find—and I got this from Mr. Busby—that four agricultural States on the

Atlantic coast, North and South Carolina, Georgia, and Florida, with a population in 1920 of 7⅞ per cent of the population of the United States, had 729 or 15½ per cent of the bank failures. In the Northwest, nine agricultural States, Minnesota, Iowa, Missouri, Oklahoma, North and South Dakota, Nebraska, Kansas, and Montana, with 14½ per cent of the population, had 2,768 or 56⅛ per cent of the bank failures.

So these 13 States with 22 per cent of the population had 71.6 per cent of the bank failures, while the remaining 35 States with 78 per cent of the population had only 28.4 per cent of the bank failures.

This outline does not complete the picture. Not all of these banks failed. The communities failed. There was a pioneer need for banks at crossroads and in villages. Many were speculations started to sell safes, fixtures and jobs. Their service and clientele passed on to the larger cities when hard sense operating on hard roads with cheap automobiles and trucks came. With these disappearing banks went the country store, the country doctor, the preacher, and the inhabitants. They all went together. These banks would have closed their doors, had they been branch, chain or group. This is an economic, not an eleemosynary development, and do not imagine that remote city branches would remain open under such pressure. This is a fundamental change. To stay on the map a town must locate factories or colleges, or become a center of a network of roads and draw from other towns. Sixty per cent of failures were in towns of 1,000 or less; 63 per cent had $25,000 capital or less.

This analysis reveals the strength and also the weakness of unit banks. This weakness in some small banks in some small towns can not be entirely eradicated. It does not require branch banking to eliminate this trouble, for it is self eliminating by the eventual disappearance of these banks. Were they branches, or groups, or chains, they would disappear in the long run for the business on which they should subsist is passing away. Parent banks might be able to stand the loss, but in the long run common sense would close such branches.

It can not be the purpose of government to create size to satisfy the ambitions of bankers, but to protect the depositing public. Even the frozen real estate loans that have closed many small banks are not indicate of small bank frozen brains, for the large institutions, the Federal farm loan banks and the great insurance companies have suffered severely from the same cause, and some joint stock farm loan banks have fallen into receivership from the same cause. This is a matter of judgment, not size. This landslide to bigness, mass production, creation of enormous units, and ambition for great profits is a natural development, but it does not reach our problem.

Our free and independent unit banks standing on their own foundations have the resources within themselves to meet these emergencies. A small unit bank in a growing community can be properly conducted, and can make good loans intelligently. Local credit can thrive best in a unit bank, and local capital there has its widest scope and opportunity. The president and board of directors are residents and prominent in all local affairs. Its business is germane to that community alone.

To have our problem well before us we must recognize the fact that within the last 20 years small banks have experienced losses of sources of profit peculiar to themselves. Wisely or unwisely, they lost their

exchange on checks, charges on growing float, loans to and deposits of small merchants driven out by chain stores, and these chain stores seldom carry worth-while deposits and never borrow from small banks. Taxes, insurance, rents, salaries, and incidental charges have grown out of proportion to increased business.

What are the remedies?

Broadly, better banking, where there is a filed for a bank to thrive in, and there must be a scientific revision of banking laws and banking practices in unit banks.

The generic difficulty with small banks is that they have no proper diversification of business or assets. The trust business is more permanent than the banking business, and in the long run more profitable. The investment business is growing and calls for a securities department. To include these departments means consolidations and mergers of banks of which there are far too many, 20,000 in towns of 10,000 inhabitants or less. This is only possible in fair-sized communities.

Diversified assets mean a proper secondary reserve and balanced investments that all banks should have to render them immune from crop failures or neighborhood collapses. Such a reserve consists of good bonds and marketable commercial paper.

Branches and groups do shift funds to locations where they are needed, but so does membership in the Federal reserve system. The small unit bank in any community can maintain its independence in competition with any multiple system of banking by becoming a member of this system. It can hold its traditional relation with its city correspondent and besides secure a guaranty against tight conditions by the protection which the Federal reserve system has afforded for 16 years. With this anchor to windward, it can serve its patrons in comfort under any conditions that may arise in good banking. It is the one guarantee that the unit bank can continue to exist.

May we suggest a few preventive laws to afford protection to depositors?

No new bank should be chartered with less than $50,000 capital. Seventy-one per cent of all such banks have failed in the last 10 years.

Mr. DUNBAR. Seventy-one per cent of all banks with less than $50,000 capital have failed in the last 10 years?

Mr. NAHM. Yes; 71 per cent of all banks chartered with less than $50,000 capital have failed in the last 10 years.

Now, continuing:

No bank should be chartered where the banking needs are supplied and the field is properly served.

No bank should be chartered unless its personnel includes men trained in banking.

No fees collected from banks by States should be used for any other purpose than to secure highly trained examiners.

Then banks should charge for unprofitable services and recoup their lost profits by proper service charges on unprofitable accounts, charges upon float that is paid by them, charges for expense incurred by issue of bad checks. This requires some backbone in a country banker, but no other business man suffers so greatly for unpaid services.

The human element enters largely into our problems. The psychology of the human being must be considered.

It takes time to train men to operate the huge aggregations of capital now gathering into the banking business. It requires health, brains, and experience. Many men in these great financial mills are breaking under the strain. They frankly declare that they can not see through it all, that it is too big.

Most country banks are 1-man banks, men who, from a banking standpoint, though perhaps not in organizing ability, are abler men than the men developing the multiple metropolitan banks.

Reduce this man to a managing clerk, take away from him his full authority and autonomy, give him his daily instructions and a complex set of rules to abide by and you will in time make of him a mere cog in a great machine, instead of an individualistic, resourceful American.

It is a melancholy experience to be thrown with men whose originality and initiative have been crushed out of them by the weight of authority. That is paternalism in its deadliest form.

The young man will not seek the branch-banking business, nor will those who are employed be tempted to remain memorizing a set of rules, with little opportunity to develop initiative, with no ambition left to become the president of a bank, but only a manager at a smaller salary. The honor and the stability of the job is gone, and local understudies will not be found.

Multiple banks naturally seek the best banks in the towns, and buy and control them. If they retrograde, the one man gone, and fail to pay, as many will, the bank will be closed. What then is left? Those banks not so good are left, and the result may be, if not disastrous, worse than it was before.

The country banker knows men and localities. The manager knows rules and collaterals. Within his special sphere of activity, the country man is just as keen as his city brother.

At best, the local manager can be only advisory and must refer back to the head office all great problems. Men of high type will leave this nature of employment and the substitute may be a robot, bound by rigid instruction, enforced in a mechanical way.

The enterprises of a town will interest a unit banker, and not appeal to a branch of a distant city. The one man has knowledge of the individuals, their character and ambitions, and sympathizes with their ideas of developing the city.

The other, being under foreign sway, can not enter into that intimate relatino and would refuse such loans. It takes a high order of talent to estimate and make such a loan correctly, but on such decisions the growth of the country commercially has largely been predicated. Destroy the power and disposition to foster this growth and you have broken the main-spring of American resource. The history of many of our greatest enterprises began in such loans.

So, if we find that the unit system of banking has not broken down as a whole, but only in part, and only in definite sections, in only some small banks, in some small towns, is it not then worth while to protect, develop and foster the remaining unit banks?

Let us realize that unit banking is a profession, and that multiple banking is a large-sized business.

Let us adhere to unit banking and depart from it only so far as developments make it necessary to do so. Let us abandon it only

to the extent that we must to eliminate its defects, and restore it to its former efficiency.

Mr. LUCE. Mr. Nahm, you have just suggested some laws that would afford protection to depositors. Is it not a fact that a considerable number of these banks that have failed were chartered by the States?

Mr. NAHM. Yes, sir; more of them, sir, than national banks.

Mr. LUCE. Then your remedy would not be sufficient unless the States cooperated?

Mr. NAHM. No, sir; these would mainly be in the States.

Mr. LUCE. Would you think it advisable to try to find any way in which we could coerce the States or control the States in that regard? I might say that for a long time I have been of the opinion that one of the fundamental factors in this situation is the maintenance in this country of two different systems of banks, one national and the other State, and I have feared that sometime it would lead to much more important trouble than now exists. Your suggestion here, however, brings it right to the surface. How can we do anything in the direction of controlling or coercing States in this regard?

Mr. NAHM. Well, sir, in the first place, with reference to these suggestions I think the national bank law allows banks of $25,000 in small towns, of 3,000, I think, or less. I would suggest, if I may, that that should be increased at least to $50,000, if not to $100,000, provided that the States themselves would also go to $50,000 or $100,000. Even if the States did not, I might suggest that it should go at least to $50,000.

Mr. SEIBERLING. May I interrupt for just a minute?

Mr. LUCE. Yes.

Mr. SEIBERLING. In connection with that 71 per cent of failures, did you give us the percentage of national bank failures and State bank failures? You did not give us that, did you?

Mr. NAHM. No, sir, I did not, but I think I have it here.

Mr. SEIBERLING. It would be interesting to know that.

Mr. NAHM. In nine years, the failures of national banks numbered 763; of State banks, 4877.

Mr. SEIBERLING. What would that percentage be?

Mr. NAHM. If you want the failures in small towns, I think that I have that also.

Mr. SEIBERLING. Can you give us those percentages with respect to the banks having less than $50,000 capital?

Mr. NAHM. As to those that failed and that had less than $50,000 capital?

Mr. SEIBERLING. Yes.

Mr. NAHM. Those that have failed with a capital of below $25,000 are 63 per cent.

Mr. SEIBERLING. What perentage of those were national banks and what percentage State banks?

Mr. NAHM. I can not tell you that, but I will go into that in another way in a minute.

Those that have failed with a capital below $50,000 constitute 71 per cent, and that comes from Mr. Pole's testimony, in book 1, page 11.

Mr. SEIBERLING. What I am after is what percentage of those constituted national banks and what percentage State banks?

Mr. NAHM. Well, the failures have been for the most part in the relation of 6 or 7 State banks to one national bank.

Mr. SEIBERLING. How is that?

Mr. NAHM. The percentage of banks that have failed has been in the relation, acutal numerical relation, of 6 or 7 State banks to one national bank; but, counting the number of State and national banks, the relation has been about 3 to 1.

Mr. SEIBERLING. That is all.

Mr. LUCE. If it should prove impracticable to coerce these States into adopting a wiser banking system, would we not then be justified in attempting to meet the situation in the way Mr. Pole suggests?

Mr. NAHM. Yes, sir.

Mr. LUCE. What is your judgment of Mr. Pole's attitude in this matter?

Mr. NAHM. I would be in favor of Mr. Pole's proposition of having branches in limited trade areas under the following restructions:

First, that these branches be extended only to cities of 10,000 or less inhabitants, because that is where, as I attempted to show, the trouble lies;

Second, that banks acquiring such branches must be of a high type, well officered and well conducted, with a successful business of its own, and to be under the control of the Comptroller of the Currency;

Third, that the territory invaded be one not already completely served by existing banks, this to be left to the judgment of the Comptroller of the Currency;

Fourth, that no branch be placed in a territory where there is no need for a bank, and where the population and business have passed to a larger city, such matters to be determined by the Comptroller of the Currency.

With restrictions of this nature, Mr. Pole's proposition would probably be one of the solutions of the banking troubles of small towns and small banks.

Mr. LUCE. We observe that wherever there is an attempt, either National or State, to interfere with the tendency toward consolidations, apparently we simply drive the men who see profit in consolidation to other recourse. For example, within the last two or three days the newspapers have carried the announcement that 50 banks in Pennsylvania are in process of being amalgamated in a group system. So it would seem that if there is to be Federal legislation, we shall have to anticipate, if we can, the effect of restrictions that do not go any further than what you suggest.

What are we going to do about a situation like that in Pennsylvania, or should we do anything?

Mr. NAHM. Mr. Luce, I would say that any system of banking with an ideal set-up of capital and surplus and secondary reserve, with diversified investments in a territory where such a group can profitably operate, is all right; but the trouble will come, if it comes, when the men and the conditions are not so ideal.

Now, what I fear and what I tried to bring out in my statement is a condition when it arises of having set-ups and men to run them not so ideal.

Now, as to what to do, as far as I have been able to observe from reading all the testimony and thinking over the matter, Mr. Pole's

proposition, with the restrictions that I have tried to bring out, would be, I believe, a very valuable set-up.

Mr. LUCE. Mr. Hooper, have you any questions?

Mr. HOOPER. I came in after Mr. Nahm had started his statement, and so I have not any questions to ask, but I do want to say that from what I have heard of his statement I think it is one of the most valuable and most instructive that we have had in this series of hearings.

Mr. BRAND. Mr. Witness, I did not get your last answer to the chairman's question. What was it you said about Mr. Pole's proposition?

Mr. NAHM. I believe that, with the restrictions that I have stated—did you hear those restrictions?

Mr. BRAND. Yes.

Mr. NAHM. I think it would be as valuable a means of reaching the proposition as any I know of.

Mr. BRAND. I am much obliged. I did not hear your answer.

Mr. LUCE. Mr. Seiberling, you are next.

Mr. SEIBERLING. I take it from hearing your statement that you think the unit banker would be more interested in a new enterprise in a small city than the branch manager,

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And the small enterprises grow into large enterprises in a community?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And the banker not only has to loan this small enterprise money and nurse it along, but he has to give a lot of his personal time and attention to it?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. He has to do that for nothing, does he not?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And it is that personal interest and business judgment that the unit banker gives to the small enterprise that you think would be lost in branch banking?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. You say you do not believe that a bank should do anything that is not profitable?

Mr. NAHM. Yes, sir; that is what I said.

Mr. SEIBERLING. But you do think that it is justified in giving its time and loaning its money, and maybe permitting over drafts at times to a new industry, to help build it up?

Mr. NAHM. What I tried to bring out——

Mr. SEIBERLING. I know, but if you will just get that question, I think you can answer it.

Mr. NAHM. What was the question?

(Question repeated by the reporter as above recorded.)

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. Now, you are familiar, I suppose, with the custom of charging $1 a month to individuals where they do not have a balance of so much in their accounts?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. Do you do that in your bank?

Mr. NAHM. No, sir. We are just beginning now to put in the service charge of 50 cents a month, where an account does not average as much as $50 during the month.

Mr. SEIBERLING. You do that on the theory that you should not carry on account at a loss?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. You do not think the principle that applies to a small industry in your town should apply to the individual, then?

Mr. NAHM. I can not say that I do.

Mr. SEIBERLING. Is not the individual likely to become a big depositor also?

Mr. NAHM. Yes, sir. The purpose of the service charge is not to collect, but to bring the individual to have a worth-while bank account, for his own good as well as for the good of the bank.

Mr. SEIBERLING. By the way, who invented the idea of making this charge? It is rather a new thing, just a few years old.

Mr. NAHM. I do not know, sir.

Mr. SEIBERLING. Who is putting it in your bank?

Mr. NAHM. We are, ourselves.

Mr. SEIBERLING. Who is furnishing the scheme, and what are you paying for it?

Mr. NAHM. Nothing.

Mr. SEIBERLING. There is some institution in this country that has been doing that and charging the banks for it.

Mr. NAHM. I think so, but the American Bankers Association will furnish all the information you want without charge.

Mr. SEIBERLING. But, in the beginning, it was simply somebody's scheme to make money for himself, to get the banks to put this in operation.

Mr. NAHM. I do not know, sir.

Mr. SEIBERLING. How do you think a young married man feels when he is telling his wife that he has been unable to carry a balance in the bank of $100 and the bank has closed his account, and he can not any longer write checks on the bank, but they must carry their money around in their stockings and pay their bills in cash?

Mr. NAHM. Well, sir, I do not think the banks close his account. If he does not carry $100 in the bank, they charge him 50 cents in our neighborhood.

Mr. SEIBERLING. They charge him a dollar in many banks, do they not?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. Are you going to pay any interest to your depositor who carries more than a balance of $100?

Mr. NAHM. No, sir.

Mr. SEIBERLING. What kind of a proposition is it that only works one way? Do you not think that when an account becomes profitable, you should then pay some interest on that account?

Mr. NAHM. No, sir.

Mr. SEIBERLING. Why not?

Mr. NAHM. For the reason that banking includes many more things than merely carrying their accounts. It includes taking care of a man's money so that when he calls for it, it will be there for him, which he can not do for himself. It includes paying his check, no matter where he goes in the United States or Canada, or, sometimes, Europe.

Mr. SEIBERLING. Let us put it another way. You think, then, that a bank should be paid for any service that it renders at a loss?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. But it is under no obligation to pay for a service it renders at a profit?

Mr. NAHM. It does pay for a service that it renders at a profit, Mr. Seiberling, in the service itself. In other words, if there were no bank in the community, and some communities have none, one would have to carry his money in his pocket or in some secret place at home and probably have it stolen, putting a premium upon a robber coming in and maybe killing him or his family. A bank renders a service when it carries money for a man and is ready to pay it at any and all times when the check is presented.

Mr. SEIBERLING. There are many banks that put on campaigns to get accounts. You have heard of that, have you not?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. They spend two or three weeks putting on their campaigns, and they go around to back doors and get servant girls and chauffeurs and everybody else to open accounts with them, and then a year or two later they come around, after these people have opened these accounts, and after proclaiming how many new accounts they have got, and then they say to these people, "Now, you are not carrying enough balance here, and you have to close your account and get out of the bank.

What do you think of that?

Mr. NAHN. That they have to close their accounts and get out of the bank?

Mr. SEIBERLING. Or pay $1 a month.

Mr. NAHM. Of the banks with a capital below $50,000, 71 per cent, as I stated, have failed. Now, the reason that those banks have failed is because a bank does more for nothing than any other character of business.

Mr. SEIBERLING. But you are not answering my question.

Mr. NAHM. I am going to answer it.

Mr. SEIBERLING. I asked you whether you thought it was right.

Mr. NAHM. Yes, sir; I do think it is right.

Mr. SEIBERLING. To solicit an account and at the time impose no condition upon it, and then come around later and tell them that they have to carry a certain balance or pay $1 a month or get out do you think that is all right?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. You do not think that the lawyer, for instance, does a lot of work for nothing, do you?

Mr. NAHM. Of course he does, but not as much as the banks.

Mr. SEIBERLING. You do not think the doctor does, do you?

Mr. NAHM. Yes, sir; but not as much as the banks.

Mr. SEIBERLING. What makes you think that a bank is a charitable institution?

Mr. NAHM. A man steps into a bank, say in Baltimore, with a check on one of the banks in Washington, and they give him the money, and it is three or four days before they get that money back. That is a service for nothing.

Mr. SEIBERLING. They do not do that for a man who has not good credit at the bank. They will cash his check for him if he has good credit, but he must furnish a good indorser for the bank.

Mr. NAHM. Our bank would do it for you, sir, although we do not know you, provided that you satisfied us as to who you were.

Mr. SEIBERLING. With a good indorser in your town.

Mr. NAHM. No, sir; you would not need any indorser in that town.

Mr. SEIBERLING. Where is the place where your bank is?

Mr. NAHM. Bowling Green, Ky. Our banks do that, Mr Seiberling.

Mr. SEIBERLING. I have pursued that subject far enough, and I will ask you another question. You are the head of a national bank?

Mr. NAHM. I am vice president of a national bank and also of a State bank.

Mr. SEIBERLING. What real service do you get out of the Federal reserve system?

Mr. NAHM. In order that you may know, I am a Federal reserve director at St. Louis.

Mr. SEIBERLING. That is all right, but what real service do you get?

Mr. NAHM. I think the greatest service that any bank can possibly have——

Mr. SEIBERLING. My question is, what does your bank get out of the Federal reserve system?

Mr. NAHM. In the first place, we have gotton out of the service an elastic currency; we have gotten an absence of panics——

Mr. SEIBERLING. Yes; I understand that, but, confining yourself——

Mr. NAHM. We do not have money panics.

Mr. SEIBERLING. But what I am aiming at is this, the rediscounting of paper, and so forth.

Mr. NAHM. We get the rediscounting of paper when we need it.

Mr. SEIBERLING. Do you think that the law should be liberalized somewhat in that respect so that member banks can rediscount some forms of paper that they can not discount now—for instance, that paper secured by approved municipal bonds, or something of that kind?

Mr. NAHM. Well, they can rediscount municipal warrants, with short maturities.

Mr. SEIBERLING. I am talking about municipal bonds, good municipal bonds.

Mr. NAHM. At the present time there is in eligible paper about $7,600,000,000.

Mr. SEIBERLING. But that has been reduced. The corporations do not have these acceptances to the extent that they used to have them.

Mr. NAHM. Commercial paper is coming back slowly. I dare say that within a year or two the amount of commercial paper will be very nearly as big as it used to be, and as this financing that the corporations have done becomes absorbed into their plants they then go back to the banks.

Mr. SEIBERLING. You see no reason why paper secured by good municipal bonds, or paper secured by good commercial bonds, should be subject to rediscount in the Federal reserve, do you?

Mr. NAHM. Well, provided they are exceedingly good municipal bonds.

Mr. SEIBERLING. If the law provided certain limitations, where the tax duplicate was so and so and the limit of indebtedness was such? They would have to put in a limitation in the law in order that they might be good.

Mr. NAHM. If they are absolutely high-class municipal bonds; yes, sir.

Mr. SEIBERLING. It would help, in a stringent money market, to have municipal bonds eligible?

Mr. NAHM. Yes, sir; but with restrictions on the type of municipal bonds.

Mr. SEIBERLING. That is all.

Mr. LUCE. Mr. Dunbar, do you desire to question the witness now?

Mr. DUNBAR. Mr. Busby is so many times left out because he is the last on the list, I should like to yield to him now and give him a chance, and take up my questions after a while.

Mr. BUSBY. I am not particular at all about proceeding at this time.

Mr. BRAND. May I ask one question?

Mr. SEIBERLING. As far as I am concerned.

Mr. BRAND. I do not think you answered Mr. Seiberling's question in regard to the benefit a Federal reserve bank is to an individual bank that has no occasion to borrow money from the banks or discount any eligible paper.

Mr. NAHM. The absence of money panics, the insurance against what we had in 1873 and in 1907——

Mr. BRAND. We did not have the Federal reserve system in those days.

Mr. NAHM. No, sir.

Mr. BRAND. What benefit does a member bank which has no occasion to discount eligible paper with a Federal reserve bank recieve by reason of it being a member of the system?

Mr. NAHM. The only loss that a unit bank sustains in joining the Federal reserve is the interest on its 7 per cent reserve—on the deposit that it must place with the Federal reserve bank.

Mr. BRAND. And may I interrupt you?

Mr. NAHM. Yes.

Mr. BRAND. Another character of loss is the charges on checks. It loses that, does it not?

Mr. NAHM. Yes, sir; it also has that loss.

Mr. BRAND. Now, considering those losses, when the bank has no occasion to discount paper with the bank, what benefit is this system to that class of banks?

Mr. NAHM. Well, sooner or later such bank most likely have to rediscount somewhere. It can usually, if not all the time, rediscount with the Federal reserve a little cheaper than it can with its correspondents.

Mr. BRAND. Well, suppose it has no money to borrow from its correspondent or from the Federal reserve bank either. What benefit does it get out of its being a member of the system? That was part of the question Mr. Seiberling asked.

Mr. NAHM. I would say two; first, insurance against panics; and second, a reservoir to draw from would be there if it needed it, and those are two great propositions to a man running a bank.

Mr. BRAND. That is your answer to the question?

Mr. NAHM. Yes, sir.

Mr. BRAND. Don't you think that the Federal reserve system ought to do something more than is now being done for the member banks?

Mr. NAHM. Yes, sir; I do.

Mr. BRAND. I am glad to hear you say that. Don't you think, to put it in another form, there ought to be some benefit in a monetary way to the banks, more than they have now?

Mr. NAHM. Yes, sir.

Mr. BRAND. What way would you suggest that be done?

Mr. NAHM. I would suggest that the net earnings should be redistributed so as to give a member bank from 8 to 10 per cent instead of 6 per cent on his stock.

Mr. BRAND. On his paid capital stock?

Mr. NAHM. Yes, sir.

Mr. BRAND. From 8 to 10 per cent?

Mr. NAHM. Yes, sir.

Mr. BRAND. You are the first witness who has appeared before us up to date that I have heard of, outside of Mr. Ottley, of Atlanta, who has made that concrete admission. And you are a member of the Federal reserve or on the directorate of the Federal reserve bank?

Mr. NAHM. Yes, sir; at St. Louis.

Mr. BRAND. Do you know whether or not they contemplate or are considering doing anything like that?

Mr. NAHM. No, sir; I have no knowledge of that.

Mr. LUCE. Mr. Busby, do you care to question the witness now?

Mr. BUSBY. Following up the thought that Mr. Brand was trying to make clear, a bank that is eligible for membership in the Federal reserve system receives an indirect benefit, whether it is a member or not a member of the Federal reserve system, because of the existence of the Federal reserve system, does it not?

Mr. NAHM. Yes, sir.

Mr. BUSBY. I have observed that in the agricultural field of operations the cooperative agricultural organizations benefited greatly the farmers who were not in those cooperative organizations, by reason of the fact they took off the market, in a sense, or controlled in a way, the price of those commodities through the larger method of consuming or handling element that came in contact with the different commodities; so, in the banking field, the bank that is eligible for membership in the Federal reserve system or even if it is not eligible for membership, has the same type of assurance back of its operation, that this source of relief is in existence and can be called upon by its correspondents, if not by it?

Mr. NAHM. Yes, sir.

Mr. BUSBY. And in that way it is a bulwark to the small bank as well as the State banks that are members and the national banks that are required to be members?

Mr. NAHM. Yes, sir.

Mr. BUSBY. And that is your idea of the benefits to be received by the banking fraternity, if you term it that, even though they are not members of the system?

Mr. NAHM. Yes, sir; absolutely.

Mr. BUSBY. Some one has suggested, in regard to the great number of bank failures duirng the last nine years, that many of those banks were organized prior to 1920 and were loaded up with types of loans

about 1920 and prior to that time, which loans they were never able to realize on or, in other words, these loans have remained in a frozen state and ultimately the banks had to go out of business when they could not realize on the old loans. What is your idea in regard to that thought?

Mr. NAHM. That is quite true, sir.

Mr. BUSBY. The suggestion has been made that few of the bank failures have come to banks organized since the deflation period was over in 1921; that the bank failures are not among recently organized banks. Have you given any thought to that question?

Mr. NAHM. I would say that that is not entirely true. I think, in the first place, there are too many banks in small places. In the second place, there are a great many small places that are shown, even by our census that is going on, where reports have been given out, to be getting smaller.

Mr. BUSBY. Yes.

Mr. NAHM. And the business is simply going away and is not there and the banks located in such territory must, necessarily, eventually close if that condition continues. Therefore, it makes no difference, Mr. Busby, whether such banks were organized before 1920 or since; it is a question of the territory being a profitable territory to operate in.

Mr. BUSBY. With automobiles and transportation facilities that bring business in contact with remote places, do you think that a branch-banking system would maintain the old status of things much better than a unit-bank system would maintain it?

Mr. NAHM. With the restrictions that I pointed out—did you hear them?

Mr. BUSBY. Yes.

Mr. NAHM. With the restrictions I pointed out, I think it would.

Mr. BUSBY. Following out the last thought on the subject, it would not be feasible for an independent bank or branch bank to try to remain in a territory that did not need either one of them, from a business standpoint?

Mr. NAHM. Absolutely.

Mr. BUSBY. And where formerly need was felt for banking activities in a community, that need has passed away, largely?

Mr. NAHM. Yes, sir.

Mr. BUSBY. In many communities?

Mr. NAHM. Yes, sir.

Mr. BUSBY. We are becoming more concentered in our commercial and industrial and banking activities as well—much more so than we were a few years ago?

Mr. NAHM. Yes, sir.

Mr. BUSBY. Because of transportation, largely?

Mr. NAHM. Yes, sir.

Mr. BRAND. Do you have overdrafts in your bank?

Mr. NAHM. No, sir.

Mr. BRAND. None?

Mr. NAHM. Not in the city of Bowling Green, Ky. Please let me qualify that. We do not allow overdrafts, but in case a very good patron should accidentally, or without knowledge of his own, overdraw his account slightly, we have two ways of paying that; first, there is a small fund set aside of perhaps $4,000, out of which, when

the cashier or president thinks it advisable, they will pay that man's check to keep him from getting into trouble and having his check protested, and immediately notify him and he comes right over and settles that. I myself have given the cashier a written instrument authorizing him to sign my note for an overdraft, if I should make one while I am away from home, so as to prevent that. With those two exceptions, we have no overdrafts.

Mr. BRAND. Do you charge any interest on overdrafts of that character?

Mr. NAHM. No, sir.

Mr. BRAND. Do you know of any banks that take care of these overdrafts, that have a policy of rule to charge interest on the overdraft during the period of the overdraft?

Mr. NAHM. I think in England that is the rule. I think they do business on an arranged overdraft basis and charge interest on them.

Mr. BRAND. Suppose I sent a check to the bank and have overdrawn $500, and it is 10 days before I get the money to the bank to take care of it; should I not pay a reasonable rate of interest on that overdraft for that time?

Mr. NAHM. Certainly.

Mr. BRAND. Is such a charge as that made by any banks in the United States?

Mr. NAHM. Yes, sir.

Mr. BRAND. It is a proper charge, is it not?

Mr. NAHM. I think so.

Mr. BUSBY. You spoke of the idea of Mr. Pole establishing branches in certain restricted trade areas. Have you a definite notion as to a proper trade area in which those branches ought to be established?

Mr. NAHM. No sir; I have not.

Mr. BUSBY. Do you form a correct or accurate conception of what Mr. Pole means by trade areas?

Mr. NAHM. I think so. I think his idea is that such trade areas—it is a very indefinite proposition—that such trade areas are not to go beyond Federal reserve districts and to be in such territory as the ebb and flow of business of a given city exists in—ebb and flow of trade, I should say.

Mr. BUSBY. What is your conception of the effect of holding companies owning and controlling stocks in State banks, national banks, investment companies and all types of business activities, under the management of the holding company, with regard to its effect on the unit bank and on business generally; in other words, I am asking about a holding company of a very extensive nature?

Mr. NAHM. Well, I think the danger lies in their getting so big and so multiform that the average man at the head of it will not be able to see through it all and run it. As long as you have these ideal men who now seem to be organizing those companies, such as Mr. Giannini, Mr. Decker, and Mr. Wakefield, I do not feel any apprehension, but men die and their successors might not be able to see through it.

Mr. BUSBY. Taking into consideration the unit bank and type of credit extension that has developed our country to its present state of development, does it not seem to you that this holding company

orgy we are entering into is a little beside the spirit of the business of this Nation?

Mr. NAHM. Yes, sir.

Mr. BUSBY. Do you not think our problem is more in determining what to do regarding the holding company than it is what to do with the individual or unit bank? There are two or three angles to be considered, are there not, just now?

Mr. NAHM. I would not say that it is more, for I think that the unit bank—the small unit bank in a small town—has been your greatest sufferer and they need attention. But both are problems to be considered.

Mr. BUSBY. At the present time, does it not seem to you that legislation in regard to controlling, defining or dealing with holding companies would be just as much in order as legislation to deal with branch and chain banking? The holding companies are over the branch and chain banking in most instances?

Mr. NAHM. Yes, sir.

Mr. BUSBY. And we could not deal with branch and chain banking unless we dealt with its creator, the holding company?

Mr. NAHM. Yes, sir.

Mr. BUSBY. Now, in the great number of failures in very small communities, of many very small banks, the idea of the survival of the fittest will largely control that situation and put the men who ought not to have established banks into other lines of business, largely?

Mr. NAHM. Yes sir; but that is hard medicine.

Mr. BUSBY. I know it is.

Mr. NAHM. It should be corrected by not adding to the difficulty with too small banks with too small capital in too small territories.

Mr. BUSBY. The most effective antidote would be to require an adequate capitalization before a charter was given to them to open a bank. Would not that be the better way?

Mr. NAHM. Were you in when I read these points?

Mr. BUSBY. Yes; I heard your statement, but coming to the remedy, does it not seem that that would be the most adequate remedy and the simplest to apply?

Mr. NAHM. That is one of the remedies.

Mr. BUSBY. If all State and national banks had a requirement of $50,000 capitalization before a charter to do business was given them, that would correct most of the evils we have from small bank failures, would it not?

Mr. NAHM. It would help, but there are other conditions just as important.

Mr. BUSBY. It would insure two things—first, more capital to protect the depositing public and it would insure a better type of management, because it would enable them to bid for better qualified men to operate the institution?

Mr. NAHM. In that sense; yes sir.

Mr. BUSBY. I will not take any more time.

Mr. LUCE. Mrs. Pratt?

Mrs. PRATT. Mr. Chairman, I regret that I was detained in a hearing before the Rules Committee and I was not here to hear Mr.

Nahm's statement, but I assume, Mr. Nahm, you are a proponent of the unit banking system?

Mr. NAHM. Yes.

Mrs. PRATT. In line with the statement you made a few minutes ago, that men die, we are dealing with theories as well as practice here?

Mr. NAHM. Yes.

Mrs. PRATT. And that would apply to the head of the unit bank as well as the head of a chain system or branch system. Would you, in theory, feel that a branch system was the only way to take care of the banking question in very small communities? Mr. Busby brought out the point just now that perhaps one remedy was the requirement of larger capital and surplus before a bank should be allowed to have a charter. Would not that cut out from the very small communities the possibility of even a small unit bank, and would not that community have to be taken care of in another way? I am talking about the small rural community that has been very much discussed here and where many bank failures have occurred?

Mr. NAHM. I think that would; yes.

Mrs. PRATT. You feel, in that case, a branch system would be the necessary system?

Mr. NAHM. May I answer that in my own way, Mrs. Pratt?

Mrs. PRATT. Yes. Perhaps the question was not well put.

Mr. NAHM. It was splendidly put. With the good roads that are being built everywhere and the opportunity of reaching, in a very short time, a center of population large enough to sustain a bank, I do not think it would be any great hardship on very small communities, if they did not have a small bank for the reason that the statistics show that such a large percentage of those banks eventually fail, carrying with them a great loss to that community, that it would be better if such communities were taken care of in their largest near-by center and therefore I, for one, would be in favor of no new banks being chartered with less capital than would make a bank that is able to go though trouble.

Mrs. PRATT. When Mr. Decker and Mr. Wakefield were here before this committee, I think I am right in stating that their purpose was to stimulate the local communities. They rather encouraged a local board and local officers, but with a possibility of their getting help from the large parent bank in the central city. Am I right in that statement?

Mr. LUCE. I so understood it.

Mrs. PRATT. Would you feel that that was a better plan, possibly, than where the parent bank would have immediate control over these smaller banks?

Mr. NAHM. Group banking is only two years old—less than that. It is rather early to answer that question. I happen to be a member of the economic policy commission of the American Bankers Association and I have been studying that and our opinion is that so far, we are not prepared to express a definite opinion on that subject; we would rather see it work out awhile.

Mrs. PRATT. I think that is all, Mr. Chairman.

Mr. LUCE. To make it clear that we understand just what your proposal is, in regard to a limit, am I correct in taking it that your proposal is that branches might well be established in places of less

than 10,000 inhabitants by parent banks in places of more than 10,000 inhabitants and that you are not prepared to approve branches of banks in places of more than 10,000 inhabitants?

Mr. NAHM. Yes, sir.

Mr. LUCE. Branches of parent banks in other larger places in that same area?

Mr. NAHM. Yes, sir:

Mr. LUCE. Mr. Dunbar, have any questions occurred to you since you yielded to Mr. Busby?

Mr. DUNBAR. You stated the Federal reserve system, in your opinion should pay member banks from 8 to 10 per cent on their stock?

Mr. NAHM. Yes, sir.

Mr. DUNBAR. Governor Young was here and also Mr. Pole, to give expression to thought along that line. Would it not be better to maintain the 6 per cent interest on the stock and give the member banks interest on their daily deposits?

Mr. NAHM. The earnings of the Federal reserve are not such as to make that possible.

Mr. DUNBAR. Judge Brand, in his speech the other day showed you diverted a great deal of your earnings to the purpose of buying increased stock in the Federal reserve system. If that is so, why could not that be used? Why should they be doing that?

Mr. NAHM. I do not understand that question.

Mr. DUNBAR. Sir?

Mr. NAHM. I do not understand that question.

Mr. DUNBAR. A branch member of the Federal reserve bank wishes to purchase more stock in the Federal reserve system and they do it and use their earnings to pay for the stock.

Mr. NAHM. A branch Federal reserve bank?

Mr. DUNBAR. Yes. You are a member of the St. Louis Branch?

Mr. NAHM. Yes, sir.

Mr. DUNBAR. Have you any stock in the Federal reserve system?

Mr. NAHM. An individual can not own stock.

Mr. DUNBAR. I mean your bank?

Mr. NAHM. Yes, sir.

Mr. DUNBAR. Suppose you wanted to increase the amount of that stock?

Mr. NAHM. Yes, sir.

Mr. DUNBAR. Could you not do that?

Mr. NAHM. Yes, sir, by having more capital or more surplus.

Mr. DUNBAR. And then you use your money from your earnings to buy that additional stock—is that no correct?

Mr. NAHM. Yes, sir.

Mr. DUNBAR. Why can not that money be used to pay interest on daily deposits?

Mr. NAHM. There is not enough of it.

Mr. DUNBAR. How much money has been diverted each year on an average for the last five years, by the various banks in America?

Mr. NAHM. I do not know.

Mr. DUNBAR. How much are your deposits in the Federal reserve system?

Mr. NAHM. The reserve is $2,300,000,000.

Mr. DUNBAR. That represents 7 per cent on one kind of deposits and 3 per cent on another, does it not?

Mr. NAHM. Yes, sir; but that is an accumulation since the organization of the Federal reserve, since 1914.

Mr. DUNBAR. Then you say it would not be possible to pay 6 per cent?

Mr. NAHM. I think your testimony here, given either by Mr. Pole or by Governor Young, shows that there is about 1⅓ per cent on deposit earned.

Mr. DUNBAR. Yes.

Mr. NAHM. That would be immaterial to the small bank.

Mr. DUNBAR. I do not think it would be immaterial because of the complaints I have heard about it.

Mr. NAHM. I know that.

Mr. DUNBAR. Why would it not be a good thing to pay 1 per cent on deposits?

Mr. NAHM. May I answer that in my own way?

Mr. DUNBAR. Of course.

Mr. NAHM. Last year, in the Federal reserve bank in St. Louis, which has a paid in capital of $5,000,000 and a surplus of $10,000,000, making $15,000,000 in all, the city of Louisville, alone, owed the Federal reserve at one time $29,000,000. Now, what, in my opinion the Federal reserve banks need, since, for the future they must bank for America and, almost, I might say, for the world, is a larger surplus, so that they can accommodate the various cities in the United States in times of stress.

Mr. DUNBAR. Of course I am in favor of the Federal reserve system, but what I am interested in is trying to make the Federal reserve system more popular, so that we may have in it a greater number of banks who own stocks. Now, I think that if you can pay 1 per cent interest on the daily balances—and you thought that was nothing—I believe if you would pay 1 per cent interest, they would feel like they were getting something.

Mr. NAHM. I did not hear that last.

Mr. DUNBAR. If you could pay 1 per cent interest, they would feel that they were getting something and it would appease them to a large extent. Everywhere you go in the country they have an objection to the Federal reserve system because they do not get interest on daily deposits. I believe it would be better to give them 2 per cent on daily deposits than give them 5 per cent on their stock. That is just an opinion. You do not think so?

Mr. NAHM. No, sir.

Mr. DUNBAR. I just want to tell you one thing: The banks all over my section of the country are cursing the Federal reserve system because they do not get interest on daily deposits. I think we should work out a plan of that kind rather than increase dividends and pay them 8 or 10 per cent on their stock.

Another thing: I am favorable to the unit banking system and I deplore the obstacles which present themselves to it. How is the Federal Government going to regulate that, when the State governments have a right to grant branch banking?

Mr. NAHM. It is very difficult for the Federal Government to reach that proposition.

Mr. DUNBAR. It is almost impossible to reach it?

Mr. NAHM. The American Bankers Association have brought about some uniform legislation throughout the 48 States and would

be of great assistance to that, but a large part of the trouble is in the States.

Mr. DUNBAR. Do you not think there is so much trouble in the States, it looks like we will not be able to do very much in controlling the banking situation except so far as we have an influence through the Federal reserve system?

Mr. NAHM. I would not say that.

Mr. DUNBAR. Well, what is your opinion?

Mr. NAHM. I would say, under the restrictions I have named, Mr. Pole's proposition would be of help.

Mr. DUNBAR. What was his proposition that does not interfere with the States?

Mr. NAHM. To allow branches in trade areas.

Mr. DUNBAR. I know, but that would interfere with the States.

Mr. NAHM. Yes; it would. That is true, Mr. Dunbar. I first wrote, among the restrictions that I put here, that there should be no branches in the 22 States that themselves forbid branches.

Mr. BUSBY. Twenty-eight, is it not?

Mr. NAHM. No, sir, 22. There are 7 that have no legislation; 22 prohibit it. But I scratched that out, under this idea. The States can meet that, if they choose, by passing laws, allowing branches. Secondly, all of those 22 States have branches or chains or groups now except 6, in the way of holding companies which defeat their laws.

Mr. DUNBAR. That is what I have observed, and I think the practice is going to grow.

Mr. NAHM. It is growing.

Mr. DUNBAR. It may be impossible to work out a plan and possibly it would be unwise to do it, but I think you can get at the problem by paying interest on daily deposits that would help the Federal reserve system more than anything I know of.

Mr. LUCE. Mr. Seiberling, have you any further questions?

Mr. SEIBERLING. I have just a few more questions. Our whole purpose should be to arrange a system, I take it, to furnish banking facilities, as far as possible, to remote parts of the country—to agriculture and to everybody that has occasion to use banking facilities. Do you agree with that—as far as possible, I say?

Mr. NAHM. As far as possible; yes sir.

Mr. SEIBERLING. I take it that you have a very profitable banking institution with which you are connected?

Mr. NAHM. Fairly so.

Mr. SEIBERLING. How long have you been organized?

Mr. NAHM. Since 1901.

Mr. SEIBERLING. I take it you have increased your surplus and undivided profirs each year?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And you paid substantial dividends on your stock?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And your stock has a good market price?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. Now, in the face of all that—and the reason I am asking this question again is because you start your statement by saying "Banking is a business, the people's business"——

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And on page 4, at the bottom of the page, you say:

> Then banks should charge for unprofitable services and recoup their lost profits by proper service charges on unprofitable accounts.

In view of what you said about increasing your surplus and paying good dividends and further, that banking facilities should be furnished to remote parts of the country, as far as possible, so that everybody could enjoy banking facilities, you still think that a service charge is proper where that service charge automatically, of necessity, deprives some people in your community of banking facilities?

Mr. NAHM. May I answer that in my own way?

Mr. SEIBERLING. Certainly.

Mr. NAHM. Yes sir; I do. With a large number of small banks, it is a fight for existence.

Mr. SEIBERLING. Yes; but you are making a lot of money and your bank is prosperous.

Mr. NAHM. That particular bank is prosperous.

Mr. SEIBERLING. Why should you do it?

Mr. NAHM. But 71 per cent of the banks with capital of less than $50,000 are broke. Now, they have got to get back somehow or other, in a legitimate way, what they have lost.

Mr. SEIBERLING. But if this is the people's business, then why should you adopt a policy which deprives a lot of people of the facilities of banking?

Mr. NAHM. Because the greatest blow to the people's business is a broke in a community and that is the thing you want to avoid and you can only avoid it by allowing banks to charge for unprofitable business, just as a department store charges for everything they sell except the wrapping paper and twine.

Mr. SEIBERLING. The gas company that furnishes gas to the people in a community has a great number of accounts they do not make any money on, have they not—small accounts where they only get——

Mr. NAHM. Yes, sir and they put on a service charge.

Mr. SEIBERLING. Well, a street railroad company carries some people for a short haul and makes money on them and carries other people for a long haul and does not make any money on them. Is not that correct?

Mr. NAHM. Yes sir, but a great many street railroads in the United States are broke.

Mr. SEIBERLING. Well, do power companies make a charge where the monthly fee is below a certain amount?

Mr. NAHM. Yes, sir; a service charge.

Mr. SEIBERLING. Everywhere in the country?

Mr. NAHM. Those that I know of do. We are granting a franchise right now in our city which embraces a service charge.

Mr. SEIBERLING. You still think that a prosperous bank that is increasing its surplus and paying good substantial dividends to its stockholders and its stock is selling at a good high price, that has made money for 10 years, should take action which they know will, of necessity, deprive some people of the privilege of banking facilities in its bank?

Mr. NAHM. The general rules apply to banks not so prosperous who are fighting for existence.

Mr. SEIBERLING. You are doing this to protect the other banks in your community?

Mr. NAHM. Doing it because, in the first place, people do not value service they get for nothing. They only realize the value of it when they pay for it and that very service charge may mean the absolute existence of some of the banks.

Mr. SEIBERLING. Is it not worth something to a bank to train people in the community to methods of doing banking business and get them accustomed to coming to the bank?

Mr. NAHM. That is the purpose of the service charge.

Mr. SEIBERLING. Is not that worth something to the bank?

Mr. NAHM. Naturally.

Mr. SEIBERLING. Do not the small depositors become large depositors after awhile?

Mr. NAHM. Yes, sir; and you can help them with the service charge.

Mr. SEIBERLING. You think so?

Mr. NAHM. Yes, sir; absolutely.

Mr. BUSBY. In my district we have no town of 5,000 people. It embraces more than 5,200 square miles. What would you say in regard to our securing banking facilities under your idea of a parent bank in a town of 10,000 people or more with branches in smaller places?

Mr. NAHM. May I ask a question?

Mr. BUSBY. Yes.

Mr. NAHM. Have you any successful bankers in that district?

Mr. BUSBY. We have only had 34 bank failures in the entire State in the last 10 years. We declare as much as 33 per cent dividends in towns of 1,500 inhabitants.

Mr. NAHM. Those people are very high-class bankers, and I should hope that nothing would occur to discontinue that service to your community.

Mr. BUSBY. But that seems to run so counter to the theories of you larger bankers, that I am getting uneasy about the folks down home and I want to break the sad news to them.

Mr. NAHM. My fear has been in regard to new banks and I think no new banks should be chartered, but it is not ex post facto and would not affect the people you are talking about.

Mr. BUSBY. Do you not think your theories and the theories of these other extensive banking institutions would apply more to a section where you had very large cities, where you had suburbs of four, five, six, seven, or eight thousand people, rather than a section like mine, where the larger towns are not more than four or five thousand inhabitants?

Mr. NAHM. I would think that even in your towns that banks that are now being run profitably with a smaller capital, would better protect your people if they had $50,000 capital. It might mean some consolidations and mergers, but I believe, in the end, it would protect your people better.

Mr. BUSBY. You might be right in some respects. What is true of banks, however, as I see it, is true of merchants, that the little fellows are not so well prepared to compete, in a business way, with the big institutions.

Mr. NAHM. That is true.

Mr. BUSBY. And they ought to go out of business if your theory is correct, in order to bring about a more efficient unit management of that type of business?

Mr. NAHM. Well——

Mr. BUSBY. But following all of that, I am wondering what is going to become of the small merchants and bankers and small operators in every way—what they are going to do.

Mr. NAHM. For a living?

Mr. BUSBY. Yes; and I think it is beginning to bother them, too.

Mr. NAHM. That is one of the emergencies of life. We wondered what would become of the saloon keeper when the eighteenth amendment was passed.

Mr. BUSBY. I never did bother about him. I knew he would be better off when he got in some productive business.

Mr. NAHM. Well, the same thing occurred when the women bobbed their hair and stopped using hair nets.

Mr. BUSBY. I think perhaps we are getting away from the subject.

Mr. NAHM. Nothing I have said goes to put your successful banker out of business, no matter how small his capital. I am only looking towards the future in saying that new banks should not be chartered with a less capital than——

Mr. BUSBY. But when I listen to all these statements, I look back to my district and I see not a single town or city in it large enough to have a bank and I seriously question the theories expounded by you experts.

Mr. NAHM. You have a bank in most places?

Mr. BUSBY. Yes.

Mr. NAHM. If it is successful, I hope that nothing I have said would put it out of business.

Mr. BUSBY. Really, I do not think it will, but it condemns the theory so strongly that I can not be impressed much with the idea you gentlemen present here, which is gathered solely from the larger center viewpoint.

Mr. NAHM. No, sir; I know of a bank with $15,000 capital and $50,000 surplus that has over a million depositors.

Mr. BUSBY. Yes.

Mr. NAHM. What security have those depositors in the way of capital and surplus to protect them in case of trouble?

Mr. BUSBY. Well, of course, I do not know the surrounding facts and can not answer.

Mr. NAHM. There are a great many just such cases. The proper relation, it is said, is 10 to 1, but I am simply talking about the future and not the past.

Mr. BUSBY. Different types of territory demand different types of banking.

Mr. NAHM. That is quite true.

Mr. BUSBY. Still our bankers in Mississippi, in the smaller towns, know their business and know their field for business and know their methods of operating and can operate successfully and pay overhead and salaries and from 10 to 30 per cent dividends, yet they might not be able to do the same thing in New York or in another territory.

Mr. NAHM. I would not put them out of business at all with even the plan I have suggested here.

Mr. BUSBY. So, when it comes to expounding a banking theory, you have to know what sort of field you have to expound it in, in order to have it stand up in all lines.

Mr. NAHM. Yes, sir.

Mr. LUCE. I will adjourn the meeting with the statement that the witness invited to appear before the committee to-morrow, has asked to be excused and there will be no meeting to-morrow.

Mr. E. B. Green has been asked to appear before the committee Tuesday morning, at 10.30, and Mr. Robert Fleming, president of the Riggs National Bank, will be before the committee next Tuesday at 2.30 o'clock.

(Whereupon, at 12.35 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m., Tuesday, May 27, 1930.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

AUTHORIZING THE BANKING AND CURRENCY COMMITTEE TO STUDY AND INVESTIGATE GROUP, CHAIN, AND BRANCH BANKING

MAY 27 AND 28, 1930

VOLUME 2

Part 13

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON : 1930

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, MAY 27, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10.30 o'clock, a. m., in the committee room, Capitol, Hon. Louis T. McFadden (chairman), presiding.

The CHAIRMAN. The committee will come to order. There is present this morning, Mr. E. B. Greene, chairman of the executive committee of the Cleveland Trust Co., of Cleveland, Ohio, who will make a statement to the committee.

Proceed, Mr. Greene, in your own way and tell us the situation with respect to branch, chain, and group banking as you have found it.

STATEMENT OF E. B. GREENE, CHAIRMAN OF THE EXECUTIVE COMMITTEE OF THE CLEVELAND TRUST CO., CLEVELAND, OHIO

Mr. GREENE. Mr. Chairman, and members of the committee, I think the bankers of the country who know of the study which you are making, are exceedingly pleased, because they feel confident that out of your work and observations, will come some legislation that will be a big help in the situation in which the banking business finds itself at the present time.

I was glad to accept the invitation to come here for two reasons; first, thinking the committee would be interested in the experience of a bank that has been a pioneer in the branch banking business. We have been operating branches for nearly 30 years. Those are not all city branches, and therefore we have had experience with branches located in the city limits and in the suburbs and contiguous territory; also with branches located outside of even the contiguous territory. Our branches located farthest from the city are separated by 58 miles in a straight line. So, we cover a larger territory, perhaps, than branch banking is ordinarily done in, in the north central part of the country.

The second reason is I am glad to appear before this committee because I should like an opportunity to express our view of the comparative merits of branch banking as compared with group and chain banking.

Possibly the best way to show our situation would be to make a short statement regarding the method used by the Cleveland Trust Co. in acquiring branches and in operating those branches as a branch banking system.

The Cleveland Trust Co. acquired its first branch late in 1902, but previous to that time the Garfield Savings Bank, which has since been acquired by the Cleveland Trust Co., established a branch in 1901.

Strangely enough, the first branch bank established in our part of the country was a downtown office owned by a suburban bank.

Having adopted the policy of branch banking, the Cleveland Trust Co. proceeded vigorously to acquire branches as far as opportunity presented itself; some by merger, some by purchase of stock and others by buying the assets. The list I have before me shows the name and date of acquiring of the 57 branches of our bank now being operated.

I hardly think you will be interested in my reading that complete list.

The CHAIRMAN. Without objection it will be inserted in the record at this point.

(The list referred to is printed in full, as follows:)

Windermere office, acquired, January 1, 1903.
Euclid, Fifty-seventh, acquired October 1, 1903.
St. Clair, Fortieth, acquired October 1, 1903.
Perry, acquired January 11, 1904.
Bedford, acquired January 4, 1904.
Newburgh, acquired January 29, 1910.
Euclid, One hundred and fifth, acquired December 27, 1904.
Collinwood, acquired December 27, 1904.
Willoughby, acquired December 27, 1904.
Lorain, acquired May 15, 1905.
Lakewood, acquired May 15, 1905.
Denison, Twenty-fifth, established April 23, 1906.
Liberty, established April 10, 1906.
Painesville, acquired July 1, 1906.
West End, established October 2, 1916.
Kinsman, Ninety-third, established September 6, 1919.
Waterloo, established January 2, 1920.
Peoples, acquired October 24, 1919.
Edgewater acquired October 24, 1919.
Lorain Clark, acquired October 24, 1919.
Lorain, Sixty-fifth, established May 17, 1920.
Hough, acquired March 29, 1920.
Mayfield Lee, established July 12, 1920.
Lorain, One hundred and seventeenth, established November 1, 1920.
West Park, acquired June 26, 1920.
Forest City, acquired August 27, 1920.
South Side, established December 1, 1920.
South Brooklyn, established January 2, 1921.
London Road, established March 1, 1921.
Fulton Road, established April 2, 1921.
East Fifty-fifth and Payne, established August 1, 1921.
Nela Park, established June 7, 1921.
St. Clair, Fifty-fifth, merged February 11, 1922.
Kinsman Lee, established March 20, 1926.
Addison Road, merged February 11, 1922.
St. Clair, One hundred and twenty-fifth, merged February 11, 1922.
Superior, One hundred and twenty-third, merged, February 11, 1922.
Euclid Ivanhoe, merged February 11, 1922.
Euclid, Seventy-ninth, merged February 11, 1922.
Union, Ninety-third, merged February 11, 1922.
Madison Heights, established August 4, 1924.
Euclid Mayfield, merged February 11, 1922.
Superior One hundred and fifth, merged February 11, 1922.
Gordon Park, merged February 11, 1922.
Glenville, merged February 11, 1922.

Hayden, merged February 11, 1922.
Buckeye, One hundred and sixteenth, merged February 11, 1922.
Madison, Ninty-seventh, established December 1, 1922.
Madison, One hundred and twenty-fourth, established January 2, 1923.
Woodland, Fifty-fifth, established April 3, 1925.
Miles, One hundred and thirty-third, established May 1, 1923.
Cedar Lee, established July 2, 1923.
Terminal, established November 1, 1929.
Pearl Street, merged October 26, 1929.
Clark, Fiftieth, merged October 26, 1929.
Broadview, merged October 26, 1929.
Lorain Triskett, merged October 26, 1929.

Mr. GREENE. These branches are located as follows: Forty-eight offices in the city of Cleveland; eight offices in municipalities contiguous to the city of Cleveland; and four offices located in outlying territory.

In explanation of the last two items, I would state that all offices located outside of the city of Cleveland were established prior to the restriction in the Federal reserve regulations and that the four offices outside of contiguous territory were established prior to the enactment of the present Ohio banking code. That was enacted in 1908 and became enforceable in 1910. These outside branches were in operation many years before that.

I have a table before me showing the growth of the bank in the number of accounts and deposits, indicating that pioneering in the branch-bank field met with general approval and confidence.

Again, I do not think you care are to have me read the complete figures of this larger table.

The CHAIRMAN. Without objection that table will be inserted in the record at this point.

(The table referred to is printed in full as follows:)

The Cleveland Trust Co., incorporated September 19, 1894—Yearly growth in deposits and accounts from 1895 to 1929

Date	Total accounts	Commercial deposits	Savings deposits	Total deposits
Year ending Dec. 31:				
1895	637			$430,581
1896	1,736			995,753
1897	3,052	$516,555	$2,003,343	2,609,758
1898	3,101	536,498	2,967,016	3,687,706
1899	4,059	662,619	2,680,639	3,869,536
1900	5,799	1,709,168	3,870,381	6,435,360
1901	8,442	1,903,597	4,856,321	8,022,153
1902	9,515	2,272,182	5,200,823	8,532,262
1903	19,692	3,063,693	7,664,799	[1] 13,537,881
1904	40,234	5,661,195	12,258,441	[2] 21,043,992
1905	52,812	6,036,262	15,413,026	[3] 25,419,955
1906	65,494	6,060,835	16,185,132	[4] 24,624,149
1907	72,538	4,758,196	15,627,782	22,483,994
1908	70,513	3,928,559	12,410,819	21,182,654
1909	72,775	5,385,571	14,361,393	24,507,192
1910	78,960	5,014,338	15,343,383	[5] 24,598,924
911	84,098	5,696,836	17,447,050	28,081,307
1912	90,271	6,315,118	18,487,170	29,486,833
1913	98,484	6,110,672	19,559,960	30,131,159
1914	105,051	7,442,607	19,952,474	32,007,361
1915	112,816	10,213,405	22,600,612	43,332,503
1916	129,803	13,910,227	31,035,107	55,308,805

[1] Windermere office acquired; Euclid, fifty-seventh, acquired; St. Clair, fortieth, acquired.
[2] Perry office acquired; Bedford office acquired; Wade Park, Collinwood, and Willoughby offices acquired.
[3] Lorain office acquired; Lakewood office acquired.
[4] Painesville acquired.
[5] Newburgh acquired.

The Cleveland Trust Co., incorporated September 19, 1894—Yearly growth in deposits and accounts from 1895 to 1929—Continued

Date	Total accounts	Commercial deposits	Savings deposits	Total deposits
1917	141, 254	$15, 599, 300	$29, 530, 159	$57, 765, 589
1918	154, 357	18, 158, 338	30, 424, 459	56, 517, 598
1919	192, 483	23, 513, 670	44, 874, 234	[6] 84, 617, 245
1920	233, 808	30, 146, 468	59, 574, 217	[7] 103, 346, 055
1921	238, 054	27, 148, 497	55, 798, 564	103, 085, 037
1922	386, 745	38, 475, 470	92, 301, 927	[8] 155, 333, 679
1923	401, 762	44, 101, 327	106, 977, 798	178, 813, 603
1924	416, 076	43, 288, 117	114, 019, 447	189, 351, 861
1925	432, 579	47, 331, 550	121, 190, 749	201, 820, 361
1926	438, 376	48, 332, 084	128, 255, 115	205, 201, 083
1927	444, 712	50, 800, 588	135, 769, 167	217, 660, 835
1928	452, 533	57, 650, 460	146, 418, 818	242, 549, 835
1929	537, 232	84, 654, 303	169, 957, 190	[9] 298, 227, 820

[6] Peoples, Edgewater, and Lorain-Clark offices acquired.
[7] Hough office acquired; West Park acquired; Forest City acquired.
[8] St. Clair (fifty-fifth), Addison, St. Clair (one hundred and twenty-fifth), Superior (one hundred and twenty-third), Euclid, Ivanhoe, Euclid (seventy-ninth) and Union (ninety-third), offices acquired in merger with the Lake Shore Banking & Trust Co. Euclid Mayfield, Superior (one hundred and fifth), Gordon Park, Glenville, Hayden, and Buckeye offices acquired in merger with the Garfield Savings Bank.
[9] Pearl Street, Clark (fiftieth), Broadview, and Lorain Triskett offices acquired in merger with the Pearl Street Savings & Trust Co.

Mr. GREENE. I should like to say that when we organized in 1895 the deposits, at the close of the first year, were $430,000; at the close of the year 1929 the Cleveland Trust Co. had 537,232 depositors, with total deposits of $298,227,820.

Two principles governed its policy in opening branches—never to invade the territory of a smaller bank and not to establish a branch if an existing institution could be acquired. In fact, the bank did not establish a de novo branch until 1907. As a result of a policy of forbearance toward the smaller banks, these institutions were kindly disposed toward the Cleveland Trust Co., and we were oftentimes given the opportunity of acquiring them later on.

Without fear of contradiction, I can state that our bank has never been accused but in one instance of having invaded the territory of a smaller bank, and in that particular case we placed our branch in a location which we did not consider an invasion of their territory. Since our principal competitors entered the branch-banking business this has not held true. So much for the policy which has governed concerning the establishment of branches.

Regarding the handling of the routine of branches, our board of directors has been increased from time to time to make room for directors formerly connected with banks which we have acquired. In this way they have not been eliminated from the banking business, but have exercised their authority in a broader field.

We might consider the making of loans under subdivisions of discounts, collateral, and real estate. Every manager of our 57 branches has authority to grant discount loans in varying amounts, depending entirely upon the manager's ability and experience, the authority ranging from $250 to $5,000.

As regards collateral loans, every branch office is furnished with an approved list of collateral loan rates and lines enabling it to take care of customers promptly in case they can offer any of the securities included in these lists. These collateral loaning rates and lines are established by a committee of board, offices and managers who revise the rates from time to time and reestablish them every six months.

Managers of all branches take real estate loan applications, which are forwarded at once to the Appraisal Bureau at the main office. They are then brought up at a meeting of the branch managers at which the manager who took the application may present his comments and reasons for desiring to make the loan. If approved at this managers' meeting, they are forwarded for final approval of the board.

I might add that for years the Cleveland Trust Co. has granted more loans than any institution in northern Ohio. I think I could, without fear of contradiction, say that that covers the State of Ohio because, of course, Cleveland is the largest city by far in Ohio.

It is our firm belief that taking care of the application of the small borrower is our greatest aid in building up our branches. This statement can be made regarding the other classes of loans besides real estate.

In regard to the supervision of branches, this important duty is placed in the hands of a department of branches under the control of a vice president. General management figures are forwarded daily from each branch to this department and these figures are assembled into a consolidated statement by 10 o'clock the following morning. Reports on all subjects are rendered the main office. A close system of branch inspection, entirely separate from audit, is also maintained by the branch management department. It is our purpose to give our managers every opportunity of handling the business of branches with the same facility and the same knowledge as if they were serving at the main office. In fact our branch managers have no more trouble consulting the various officers and department heads of the bank than the junior officers themselves in our main office which occupies four adjoining buildings in the downtown financial center. Our system not only gives them very desirable experience and knowledge, but it also permits them to speak on behalf of the lines of credit and loans which originate in their territory.

I am bringing that up to show the personal contact of the managers with the business. It is sometimes thought branch banking means impersonal service for the borrower. That is not true, at least in our case, and it can be obviated in every case by giving the men who request loans an opportunity to present their views and their ideas respecting the loans requested.

In order to familarize our branch managers with the work of the banks, certain ones of them are always present at the meetings of our committees. I mean the main meetings at which the executive officers of the bank handle the business of the bank.

As to the audit, the audit department maintains special auditors at large branches, and all other branches are visited at frequent intervals by traveling auditors. Copies of all branch loan records are maintained by this department and all movements of cash or collateral are recorded here.

The department is operated entirely free and independently from all other departments, and is responsible solely and directly to the board.

The early criticism of branch banks was that it was dangerous as it permitted of the withdrawing of funds at too many paying windows. With the growth of banks to their present size, this criticism loses all its force as the payment of money over the teller's window can not

reach proportions to embarrass big city banks. Their withdrawals through clearance are of much greater importance and, of course, the Federal reserve system affords security which has done away with the fear of runs.

A criticism harder to refute is that branch banks established in small communities are glad to receive the deposits but are unable or unwilling to take care of the loans of those particular communities. This criticism, in our opinion, is unfounded. Such a policy would be extremely detrimental to the growth of the branches of such a bank. Self-interest prevents any well-managed bank adopting such a policy. The following figures representing the deposits and laons of the branches of the Cleveland Trust Co. most remote from the main office, prove conclusively that the Cleveland Trust Co. is placing at the disposal of its remotest branches loanable funds way beyond their deposits.

Mr. SEIBERLING. Will you read those figures? They are short, are they not?

Mr. GREENE. Yes. I was going to comment on them, but I will read the figures in full. This is as of May 22, just a few days ago.

The total deposits of the Willoughby branch, were $1,955,259.77; the total loans, $2,890,305.90; the borrowing from the main office was $938,976.70, showing that they were loaning approximately 50 per cent more than the total deposits.

I made no attempt to select branches which would make any particular showing. I simply telegraphed Sunday afternoon to bring me those figures and these are the figures supplied. I said, "Give me the figures of the three branches farthest away, as to deposits and loans."

The Lorain branch, which is 30 miles from the center of Cleveland had total deposits of $3,510,329.67; total loans of $5,465,617.54; borrowing from main office $1,973,498.52, showing that they were loaning approximately 65 per cent more than total deposits.

The branch at Painesville had total deposits of $3,224,344.33 total loans of $3,965,243.45; borrowing from main office, $762,041.34, showing loans of approximately 25 per cent more than total deposits.

It is our experience that when a branch bank fails to grant loans and credit which the depositor is justified in requesting, that it builds up the business of its competitor and in case it is the only bank, it brings about the organization of a new institution. No well-managed branch bank neglects the reasonable needs of the locality in which its branches are located.

I should like to lay special emphasis on our experience in that regard. There seems to be in the minds of those who are opposed to branch banking the idea that a branch is put in—especially in a small locality—with the idea of accepting and then withdrawing deposits and then telling the people their loans are not up to standard. If you establish a branch in a locality, you are expecting to get their business and good will, and if you start a policy of that kind, it simply means that you will not get their good will. Banks are founded on good will and unless their service corresponds to the desires and needs of the locality in which they are established, they do not get the good will, and without the good will you have very little in the banking business.

To-day there are but 16 banks of all kinds serving Cleveland and its suburbs with a population of possibly 1,250,000 people. I mean by that the metropolitan district in the narrower sense. I do not mean by going outside of Cleveland. I mean Cleveland proper, plus the municipalities immediately connected with it and into which you pass from Cleveland without realizing that you are outside of Cleveland.

Mr. LETTS. You mean 16 banks and branches?

Mr. GREENE. No, sir; 16 banks. That will be explained. That is the total number of corporations.

Mr. LETTS. I see.

Mr. GREENE. Ten years ago they were double that number, or 35 banks. Twenty years ago there were 34 banks and in 1900, or 30 years ago, there were 53 banks. The writer firmly believes that the 16 banks with their hundred or more branches are affording all classes of depositors, rich and poor, better service than the 53 banks served Cleveland 30 years ago when the population was possibly one-third what is to-day. Furthermore, that during the last decade when banking has been largely in the big institutions with branches, there has been but one loss to stockholders, that of 15 per cent, and no loss to depositors. In the decade from 1900 to 1910, however, there were 15 losses to stockholders of from 15 per cent to 100 per cent; seven total losses to stockholders and five losses to depositors, one of which was a loss to depositors of 80 per cent. This improvement in the solvency of banks is due in large measure to branches of strong well established banks taking the place of the small-unit bank scattered throughout the city. The attached table gives in detail these figures.

The CHAIRMAN. Without objection, that will be inserted in the record at this point.

(The table referred to is printed in full as follows:)

Number of banks in business end of 1900	53
Number of banks added during decade to Dec. 31, 1909	29
Number of banks discontinued during decade to Dec. 31, 1909	48
Number resulting in losses to stockholders (5 to 100 per cent)	15
Number resulting in total loss to stockholders	7
Number resulting in losses to depositors (19 to 80 per cent)	5
Number of banks in business Dec. 31, 1909	34
Number of banks in business Jan. 1, 1910	34
Number of banks added during decade to Dec. 31, 1919	8
Number of banks discontinued during decade to Dec. 31, 1919	7
Number resulting in losses to stockholders	1
Number resulting in total loss to stockholders	1
Number resulting in losses to depositors (70 per cent)	1
Number of banks in business Dec. 31, 1919	35
Number of banks in business Jan. 1, 1920	35
Number of banks added Jan. 1, 1920 to date	13
Number of banks discontinued Jan. 1, 1920 to date	32
Number resulting in losses to stockholders (15 per cent)	1
Number in business to-day	16

Mr. GREENE. There are a few further comments I should like to make on branch banking.

It has been our experience that our branches have grown at a faster rate than our main office. It is a little hard to determine just the basis for that statement or to give convincing figures. But I would say that maybe 20 years ago our ratio would have been 75 per cent at the main office and 25 per cent at the branches. To-day it would be possibly 30 per cent for the main office and 70 per cent for the branches.

Undoubtedly that change is due to several causes. The two main factors are convenience to the depositor and the desire to bank nearest the home or place of business, and that desire is augmented by the congestion which exists in all big cities.

In taking over branches, we found a great deal of desire on the part of neighborhood banks to be absorbed. They had probably been useful in the very beginning in helping to sell real estate and in building up the little community. When it was built up, they felt their duty was done and were glad to have the business carried on and a continued banking service located in their community; so they were entirely willing to have a big bank come in and take over the business.

I have never found any great desire on the part of a bank, provided you paid them a fair price and provided you were in a position to afford their community or locality and their depositors the right kind of service, to object to be acquired by a bank. It has in every case been entirely a friendly negotiation between two parties, feeling they both got an advantage out of the transaction. I am saying that because I think there is, in certain parts of the country, the thought that the big bank in acquiring branches uses its power to acquire smaller banks through threats. As I say, if that has been done, it has not been done by us or by any institutions in our territory. When you do that, you destroy the good will and the purchase, no matter what you paid for it, in my opinion is a poor one.

I think that local representation on the board, where the board of a smaller bank contains men who are familiar with large financial transactions and who qualify for big city banks is distinctly helpful to the bank, and of course makes this matter easier.

I have spoken about the good will of a bank. I have personally carried on a great many of these transactions, as I was assigned to that duty of endeavoring to increase our branch banks for a number of years, by our late president, Mr. Goff, and I know, from the very beginning of every one of those negotiations, the question of buying with the assets, the good will, was regarded as essential, and I know, from personal knowledge, in the beginning of those operations, that statement was made, that unless the good will of the stockholders and the board of that bank went with the purchase, it was not wanted. If they felt there was any compulsion or threat in it, we asked them to state it and the negotiations would be discontinued, because we would not want the purchase under those conditions.

Possibly the committee would be interested in the basis on which we used to figure a smaller bank would be worth to a larger institution desiring to operate that bank, if acquired as a branch.

In every case we made our own appraisal of their assets, and you can readily imagine that unless we are regarded in a friendly light and with the utmost confidence, they would not have opened their books to us, as they invariably did. We used to figure to give them credit, if they had, we will say, unusually good earnings; we used to take into consideration, in the case of any premium paid, the cost to us of acquiring new business. You can see how foolish it is for a bank to spend hundreds of thousands of dollars in its advertising and in its new accounts department, and then in service that they render in one way or another, and which they more or less charge to good will—the effort to build up their business all the time—and then turn around and adopt policies that will drive away good business. A bank does not do that.

I am speaking of this because I have read a great deal of the testimony before this committee and I find there is, in the minds of many people, the idea that banks do not consider good will. That is not the case. Good will is as essential to them, or more essential, than to any other lines of business that I have knowledge of.

As I say, they figure that in the acquirement of a bank. The alternative is the cost of acquiring a like amount of new business.

That can be acquired in two ways: You can establish a new branch in another district and figure until you reach a certain point, the establishment of that branch will cost so much money, or you can buy an existing institution, and that premium you pay will have a direct relation to the cost of building up new business corresponding to that of the acquired bank.

Another factor we consider is whether the location has especially good opportunity for future growth; in other words, we acquire a bank not so much for what it has done in the way of earnings in the past, but for what it will do in the future as a branch under our management.

I would like to say further something about the feeling of a small community where we have established a branch. I think it was in 1904 or 1905 that we acquired a branch in the city of Lorain. As some of you may know, Lorain is a mill town, located about 30 miles from Cleveland. I will give you the population of that town in a moment. The banks already located there of course made the most of our big bank coming into their community. That was 25 years ago, when branch banking was not as well known as now. As a result of that criticism, and as a result of our policy of conservative banking, we lost about 30 or 40 per cent of our accounts. When we took that bank over 20 years ago, it had about $300,000 in deposits. It went down about 30 per cent.

Gradually they saw we wanted to accommodate our customers and the growth of the bank has been steady and we have now in excess of $3,500,000 in that branch. Our manager is chairman of the clearing house committee and is on the friendliest terms with all the other banks. Three years ago Lorain was struck with a cyclone. I doubt if a bank in Lorain failed to come to us and say how pleased they were to know that the Cleveland Trust Co. had a branch in that city. They were pleased to know that a strong bank like the Cleveland Trust Co. was located there and enabled to lend money to the city. We made a great many loans to the city and on real estate, to put them on their feet. There is a little town that learned that a big, strong bank in their community was a distinct asset and I think to-day we have the friensdhip of every unit bank in the city of Lorain.

So much for the question of the operation of branch banks by our institution. I want to say frankly I do not think it differs very much from the policies of other banks. They permitted us to preempt the branch banking business for about 15 years before any of the others came into it.

To-day I think, generally speaking, they operate their branches on much the same lines, with almost the same detail, as we do. I say that because I am not appearing before you as the representative of an institution at all. I am trying to express just my personal views on the branch banking situation as our institution sees it, as the result of 30 years of operation.

The other matter that I wanted to speak on briefly is the question of the relative merits of branch banking, group banking, and chain banking.

The CHAIRMAN. In that connection, I wish you would also give us your views on the areas to which branch banking can proceed. The comptroller, for instance, as you may know, has recommended to this committee that branch banking be permitted within trade areas, without designating just what that trade area should be.

Mr. GREENE. I was coming to that.

The CHAIRMAN. Include that in your analysis, if you please.

Mr. GREENE. Thank you; I shall.

If I were trying to select a textbook on branch banking conditions at the present time, I believe I would select the records of the hearings before this committee. Frankly, I have been interested in branch banking, as you see, for 25 or 30 years. I tried to bring myself up to date. I tried to find books on it and I visited schools of business administration. I have talked to head professors of universities and professors teaching finance and banking, and when I got all through, I found I got more information and meat out of the hearings you have held in the last few months than anywhere else, and I came down here feeling it was hardly necessary for me to talk about units, branch, group, and chain banking. I have a feeling of great modesty on that point after poring over the hundreds of pages of your hearings.

I believe that branch banking is far superior to group and chain banking, for these reasons, without attempting to go into detail.

Branch banking affords greater safety. By that I mean it naturally covers a great area and it affords a greater spread in your loans—more localities and more industries. That is rather obvious. It is the same principle that affects fire and life insurance companies. They desire as wide a range and diversity as they can get, knowing that brings them safety. It is not a guess or an opinion. In their instance it is founded on the most careful actuarial figures.

The other reason it affords greater safety is that the depositor of a large branch bank located in his community has back of the branch the capital, surplus and undivided profits of a very much larger institution and with the double liability, also, of course, the protection obviously is very much greater.

For instance, take in the city of Lorain I have spoken of: We would have a loaning ability of $4,600,000, according to the State regulations and according to Federal reserve regulations, as a member of that system, a loaning ability of $2,300,000. That is the rate we voluntarily run by. That is our own individual rule as well as the regulation governing rediscounts.

The second reason is the greater ability to care for loans. I have just taken care of that. I jumped ahead and stated that that is a a reason for the branch banking system affording greater service to a community than the unit banking system.

It is much easier to audit. Without going into that, we all know it would be a most difficult operation completely and simultaneously to audit some of these larger chain systems of banks. I do not know how you could do it successfully. Of course, it could be done, but I should think it would cost a great deal and require a great deal of checking up of different corporate records, and in some cases they

are so far separated as to be, in my opinion, pretty nearly impossible for a good and tight audit. The individual banks of some of the chains extend 2,000 miles.

The CHAIRMAN. You think it would be necessary for the examining authorities to have access to all holding company records as well as of the different institutions?

Mr. GREENE. Yes, sir; and I think it would have to be simultaneous.

The CHAIRMAN. I agree with you on that.

Mr. GREENE. And when you jump into a bank, it is just as important to check authorizations as the figures. That means the checking of all figures of all the institutions.

Mr. LETTS. May I ask a question right there, Mr. Chairman?

The CHAIRMAN. You may.

Mr. LETTS. The holding companies, though, hold many other kinds of stock than bank stock. So, how would you manage about that?

Mr. GREENE. Let me see if I understand your question. I was referring more particularly to the holding companies of these big groups of banks.

Mr. LETTS. And that is what I am thinking of. Some of them hold not only the stocks of banks but stocks of insurance companies, mortgage companies, abstract companies, and I think quite a variety of stocks, and you have suggested, in answer to the chairman's question, that there ought to be a supervision over the holding companies; that they ought to be examined and that their holdings ought to be examined simultaneously.

I am wondering how we are going to create the authority which would give an examiner power to inquire into the affairs of a corporation which is existing under the laws of Delaware and not a Federal entity?

Mr. GREENE. I think I should have qualified my statement to the chairman; that my remarks cover the banking business only—that is, not insurance, abstract and other companies.

Mr. LETTS. In other, words, you mean that——

Mr. GREENE. That is what I had in mind.

Mr. LETTS. The comptroller should have power to simulatneously examine the units that compose the group—the banking units?

Mr. GREENE. Yes, sir.

Mr. LETTS. That are controlled or partially owned?

Mr. GREENE. Yes, sir.

Mr. LETTS. Now, let us see what you mean by that. The holding company might have the control of the stock or very much less than control of the stock of a banking institution; in other words, I am simply asking these questions to see if you do not agree that there would be practical difficulties in respect to that.

Mr. GREENE. Yes, sir; but if we are permanently——

Mr. LETTS. And if those difficulties are insurmountable, it is a very good argument in favor of branch banking.

Mr. GREENE. That is it.

Mr. LETTS. As against the group idea.

Mr. GREENE. I do not mean that it would be impossible properly to audit or check these banks. I do state that the auditing of a group or chain system is not one nearly as simple as to audit a big bank operating a number of branches.

The CHAIRMAN. But you do think there should be a simultaneous examination of all the units?

Mr. GREENE. Generally speaking. The examination need not, to the last degree, be simultaneous, but it has to be as of a fixed date. You know that auditing backward or auditing as of an arbitrary date in the past, makes your auditing very difficult because you have to go through all the transactions of the period since that date to see if there has been any change in assets or bad accounts from that date on. I am speaking technically of auditing. When you say "simultaneously," it ought to be as of a certain date, and if you do not do it simultaneously, you make the job enormously difficult. It can be done theoretically, however, either way.

The CHAIRMAN. You agree if it is actually simultaneously done, it will be more correct than if it was as of a certain date but actually on different days? In other words, if there was an examiner or auditor in each one of the units on the same date checking up the assets as of that date, it would be a better examination than if there was an auditor at the head office and then the checking up subsequently of the records of the units as of that date, in the other units?

Mr. GREENE. Yes, sir.

Mr. LETTS. If you do not do that, would there be danger of kiting of securities and funds from one institution around to another?

Mr. GREENE. In my opinion it would be unfair for me, not having any experience with a group or chain bank, to speak on that subject.

The CHAIRMAN. On the examination of your institutions, is there a simultaneous examination; or how is it conducted?

Mr. GREENE. I would like to supply that exactly later, if I may. I should like to speak to Mr. Houghton about that. I should like to describe that for you in the record at a later date.

The CHAIRMAN. Without objection, you can place it in the record at this point.

(The information requested is printed in full, as follows:)

The State examinations are conducted simultaneously at all branches and main office. These examinations, conducted by the State banking department are made twice a year at unannounced periods. The Federal reserve examination is made at infrequent intervals—approximately once a year—and as a rule covers inspections of loans and investmehts, and is liable to occur simultaneously with a State examination, in which they accept the State examiner's count of cash at all offices.

In addition to the above our offices are examined by the Cleveland clearing-house examiner about every three or four years, and this is a most thorough and exhaustive examination, particularly as it relates to loans.

The CHAIRMAN. Now, in regard to Mr. Letts's question about the examination of affiliated companies with the banks——

Mr. GREENE. Yes.

The CHAIRMAN. Take, for instance, the control of a national bank, where it is held by an affiliated company, a securities company or trust company or what not, either under the laws of Delaware or of the State in which it is operating: Do you not think that it is necessary for the examining force, if it be a national bank, to have knowledge of the assets of those affiliated companies, whether they be insurance companies, securities companies, finance companies, or trust companies?

Mr. SEIBERLING. Or investment companies.

The CHAIRMAN. Yes; or investment companies; in other words, how can the Comptroller of the Currency properly examine a national bank when the control of that bank is vested in a company which is doing any one of the classes of business that I referred to?

Mr. GREENE. I should think that the answer to that question would be that the comptroller or any examining body of a financial institution, would have to see that the shares of stock in any of this type of corporations that you named, was at least equal to the book value at which they are carried on the records of that particular bank. To do that, he would have a number of ways of doing it. It might have a ready market value to indicate its value. He might do it by an examination of that company; but at least he should assure himself that the assets which are represented on the books are at least worth the value set opposite them. That would involve just what you say.

The CHAIRMAN. It would involve an examination of the assets of these institutions, would it not?

Mr. GREENE. Unless there was some other way of determining that value. I take it that a stock that has a ready sale in the open market might be accepted, as undoubtedly the comptroller does not investigate such values now. He accepts the market quotation as the value.

The CHAIRMAN. Do you not think there is some question as to values established even in the market?

Mr. GREENE. I think if you will disregard values determined by the open markets you would take upon yourself a burden that the banks and the examining force could not handle.

The CHAIRMAN. I have been wondering, Mr. Greene, after observing the situation during the past year, as to whether or not we are justified in assuming that market quotations are in all instances a proper value. For example, when bank stocks drop from $600 a share to $185 a share in a day, it is developed that in certain leading securities the so-called market value is very changeable. There have been times during the past year when there was no market for some of our best securities when normally there was an active trading day by day.

In that connection I point particularly to bank stocks. There is a very slow market generally for bank stocks. It is nothing unusual for bank stocks to fluctuate from 50 to 100 points between transactions.

The same thing applies to insurance stocks. It is a question, therefore, I think, in the determination of real values whether we should accept the market quotations, because of these very wide fluctuations.

Mr. GREENE. I would answer your question, Mr. Chairman, frankly, this way: That in the course of industrial banking history abnormal times occur periodically and at long intervals and that the laws of regulations can not be established on a basis of those abnormal times. When abnormal times appear a conservative banker has to exercise an unusual precaution and care, but I think, over a reasonable period of time, if you were to attempt to disregard market values and if you were to make it a duty to analyze everything down to the bottom, as you would have to do if you disregarded

market values, you would incur an expense that would be impossible to bear.

The CHAIRMAN. I realize that, but there is uncertainty in the so-called market quotations in the open market, and there are many fictitious values there all the time.

Mr. GREENE. Let me say how I think that has been cared for by well managed banks. For years the value of listed stocks—and we are not a Wall Street bank; we are a Mid Western city institution—the prevailing margin on listed securities was 20 per cent, so that a man who brought in a high-grade well-known security expected to borrow up to that amount. When those unusual market conditions occurred, the banks first lowered their rates to 75 per cent, then to 66⅔, and so on, and when the peak of that arrived most banks were lending on a 50 per cent basis. You would not want, in normal times, to have the 50 per cent rule apply. That is why I think the regulations should be based on normal conditions and not on very abnormal conditions.

The CHAIRMAN. The reason I raised this question was because of its importance in connection with the very study we are making here. The trend of the times indicate that the public generally, including the country banker and the people who are running financial institutions, are turning more and more to market values and stock-exchange quotations. It has gotten alomst to the point where it is a discrimna-in the banking business because of the fact that a bank is more and more looking to a listed value and to a growing extent governs the the granting or refusal of loans on that basis.

Now, we are in the position where the banks of the country are being utilized by those people who have money, and we are getting away from the original idea that the poor man could go in, where he did not have capital, and develop his business. It is a part of the whole concentration of business and industry in the United States. I am wondering how much effect the preaching of that thought has had in the concentration of loans on stock-exchange collaterals.

Mr. GREENE. I can not agree with you. I think we overlook the fact we are only six months away from a very unusual period. In the history of England and France, before us, there have been periods of intense speculation which produced abnormal conditions, and we are just coming out of one of them, and the thought that Wall Strret is drawing the money from the country and especially into listed securities, which is absolutely true up to the middle of last October or the first of November, but is is not so true of 1930. In my opinion, we will get bank into the oridnary and normal conditions, except with the condition that you must bear in mind, that at the beginning of the war we sold Liberty bonds to the ordinary person, and that opened his eyes to the investing of his funds and to other things than his home and in savings accounts, and he began to invest from 1916 on, and we have had a great many—some say millions and others say less than that—investors in this country in securities that never owned anything but real estate before that.

As the country gets older and we have more capital, you will have a gradually increasing supply of funds for investment, both in people and numbers of dollars, just as they have had abroad, but I do not see any bad sign in that. I certainly would rather buy securities listed on the market that affords a ready sale than to buy securities just as

good that do not have that, because many a man wants to convert his investment into cash, and investing in securities on the stock exchange is valuable to him. An exchange well run is an asset to the whole country. Of course I am alluding to the higher class of business.

Mr. BEEDY. Mr. Chairman, are we following the rule that each one of us shall have an opportunity to question the witness?

The CHAIRMAN. I was simply picking up a loose end which I should not have done. I would like, Mr. Greene, to have you complete your statement.

Mr. BEEDY. Before you do that, I should like to ask you to tell us whether the examinations of your bank and branches are simultaneous or not. I did not understand why you failed to answer that.

Mr. GREENE. I wanted to be sure.

Mr. BEEDY. Of what?

Mr. GREENE. Of the exact process employed, and I wanted to be sure for this reason: The Cleveland Trust Co. is examined under the authority of three different authorities; it is examined by the State examiner regularly at unknown periods; examined by the Federal reserve bank examiner, but even more than those two, Cleveland is one of those cities that employs its own clearing house examiner and that is the most drastic and most careful audit and analysis that we have. It is no easy matter to examine 58 offices. I wanted to be accurate in my statement.

Mr. BEEDY. You have been with them for quite a number of years and unless you have had a change in the last year or two, I thought you could tell us whether they put examiners simultaneously in the branches as well as the head office.

Mr. GREENE. It has been four years since I have been in the active banking business. Up to that time I could tell you right off.

Mr. BEEDY. Do they put in examiners in the branches on the same day they start in the head office?

Mr. HOUGHTON. The State examination is done simultaneously. The others are more infrequent and I am not so sure about them.

Mr. BEEDY. When the State examiner shows up at the head office, there are also at least 58 examiners put, on the same day, in the branches?

Mr. HOUGHTON. They close their business on the same day and all appear at the branches.

Mr. GREENE. I can answer as to the clearing house examiner. He counts the cash simultaneously. He does not audit all the other accounts simultaneously. He can not do it. That is the most minute examination, of every asset and of every loan. It takes months to complete it. He does it by going back and taking figures as of a given period and going through the changes thereafter. May I proceed, now?

The CHAIRMAN. Yes.

Mr. GREENE. I was giving reasons why we considered branch banking far superior to group and chain banking. I have said the first reason was greater safety, greater ability to care for the needs of people for loanable funds and then we came to the question of greater ease in auditing.

My fourth reason would be greater fluidity of credit. I do not know that that is the correct expression, but it permits us to take the surplus funds of one community and loan it in another locality. It

is true we are not separated by many miles, but our branches are in different localities, while, as I pointed out, Loraine, Painesville, and Willoughby need more funds than their total deposits. We supply them. There are, undoubtedly, other branches where it is the reverse.

The ability to let your loanable funds flow from one place to another so they can be available where most needed, is, in my opinion, much greater in branch banking than in group and chain banking.

The fact it is more economic I do not think I need go into because one who has appeared before you, at least to the extent I have read the testimony, admits that. It is obvious that the overhead is greatly cut down; it is obvious you can put branches in communities that can not support unit banks; it is obvious that things like advertising, statistical information and many departments of service which a big bank must maintain, can be supplied to branches with hardly any additional cost. For instance, our statistical and credit department and travel department and steamship department, among other things—we have just one at the head office that issues steamship tickets, and the overhead is very greatly reduced.

You may say being more economic to operate is not an advantage to the public. That is not true. To the extent that business or individuals require loans or borrowed credit, anything in our system of banking that reduces the cost, inures to the advantage of everybody, because it makes the cost of articles less. The general public are just as much interested in seeing that the banking system is the most economic that can be adopted, precisely as the bankers themselves, and if branch banking is more economical than other forms of banking in my opinion, that does not inure to the selfish advantage of the bank stockholders alone. That is an advantage that is shared not alone by the banks, but by business generally and the investors and people generally.

The last reason is that it is much easier to regulate and control. I think this committee has questioned some of the group and chain bankers and found it was rather difficult—I found it was difficult—to determine who granted the loan, whether the board of directors of the holding company or the advistory committee or the board of directors of the bank or whatnot. Perhaps it would be unwise for me to say any more than the control and regulation of a bank operating branches is far easier than the regulation of a group or chain system.

Now, the only criticism that seems to be universally advanced in favor of group or chain banking as compared with branch banking is the fact they say group and chain banking increases local pride, local interest, and local good will.

I do not believe that is true, and I think our experience proves it is not true, but if it were true, for the sake of local pride and interest, are you going to say that group or chain banking is preferable to branch banking when branch banking is more economical, has greater safety, affords greater service—in other words, it seems to me that the advantage is very great indeed as compared with the disadvantage of branch banking, if that is true, which I do not believe. The disadvantage is very small indeed in comparison to the advantages which you get.

One reason for my statement to that effect is this: There are few, if any, of group bank advocates who are not themselves using branch banking, that I think they would use it universally, if permitted, and

I believe that branch banking would be the one to survive if the two were put on an equal footing.

If we are correct in saying branch banking is superior, why is it not more generally used? The answer is, as we all know, because the national bank regulations limit their branches to the city limits where their home office is located.

The State banks, for the most part, are either restricted in their branches to the city, and second, to the city and the immediately contiguous territory—but that is not so important because, without exception, almost all the big banks of the country are members of the the Federal reserve system and if you are members of the Federal reserve system, you have the same restriction as the national banks, and you can not go outside of the city.

Mr. LETTS. You can talk about the desirability of changing that law, though.

Mr. GREENE. I was hoping to come to that, I believe it is originally due to a peculiar tenet in American political history that favors unit banking and possibly makes a big financial institution a matter of unpopularity or suspicion. The fact that banks have been unpopular since before the American Revolution is absoultely true. Our colonial banks were put out of business—some of them—because it was said their loaning powers were not applied justly. Two of the largest banks in the country at the time of the close of the American Revolution, the Bank of North America—its recharter was refused although it got another charter in another State and then Pennsylvania woke up and gave them a charter—that bank is still in existence, and the Bank of New York was refused a charter for six years, operating in the meantime without a charter, and is in business still. It began business in 1785.

The first United States bank was regarded as unconstitutional and was so reported to Washington and Jefferson. Hamilton, however, came to the rescue and gave them an opinion that made it wise for Washington to believe he should go ahead. The first United States bank was put out of business because of criticism largely due to what they said was favoritism.

The second United States bank, of course, got into politics and its charter was not renewed for similar reasons.

Then came the Civil War and, in order to sell bonds, the Congress and the Secretary of the Treasury got up a system that forbid branches and it was largely to permit the selling of bonds. So, we have a background that is opposed to banks operating in large areas and we have a background that favors the unit bank. Those are the reasons which are insistent, but it seems to me that is not the big rule that governs that. It is because we are a new nation and up to the time of the great war, the desire for loanable funds has always exceeded the supply of funds, and when that condition exists, the unsupplied borrower naturally objects.

In the development of this country within so short a time—we were a borrower of foreign capital just before the war—there has been a great change in business and banking conditions, and when business men get together now, it is found they have gotten away from the idea that it is un-American to have big banks and big business. When the railroads were taken over by the Government, they were put into bigger units and we have now almost everywhere, bigger chain stores.

and so forth, and we have to have them to provide more economical production.

Why are we more prosperous than England? It is because we have learned mass production, and we can produce goods, by mass production, cheaper than they can. If you could see an article produced in this country and in England, you would not be surprised to understand why we can make money and they can not.

The antipathy against branch banking is disappearing, in my opinion, and we are on the verge of putting banking on a bigger and stronger basis. I do not see any disadvantage of going along with that same tendency in banking as in other lines. If we do not do it, our banking business will not keep step with the growth of our industrial institutions.

The greater you restrict banks in this wise growth of branch banking, the more you will centralize it in one or more cities. I think you should give the banks a chance to develop along those lines, if you believe, as I do, and we do, that branch banking is safer and more economical.

There has been some talk of bigger units and the fear of monopoly. I think a monopoly in the banking business would be extremely undesirable. I can not conceive of anything worse. However, I do not think there would be any chance of that occurring.

You have a splendid example of that in the big country just to the north of us. In Canada, branch banking control is a Dominion matter. In Canada to-day, with nation-wide branch banking, which I am not at all advocating at this time, there are 13 chartered banks, as they say, and that does not include trust companies. So, with nation-wide branch banking, in a country less developed than ours, we have 13 banks and a number of trust companies which are doing a savings banking business and time banking business, and, of course, we know Newfoundland is not a part of the Dominion, and that 13 banks does not include that colony.

Mr. FENN. The Bank of Montreal is the fiscal agent for that Province. The Bank of Montreal has a branch at St. Johns and one at Curly.

Mr. GREENE. What I meant to say was that, in counting Canada, we had to except Newfoundland, which is not a part of Canada.

Mr. FENN. I go there every year and know the conditions there.

Mr. GREENE. The last matter I wanted to speak of was simply the matter of what steps, if you did favor the extension of branch banking, you should take. It seems to me to answer that question—and I know of no harder one, the time element comes in. At the present time the country is rushing into group and chain banking so fast that if any of us should present figures to-day, to-morrow they would be out of date and we would have to correct our statement. I started studying this in trying to find out the number of branches of groups and chains in this country. I gave it up. It could not be done. I found I was wrong every day I started to check up.

It seems to me we ought to take immediate steps to release branch banking from the present restricted condition.

What has been generally advocated is permitting them—I am speaking of the immediate development—to operate in the metropolitan areas. We all know what that means.

I have, in my own city, heard it described as the region in which the people in the central city live and are thoroughly familiar. It might be described as the city and its subsidiary territory in a business or economic way, the place where the commercial and financial activities center.

But the trouble of applying that sort of description in a legal way is that it is too indefinite, and I believe you have got to come to a description by metes and bounds, and that is very difficult to do, or by political subdivisions.

My suggestion would be a county and contiguous counties. That would give you an area considerably beyond the present situation. It would not be an extension which would involve any greater restrictions of banking business or any very great change. Why do I say it is important? We all know that the unit banker is having a harder and harder time to exist.

At the present time there are many growing communities outside of the city which have no banking connections and are not likely to get them. Those are the communities that are growing vastly. If you examine the census of any great city, you will find that the central portion is standing still and the suburbs are jumping up say 500 per cent. I was amazed to see the figures of communities around Cleveland. They are not getting any banking facilities. There is no small bank being organized to-day. That has stopped.

Branch banks are not allowed to go there. So, there they are. They are simply adding to the difficulties of congestion and holding back the economic growth of those communities.

Mr. BEEDY. You may know this, but your suggestion is not an untried idea of branches in a county and contiguous counties. That is the law in my own State of Maine and it has worked very, very satisfactorily.

Mr. GREENE. I doubt, then, if I could suggest anything new to this committee. I think you have had everything suggested to you.

I know that is not a new situation, but I know that is something that is required now. I do not think that would be adequate for 3, 4, or 5 years from now because, by that time, the group and chain banking systems will have grown to tremendous proportions and branch banking will not be able to keep up with them, and you will have adopted a system less safe and less economical and less desirable.

Now, the next problem is one to which I feel no one would feel he had a safe and wise solution. I think we should gradually step up to state-wide branch banking. I think that ought to come within three to five years. I think it ought to come within that time.

The next step, I think, would be what we have heard so much about—the trade or economic area branch banking. I believe there is greater difficulty in defining that than the metropolitan area. What a trade area is, no two men describe exactly alike, and the practical problem that involves this banking business, it seems to me, is this:

The underlying principle is to provide an area in which there is sufficient diversity to insure safety to the banking business. That area in New York State, Pennsylvania, and Ohio is one matter and another matter in Nevada, Montana, Idaho, and so forth; in other words, any law that you might devise which would provide sufficient territory for diversity in the far West or Northwest might be a very

large territory in the congested East. When that time comes, I believe you might form a committee—this is not a personal suggestion; I have heard it from others—but supposing you had a law authorizing a committee composed of the Secretary of the Treasury, the Comptroller of the Currency and the Governor of the Federal Reserve Board, with authority to widen the scope of branch banking, based on the principle that a wider field was necessary, in my opinion, that would be one effective way of handling that situation.

The only other thought that I have in this matter is this—and this is a big problem: The minute you cross the State line in branch banking, you bring at once into question whether the country is better off with one system of banks or two systems. I am alluding to our present two systems of banking.

The CHAIRMAN. You mean State and national?

Mr. GREENE. Yes, sir. When the Federal reserve system was formulated, you will remember that Professor Willis spoke at great length on whether or not it meant banks would be gathered together in one system. At that time there was a distinct difference between the two sets. Generally speaking, the national banks took care of demand deposits and took care of temporary borrowers, and the State banks generally speaking did the savings business of the country and took care of long-time borrowers.

Now most long-time borrowing is generally considered a real estate proposition, together with bond buying or fractional parts of mortgages. There was a marked distinction between the scope of business transacted by those two great systems.

What happened? Since the Federal reserve system was inaugurated, and more especially since the national banking system began to suffer inroads, the differences between the two systems had practically disappeared, except for the fundamental difference that national banks get their charters from the national Government and are examined by it. You have, one by one, given to national banks the right to operate savings departments and loan on real estate, and an indefinite charter instead of a limited charter, and there have been other changes which have made the two plans so similar to-day that it is hard to distinguish their business and scope except, as I say, the source of their charter and their examination.

Undoubtedly, when you get to branch banking, as I firmly believe you will, and cross State lines, it seems to me the natural tendency would be to pass over into the national system and you will have one system of banking business instead of two. I think that is worthy of consideration as one of the results of what is likely to happen when you cross over.

Of course, the other way would be still to maintain these holding companies which would be, in my opinion, superbanks.

Now, I want to say I do not believe there is any advocate for branch banking that has anything but an utmost repugnance to the idea that a monopoly of the banking business should exist. That fear, I think, lies in the minds of some people who are opposed to branch banking.

I think, Mr. Chairman, that is all I care to say on those two subjects. I shall be glad now to endeavor to answer any questions.

Mr. LUCE. Mr. Greene, I should like to express my personal appreciation of your particularly clear, thoughtful, and helpful

statement. Possibly you can take us still further in a matter that has not received much attention in these hearings.

Last evening I was reading an article on investment trusts in which the writer made the prediction that within no long time, individual holdings of bank stocks would disappear; that all the stocks—at any rate of the important institutions—would be held by a new form of ownership known as investment trusts. That prompts me to inquire or to make some inquiry about the stockholders in the banking institutions. As a matter of practical banking experience, do you find it makes any difference to you who owns the stock?

Mr. GREENE. I think I do. I believe the ownership of bank stocks by individuals, if not necessary, is extremely advisable. I would look askance at a future situation that placed the control of our great banking institutions in any hands except in the hands of men of—I mean personal holdings—of men of the highest personal experience. I do not believe there will come a time when the bank stocks of great banks would all fall into the hands of investment trusts.

Mr. LUCE. In the daily conduct of your bank, how often do you hear anything from your stockholders? What part do they play in the conduct of your bank? We have been told much about the relation of directors and officers on this subject. It has been urged by those who defend group banking that the personality of the president and the directors and other officers is of importance to the smaller communities. I do not recall that anybody has dicsussed the practical relation of the stockholder, and my observation has been, scanty to be sure, that the personality of the stockholder did not cut much figure in the conduct of a bank.

Mr. GREENE. I should like to answer that question in this way, that if by that you mean the individual stockholder attempts, by calling on the officers at the office and urging any particular course or criticism of any particular transaction, I think there is practically little or none of that. But the good will of that stockholder is something that is very essential and if that stockholder ceases to hold that bank in the highest estimation, the bank will know it very quickly. So, it is the indirect influence of that stockholder that is more essential, I think, than any other element. You are dealing with a business that is unquestionably the most sensitive to good will of any in the country.

If the stockholders become critical or suspicious, what will the public do? He is interested in an impersonal way. He can go across the street and do his business with another bank. So, although the stockholder may not take any direct personal interest in the bank, indirectly, he is doing it all the time.

Mr. LUCE. What possible way would there be to prevent this process of which I have spoken—the absorption of bank stock by investment trusts?

Mr. GREENE. That is one of the problems of investment trusts. I would say that, as far as I know, whenever a bank has had any ulterior motive other than the profitable transaction of the banking business, it has failed, and when the banking business gets involved as an unimportant part of any other business, in my opinion, it will be a dark day for the banking business; in other words, I think it should always be a business by itself.

There is a way which used to be recognized—it was recognized, I think, in the first United States Bank—of lessening the voting power as the size of the holding increases. I do not know whether that is practical or not.

We are just talking about theories. I have no definite thought, but I am saying that I think there is something to be said about the fear you express, and I am wondering if the restriction in the ownership of a bank might do some harm. You have an absolute restriction of corporation beyond certain extent. You might lessen the voting power.

Thirdly, I think a bank should not have any other motive except to conduct its own business for profit, for if it is not conducted for profit, it is not well run.

Mr. LUCE. Are there any indications that, in your own institutions, investment trusts are already effective?

Mr. GREENE. I am pleased to say that two or three times I read in the press we were being bought up, but when we came to investigate it, we found it was infinitesimal.

Mr. LUCE. Is the stock of your bank listed on the local exchange?

Mr. GREENE. Yes, sir.

Mr. LUCE. Then, as fast as it is offered, it can be taken up by investment trusts?

Mr. GREENE. It can, but I have no fear—I do not say it could not be done, but it has not been done—but I would say that we would view it with concern if it had happened.

Mr. LUCE. We have had, in the last two or three years, an exceptional amount of propaganda in favor of the ownership of bank stocks. In fact, books have been written to show how far they exceed any other forms of investment, in their promises and I see no obstacle myself in the way of your individual holdings in your bank disappearing sooner or later.

Mr. GREENE. I believe when they do, sir, there will be other banks formed.

I think you failed to appreciate—and I do not say it inviduously—this powerful influence of good will.

Mr. FENN. You are familiar with the Canadian system, I take it, from your reference here to the 13 banks of Canada?

Mr. GREENE. Generally speaking.

Mr. FENN. Perhaps you can inform us in regard to this: Have the investment trust systems grown to any extent in Canada; in other words, are the holdings of these great branch banks—the Bank of Nova Scotia, the Bank of Commerce and the Bank of Montreal, for instance—held to any extent by investment trusts, that you know of?

Mr. GREENE. I have personal knowledge of one holding only. I could not answer that accurately. I would say that my general impression is that it is probably done in some instances, but on a smaller scale than here, but probably, I presume, they will follow us a little slower and to a little less extent.

Mr. FENN. Do you inow whether or not the Bank of Montreal still pursues its old practice of requiring that the purchaser of stock in that bank must meet the approval of the Board of Governors?

Mr. GREENE. No, sir; I do not.

Mr. FENN. They had that system some years ago and in the transfers of shares of their stock held by estates, it involved difficul-

ties at times. I know of an estate in my own city where they had to go through considerable red tape as they call it, in order to get that transfer of the stock in the estate; where they had to ascertain whether the people who were to receive the stock were agreeable to the Board of Governors of the bank.

Mr. LETTS. Was that an effort to keep it a closed situation?

Mr. FENN. I am not passing on that. It may have been to keep control of the bank where they wanted it. They may have abrogated that rule. If they have not, that would prevent an investment trust getting the stock of that particular bank.

Mr. GREENE. I could not answer that. I presume their custom is much as our own.

Mr. FENN. The Canadian system allows branches outside of Canada. The Bank of Nova Scotia has a branch in New foundland and also through the West Indies, and of course our own national banks are authorized to have branches in foreign countries and I presume that has grown to a considerable extent, but we have no branches in Canada, as I understand it. That is all I have, and I thank you very much.

Mr. BEEDY. I understand your thought is that as long as you can keep the ownership of bank stocks in the hands of individuals and your stockholders are satisfied, they are active agents for the well being of your bank at all times. That is, of course, true. I know that works from personal experience.

But your fear—and I just want to get a step further—how will the fear of the ownership of your bank stocks by investment trusts work in that respect? Let us assume that an investment trust buys a large block of stock in your bank: There are a great many stockholders in that investment trust. A great many of us own shares in investment trusts to-day. We are familiar, to a greater or less extent, with the holdings of that investment trust. Now, it has holdings in a big local bank. We want to see that bank thrive and as long as that bank is carrying on a legitimate banking business and meeting the needs of the community, why are we not assets to that bank and to the community through our holdings of the stock of that investment trust?

Mr. GREENE. Mr. Chairman, is it possible to answer that question without it being made a matter of record?

The CHAIRMAN. Unless the committee objects, we will be glad to hear you off the record. The newspaper men are present, however. The ears of the world are listening. However, these are good boys, and if you ask them not to mention it, I am sure they will not publish it.

(Discussion off the record.)

Mr. BEEDY. You think there is a greater danger that flows from the control or ownership of the stock of a bank by an investment trust than by individuals or groups of individuals?

Mr. GREENE. Of course it may be only an economic step in our development. I am inclined to think we have had too little experience with investment trusts to pass on them. After they have operated 10 or 20 years we will get a fair view of the results of their operations.

When you say "investment trust," that is quite a general term. They differ considerably in their nature and it is pretty hard to generalize about them and be fair to them. There are some that are admirable and some not so admirable.

Mr. BEEDY. You have foreshadowed what your answer will be to this question, but assuming that a bank administers trust estates, would you consider it a wholesome or wise policy for your bank to be also engaged in the underwriting of securities.

Mr. GREENE. I see nothing that is improper in the underwriting of securities, provided they are carefully chosen.

Mr. BEEDY. In other words, you think it is a perfectly wise policy for a bank to put itself in a position to underwrite securities when it handles trust estates and is an agent to buy securities for those trust estates?

Mr. GREENE. No. You spoke of a different thing. If you mean to sell to the trust securities at a profit to themselves, of course, that is improper and illegal and it is not done by good institutions.

Mr. BEEDY. That is being done, of course, somewhat generally now. A bank will set up an affiliated investment trust company and buy and sell securities and at the same time, although it is a separate legal entity from the bank itself, it is selling and buying through its securities affiliate.

Mr. GREENE. I do not think that practice is carried on by the highest type of institutions.

Mr. BEEDY. If you have read these hearings, you will see that it is being done.

Mr. SEIBERLING. I have just three questions I want to ask. I wanted to know if you will discuss, for a minute, the need of corporations for acceptable paper for rediscount in the Federal reserve banks—whether the right to rediscount should be liberalized and broadened out.

Mr. GREENE. I think, Mr. Seiberling is referring to the comments made that the corporations are not, at the present time, desirous of borrowing, and consequently, the banks find themselves short of paper discountable at the Federal reserve banks.

The CHAIRMAN. I do not know what is in Mr. Seiberling's mind, but there is presented to us here the problem of making eligible for rediscount installment paper, investment banker's paper, dealers in municipal securities and mortgage bond people, who are seeking to make mortgage bonds eligible for rediscount. There is a movement also to make other bonds eligible for rediscount.

Mr. GREENE. I think the question divides itself into two parts; in the first place, the scarcity of that paper is due to a factor of the same high prices for stocks and the speculation we had last year, and that is, these corporations found it possible to put out their stock to their stockholders at a rate which was considerably lower than their dividend rate and they were wise enough to seize the opportunity. The stockholder was glad to buy the stock and the companies improved their statement and sold hundreds of thousands of stock to stockholders through rights, which stockholders either used the rights or some one took his place, and that strengthened the position of a great many of our big corporations. It was a wise thing for them to do, but it took them out of the borrowing column. That is a temporary situation that will not happen again.

I think the scarcity of paper that is eligible is again due to abnormal conditions. We will assume, for instance, that there is a $2,000,000 corporation. Its stock is selling at 120 and paying 4 per cent divi-

dends. There were many stocks selling on as high a basis as that last year. Such a condition enabled corporations to sell new stock to their own stockholders, at, say, 80 and greatly improve their statement. If they had bonds outstanding bearing 5½ or 6 per cent, they could retire such bonds or preferred stock, or if no such bonds or stock were outstanding they could make additions with their new capital furnished by stockholders on a basis of 5 per cent for the new money (a 4 per cent stock costing 80). They could even afford to take up their temporary borrowings with the proceeds of stock on this basis. Everybody was happy and it was a good thing because along came the depression and our big corporations were probably in as good shape as they had ever been. At any rate it helped the corporations.

Now, I believe we will go back to a condition of normalcy and banks will again have more paper than they have had lately.

The CHAIRMAN. You think the corporate interests of the country are going to surrender their snug position that they occupy now?

Mr. GREENE. The corporations might be unwilling to give up their snug position, but it depends on the willingness of stockholders to pay for new stock on a basis of return very unattractive under normal conditions.

I speak of that very feelingly because I participated in some of those rights at prices that were not as favorable as I thought they were.

The other principle involved, Mr. Seiberling, is this: It cost a small bank a great deal to join the Federal reserve. If that bank does not have the class of paper to offer, his benefit is not as great as it should be. His earnings are reduced in the par collection of checks. If there were a way properly to broaden a little the ability of the average bank to borrow from the Federal reserve, I am inclined to think it would be a desirable thing.

That involves four things. He only gets 6 per cent on his capital and no interest on his deposits. If he does not have the notes and securities to offer as collateral, he does not get the benefit for which he is paying, and in the meantime he has given up what he used to make in the collection of checks.

That is their situation. I am inclined to think there ought to be possibly a little relief, especially if you are trying to get the smaller banks into the Federal reserve system.

Mr. SEIBERLING. What is your judgment as to the influence of New York banks on outside banks as to whether it has increased or diminished?

Mr. GREENE. The Federal reserve banks, in my opinion, have pretty nearly completely changed the situation. In former times, before the Federal reserve, a bank feared two things; one, a run on itself and it feared a general panic or depression. It felt it had to be fortified against that condition. Any bank in an ordinary city felt it must have a very good friend in the banking world in a reserve city, and if it was in a reserve city, it wanted to be in contact with a bank in a central reserve city; so it pyramided up to New York; in other words, you felt you must be on the utmost good terms with a bank in New York.

That situation has changed. You still carry a handsome balance in New York, but the bank in New York is the recipient of your favor instead of your being a possible solicitor of loans from it.

To-day the banks of New York call on their correspondents throughout the country, whereas formerly it used to be the banks throughout the country that called very humbly on their New York correspondent.

Mr. SEIBERLING. There has been a great deal of discussion in regard to segregating assets and having certain secured deposits, time deposits, and giving them a preference.

Mr. GREENE. I think the time for segregation of assets has passed. With the bigger banking units, it is not necessary and there is no fundamental difference between the different classes of depositors. They are all loaning their money to the banks. One is lending it on a time contract at a higher rate of interest and the other is lending it at either no interest or at a low rate, payable on demand. I feel that the segregation of assets which might have been desirable in some States and under some conditions, has ceased to be desirable. I do not think they need that protection.

If you throw that protection around savings, you tend to lower the rates the banks can pay. I think it is far better to let all depositors come in on the same basis.

Mr. SEIBERLING. I understand you have had a policy in your bank to charge 6 per cent on your loans, and that has held good in bad times and good times for a great many years?

Mr. GREENE. That is true; that is, we went through the war without raising our rate above 6 per cent.

The CHAIRMAN. Which war do you mean?

Mr. GREENE. The Great War. [Laughter.]

Mr. SEIBERLING. That is all I have, Mr. Chairman.

Mrs. PRATT. I assume you think the day of the unit bank has passed?

Mr. GREENE. I do.

Mrs. PRATT. In speaking of areas in which branch banks might be established, you apparently would be in favor of having a flexible provision in any legislation, by which those areas could be changed from time to time. Do you think it is possible to lay down a definite area at this time?

Mr. GREENE. I believe there ought to be a general rule, but if that rule or restriction did not permit of banks getting the proper diversity of business, that then the exception should be permitted in order to make our banks of the whole country—put them in the safest and highest position possible.

Mrs. PRATT. That would require a provision in the original law. You could not legislate on individual cases each time.

Mr. GREENE. I think you are coming to nation-wide banking. That is going to be a long ways off, but every argument for branch banking, if it is sound, is sound for a larger and larger territory; in other words, you are going to come some day to the most economical and safest system of banking that you can obtain, and I believe that that is ultimately branch banking on a nation-wide scale.

Mrs. PRATT. I think you spoke of the good will of the stockholder as being of such value to the banks in connection with the success of banking in a community. Is it not true that the stockholder pays very little attention to the conduct of the bank? Is it not true that they sign their voting proxies almost unthinkingly, and is it not also true they take very little interest until after something has happened to the bank?

Mr. GREENE. I think that is true except I think when anything happens which in any way lessens the prestige of the bank, they become active. When you become active you do not go to the office and protest, but you are indirectly contributing to the good will of that bank and the reputation of that bank. That bank is extremely sensitive to what its stockholders think; in other words, if a man says, "I am a considerable stockholder of that bank and I am dissatisfied with their policy and the credits they have extended," that has a serious effect on that bank and the bank knows it and it so conducts itself that it will avoid that criticism.

Mrs. PRATT. Theoretically that is true, but it is not true of an investment company or a holding company that they make a greater business of following the conduct of a bank than the individual stockholder? I know of very few stockholders who, it seems to me, pay the slightest attention to the conduct of a bank. I mean by that the average lay individual, and there are lots of us. I can not see that those people would look into the management of a bank until there was a rumor that something was wrong with the bank, while the investment trust makes it its daily business to watch the conduct of the bank.

Mr. GREENE. Of course we have different ideas of just what we mean by "investment trusts."

Mrs. PRATT. I was speaking more of holding companies.

Mr. GREENE. You mean the big holding companies?

Mrs. PRATT. Yes.

Mr. GREENE. You are speaking of group banking.

Mrs. PRATT. Yes.

Mr. GREENE. I misunderstood your question. Of course that stock is just the same as the bank stock. I do not think there is any difference. Assume that a holding company got into the hands of an unscrupulous crowd and they controlled the management of those banks; it is no different than if the management of a bank got into that condition; in other words, public opinion will deal with the two situations exactly alike. I do not believe there is very much difference; in other words, the stockholder of a holding company would be no more active than the stockholder of a bank. It would make no difference.

Supposing you were to take, say, the five leading banks in New York City—for example, the Chase, the National City, the Guaranty, and so forth, and you put them all together and exchanged the stock of those companies: I do not think it will increase or decrease your activities. I think the good will and reputation will affect the bank business exactly alike in either case.

Mrs. PRATT. We have had considerable testimony here to the effect, I think, that these holding companies which buy these little unit banks or rather get the stock of little unit banks, feel their system is the ideal system in that they are preserving in the community the independent interest of the people and the good will of the people as well as preserving the local management of those banks, and yet the holding company has a supervising interest and is always on its guard to watch those banks and advise and criticize them. I think that was Mr. Wakefield's testimony. You feel that that is less satisfactory than the branch system?

Mr. GREENE. I certainly do, for two reasons: In the first place, I do not think that question of good will would be so recognized if it was known it was done at the expense of safety and service. They do not know that.

Mrs. PRATT. They would not grant that.

Mr. GREENE. In the second place, they do not know what the advantages of branch banking would give them. There enters into this, this fact: You get a narrowing profit in the banking business. Your expenses are greatly increased. Now, which one will survive? It is bound to be the one that is the most economcial. You can not get the service in the unit bank that you can render through the branch bank. For instance, take the statistical service, advertising and many other services: I think in those parts of the country where there is a rabid antipathy to any kind of banking, whether unit, group, or what not, it is because they do not appreciate thoroughly the qualities of the other system.

Mr. BUSBY. You say you are pretty sure we are coming to nation-wide branch banking?

Mr. GREENE. In the far future.

Mr. BUSBY. You suggested that we would be to the trade area period within three or four years?

Mr. GREENE. I think my steps were the county and contiguous counties and then the trade area and then nation-wide branch branch banking.

Mr. BUSBY. Why do you come to the conclusion we will have nation-wide branch banking within a relatively short time?

Mr. GREENE. Because the entire trend of the country is to bigger units in industry as well as everything else; because of this rule of letting your credit flow from a place where there are surplus funds to a place where it is needed most; because of the economy you are giving and, in the end, where a system is the safest and the most economical and renders the greatest service—which I thoroughly believe branch banking would do—you are bound to come to it. I think that the extension of branch banking to the limits of the country in the last analysis is bound to come.

Mr. BUSBY. Have you given any thought to the possible number of systems that will be in operation at the time we reach nation-wide branch banking?

Mr. GREENE. I think that will hasten the privilege to do branch banking because the group system, if they take another jump or two, as they have already done, will be across the country. One group is across the country already.

Mr. BUSBY. I was speaking about the limited number of systems in operation when you reached nation-wide branch banking.

Mr. GREENE. If Canada had 13 banking systems, not counting trust companies, with 8,000,000 people, I think we will have many times that number for a country of 120,000 people.

Mr. BUSBY. But practically five of the Canadian banks do most of the business done there. Is not that true?

Mr. GREENE. Yes.

Mr. BUSBY We do not have the system of chains that they have. They go out into the country ahead of the railroads and operate that office for two or three or four years at a loss. That is not the experience we have had in establishing branches in this country.

Mr. GREENE. I think it is. We do not expect to have a branch make money for us for two or three years.

Mr. BUSBY. Do you not make an examination of that community from the standpoint of a paying banking business?

Mr. GREENE. Well, we build for the future.

Mr. BUSBY. And do you not select an independent bank when you go to take it over as a branch, that is really on a sound basis?

Mr. GREENE. We would not acquire a bank as a unit bank for operation as a branch, unless it was on a sound basis, naturally.

Mr. BUSBY. And you would not acquire that bank unless it was in a good territory for banking development?

Mr. GREENE. That is correct.

Mr. BUSBY. That puts you in the attitude of the oil companies that go into proven fields and invest and put their holdings into oil wells where the field has been proven by the wild cat, does it not?

Mr. GREENE. I think——

Mr. BUSBY. I think there is the same similarity between taking over established banks and the oil companies taking over oil wells in a proven field. You are getting the benefit of what has been proven.

Mr. GREENE. I do not think there is a similarity between banking and the oil business for this reason: The oil man takes a great risk with a chance for a great profit. In the banking business there should not be any chance for great profit. When you compare the banking business with the driving of oil wells, I do not feel there is any similarity.

Mr. BUSBY. If you pioneer in the banking business, you can not hope for much except the development of the community and a small return on the capital investment

Mr. GREENE. I think you have gotten the idea that the banking business is too cold-blooded in that matter. A banker is watching the growth of his city and community all the time. You see a cross-roads as the beginning of a neighborhood center. You will say, "This is a community that is going to be populated by working men." You should bear in mind that the poor man is a better business prospect for a bank than the rich man. We would rather be a banker for poor men than for very rich men. If you feel that that territory is going to be built up by average wage earnings, you will be willing to go in there and take a loss for two or three years. We have done that. Many of our branches that you call de novo branches have to be built up to the point where they will make money. We plan also in the banking business.

Mr. BUSBY. Most all of the systems that have been presented here went into good fields in proven territory and took over the best banks.

Mr. GREENE. That is rather different. You are not talking about branch banking; you are talking about group banking.

Mr. BUSBY. I am talking about both. I have not seen many hunting around for doubtful places.

Mr. GREENE. We simple ask for an opportunity to develop——

Mr. BUSBY. But your ultimate object is to make money.

Mr. GREENE. Yes, sir.

Mr. BUSBY. Do you think the country would have developed in the rapid manner it has if it had to depend on group or branch banking to establish contacts?

Mr. GREENE. I think it would have developed faster.

Mr. BUSBY. I wish you would tell me why, when your system gives no ear to anything except absolutely sound security for every loan that it puts out. It takes nothing of the towns that is incident to developing a community or property.

Mr. GREENE. Mr. Busby, I do not think you understand that we have loaned millions on unsecured paper, where we have nothing but the character of the borrower back of it.

Mr. BUSBY. I do not know what character of paper you take.

Mr. GREENE. We have made loans which take page after page to record at each meeting. I called once upon a New York banker who showed me all their maturing notes for one month. They were all on one page of that sort (indicating). We have a discount committee that goes over our maturing unsecured loans once a week. It is a closely typewritten report and runs from 24 to 35 pages of loans each week, some notes being as small as $25. We have 525,000 depositors, most of them people of small means. I do not think you understand our situation.

Mr. BUSBY. Coming back to the idea that the banking situation would become nation-wide and be consolidated into larger and larger groups and that that is in line with all the other business activities in the country at the present time, can you visualize the situation in regard to the mass of the people when control of banking credits and business has gone into the hands of gigantic holding corporations and into the hands of extensive groups of bank credits and chain store operators and all those things? What will be the situation of the masses at that time?

Mr. GREENE. I think it will be better than it is now.

Mr. BUSBY. Now, coming to the size of a town in which an independent bank could be operated successfully——

Mr. GREENE. An independent bank?

Mr. BUSBY. Yes.

Mr. GREENE. You are getting down to the smallest community where you could put a bank? Remember, I am sympathetic with your idea.

Mr. BUSBY. I have not expressed my idea. I am trying to get yours along certain lines.

Mr. GREENE. I think that the system that could afford to go into the smaller community is the branch-banking system and not the group or unit system.

Mr. BUSBY. Do you think that a town of four or five thousand people could operate an independent bank successfully?

Mr. GREENE. Not an independent bank.

Mr. BUSBY. Do you not think the metropolitan center is especially adapted to your type of banking, whereas the more sparsely settled communities are more adapted to unit banks?

Mr. GREENE. No; I do not think so. I think the branch is likely to excel the unit bank by less margin in the congested district than in the other.

Mr. BUSBY. In my district, there is not a town with 5,000 people in it and yet we have dozens of banks that pay more than 25 per cent on their stock. What kind of argument is this you gentlemen are presenting from the metropolitan centers, when you tell us we can not operate those banks?

Mr. GREENE. For instance, what would the relation of capital and surplus of the bank to its deposits be? You say 25 per cent on the capital. That depends on how much surplus there is.

Mr. BUSBY. I can only answer that by saying we have had but 34 bank failures in the last 10 years out of some three hundred odd banks in Mississippi. The relation is such that they appear to be thoroughly sound and that is all that can be required.

Mr. GREENE. I think that is a splendid record.

Mr. BUSBY. And yet the argument you make coming from metropolitan centers, would put every bank in my district into a branch. I see the physical facts that refute your statements and I do not believe them for that reason. I am bringing you concrete instances so you may get my point of view.

Mr. GREENE. I never want to see them in one banking system, but assume the banks became the branches of five branch banking systems, operated from the head office in the largest metropolis in your State. I say this, that given those same banks and putting them into competing branch systems and then operating——

Mr. BUSBY. Would they develop the communities in small towns with the same sympathy and feeling that they have built those towns to their present situation?

Mr. GREENE. I think more so. Why, in Lorain, are we lending 65 per cent more than our total deposits? It is because we have other places where the reverse is true.

Mr. BUSBY. I can answer that by saying I imagine you are lending it to well-established individuals with well-established lines of credit, and you are not developing any new lines of credit ab initio.

Mr. GREENE. We would not lend to anybody without proper security.

Mr. BUSBY. Now, I want to read to you from an ad that is in the American Bankers' Journal on page 1080. It reads as follows:

> If there is one inspiring element more noticeable than another in present-day business, which lifts it to a more human plane, it is the element of sport. Not sport as a recreation, diversion, or pastime, but sport as a game. The human game of building men and things to the service of man.
>
> Ask any successful business man the game he likes best. Invariably the answer is, "My business." He is playing the game. No little white ball holds his eye so intently; no gun or rod, blue water or trackless sky, call to him so deeply, mentally, or physically. The records he breaks are those set by his budget: Costs, sales, inventory, turnover; his medals, profits, and the knowledge that he has played the game well.
>
> It's a great game, business. Some weaken, but the game goes on.

Now, that is the position of the big banker, is it not?

Mr. SEIBERLING. You might tell him the story of what you did with Lorain after the cyclone.

Mr. BUSBY. I want to reach these gentlemen who believe that the whole banking business of the country should be tied in systems reaching from coast to coast.

Mr. GREENE. I am opposed to that strongly.

Mr. BUSBY. You intimated that at the crossroads workmen settle and place their money in the banks and kept it there for awhile and the rich man spends his money. One is holding on to his finances securely and the other is playing this game.

Mr. GREENE. Let me tell you exactly what I meant. We make thousands of real-estate loans, mostly to poor people on their homes,

every year. Now, which is the better loan—$25,000 loaned on a $75,000 home to the rich man, or five loans of $5,000 each to working men on their homes?

Mr. BUSBY. There is less margin, perhaps, taking the hazard into consideration, comparing one with the other, to make the large one instead of the smaller ones. That is not the answer you expected, is it?

Mr. GREENE. No; it is not.

Mr. BUSBY. I think I am reasonable in giving it. I have had enough experience in farm loans to know that it was a mistake to increase the loaning limit of the farm loan boards to $25,000 because, instead of loaning $500 or $1,000 to men who wanted to invest it in homes, they turned around and began lending $25,000 to real-estate promoters who represented they had property valued at $60,000 when, as a matter of fact, the value was not there.

Mr. GREENE. I do not think we see, ultimately, the same——

Mr. BUSBY. I am not quarrelling with the big institutions, but I know this, that there is not a town in my district nor in anybody else's district that was not made a town except by the efforts of independent merchants going into business there and other merchants coming in when the center grew to be more attractive to trade, and all of them operating together and offering places for trade and places where people could supply their wants in a mercantile way and by these folks paying taxes and building up the community, with local banks joining them at the proper period of development and supplying credit to those that needed credit and were worthy of credit, and I know when you syphon the life out of those places through chain stores or any other system that removes the management of those stores or banks or whatever they may be from that community, you are going to take the life out of that place. I am not speaking about the banks only, but about anything involved in the economic situation. I can not see the necessity for a two billion banking corporation to develop the country for the use and happiness of the mass of people that makes the country.

Mr. GREENE. Of course, there are territories where $2,000,000,000-banks would be absolutely too big.

Mr. BUSBY. I am for the $2,000,000,000-bank, provided it keeps its hands off the places that are properly supplied in a credit way by local investments in banking.

Mr. GREENE. That is what we do. In a town where there are half a dozen banks and branches of our bank, why do they choose to do business with us?

Mr. BUSBY. There are two things. The taxing power is the power to destroy and money certainly does receive the call in places where you place it. People do not stop to analyze the effect that is going to be brought about in their community or any place else. When the larger amount of money is available from any source, they go to the money. Ten years may point us to what was the right way back in 1930. We can not tell now. That is all I have, Mr. Chairman.

The CHAIRMAN. Are you placing in the record a statement of the condition of your bank with its officers, also the geographical location of your shareholders?

Mr. GREENE. I have not, but will be glad to do so now.

The CHAIRMAN. The statements referred to will be inserted at this point.

(The statements referred to are here printed in full, as follows:)

Condensed statement of condition of Cleveland Trust Co., March 27, 1930

RESOURCES

Cash on hand and in banks	$30, 959, 654. 31
United States, State, municipal, and other bonds and investments	34, 917, 232. 15
Loans, discounts, and advances	233, 041, 035. 28
Real estate and banking houses	6, 999, 245. 05
Interest and earnings accrued and other resources	2, 151, 882. 17
Customers' liability on letters of credit and acceptances executed by this bank	8, 438, 963. 29
Total	316, 508, 012. 25

LIABILITIES

Capital stock	13, 800, 000. 00
Surplus and undivided profits	12, 756, 495. 70
Reserve for taxes, interest, etc	2, 287, 558. 58
Dividend payable, Apr. 1, 1930	414, 000. 00
Deposits	278, 108, 872. 46
Other liabilities	702, 122. 22
Letters of credit and acceptances executed for customers	8, 438, 963. 29
Total	316, 508, 012. 25

CLEVELAND TRUST CO. OFFICERS

President, Harris Creech.

Executive committee: The president; chairman, E. B. Greene; A. L. Assmus, vice president; Leonard P. Ayres, vice president; I. F. Freiberger, vice president; John M. Gundry, vice president; F. H. Hobson, vice president; H. D. King, secretary; A. R. Horr, vice president; A. F. Humel, vice president; Henry W. Stetcher, vice president.

Vice presidents: H. H. Allyn, Edwin Baxter, J. R. Cotabish, E. S. Curtiss, John T. Feighan, W. F. Finley, Fred J. Greiner, F. H. Houghton, Henry Kiefer, A. A. McCaslin, R. A. Malm, E. L. Mason, E. B. Merrell, George F. Schulze, C. W. Stansbury, P. T. White.

Treasurer, J. W. Woodburn.

Comptroller, A. A. Denison.

Trust officers: Ralph McOuat, E. B. Roberts, H. S. Yenne.

Assistant vice presidents: George C. Beck, E. W. Burdik, Homer D. Cozad, E. J. Franke, Elmer C. Gehring, J. H. L. Janson, Tracy E. Herrick, W. W. Horner, P. S. Kingsbury, W. F. Kyle, I. I. Sperling, R. T. White.

Assistant secretaries: H. F. Brandt, Harold Busch, J. F. L. Fitzgerald, H. E. Husted, M. J. Ludwig, E. V. Newton, O. L. Rieder, W. E. Shepherd.

Assistant treasurers: R. M. Bourne, C. A. Brown, M. K. Ford, Frank E. Gibson, jr., W. S. Goff, E. C. Heil, P. J. Huegle, J. H. Kapl, M. W. Mountcastle, George F. Pryor, Lorenz E. Stockhaus, John R. Todd, Harvey J. Webster, Walter T. Young.

Assistant trust officers: F. J. Haffner, Howard W. Holtz, John S. Lucas, A. J. Perfler, Henry Pirtle, S. A. Pritchard, J. J. Schwitz, Erwin W. Senghas, H. M. Sheeler, A. A. Welsh.

Assistant to the president, Lillian E. Oakley.

Directors: Charles E. Adams, Edward R. Alexander, Horace Andrews, Herman C. Baehr, Newton D. Baker, Robert F. Berwald, Samuel C. Blake, B. P. Bole Chester, C. Bolton, Newell C. Bolton, N. H. Boynton, J. C. Brooks, Fayette Brown, George H. Brown, F. H. Chapin, Jacob D. Cox, jr., Harris Creech, Benedict Crowell, C. S. Eaton, Joseph O. Eaton, J. B. Fay, Horatio Ford, R. J. Frackelton, Charles D. Gentsch, E. B. Greene, John M. Gundry, Salmon P. Halle, A. F. Humel, Frank D. Johnson, Thomas H. Jones, George Q. Keeley, Amos B. McNairy, M. J. Mandelbaum, George A. Martin, S. Livingston Mather,

Walter C. Merrick, Severance A. Millikin, John E. Mroley, H. C. Osborn, Charles Lathrop Pack, Henry F. Pope, W. H. Prescott, F. W. Ramsey, W. L. Robison, F. J. Roehl, William A. Rounds, O. A. Schuele, F. R. Scofield, F. A. Scott, John L. Severance, Belden Seymour, Franklin G. Smith, J. A. Smith, Henry W. Stecher, Ambrose Swasey, Amos Burt Thomspon, Charles F. Thwing, B. G. Tremaine, jr., C. G. Watkins.

GEOGRAPHIC LOCATION OF STOCKHOLDERS, MAY 29, 1930

	Number
Greater Cleveland	1,852
Ohio, excluding greater Cleveland	234
States, excluding Ohio:	
Alabama	2
Arkansas	1
California	31
Colorado	1
Connecticut	11
Florida	9
Illinois	18
Indiana	1
Iowa	1
Kentucky	1
Louisiana	1
Maryland	3
Massachusetts	12
Michigan	14
Minnesota	4
New Jersey	10
New York State	21
New York City	41
North Carolina	1
Oklahoma	2
Pennsylvania	21
Rhode Island	1
South Carolina	4
Texas	1
Viriginia	3
West Virginia	3
Wisconsin	4
District of Columbia	4
Hawaii	1
Total	227
Foreign—Canada	2
Total	2,315

The CHAIRMAN. I would like to ask you what authority your branch managers have in agricultural loans?

Mr. GREENE. I am glad you asked me that question. Our branch managers are all rated according to their experience and ability and are given authority, according to our standard, to lend anywhere from $250 to $5,000 on their own authority. They are all connected by phone with our branch managing offices and if they want to go above that, they get approval by telephone or in writing to go above that.

Now, on collateral loans, of course, years ago we did not get much demand for collateral loans from the branches. That has been increasing. We furnish every office with a list of the collateral they are likely to be offered with out rate per share on that collateral and with our indication as to how we grade it; in other words, whether it is to be accepted freely in lagre amounts or whether it should be held down. It is according to the intrinsic value of the security and I described, in my statement, the real estate loans.

The CHAIRMAN. I recognize in the development of your branches, in building up the Cleveland Trust Co., that you have done quite an unusual thing; I recognize Cleveland is quite an unusual city, independent almost of the rest of the United States; in other words, Cleveland has been built up by its own people industrially and the banks have been a great factor in building up Cleveland independently of New York and other big cities.

I recognize in many years past you have taken care of the market and sold all your own securities and they have been known as Cleveland securities. In that respect I recognize the fact that your institution has been built up as a service institution. I also recognize the fact that other communities and other people handling our branch institutions might not take the same interest in building up the immediate locality that you have. You recognize that, of course, yourself, do you not?

Mr. GREENE. I do, except I have seen banks that did not have that policy adopt ours because it means getting the good will of the community. If you have 525,000 depositors in a community of a million and a quarter, you have the good will of that community.

The CHAIRMAN. In other words, there is a spirit of cooperation and pride in Cleveland that exists in your banking institution that probably does not exist in many other places in the United States.

Mr. GREENE. I would not be competent to say that. It is a semi-public institution.

The CHAIRMAN. I think you are too modest to say that, but I think it is generally recognized that that is true. The same incentive might not exist in other institutions to do that; in other words, they might be more mercenary and take funds originating in a community and transfer them to other sections of the country where they can obtain higher interest rates.

You see no possibility, then, in the development of branch banking in the United States, of a centralized control from New York.

Mr. GREENE. Now, we are talking about the ultimate?

The CHAIRMAN. Yes.

Mr. GREENE. I think you will have branches that will have home offices in other cities. I think you will have systems with their headquarters in Chicago, San Francisco, New Orleans and Atlanta as well as other places; in other words, they might have their offices in New York, but I would hope that their home or principal offices would not all be in one city of the country. I am sure in Canada there are some that have more offices in Toronto than in Montreal.

The CHAIRMAN. Practically all of the heads of groups that have appeared before the committee have recognized that if they were permitted to do a branch banking business they would change overnight and get into branch banking. I recall Mr. Rand of Buffalo testifying that he recognized the fact that his head office, as far as he was concerned, would remain in Buffalo; that they would take over or had taken over an institution in New York City to take care of the customers that they might lose by reason of consolidations and moving to New York. His idea was that, independently of the groups the banks in the country could be managed just as well from outside of New York City as in New York City. Do you think that is possible under the branch system?

Mr. GREENE. Yes, sir.

The CHAIRMAN. You do not see any danger of the control of your banks, once built up into a very large system, getting into the hands of New York—that New York might want to gain control of your institution?

Mr. GREENE. I think as long as there are competing branch systems that if a bad policy is inaugurated in one system, it will lead to the lessening of business in that institution and the building up of another. You are going to have the same control by good will that you have now, whether they are larger units or smaller. However, I think some of them will make a specialty of the Middle West or the far West or the South and maintain their offices there and there will be that same spirit of the locality, except the locality will be bigger.

The CHAIRMAN. You suggested a moment ago something about the impossibility of the acquisition by a group such as I have described, and the maintaining of their hold on the banking business of a community; that if they did not serve the interests of that community a new institution would spring up. Take, for instance, your own situation in Cleveland: Suppose the control of your institution was acquired by a group outside of Cleveland that did not have the same interest in Cleveland that you and your associates have, and you started out to build up an independent unit. You would have some difficulty in meeting the competition of that group, would you not?

Mr. GREENE. You would have for a time, but would it not be more likely that you would go over to a competitive group who would have a policy of developing the Cleveland district where you knew that would be enforced? The fear that exists, it seems to me, is the fear of monopoly. It is not the fear of bigger groups. It is the fear of monopoly. There should never be a monopoly. I think it would be impossible and very unlikely to happen.

The CHAIRMAN. I think that is all, and we thank you very much, Mr. GREENE.

(Whereupon, at 1.15 o'clock p. m., the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS

The hearing was resumed at 2.30 o'clock, p. m., at the conclusion of the recess.

The CHAIRMAN. The committee will come to order. We have with us this afternoon Mr. Robert V. Fleming, president of the Riggs National Bank of Washington. We will be very glad to hear from you Mr. Fleming, on the subject of branch, chain, and group banking.

STATEMENT OF ROBERT V. FLEMING, PRESIDENT OF THE RIGGS NATIONAL BANK OF WASHINGTON, D. C.

Mr. FLEMING. Mr. Chairman and gentlemen of the committee, I should like, first, to present to the committee a brief statement which pertains mostly to our own experience within the District of Columbia and then I shall touch a little beyond that.

The CHAIRMAN. Proceed in your own way.

Mr. FLEMING. The Riggs National Bank had, as of the call of March 27, 1930, capital of $3,000,000, surplus and undivided profits of $3,796,300, and total resources of $57,011,200. It has in operation six branches within the District of Columbia.

Prior to the Millspaugh Act of 1922, there were no restrictions upon the opening of banks and the establishment of branches within the District of Columbia. The Comptroller of the Currency was charged with the duty of supervision over all banks here, including those chartered under State law, those under the laws of the District of Columbia, as well as those under the national-banking laws. Banks were chartered in Arizona, Virginia, West Virginia, and other States and opened up for business in the District of Columbia. Some of these banks, under the authority of their charter and without reference to the Comptroller of the Currency, established branches in the District of Columbia. In this manner there grew up an unsatisfactory banking condition in the District on account of a large number of small banks operating without having been compelled to submit to the condition precedent to Government investigation and approval, as is customary in the organization of banking institutions.

In order to prevent the further development of this undesirable situation, Congress enacted the so-called Millspaugh Act in 1922, which provided that no corporation could engage in the banking business in the District of Columbia or establish a branch therein without first having the approval and consent of the Comptroller of the Currency. This gave to the Government of the United States the veto power over the establishment of any banking institutions and new branches in the District of Columbia, as well as the power to permit the operation of such new banks and branches as might meet his approval.

There are 40 banks now operating in the District of Columbia, 12 of which have one or more branches in operation. The aggregate deposits of all of these banks are $256,871,000 as of March 27, 1930, $48,664,000 of which are in the Riggs National Bank, or about 19 per cent. There is attached hereto, and marked "Exhibit A," a statistical statement comparing the growth of bank deposits in the District of Columbia during the past five years, distinguishing banks with branches from those without. It will be observed that branch banking in the District of Columbia has developed very slowly and conservatively, there being only 24 branches in the entire District and no bank having in excess of six branches—the Riggs National Bank operating the latter number.

Mr. Chairman and gentlemen of the committee, if you will turn to the first page of the exhibit, taking the comptroller's call of March 27, 1930, it will be observed that the percentage of the Riggs Bank's deposits compared to the deposits of the national banks' deposits was 35.2 per cent and the percentage of the Riggs deposits to deposits of all banks was 18.9 per cent, or practically 19 per cent.

Taking the comptroller's call of five years ago—April 6, 1925—the total deposits of all banks in the District of Columbia were $232,677,447.17. At that time the Riggs deposits were 28.6 per cent of the deposits of national banks, and the percentage of the Riggs deposits to all banks was 15.1 per cent. The gain in deposits over the period of five years between the two calls for all banks was $24,193,473.76, of which the Riggs gained $13,624,301.29 and the national banks $15,767,555.96.

Mr. WINGO. Did you give the percentage of gain there?

Mr. FLEMING. The percentage of gain of the Riggs National Bank was 38.9 per cent; the percentage of gain of the national banks was

12.8 per cent and the percentage of gain of all banks was 10.4 per cent.

Mr. WINGO. I see that now. I was looking at the wrong sheet.

Mr. FLEMING. Turning to the next sheet, you will find, as of the call of April 6, 1925, there were 10 banks having branches as of that date. They had 20 branches and their deposits were $113,484,613.15.

Between April 6, 1925, and March 27, 1930, two additional banks took out branches or acquired branches in one way or another, and to these I have added the deposits of banks with branches in existence April 6, 1925, and later were consolidated with banks in the above group and became branches.

As of March 27, 1930, there were 12 banks having 24 branches with total deposits of $146,213,468, a gain for the banks having branches for the 5-year period of $13,606,363.70.

There were 28 banks not having branches, with total deposits as of April 6, 1925, of $100,070,342.87, and with total deposits as of March 27, 1930, of $110,657,452.93, representing a gain of banks not having branches during the five years of $10,587,100.06.

We will observe that the percentage of gain of banks with branches to all banks was 56.2 pef cent and the percentage of gain of banks without branches to all banks was 43.8 per cent.

(The figures referred to are printed in full at the end of Mr. Fleming's opening statement.)

METHODS OF ESTABLISHMENT OF THE RIGGS NATIONAL BANK BRANCHES

All of the branches of the Riggs National Bank are what are known as statutory branches, that is to say, branches which have been established under specific statutory authority under the national banking laws. The first three branches acquired by the Riggs National Bank in 1922 were the result of consolidation with the Hamilton National Bank. The Hamilton National Bank had three branches, one at Dupont Circle, one at Fourteenth Street and Park Road, and the other at Seventh and Eye Streets, N. W., which branches had been established prior to its conversion into a national bank, the Hamilton Savings Bank having been originally chartered under the laws of Arizona. At the time of its conversion into a national bank, it elected, under the authority of the act of 1865, to retain these three branches, and they became branches of the Riggs National Bank under terms of the consolidation act of 1918. I may add that the Riggs National Bank took over the Hamilton bank in order to assist in clearing up the bad banking situation in the District of Columbia.

The branch at Eighteenth Street and Columbia Road, known as the Northwest Branch, was acquired in 1925, through a consolidation with the Northwest National Bank, which at the time had one branch at that place, established when it was a State bank, known as the Northwest Savings Bank, organized under the laws of Arizona, and which it elected to retain under the act of 1865, upon being converted into a national bank. This branch thereafter became a branch of the Riggs National Bank by virtue of proceedings under the consolidation act of 1918.

The two remaining branches were acquired through the consolidation of the Riggs National Bank and the Farmers & Mechanics National Bank of Georgetown. The latter bank had one branch at

Wisconsin Avenue and Warren Street, established under the authority of the McFadden Act of 1927, and upon the consolidation, this branch was acquired by the Riggs National Bank under the authority of the same act. Simultaneously with the act of consolidation with the Farmers & Mechanics National Bank, the Comptroller of the Currency authorized the Riggs National Bank, under authority of the McFadden Act, to establish a branch at Wisconsin Avenue and M Street, the same being the former head office of the Farmers & Mechanics National Bank. It is seen, therefore, that the Riggs National Bank acquired all of its branches, so far as their legal status is concerned, either by virtue of the national bank consolidation act of 1918 or under the McFadden Act, only one branch coming into the latter category.

BRANCH OPERATIONS

The Riggs National Bank conducts a metropolitan banking service, that is to say, it carries on all of the departments of banking ordinarily found in large city banks. It has a commercial banking department, a savings department, a foreign department, a credit department, a trust department, and a safe-deposit department. With the exception of the trust department, which is maintained at the main office, 1503 Pennsylvania Avenue NW., all of these departments are maintained at both the main office and the branches, with the further exception of our Seventh Street branch, where we do not conduct a safe-deposit department.

Although the Riggs National Bank is engaged in what may be called city branch banking, as contrasted with the extension of branches into outlying cities, it has nevertheless maintained the local contact which existed in the bank taken over at the time it became a branch. The one exception is that of the Hamilton bank, the management of which had lost the local confidence necessary to maintain it. This local contact we regard as of the greatest importance to the success of branch banking, and good business practice alone is a sufficient reason to preserve it.

The Riggs National Bank has an advisory board of the branches, and upon this board are the principal members of the boards of directors of the banks which were converted into branches, all of those serving being shareholders of the bank. In the case of the Farmers & Mechanics branches, the entire board of directors of the bank became members of the advisory board. This board has 33 members, five of whom are officers of the Riggs National Bank and it meets once each quarter at the main office of the bank, at which time all of the operations of the bank, which includes the operations of each branch, are carefully reviewed. Respective executive committees of the advisory board meet weekly at the branches, and, in addition, that part of the advisory board constituting the former directors of the Farmers & Mechanics National Bank meets monthly at that branch. The advisory board performs the same functions with respect to the branches that it performed with respect to the pre-existing banks, except that it recommends policies and procedure, instead of initiating them. Its members are keenly interested in the work of the branches, attend meetings regularly, and their counsel and advice are of invaluable assistance to the bank in dealing with the multitude of local questions which arise.

It has been our policy to carefully select our branch managers, and to give them rather wide discretion in the operation of the branch. Only matters of importance are referred to the main office, minor matters being handled by two liaison officers from the main office, who are in daily contact with each branch. In the making of loans, branch managers are authorized to make loans up to $25,000 to a single customer upon listed collateral, and in some cases up to $5,000 on an unsecured note. This latter authority varies from $1,000 to $5,000 according to the branch and the needs of the community which it serves. In connection with applications for loans beyond these amounts, the branch manager appears before the loan committee at the main office and presents the case to that committee for determination. Each branch manager is required to maintain his own credit files and is charged with the responsibility of following the loans made at his branch. We have found that the discretion and authority granted have been sufficient to take care of the ordinary operations at our branches which are, in the main, showing steady increases in deposits and in the number of customers served. This method of making loans applies, in the main, to loans of new customers, as we have numerous lines of credit extended to the old customers of the bank, in some cases for large sums, which have been approved by our loan committee and which come up from time to time for redetermination of the line of credit. In some instances, the line of credit is reconfirmed without reference to the customer; in others it may be reduced or withdrawn. This system enables us to give prompt loan service to many of our larger customers who find it more convenient to deal at one of our branches.

Our branch in Georgetown, at Wisconsin Avenue and M Streets, formerly the location of the Farmers & Mechanics National Bank, has many aspects of an out-of-town branch. This branch was originally established in 1812 and was in continuous operation in Georgetown up to the time we took it over.

Georgetown still maintains its separate and local individuality due to the fact that for more than 120 years it was a separate municipality. In order to indicate the success of our operations there, the net profits of the bank for the last full year of its operation as an independent bank—that is, the year ending December 31, 1927, were $28,825.34, whereas for the year ended December 31, 1929, the first year of operation as branches, analysis of the earnings discloses net profits of $58,371.77, which included many expenses incident to consolidation, such as the cost of departmental adjustments, stationery, and new forms, and so forth. In other words, we are enlarging the banking business at that point without losing the local contact, and we have been able to cut down considerable expense in overhead.

We have found in our experience that branch banking is economically sound and successful as a business operation. It has also met with popular approval, the Riggs National Bank having to-day 46,251 accounts, commercial and savings, 24,748 of which are in the branches; while as of December 31, 1922, the close of the first year we began operations as a branch banking institution, we had on our books a total of 21,915 accounts, of which 5,687 were in the branches.

THE WASHINGTON TRADE AREA

I have purposely confined my remarks to the operations and experience of the Riggs National Bank in order to bring before your committee a concrete example of branch banking operating in a geographical territory solely under the political jurisdiction of the Congress of the United States. The District of Columbia is the smallest political unit in the country by virtue of the lines which were established when the Federal Government was first set up. As the seat of the Capitol of the Nation, a large metropolitan city has grown up within it and has overflowed into the surrounding area of Maryland and Virginia. Under similar circumstances in the various States, cities of corresponding and lesser size have from time to time enlarged their political limits to embrace suburban districts. This can not be done by the city of Washington. As a consequence, we seem destined to have a great business center in the city of Washington, supported by many residents in nearby suburbs outside of the District.

This all might be called the metropolitan area of the city of Washington, or Greater Washington, and its banking business would normally flow into Washington. Without therefore bring up for the moment the question of trade-area branch banking in the sense suggested by the Comptroller of the Currency, but looking at the situation from the standpoint of the Riggs National Bank and other banks similarly situated in the District of Columbia, under any amendment extending the power of national banks to have branches beyond the city in which they may be situated, it would be a natural and easy progressive development to extend branches from banks in the District of Columbia into these suburban communities.

For example, in Maryland there are Bethesda, Bowie, Hyattsville, Kensington, Rockville, Mt. Rainier, Seat Pleasant, Silver Spring, Takoma Park, and Sandy Spring; and in Virginia there are Alexandria, Arlington, Ballston, Cherrydale, Clarendon, Falls Church, Rosslyn, Fairfax, and Herndon. These aggregate a total of 19 places around the District of Columbia doing their principal business in Washington, and which could be served with branches of Washington banks with the same facility of operation as those branches now situated in the District of Columbia. This extension I would not call trade area branch banking, but rather the same type of branch banking which exists in a number of metropolitan cities like New Orleans, Atlanta, Cleveland, Detroit, Cincinnati, Los Angeles, and so on, where national banks now have branches.

Coming now to the larger question which has been so ably discussed before this committee, that of a wider extension of branches into the rural districts, it is my opinion that a sound system of branch banking could operate from Washington within an area of some 50 miles, which would take in (in Maryland) Frederick, Gaithersburg, La Plata, Laurel, and Upper Marlboro, and (in Virginia) Fredericksburg, Leesburg, Manassas, and Warrenton. It must be recognized, however, that in each of these towns there would be some overlapping of trade areas between Washington and Baltimore, on the one hand, and between Washington and Richmond on the other, because the business of those places is somewhat divided between the cities mentioned.

I may say, in conclusion, that the Riggs National Bank does not now contemplate an entry into group banking, and I know of no instance of group banking operation from the District of Columbia. In this connection, however, I wish to direct the attention of the committee to the existence of a large number of small local banks situated in the 19 little towns mentioned, making a fringe around the city of Washington. There exists the possibility in the modern development of group banking that some group operating outside of Washington might begin to pick up these banks, thus bringing into the metropolitan area of Washington the competition of outside banking. In such a case it would no doubt be necessary for their own protection for Washington banks to resort also to group banking. I have no criticism to make of group banking as a business proposition, but having been an officer of a very conservative banking institution for the past 14 years, during the last 8 of which we have operated branches, I should prefer to see banking in the District of Columbia develop under a more liberal branch banking law than be compelled to resort for self-protection to the new and less-known field of group banking.

This concludes my formal statement to the committee, and I shall be glad now to respond to the best of my ability to any questions which you may desire to ask.

(The figures referred to previously in Mr. Fleming's statement are printed in full, as follows:)

EXHIBIT A

Deposits incident to comparison of banks having branches five years ago

Comptroller's call Mar. 27, 1930:	
Riggs National Bank	$48, 664, 702. 21
National banks, District of Columbia	138, 218, 925. 17
All banks, District of Columbia	256, 870, 920. 93
Percentage of Riggs deposits to national banks	35. 2
Percentage of Riggs deposits to all banks	18. 9
Comptroller's call Apr. 6, 1925:	
Riggs National Bank	$35, 040, 400. 92
National banks, District of Columbia	122, 451, 369. 21
All banks, District of Columbia	232, 677, 447. 17
Percentage of Riggs deposits to national banks	28. 6
Percentage of Riggs deposits to all banks	15. 1
Increase in deposits over period of five years:	
Riggs National Bank	$13, 624, 301. 29
National banks , District of Columbia	15, 767, 555. 96
All banks, District of Columbia	24, 193, 473. 76
Percentage of increase in five years:	
Riggs National Bank	38. 9
National banks, District of Columbia	12. 8
All banks, District of Columbia	10. 4

Comparative position of deposits of banks having branches in District of Columbia

	Comptroller's call Apr. 6, 1925		Comptroller's call Mar. 27, 1930	
	Number of branches	Deposits	Number of branches	Deposits
10 banks having branches as of date of comptroller's call, Apr. 6, 1925	20	$113,484,613.15		
2 banks having branches as of date of comptroller's call, Mar. 27, 1930, acquired since Apr. 6, 1925	0	13,823,644.94		
12 Total	20	127,308,258.09	24	$146,213,468.00
To which is added, for comparative purpose, the deposits of banks with branches in existence Apr. 6, 1925, and later were consolidated with banks in above group and became branches		5,298,846.21		132,607,104.30
Gain of banks having branches during five years				13,606,363.70
28 banks not having branches		100,070,342.87		110,657,452.93
Gain of banks not having branches during five years				10,587,110.06
Gain of all banks during five years				24,193,473.76
Percentage of gain of banks with branches to all banks				56.2
Percentage of gain of banks without branches to all banks				43.8

The CHAIRMAN. As you know, Mr. Fleming, the committee has been engaged in the study of the banking situation and various suggestions and recommendations have been made, the most pertinent of which is that recommendation made by the Comptroller of the Currency in which he recommends the extension of branch banking to trade areas. What do you think of that plan?

Mr. FLEMING. I think it is a very logical development. I think we have a situation in this country generally where conditions very similar to those outlined at the close of my formal statement obtain, and if banks are not permitted to go further with branches they will form groups in self-protection on account of the additional service the public demands.

The CHAIRMAN. You appreciate the difficulties in defining trade areas?

Mr. FLEMING. Yes, sir.

The CHAIRMAN. There has been some suggestion that this be left to a committee composed of the Secretary of the Treasury, the Governor of the Federal Reserve Board and the Comptroller of the Currency, to fix these areas from time to time. Other suggestions have been made that Congress fix by law these areas and there have been other more indefinite suggestions. Which of those plans do you think would be advisable in case a trade-area plan is adopted?

Mr. FLEMING. Following the results of the divisions of the Federal-reserve districts, it would seem to me that a committee would probably be able to fix those areas more readily than if Congress attempted to do that.

The CHAIRMAN. Members of groups and representatives of branch-banking institutions that have appeared before us have intimated that the day of the unit bank has passed. Do you agree with that?

Mr. FLEMING. I do. I do not think there is any question about that.

The CHAIRMAN. You think there is a new condition arising where the small country and suburban towns, such as you have enumerated, could be best served by a branch system?

Mr. FLEMING. I do, without question.

The CHAIRMAN. I infer, from what you said, that you prefer a system of branch banking rather than group banking?

Mr. FLEMING. Yes, sir. I think it is preferable and adds better service as well as greater strength.

The CHAIRMAN. Would you be in favor of nation-wide branch banking?

Mr. FLEMING. Not to start with.

The CHAIRMAN. But ultimately, you feel, with the others who have so expressed themselves, that we will have nation-wide banking?

Mr. FLEMING. I think that is something that has to develop. We see nation-wide chain stores and nation-wide organizations now operating throughout the country. It is perfectly possible it will develop in banking the same way. However, I think it is always better to crawl before we attempt to walk.

The CHAIRMAN. What in your judgment has caused this change?

Mr. FLEMING. It costs more to-day to operate a bank than it did a great many years ago. There are many features that enter into that and it has been pretty difficult for the small bank to operate at a profit from direct banking operations.

In addition to that, we have a great many chain stores coming in and absorbing the corner grocery and drug store, etc., and deposits of the smaller banks have dwindled.

The CHAIRMAN. The concentration in industry, as well, has affected the situation?

Mr. FLEMING. Yes, sir; and it has gone into the larger centers, and I think that has made the situation more difficult for the small-unit bank, particularly, to operate, as indicated by the number of failures; and I think the fact you can operate a branch so much more economically than you can a single small-unit bank has had a tendency to make the stockholders of those small banks glad to become members of a group, or to become a branch of a larger organization.

The CHAIRMAN. Do you think there is any danger in this development of nation-wide branch banking producing a concentration of ownership in New York City of the banking assets of the country?

Mr. FLEMING. I do not believe it will develop that way. I rather look for it to develop into separate areas.

The CHAIRMAN. You recognize, along with stability, the change in the type of holders of banking stocks, do you not?

Mr. FLEMING. In just what particular do you mean?

The CHAIRMAN. I mean by that, more and more of late there is a different class of people buying bank stocks and they are dealt in more on the market. They are purchased without any thought in mind that the buyers are going to be a part of the institution in the direction of the management?

Mr. FLEMING. I think there has been a tendency in that direction in the larger banks.

The CHAIRMAN. Do you think that it is a dangerous tendency that bank stocks should be dealt in in that way, to the extent they are?

Mr. FLEMING. Only if the shares should get into the hands of a few.

The CHAIRMAN. Do you think it is possible?

Mr. FLEMING. It is possible where they are listed on exchanges. For instance, group stocks are listed and dealt in. There is a tendency to buy them purely for speculation rather than because of any interest in the community.

The CHAIRMAN. What is your experience in regard to the percentage of deposits and loans in the different localities where you have your branches? Do your loans in those localities exceed your deposits?

Mr. FLEMING. No; in practically every case the loans do not take up the loanable funds of the branch.

The CHAIRMAN. Of course you have a different situation than prevails anywhere else in the country because of the lack of industry in this community?

Mr. FLEMING. That is correct. It is true in every branch—in every one except one—we have had healthy increases in deposits and also in the number of customers. In most every case, however, the branch has money on deposit with the main office.

Mr. LUCE. I would call your attention, Mr. Fleming, to a matter on which I asked the judgment of the witness who was here this morning, in line with what the chairman has just inquired about, as embodied in a prediction I read only last evening in an article on investment trusts, the writer believing that no long period would elapse before individual holdings in the stock of national banks would disappear and that they would practically be held by investment trusts.

These opportunities in banking have been particularly brought to the attention of the public within the last few years, notably by one or more books, showing what profits have been made. Of course you are more familiar than I am with the very rapid growth of joint investment forms; and I would ask of you, as I did of the gentleman this morning, to tell me, from your practical experience, something about the relation of stock ownership in the conduct of banks, whether the operation of your bank is in any way affected by the ownership of the stock?

Mr. FLEMING. Well, I think all bankers, Mr. Luce, try to get a wide distribution of their stock. They like to get as many people as possible interested in the bank. That seems to be more an intangible than a direct result, as far as benefit is concerned.

Now, as to the activity in the purchase of bank stocks, of course, you realize there was a boom period when everybody was buying securities and where banks were making quite large profits on account of high interest rates, and there was an era of consolidations, and the public took kindly to it, and there was usually a profit on the bank stocks. If we are in what looks now like a low interest period for some time, I doubt if there will be the same activity in buying bank stocks. There has been a decided falling off in consolidations, which had a tendency to boost bank stocks. In our bank, have had no trouble with that. We have had a rather wide distribution of our stock. We have an average holding of 45 or 50 shares per shareholder.

Mr. LUCE. Yet it would seem that the investment trust has come to stay. Hardly a week goes by that I do not receive some solicitation to put some money in this or the other investment trust.

Mr. FLEMING. I do not think they are as popular as they were before the decline of the market in October.

Mr. LUCE. Well, I do not know about that. We expected everything connected with the stock market to become unpopular but within three months the mania for speculation revived.

You used the word "speculation" in this connection. The legitimate investment trusts are not engaged in speculation, but in joint investment and I rather doubt if banking was proportionately less popular than other forms of investment when the crash came.

Mr. FLEMING. Before the decline, banks had passed through two or three years in which they enjoyed large earnings, numerous consolidations took place, and in many cases extra dividends were declared, making these stocks rather attractive for investment. Now the condition is different. The earnings of banks in this low-interest period are not as great as they were during the years preceding the market decline, the yield on bank stocks is low, and I think we have very nearly reached the saturation point in consolidations, particularly large ones. Therefore, I do not think banks stocks will be as attractive in the next two or three years as they were during the preceding three years.

Mr. LUCE. You do not include the formation of groups under your word "consolidation," I take it?

Mr. FLEMING. No, I do not.

Mr. LUCE. That apparently is attracting a great amount of interest and money. I read, within a few days, of 50 Pennsylvania banks going into a chain, and the well-informed witness this morning said he had abandoned any attempt to get figures as to the total number of banks in chains and groups, because the next day he found it was not accurate.

Mr. FLEMING. I think that may be true as far as the formation of groups is concerned, but I do not believe the general public are buying group stocks as actively as they did. We do not get the inquiries we did some four or five months ago.

Mr. LUCE. Have you any knowledge of any attempt to buy your stocks by investment trusts?

Mr. FLEMING. None that I know of. Oh, there may be two or three hundred shares held by little separate investment trusts of local origin, but none by national investment trusts or groups. There has been no attempt so far that I know of.

Mr. LUCE. It was brought out in the course of the inquiry this morning that in Canada at least one bank has—I am anticipating Mr. Fenn's inquiry; it was his contribution, for which I am grateful—one of the large banks has the power to pick and choose those who would be stockholders.

Mr. FENN. I made inquiry as to whether that custom has been given up. The Bank of Montreal has a provision whereby the directors reserve the right, on the transfer of stock, to approve of the transferee. I made the inquiry as to whether that practice had been abandoned, and I do not think any of us knew. That was the practice at one time.

Mr. FLEMING. I do not know what that practice is, but I do know they have a very peculiar system of transferring their stock.

Mr. FENN. A very difficult system.

Mr. FLEMING. Yes, sir; particularly if the stockholder wishes to use the stock as collateral. It makes it a very difficult operation.

Mr. LUCE. That brought to our attention one of the very few suggestions that have been made as to how we can handle group banking if we want to assume that it would be constitutional to do it, as to which I am far from being certain. Could we give national banks the power to select their stockholders? Would it be a wise thing to do in anticipation of possible inroads by investment trusts and all sorts of holding companies, and so forth?

Mr. FLEMING. I think I can answer that question best by expressing my belief that the best-run bank is the bank where the management must hold office by efficiency and not through the domination of one or two interests, and if the bank's officials or directors themselves were to pick the shareholders, you might run into a situation where a group that was not efficient would take control and perpetuate itself through that stock ownership.

Mr. LUCE. It seems every rose has its thorn.

Mr. FLEMING. I mention that because I can see that possibility.

Mr. LUCE. Can you see any other possibility? We have been holding hearings for many days and we would like to get something tangible to operate on.

Mr. FLEMING. I think, as a general proposition, that bankers do not like to see their stocks held either by trust estates or by investment trusts. I think the bankers themselves would like to stay away from them. So, you have a natural resistance on the part of the administration of the bank to start with. I do not know of any method that would be legal by which you could control the stock ownership of a bank.

Mr. LUCE. Then, if this tendency for amalgamation goes on and does go right through the banking field, your fight is going to be like all other enterprises, is it not?

Mr. FLEMING. I do not believe that condition would exist if we could have an enlargement of the branch banking privilege right now. I think that would be the offset. I do not think that any bank, for instance, in a city like Baltimore or Washington would care to be linked in with a national chain of banks or group of banks. I think the large banks themselves would rather be the center or the heart of a branch banking system that could spread out in their own areas, where they could serve their own communities.

Mr. LUCE. Have you read Mr. Anderson's recent discussion of this subject?

Mr. FLEMING. No, sir.

Mr. LUCE. Mr. B. M. Anderson, of the Chase National Bank, within two or three weeks, has come out with a reasoned argument against branch banking by city banks, apparently outside of the city limits, although I am not certain about that. I am curious to get some suggestion as to what is behind the apparently growing opposition of New York banks to branch banking.

Mr. FLEMING. Of course the deposits of the New York banks—the larger ones—are made up to a great extent by deposits of out-of-town correspondents. Possibly there would be a loss in deposits if there should be a decentralization.

Mr. LUCE. If they owned the bank they would have a strangle hold on all the money.

Normally you would think the Chase National Bank would rather own a bank, say, at Flushing—just by way of illustration—than hold the somewhat precarious position of its correspondent.

Mr. FLEMING. Branch banking has been pretty successful within the city limits of New York and I do not see any reason why it would not be just as successful outside of it.

Mr. LUCE. Possibly some of us feel the same way and we wondered why the Chase National Bank should pronounce the other way.

Mr. FLEMING. They have been very successful in their branch operations and I might say, in that connection, that I was very much interested in the report of Mr. Wiggin to his stockholders in 1928, in connection with the merger of the Garfield National Bank. While we did not know it at that time, their branch operations and advisory committees and interlocking of contact men are almost identical with our own system.

Mr. WINGO. I did not catch that.

Mr. FLEMING. I said I was very much interested in the report of Mr. Wiggin made to his shareholders in 1928 where he touched on the merger of the Garfield National Bank with the Chase. It is interesting to observe that their system of advisory committees was very similar to the system that we have in effect at our branches, although we did not know that that was their method at that time.

The CHAIRMAN. Might I suggest to you, Mr. Luce, the fact that one of the subsidiaries of the Chase National Bank in New York owns the American Express Co., which has offices all over the world, comparable to the tellers windows that are proposed to be established by the system of nation-wide branch banking?

Mr. LUCE. That adds to my apprehension of their inconsistency. I do not understand it.

Turning for a moment to one other phase of the local situation, I see that after taking out your banks from the figures in your statement, there remain 39 banks in Washington with an average deposit of $5,300,000. Of course some of the others are sizeable banks, so I take it there must be here in Washington a considerable number of small banks.

Mr. FLEMING. Yes; I thought that might be a natural inquiry. There are 40 banks in the District. There are 8 savings banks where the deposits are under $1,000,000. There are 18 banks (1 trust company, 4 national banks, and 13 savings banks) where the deposits are over a million and under $5,000,000.

There are seven banks (4 national banks, 2 trust companies, and 1 savings bank) where the deposits are over $5,000,000 and under $10,000,000.

There are 7 banks (4 national banks, 3 trust companies, and no savings banks) where the deposits are over $10,000,000.

Mr. LUCE. Are these savings banks doing purely a savings bank business or also a commercial banking business?

Mr. FLEMING. They are doing a general savings and commercial business, both.

Mr. LUCE. Then the word "savings" has no significance?

Mr. FLEMING. I should say the lines are all broken.

Mr. LUCE. In that part of the country from which I come, where mutual savings banks flourish, we have found it expedient to insist upon the segregation of deposits in the matter of our State banks, which

we call trust companies, putting them under the same restrictions that the savings banks are under in the matter of the character of investments they may make. We have felt that this was of a vital nature. The witness this morning argued that he saw no reason for any different treatment for different classes of depositors in banks.

Looking at it from the point of view of the depositors, up my way we think the deposits of the poor have a peculiarly sacred nature, if I may use that word, and we try to protect them. Of course, in an institution as large as yours and so well established and so solid, if I may so call it, the need for segregation is not evident, but do you share my apprehension that trouble will come here some time from the failure of following that system we have of giving the savings deposits of the poor a particular protection?

Mr. FLEMING. I think it all comes down to a question of management of the bank. I think practically all good bankers have an eye to the protection of the savings depositors in their banks.

Mr. LUCE. But in the case of failure they do not get any preference.

Mr. FLEMING. Well, I think when a bank is poorly managed and gets in that condition, you have an institution that ought to be closed up and not allowed to go on.

Mr. LUCE. We had in Boston four such trust companies that were closed up, but when they were closed up, the little depositors had the first chance at what assets remained.

Mr. FLEMING. Well, I think it would work an amount of hardship on the larger and stronger institutions if you put some restrictions as to the type of investment in which they have to invest savings. I think good bankers do that anyway. In the savings accounts, you pay a higher rate of interest on the deposits.

Mr. LUCE. But we pass laws not for good banks, but for bad banks.

Mr. FLEMING. I think we should have fewer of these little banks that can not stand the strain.

Mr. FENN. The branches, so-called, of the Riggs Bank are all established under the act of 1922 and the McFadden Act?

Mr. FLEMING. Yes; and in connection with the act of 1865 and the act of 1918 also.

Mr. FENN. That has worked very successfully in the District of Columbia?

Mr. FLEMING. For us; yes.

Mr. FENN. It is rather evident that the McFadden Act was successful in its functioning as far as Washington is concerned and other cities?

Mr. FLEMING. I think that is unquestionably true.

Mr. FENN. Now, you set up or suggested a metropolitan district here, mentioning this town. Why did you eliminate Alexandria?

Mr. FLEMING. I included Alexandria.

Mr. FENN. As I read it here, I thought it was omitted. I wondered why it should be.

Mr. FLEMING. As a matter of fact, Alexandria would be one of the cities that could very proprly be served.

Mr. FENN. You said Fredericksburg——

Mr. FLEMING. I was using Fredericksburg in a secondary sense as a larger trade area.

Mr. FENN. That is all, if Alexandria is included.

Mr. FLEMING. It might be of interest to the committee to know that there are about thirty millions of resources in those 19 little towns.

Mr. FENN. In the extension as you suggest here to these surrounding towns—in fact, you have suggested to us a metropolitan area rather than a trade area; in other words, you would not deem it advisable—and I am not putting words in your mouth—you would not deem it advisable to extend the area of Washington to interfere with Richmond or Baltimore?

Mr. FLEMING. I think——

Mr. FENN. To overlap into them?

Mr. FLEMING. I think there should be some determination there as to which could be better served. I mention in the statement that there would be some overlapping at Fredericksburg and at Frederick, Md., in the Maryland district.

Mr. FENN. I think your suggestion very appropriate both in regard to the working of the McFadden Act in the District of Columbia and your added suggestion in regard to the metropolitan area, that you deem advisable, and it seems to me as if, if we should draw an act, trade area is very difficult to define, whereas metropolitan areas are not so difficult as you stated.

Now, Mr. Luce made the suggestion or made the inquiry as to the stock ownership in banks. I know that you are very well acquainted with bank officers, particularly in the East, in the South, and in the Northeast, as far up probably into New England—perhaps not as much in New England as elsewhere. Do you find that the executive officers of those banks, the men in charge, the men who run the banks, are large owners of the stock?

Mr. FLEMING. In the main, I would say they are not, under present conditions.

Mr. FENN. Are they not employed, and their high salaries or commensurate salaries, paid in accordance with their ability as banking men?

Mr. FLEMING. Yes. I think, of course, all of those gentlemen endeavor to have a substantial holding in their own institutions.

Mr. FENN. Of course.

Mr. FLEMING. But the present heads of the larger institutions are, in the main, men who have come from other sections of the country and have been picked for their ability rather than their ownership of stock.

Mr. FENN. In the city in which I live, Hartford, which has large financial institutions, particularly insurance companies, it is very seldom that the officers of the large insurance companies are large owners of stock. In many instances, in the banks, men come up from the ranks and acquire their stock ownership. Of course it is their own business and they will get all the stock they can, but not enough to control or keep them in their position if they are unfit.

Mr. FLEMING. Of course, I am an advocate of a banker being a trained banker from the start. I think the history of banking has proven that with the intricacies of banking to-day, a man has to be a trained banker in order to head a bank and in order to be successful.

Mr. FENN. But it is not necessary that he control the stock except with the approval of the stockholders and the directors, in order to hold his position?

Mr. FLEMING. No.

Mr. GOODWIN. I have just one or two questions. If I understand your statement correctly, Mr. Fleming, the branches operated and owned by the Riggs National Bank, are the result of consolidations with other banks except one branch bank. So, in the acquirement of these banks, there were no other banks forced out of business?

Mr. FLEMING. No; there was no bank forced out of business. There were two banks where we purchased the entire stock ownership before the consolidation; that is in the case of the Hamilton Savings Bank and the Northwest Savings Bank. They went out of existence and became branches of the Riggs Bank through the subsequent consolidation, under the acts of 1865 and 1922.

Mr. GOODWIN. The banks taken over are maintained as branches thereof?

Mr. FLEMING. Yes, sir.

Mr. GOODWIN. There is just as much competition in the banking business to-day as there was before the consolidations took place?

Mr. FLEMING. I think there is very much better competition than there used to be.

Mr. GOODWIN. Any individual or corporation entitled to and worthy of credit, can obtain credit as easily now as before these consolidations took place and the branches were established?

Mr. FLEMING. I think they can obtain credit more easily and more liberally.

Mr. SEIBERLING. In legislating for the banks of the country, of course, we have to take into consideration the country as a whole.

Mr. FLEMING. Certainly.

Mr. SEIBERLING. And while your plan is admirable for Washington and the vicinity, the metropolitan idea would not serve the territory around St. Paul and Minneapolis, in Wisconsin, Minnesota, or the Dakotas. I understand the principal purpose of the investigation we are making is to devise some scheme by which banking facilities can be given to agricultural States, where so many banks have failed. What plan as to trade areas would you have to suggest as to areas of that kind?

Mr. FLEMING. I do not think I am familiar enough with the territory around Minneapolis to give you an answer.

Mr. SEIBERLING. You can readily see your plan would not serve that territory.

Mr. FLEMING. I see no reason, as a general proposition, why enlarged branch banking authority, allowing banks to go into these different territories to operate branches, would not work as successfully within a certain radius as the group banking which is going on now.

Mr. SEIBERLING. Your thought is that this committee that you referred to would have discretion to limit you here in Washington to a metropolitan district and then expand that district around St. Paul and Minneapolis to take in the agricultural sections?

Mr. FLEMING. Within their discretion—whatever conclusions they arrived at after an investigation.

Mr. SEIBERLING. I believe that is all.

The CHAIRMAN. There is just one more question I want to ask you. It has to do with some things that have been happening in the last year in regard to our whole financial situation and has

perhaps some reference to the concentration of funds available for speculation, as evidenced last summer, on the New York market.

Do you think the mixing of short-time funds with long-time funds has anything to do with the furnishing of easy accessiblity to funds with which to speculate in the market? In other words, is there a misuse of long-time and short-time funds in banks or in institutions that furnish credit?

Mr. FLEMING. You have an entirely different structure now of your commercial houses throughout the country than we had 10 or 15 years ago. You now have most of the large concerns that furnish the eligible paper throughout the country that have changed their capital structure into preferred and common stock that may be listed on stock exchanges, and naturally there are more collateral loans in banks now and less purely commercial loans than existed 10 years ago.

The CHAIRMAN. Is not that due somewhat to the operation of the Federal reserve where we drew in funds from the byways and hedges and made them immediately available and liquid, through its operations, and the fact we have time deposits and demand deposits mixed, the whole tending to make liquid all classes of bank funds, so they can be moved into the stock market or into land speculation or any other kind of speculation with greater alacrity than ever before?

Mr. FLEMING. I think the bank conferences held over the country by the different groups of bankers are safeguarding that situation. There has been an educational campaign carried on.

The CHAIRMAN. They are dealing with this subject?

Mr. FLEMING. With the liquidity of the banks. We know that a collateral loan is not liquid.

The CHAIRMAN. The annual reports of the Secretary of the Treasury and the Comptroller of Currency indicate an increasing amount of investment securities in commercial banks throughout the country. It is due to the fact that more of that class of securities is being emitted than heretofore and industry is changing its method of financing from what it previously pursued.

Mr. FLEMING. I think so. One of the difficulties of banks that are members of the Federal reserve system, is to get eligible commercial paper. I know one bank that has gone over the country soliciting purely commercial accounts in order to have paper that is eligible for rediscount.

The CHAIRMAN. You think there is a dearth of eligible paper?

Mr. FLEMING. There is no question about it. In my own bank we carry a very large, what is known as, secondary reserve. In my opinion it should be the first line of reserve. We carry a very large amount of Government bonds just so we can be liquid. We were very fortunate in that policy when the decline came. We were able to take care of our customers and all the banks dealing with us.

The CHAIRMAN. It has been brought out in these hearings, and seems to be the fact, that the larger national banks, particularly in the larger cities, are resorting to larger Government loans for that particular purpose. They can use that for rediscounting in theFederal reserve and enter into sale and repurchase through the Federal reserve for instant relief. In your opinion, does that have any particular

effect on Federal reserve operations? Might not it provide a method of inflation——

Mr. FLEMING. Of course——

The CHAIRMAN. By the continued use of Government bonds as a basis for the issuance of credit?

Mr. FLEMING. I do not think they are used in that sense at all. I think they are used as a safeguard, like an elastic band to stretch on.

The CHAIRMAN. In times of emergency, the big bankers are using them to a great extent?

Mr. FLEMING. Yes.

The CHAIRMAN. Is not that getting back to almost the old national bank circulation medium, which was secured by Government bonds?

Mr. FLEMING. Of course the rediscount rate, with reference to the rate the bonds bear, does not make it very profitable to borrow on Government securities. It is not a profitable operation.

The CHAIRMAN. You do not see any danger in the continued use of Government bonds for the relief of Federal reserve credit?

Mr. FLEMING. On the contrary, I think there is a great deal of concern in the minds of bankers with respect to the fact that Government securities will gradually disappear if we continue our amortization of the public debt, which I understand is at about $900,000,000 a year.

The CHAIRMAN. I have heard some bankers advance that idea in criticism of the policy of the Treasury in reducing the public debt, because it was taking out of the market an increasing number of Government securities, thereby decreasing their availability for sound collateral.

Mr. FLEMING. That, coupled with the decrease of commercial paper, gives very little we can pledge with the Federal reserve banks.

The CHAIRMAN. Decreasing our debt at approximately one billion a year will eventually take away this public debt which is now being utilized by the banks for the purpose of substituting in lieu of eligible paper to secure the release of credit.

In view of that possibility and the present dearth of eligible paper, would you think it advisable that we increase the scope of eligible paper by permitting the rediscounting of notes representing brokers' loans, similar to the Lombard loans which were advocated by the late Governor Harding of the Federal reserve bank of Boston, or would you think we should make eligible installment paper or notes secured on an acceptable percentage of municipal bonds or notes secured by railroad bonds or even making the railroad bonds themselves eligible?

Mr. FLEMING. I would favor consideration being given to making eligible bonds that are accepted as security for Government deposits. I think the fact they were accepted would make a greater market for those securities. We have to find some substitute for the disappearance of commercial paper on which Federal reserve rediscount system was founded.

Mr. WINGO. In other words, without undertaking to define what the change should be, you feel that developments have made it necessary to recast the standard of eligible paper?

Mr. FLEMING. I think we have a very difficult problem ahead of us to find some substitute and at the same time have some collateral that is liquid.

Mr. WINGO. You and the chairman proceed upon the theory that the difficulty is in the big city banks. I have been interested in two

banks that you would probably designate as country banks, where they were carrying considerable Government bonds but occasionally borrowing from the Federal reserve banks. They were carrying them for two reasons: One was the natural shortage and the decreasing available of sufficient volume of eligible paper and the other was the difficulty of making their paper eligible even though that paper, from their own viewpoint, was perfectly gilt-edged and sound, and for that reason to avoid the technical requirements as to eligibility, they were carrying Government bonds, and in answer to the question that I propounded to each of the gentlemen and the chairman propounded to you, about the danger of getting back to the old bond-secured Government circulation medium, they suggested that they simply used it as purely a very easy convenience to get funds that are necessary to meet commercial demands and therefore, in effect, they were really not doing anything more than meeting the spirit of the Federal reserve act.

Mr. FLEMING. Government securities are not very profitable to hold from a banking standpoint, as far as the return is concerned. Of course, where you hold a very large block of Government securities for that purpose, to keep yourself liquid and meet withdrawals and take care of unusual demands for loans and in times of stress to take care of everybody that has to be taken care of, you have to gear your bank, as far as expenses are concerned, to be able to carry them.

Mr. WINGO. The whole thing comes back to this, that I think all three can agree on, that with the developments that have taken place there is evidently a necessity for an effort to recast the eligibility requirements of paper, maintaining safety and yet meeting the changed conditions and additional requirements.

Mr. FLEMING. I do not think there is any question of the wisdom of that course.

The CHAIRMAN. This policy of the use of Government bonds is of particular advantage to large city banks acting as reserve agents for country banks in that these banks, through the use of securities, can, at a moment's notice, secure cash from the Federal reserve, whereas if they did not have Government securities, they would probably have to hold the cash. So there is some advantage to certain institutions in the use of these Government bonds in that particular, and also in this respect, that it permits them to lend up closer to their assets, because they can go in at the close of the day with their Government bonds and make up their deficiency in reserve and then take them out again in the morning when the clearances come in.

Mr. FLEMING. It is of very great value, as you state, to any bank that has a number of other banks dealing with it. In the main, those banks are mostly State banks and they have not a large eligible reserve. They may have a lot of real estate loans or loans of individuals, perfectly good, but not the type that the bank itself could take and rehypothecate with the Federal reserve bank. So, the bank carrying those accounts, must have them. The service that the Federal reserve banks have rendered in that connection has been excellent.

Mr. WINGO. It has been suggested by some one that there is this possibility, and to a certain extent, a very great probability, that the

volume of eligible paper which has decreased perceptibly and to which you have directed attention—that that volume is apt to come back as we go through changed conditions and the changing conditions we have been going through.

What is your thought on that? Do you think there is a permanent change, that this is a permanent shortage of eligible paper or that there will be a resumption of volume?

Mr. FLEMING. It is my opinion that it is practically a permanent change. I believe people have been taught diversity of investment and that has been so pounded home that where we had two or three men as a partnership operating a commercial house, having all their wealth tied up in that one industry or business, they would prefer to have a preferred and common stock issue, owning the contro land yet being able to take part of their accumulations and keep them in other investments. I do not believe they will go back to the old form.

Mr. WINGO. In other words, there seems to be a unanimity of opinion that the appetite of the American people for stock investments has been whitted and temporary burnings in the market like they suffered last year are not going to keep them away from it; that they are still inclined to trust their capacity to go into the stock market not only for sound investment but for reasonable speculative activities?

Mr. FLEMING. I do not think we will see the general public in quite as deeply as they were in November, because I think there are a great many people who will never again buy a security unless they can buy it outright and put it away. Of course, 10 or 15 years from now there will be another generation growing up and they will forget the lessons that have been learned by the present generation.

Mr. WINGO. You do not know of any philosophy that justifies the Government in saying that you can not buy an A B C oil stock or that you can not buy a Victrola that is beyond your means? Therefore, we can not prohibit their buying for speculative purposes, and the only thing we can do is to see that there is no fraudulent representation in the sales.

Mr. FLEMING. I do not think there is any question about that, and I think anything else would tend to injure the investment of capital in legitimate industry.

Mr. WINGO. Of course you understand that this interest we display in people burned in the stock market is a biennial affair; that with the approaching elections, as happens every two years, we become considerably interested in what happens to these people?

The CHAIRMAN. You say the economic laws have so changed that a burned child has not any dread of the fire?

Mr. WINGO. I have never been entirely satisfied with these old maxims that I learned not so much at my mother's knees as at the knees of some one else.

The CHAIRMAN. Mrs. Pratt, have you any questions?

Mrs. PRATT. I think most of the questions I wanted to ask have been asked already.

Mr. SEIBERLING. To the extent that we have unnecessary restrictions on the paper we rediscount with the Federal reserve, we are putting on an additional burden on the public that buys the service from the bank, are we not?

Mr. FLEMING. I do not know that I caught that question.

Mr. SEIBERLING. Will the reporter please read the question?

(The question was read by the reporter.)

Mr. SEIBERLING. In other words, if you have got to carry Government bonds on which you can not make much profit, you could have other securities on which you could have made a profit and the public must pay the bill?

Mr. FLEMING. If we could purchase a large volume of commercial paper we would, of course, make a great deal more money than by holding a big block of Government securities as a reserve. That might have a tendency to make the interest rates we charge to customers on loans a little lower. It might have that tendency. I think this point ought to be brought out, that practically every other industry or business in the United States is charging now a considerably higher profit than they did 10 or 15 years ago except the banks. The bankers have had to become, through restrictions on the amount of interest they can charge—and I am not advocating higher interest rates—but they have had to become better bankers to take care of their business, to meet the increasing service the public are asking for and yet to build up proper reserves to meet unexpected losses and, in addition, to pay fair dividends on their stock.

The CHAIRMAN. In view of the agitation among the members of the Federal reserve system for a larger distribution of earnings, I should like to ask you whether or not you think that is a good thing?

Mr. FLEMING. I would be opposed to seeing the Federal reserve banks pay interest on their accounts. I think they are giving us excellent service in the transit system, absorbing all the expenses. I do not feel there should be, over the nominal franchise tax to cover any expenses the Government may incur, a better distribution of any surplus earnings, either going back into betterments of the Federal reserve system or in distribution in extra dividends to members of the system who are stockholders.

The CHAIRMAN. Do you see any danger in making a distribution to the banks of surplus earnings, through the encouragement of the demand for the Federal reserve to make more money to make the distribution possible?

Mr. FLEMING. I think with the restrictions thrown around the paper that the Federal reserve banks can buy and the fact that the rates should be what business justifies. I do not see any way by which they can be drawn into competition.

The CHAIRMAN. Of course the Federal reserve rates are arbitrary amounts. I understand it takes the investment of a billion dollars in their assets to meet the burdens of the system. Do you think there might be a possibility of tying up the liquidity of the Federal reserve system if it were compelled to earn more money in order to pay banks an additional amount?

Mr. FLEMING. I think that a very large percentage of whatever the surplus earnings are should be covered back into the surplus of the Federal reserve banks.

The CHAIRMAN. You do not think the further distribution of these earnings would affect the fundamental purpose of the system as a nonprofit-making system?

Mr. FLEMING. In my judgment the large profits of the Federal reserve system were made in two or three years.

The CHAIRMAN. Inasmuch as there is something over $250,000,000 surplus and only 50 per cent of the Federal reserve stock paid in, do you not think the banks could be better served by returning all but a nominal amount of their capital to them to invest as they see fit?

Mr. FLEMING. I would want to give very careful consideration to the return of any part of the capital or surplus of the Federal reserve banks.

The CHAIRMAN. I am not speaking of the return of the surplus, but the return of all but a nominal amount of the capital to the Federal reserve banks and let them invest it as they see fit.

Mr. FLEMING. A bank makes more on capital funds then it does on deposits and if you return a large portion of the Federal reserve capital it would have a tendency to lower their earnings, I believe.

The CHAIRMAN. Well, the Federal reserve is somewhat differently constituted than a commercial organization. I know there is a big agitation on for a further distribution of surplus earnings. I am fearful if that is granted it may be an incentive to place the Federal reserve system in competition with other banking and that it might tend to make nonliquid the assets of the Federal reserve system.

Mr. WINGO. You assume that the bank's stockholders have no control over their institutions.

The CHAIRMAN. The law regulates the amount that shall be paid to them.

Mr. FLEMING. The stockholders have not so much to say in the mangement of the Federal reserve banks.

Mr. WINGO. They are going to have more and more to say, are they not?

Mr. FLEMING. I think, as a general proposition, that most of the member banks feel that the Federal reserve banks have given great service. I do not believe there is any feeling of antagonism between the members and the Federal reserve banks.

Mr. WINGO. What I have in mind is they will have more and more to say as to the question of competition; in other words, if the Federal reserve banks started out, and it became obvious they were pursuing a policy to become competitors of member banks where it was not necessary in the original function——

Mr. FLEMING. I think the member banks would take that question up very vigorously.

Mr. BUSBY. In your statement you name 19 little towns surrounding Washington in Maryland and in Virginia in which I understand you suggest it might be well to have authority for the Washington banks to go into this territory and do a banking business. Is that right?

Mr. FLEMING. Yes.

Mr. BUSBY. What would be the nature of the business that the Washington banks would do in that territory—group or branch or what?

Mr. FLEMING. Well, I believe that the natural tendency of the growth of the city banks will be to enter the suburban districts toward these smaller towns.

Mr. BUSBY. With branches or——

Mr. FLEMING. I would favor authority by law to have branches there.

Mr. BUSBY. Now, do you know anything about the dividends or earnings of these specific institutions at the places you mentioned?

Mr. FLEMING. No; I have no direct knowledge as to what each one is earning, but I do know, as a general proposition, operated as a branch, as I have illustrated in this written statement, many economies can be effected.

Mr. BUSBY. But that is theory altogether. You do not know anything specifically about the operation of the bank at Cherrydale, for instance, do you?

Mr. FLEMING. No; but in connection with the other branches we have——

Mr. BUSBY. Have these banks importuned your bank or any other to come out and take them over?

Mr. FLEMING. No; but I can see that if group banking develops, these banks may be picked up.

Mr. BUSBY. If the communities are getting along well with the banks and they are prosperous and pleased with them, don't you think Congress should keep you gentlemen out?

Mr. FLEMING. I have not stated that we wanted to go out there.

Mr. BUSBY. You observe it as a fruitful field in which the banks of Washington might operate?

Mr. FLEMING. No; but I do take this position, that if more and more of our residents should go into those places——

Mr. BUSBY. You should follow them with your bank?

Mr. FLEMING. No.

Mr. BUSBY. What do you mean by the insinuations in your statement, then?

Mr. FLEMING. I mean just what I say. We believe, rather than have a group, possibly, coming in and pick up these banks around Washington, that it would be preferable for those communities, for the general good of all of these communities here and for us, for us or other banks in Washington to have branches in those sections rather than have those banks owned by groups, which is the present tendency.

Mr. BUSBY. Yet none of these 19 places have expressed any desire in the world to have you folks come out there and take them over as branches or any other Washington bank?

Mr. FLEMING. None have approached us.

Mr. BUSBY. Do you not know that the life and death fight in those places—not only with respect to banks but respect to chain stores, and so forth—is to keep you out of those communities? Do you not hear the radio programs every night or two preaching against the things you suggest here?

Mr. FLEMING. I can only say wherever we have established a branch we have found, in a very short time, that the number of customers that they have had dealing with that branch have increased, the deposits have increased, and we have received general commendation from the community.

I see no reason in the world why we should nor receive the same commendation if we should establish a bank in one of these places that would give greater service to the community, a quicker service and cheaper service—I can not see why anything that happened in a community like Georgetown would not happen beyond the city limits.

Mr. BUSBY. Each one of these 19 small towns grew up by reason of the merchants that went there and established independent banks and the other banks that went there because it was a good trade center.

Now, the independent banks that are there now went there and established business there because the promoters thought it was a good field for them to establish their size of business in and they have evidently prospered, because they have remained in business. Do you think it would be for the best interests of that community to spread the idea out generally and the country at large, to permit institutions like yours to go out there and sap the spirit out of the people who have put their money into these banks out there and bring the management of the branch you establish into the city of Washington instead of letting it alone and letting it proceed in the way it was established by the people who bought the place and wanted it there because they have settled there?

Mr. FLEMING. We have never pursued any such policy, and I know of no bank that operates branches that has not the interest of the community——

Mr. BUSBY. Why do you not go to some other place where there is no bank established?

Mr. FLEMING. It has been our policy and the policy of other banks to select the principal men in the community as directors and members of the advisory board of the branch. You can not conduct a business without the good will of the community, and you of necessity must also employ the management to run that bank that is a part of the community.

Mr. BUSBY. That is from the good-will point of view.

Mr. FLEMING. It is the common-sense and good-judgment point of view, also.

Mr. BUSBY. Tell me this: Why do you figure that they need you?

Mr. FLEMING. I have not said that.

Mr. BUSBY. Why did you suggest that in your letter here?

Mr. FLEMING. Because I have a feeling that if group banking continues, the banks in this fringe of small towns around Washington will be absorbed by some group.

Mr. BUSBY. That will be no different from other like situations in other metropolitan centers?

Mr. FLEMING. We have a different condition in Washington than you have in other cities. If we were not restricted by the 10-mile square, a great many of the city limits would be extended and take in these towns, and there is no question they would be a part of the city of Washington; but, as you gentlemen know, the city limits can not be extended.

Mr. BUSBY. I believe you said a while ago that you thought it was not far distant when the chain stores and chain banks—in fact, chain industry of every kind—would be the order of the day.

Mr. FLEMING. No; I do not believe I said that. I did not mean to convey that idea. There is a growing tendency toward that.

Mr. BUSBY. What is your opinion in regard to its coming about?

Mr. FLEMING. Well, it seems to me to be steadily growing. It used to be only the grocery stores, but it has spread so that it covers a great many other lines of business.

Mr. BUSBY. There are about 22 States that do not permit branch banking at all and 14 or 15 others like Mississippi, which permit it, but you would never know they permitted it from the fact that there

are only operating one or two little institutions that were started up prior to the time of the law prohibiting further extension, making in round numbers, about 40 States that do not permit branch banking and yet the statement from every one of you gentlemen coming in here, heading large banking institutions, is that we are right at the point where branch banking is imperative. Where did you get that idea when the States are not——

Mr. FLEMING. I guess I am not familiar with the situation in your State.

Mr. BUSBY. I am talking about your general knowledge of the banking conditions over the country.

Mr. FLEMING. To begin with, a large institution with strong resources can extend the benefit, through a branch to a community center that a small independent bank can not give. There are all sorts of service that can be performed. The public gets better service through a branch than through a small independent bank.

Mr. BUSBY. If the independent operator in a mercantile establishment or a banking institution or any other kind of institution is not protected by law from these larger units, they can force themselves into a community and force the small entity out of business because it can not compete with the different types of service that can be extended by the larger institution and the different kinds of pressure that can be brought to bear. That is the actual situation in regard to that.

Mr. FLEMING. Well, if a branch of a large institution does not give service, the public will not deal with it.

Mr. BUSBY. That is not it. When you put two or three million dollars or $57,000,000 in the hands of an organization, they can go out and in one way or another circumvent or put out of business an organization prospering and serving the situation well and handling the situation admirably for the people there if it has but a million or two of assets.

Mr. FLEMING. That is not my observation of a bank. If a bank pursues that kind of policy it will not be successful in that situation.

Mr. BUSBY. Have you ever talked with anyone where the Bank of Italy, for instance, determined to establish a branch at its own figures?

Mr. FLEMING. I have no knowledge as to the various prices that the Bank of Italy or any bank paid for any bank it took over, but I assume it must have paid a price that was satisfactory to the stockholders or they would not have sold their stock.

Mr. BUSBY. The policy of securing banks by that type of practice ought to be noted in the record. I have it on reliable authority that on one occasion the Bank of Italy representative went to a certain bank in California and offered to buy their stock. They said, "We do not want to sell, but want to remain a unit bank." The representative of the Bank of Italy said, "I will be back next year and I will buy your bank and will not pay you near as much as I offered to-day. I will make conditions so you will sell to me."

I find that is not a foreign spirit to large institutions whenever they determine to enter a territory and take over an established banking business. That is what I object to about this method of growing, by the larger banking organizations.

Mr. FLEMING. Of course a bank is a semipublic institution. They are there to serve the public and, after all is said and done, the public

will demand the best service. Whatever type gives the best service will survive.

Mr. BUSBY. I do not agree with you if you have the money available to bring the other elements into play.

Mr. FLEMING. If a bank pursues that policy it will not long have the money to survive.

Mr. SEIBERLING. I think this record leaves the witness in an entirely wrong attitude. As I understood you to say, you wanted the right to extend the branch banks into these communities because you did not want to be forced into taking over those banks by a group or chain—that if you did not take them over some one else would, and you would be deprived of a banking territory that primarily belongs to Washington.

Mr. FLEMING. It is my opinion if Washington was not so peculiarly situated with respect to its city limits, a lot of these outlying territories would be within the city limits now and rather than have a group come in from an outside source and pick up the banks and take the money away from Washington, it would be far better for us to have enlarged branch banking privilege and enable us to establish branch banks there.

Mr. SEIBERLING. You think Washington has a primary right to the banking business around this fringe around the District of Columbia?

Mr. FLEMING. Yes, sir.

Mr. BUSBY. You say, "Take the money away from Washington." We have been taught to believe, by the group and branch bankers that they put more money into the community than they took away. You do not believe that is the natural result should they tie into the outlying territory with their branches?

Mr. FLEMING. I doubt very much if the demand for loans in that territory takes up all the loanable funds for those banks; consequently, the surplus funds unloaned would naturally go into the parent bank, wherever that parent bank might be situated.

Mr. BUSBY. You do not consider that you have any inherent right to the banking advantages that exist out in Virginia or Maryland and the towns mentioned by you, do you?

Mr. FLEMING. No; I do not think there is any inherent right to anything in banking.

Mr. BUSBY. That overthrows your argument in answer to Mr. Seiberling's question.

Mr. FLEMING. I do not think so, sir. I am simply pointing out that this section, if it was in a city like Los Angeles or Atlanta, would be within the city limits and therefore would be a part and parcel of the city of Washington.

Mr. BUSBY. I must take issue with you there. I do not see how you can get Gaithersburg and Leesburg and a lot of these places 20 miles away. It looks like begging the question.

Mr. FLEMING. I said a possible enlargement of the trade area might go that far and I pointed out that there might be possibly an overlapping in some places with Baltimore and Richmond.

Mr. BUSBY. That is all.

The CHAIRMAN. We will adjourn until 10.30 o'clock to-morrow morning, when we will hear Mr. Henry M. Dawes.

(Whereupon, at 4.15 o'clock, p. m., the committee adjourned to meet at 10.30 o'clock, a. m., Wednesday, May 28, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, MAY 28, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10.45 o'clock, a. m., in the committee room, Capitol, Hon. Louis T. McFadden (chairman), presiding.

The CHAIRMAN. The committee will come to order. I desire to call to the attention of the committee the fact that the chairman invited Mr. George W. Davison, president of the Central Hanover Bank & Trust Co., of 70 Broadway, New York, under date of May 8, to appear before this committee. Under date of May 9, Mr. Davison replied as follows:

> I have your very courteous telegram of the 8th instant inviting me to appear before you committee on branch, chain, and group banking. I have said already all that I have to say on that subject and it would irk me considerably to have to repeat it. I am inclosing you a copy of what I had to say in the event that you have not seen it. I hope under these circumstances you will be willing to excuse me from attending on the committee.

Under date of May 12 a reply was made to that communication in which it was further urged that he appear before the committee and the dates of May 20, 22, 27, and 29 were suggested. Up to this time no reply has been made to that further communication.

I want to suggest to the committee that Mr. Davison is one of the important bankers in the United States who has given utterance to definite views in regard to the subject that is under consideration before this committee. His testimony is valuable to this committee, and because of the fact that the committee has made the rule not to insert statements by anyone unless they appear themselves for questioning before the committee I deem it of sufficient importance that we have the testimony of Mr. Davison, and I call the matter to the attention of the committee with the request that the chairman be authorized to subpœna Mr. Davison to appear before this committee. I will not bring it up at this time for action, but I present it merely as a matter of information.

Mr. BRAND. Where does he reside?

The CHAIRMAN. New York City.

Mr. BRAND. He should be able to get here very conveniently.

The CHAIRMAN. We are fortunate in having before us this morning Mr. Henry M. Dawes, of Chicago, a private business man, representing the depositor's view, and from his experience as a banker in Chicago and later as Comptroller of the Currency, who has frequently appeared before this committee in connection with matters pertaining to banking in the United States, we will be very much interested in hearing his statement this morning on the subject of branch, chain, and group banking.

STATEMENT OF HENRY M. DAWES, OF CHICAGO, ILL.

Mr. DAWES. Mr. Chairman and gentlemen of the committee, I feel rather apologetic about the length of my statement.

A casual scrutiny of the testimony which has been given before this committee gives one the impression that centralized banking is being advocated solely because of an altruistic desire to serve that portion of our citizenship which makes up the population of our small towns and villages. Strange as it may seem, the pressure for this service does not seem to come from the people who are to be served, but from certain ministers of grace who are competing violently for the opportunity to exercise their benevolence. The question of self-interest or adequate return is touched upon very lightly, but in my opinion may be safely assumed.

It is necessary in considering arguments submitted to this committee to bear in mind the possibility of unavoidable prejudice, and your hearings will not be complete with the testimony of bankers, as theirs will always be, to a certain extent, ex parte statements. There is more involved in the issue than the technique which is the province of the banker. The requirements of industry, commerce, and society are a concern of government and banking is important only as it serves them.

There are two sources of advice and information whose frank expression would be very valuable to anyone making a study of this question. They are the managers of the very large city unit banks and the investment bankers. It would be extremely difficult to get such an expression from either. In the case of the very large institution, which has no ambitions along syndicate lines, the banker would be asked to comment upon the operations of his largest depositors. No matter how bitterly he may feel he will hesitate to say anything which might result in the withdrawal of deposits. The investment banker is in an even more difficult position. He must realize that this movement spells the doom of his business. With the absorption of unit banks by centralized groups, he will obviously lose them as outlets. With the building up of these outlets these centralized groups will, of course, go into the origination of securities, so that the investment banker, by their operation, is deprived at once of his source of supply and his outlet. In the meantime, however, these groups are very fine customers and he has to face the dilemma of losing a good present customer or submitting, without protest, to the development of a movement which will result in his extinction. Without in any way implying that deliberate and improper pressure will be brought on anybody, the embarrassments of these two groups of the large independent banker and the investment banker suggest that similar inhibitions will be put upon a large proportion of those to whom you will turn for information and opinion.

The duties of bankers are those of trustees of other people's funds and a recognition of this has always characterized them in the past. They have recognized that this imposes upon them certain limitations which do not apply with equal force to other activities. When bankers begin to apply some of the methods of other commercial enterprises and some of their systems of finance, they are straying away from the straight and narrow path that they have followed in the past.

Responsibility is essential to trusteeship, and responsibility can not be discharged by the trustee who does not have freedom of control. The manner under which this control is acquired and the place where this control rests will modify the whole course of a banker's operations. Before going into a discussion of the principles of centralization it would be appropriate to discuss the new banking from the standpoint of responsibility and control.

There are three manifestations of centralization in the United States. Up to a few years ago the chain was the most widespread; then in certain States branch banking developed, and recently the organization of holding companies has combined the two principles and extended them.

The term chain banking is usually applied to banks in which there is an interlocking ownership, although frequently this ownership constitutes a minority interest, but always a practical control, due to the personality of the head of the chain. The argument for this type of operation is that it increases cooperation, imposes management, and secures diversification. Many sound chains have been established, and are in operation, I believe, however, that the general trend of banking thought is distinctly unfavorable to them.

When banks are associated for the purpose of the exchange of securities it is not usually the prime securities which are under consideration, and while it must be conceded that a certain diversification of collateral is brought about no very important good is accomplished as good collateral can always be used by correspondents or discounted at the Federal reserve banks. The practical result, therefore, as a rule, is the rapid circulation of bad notes throughout the system.

The dominant personaltity in the chain usually sees that those member banks in which he owns the least stock are the ones which get the worst collateral.

The collapse, about two years ago, of what was, so far as the number of its members was concerned, probably the largest chain that has ever developed in this country, developed a situation which would be amusing if it were not tragic. Certain members of this organization paid to the managing control a large sum of money for instruction in those practical aspects of banking in which the small banker is generally considered to be inexpert. They acquired both knowledge and experience, and in some cases enough bad securities to bankrupt the banks.

The device of transferring assets of local origination to different sections by this method results in an exceedingly difficult task for the supervising authorities. When small loans on real estate are switched from Florida to New York, the New York bank examiner has an almost impossible task in ascertaining their value. The responsibility and the control in chains is often hard to locate, and when located is, as a rule, more distinguished for its control that it is for any financial responsibility.

Branch banking is concentration carried to the nth degree. It may be said for it that the location of responsibility and control is much more definitely ascertainable than is the case with either of the other forms of syndicate operation. Branch banking in this country has not yet passed State lines. If it does an interesting problem will develop as between State and National control. Any system of branch

banking offers great difficulties in the matter of examination, either private or governmental. The possibility of switching assets from branch to branch can only be definitely prevented by having an examiner in each branch at the time of examination. I do not know of a case where this has been done up to the present time, but branch banking is in its infancy. It would be utterly impracticable to have examiners in every branch of an institution that, for example, had 1,000 branches. If absentee banking is to be approved, and if centralization is desired, much is to be said for the advantages of this form as compared with the others that involve the same principle.

The recent development of holding company control of unit banking operations is probably the tendency that has precipitated the present unrest. To recall the manner in which these holding companies are formed in many cases is alone sufficient to emphasize the possibility for abuse under irresponsible management. The usual procedure is to issue stock of the holding company in exchange for stock of the unit. Sometimes a majority of the stock is secured in this way, and sometimes a minority, but it must either be assumed that the stock is acquired for the purpose of speculation or for the purpose of practical control. The substitution of the holding company's assets for the financial responsibility of the previous stockholders of course results. This financial responsibility, which must be depended upon in case of trouble and which must pay the double liability on the stock of any unit which fails is nothing more nor less than the stock of other banks.

Since all of the constituent banks, both a bank in trouble and the others whose stocks represent the assets of the holding company, are under the same management and are presumably operating in much the same territory, they will, as a general thing, prosper or suffer at the same time. When an emergency call is made by a subsidiary it will be at a time when the other subsidiaries are in the poorest position to support it and when the stock of the banks not directly involved is the least valuable as an asset. It is rather interesting to hear the advocates of this system of banking contend vigorously that they will always be in position to support a weak unit, particularly to one who is conscious of the relationship between fundamental conditions in a district and the condition of the banks. The epidemic which occurred a few years ago in the small banks of the Northwest and which occurred more recently in Florida was not due to bad banking. It was due to bad crops, low prices, hurricanes, and conditions beyond human control. The banking was not bad. It was simply not good enough to combat the laws of nature.

The prices at which these stocks in unit banks are purchased by exchange for stock of the holding company to a very considerable extent must determine the responsibility and the ability of the holding company to support its units. It is very rarely that the stock of a good and well organized bank sells at as low a price as its book value. Anything above book value is, in its last analysis, of course, an estimate of future earning capacity except possibly some speculative value in trading. It is very rarely that bank stocks are acquired by holding companies on their asset or book-value basis. They are absorbed rather on the basis of what it is hoped that they will be able to earn in the future, the extent to which they will strengthen the general organization, and the fear that some competitor may absorb them.

This has resulted in a tremendous speculation in bank stocks, and this advance and speculation has produced a dilution in the real asset values of the holding companies. It introduces definitely the promotional theory and stimulates speculation. It is altogether a sad departure from the stability and the dignity which has always been a tradition of the banking profession, and it is thoroughly inconsistent with the trustee relationship. To cite instances of the organizations which are sound and well officered and constructive in their operation that have been organized by this system of trading for stocks in holding companies by no means justifies a procedure which is certain to result in bad practices on a large scale.

Up to last fall anything could be consolidated through the holding-company route, if not directly, and almost any profit, evidenced by stock in the holding company, could be realized by the promoter. In the feverish search to find earnings to capitalize the fruitful field of bank stocks was exploited with other stock. It was not legislation but economic law which closed this cycle.

The successful operation of a number of large, well organized companies of this kind is freely conceded, although whether the individual good banks which compose them have been bettered is debatable, but if this principle of indefinite centralization and consolidation by trading stocks is carried to its logical and obvious conclusion, the outcome will be that the banking system of the United States will be in the control of a few organizations which have contributed little if anything in the way of capital and which owe their origin to the dexterity and skill of their officers as traders. Undoubtedly a great many bankers located in our large interior cities have visions of developing holding companies which control the banking situations in their sections, and the ambition eventually to become overlords of feudal principalities, coextensive with the Federal reserve districts. They can draw a most alluring picture and appeal most strongly to provincial and sectional prejudice. Personally, I have never been able to locate Wall Street very definitely, except in a geographical sense, but whatever Wall Street may be they expect in this way to become emancipated from it. If it is feasible to concentrate the banking of a Federal reserve district in one control in 12 districts, does it require any very great stretch of the imagination to conceive of a combination of these 12 districts and a new and real Wall Street? Call it by any name you will, the concentrated control of banking in a few hands is involved, and in spite of the size and resources of our country the number of hands will be very few.

There is an economic argument and a social excuse for industrial and commercial consolidations, which, on account of the quantity theory of production, can better supply the needs of the public, but credit is not a commodity. No legitimate parallel can be drawn between the large industrial unit, covering a great territory, and the large banking unit with distant ramifications. Your industrialist is dealing with a commodity which he has bought and paid for; the banker is dealing with other people's money.

In those cases where the problem of the small, unsound bank can not be solved, and their elimination has been brought about, the central organization claims a great public service in offering to set up branches. The extent to which it is feasible to establish branches where units can not be profitably operated is debatable, but the

communities which will support a branch and not a unit are in a small minority, and in a very large proportion of those cases there is no great public convenience and no public need taken care of. The farmer who, in the old days, had a practical radius of perhaps 12 miles with his horse and buggy, to-day with his automobile can cover 100 miles. If he is deprived of a crossroads banks he can go to the county seat. Conditions which, 30 years ago, justified the establishment of a branch in rural districts, have changed entirely to-day, and the district which can be reached from a county seat bank with convenience to its customers is, in most Eastern States at least, practically the limits of the county.

There is at the present time much discussion of the principle of the chain store, but the parallel between the chain store and branch bank is in one respect only applicable. This is in the matter of the substitution of employee for owner operation. Chain stores may or may not be an evidence of progress, but the fact that they are dealing with commodities and not with credit makes a comparison pointless. If a chain store is able to deliver its wares to its customers more satisfactorily than the local merchant, it is because of an advantage over their small competitor which the group banker does not have over the small banker. If the chain store can sell more cheaply than its competitor, it is because it can buy more cheaply because it buys in large quantities. Paying less for its raw material it is in position to sell its product at a lower price. This is the only advantage it has over the local merchant because its other operating expenses are as great or greater. The product with which a banker deals is money.

The price that he pays for money is interest, plus losses on bay loans. As far as the depositor is concerned, the small banker usualld pays less interest on deposits than does the big banker. The general price of money, however, is reflected by the Federal reserve rate and Federal reserve funds are available at the same rates and on the same terms for big and little bankers. The big banker, therefore, does not get his stock in trade any cheaper than the little banker. The remaining factor in the cost of this raw material—money— is the extent of losses in bad loans. Bad loans are due to either incompetence on the part of the banker or a disposition on his part to render service to his clients and to his community even though it involves a certain recognized risk.

Let us analyze this question of incompetence. The complacent arrogance of size and wealth asserts that the big operator, whether in banking or any other commercial pursuit, is a better man than the little operator, allowing for no fortuitous circumstances by which the big man may have achieved his greatness. Assuming then that the big banker is a better man than the little banker, he is handicapped in his operation becase he knows less about his credit risk than does the little banker, especially if the big banker is a chain banker and the little banker is a unit banker. The unit banker, particularly in the smaller communities, is the personal acquaintance and friend of the man who makes the loan. He is familiar not only with the details of his business, but he knows his character, experience, and ability. He has every advantage over the man who must form his conclusion as the result of the recommendations of a minor employee in a distant city. The owner of a bank will make less bad loans than an employee

whose superior may be a thousand miles away. If, however, banks are to be conducted as pawn shops, where standard collateral is the only basis for loans, it makes no difference whether loans are made by financiers or clerks. Anyone can apply the simple formulas.

If banking is not considered as a social responsibility, there is no excuse for any bad loans. This is not the case, and certain risk must be taken in the interests of progress and in response to the public interest. Remembering that the banker is a trustee for the community's funds, he has no more right to withhold them unreasonably than he has to disburse them carelessly. As a member and a product of the community in which he operates, the unit banker is in a position to appraise the public needs and to administer them more sympathetically and more intelligently than the absentee banker. In doing so it is not impossible that he may, at times, incur losses which the absentee banker would not, but these losses which are made in the exercise of public responsibility will not, in the main, offset the saving he effects over the operations of the chain institution because of the intimate personal acquaintance with the creditor. In considering such losses of the unit banker as may be the result of too great liberality to local enterprise, it must be remembered that the money which is lost to the bank is not lost to the community, that the brick and mortar upon which these funds may have been expended are still in the community, whereas if the funds are loaned by absentees to absentees the loss registered on the balance sheet is a loss to the community. The big bank and the little bank, therefore, start with the same base in the cost of raw material. Their additions to this in the way of losses are not widely different, and the only advantage, therefore, of one over the other must be economy in mechanical operation.

Economy in mechanical operations is a thing which can reasonably be assumed for both the branch and unit system. Such advantages as there are, however, in my opinion, rest entirely with the unit system. The overhead of a central organization and the red tape which is involved in its operation, the delays in decision, the division of responsibility, and so forth, ad infinitum, are inherent in size, and are a deadweight which the injection of specialists does not offset.

The availability of money is as important as the price thereof. It is conceivable that in the city of the central bank, on account of drawing funds from the smaller communities, more money would be available, but it hardly is in accordance with nature for the central office communities to pump its funds out to the smaller branches. The inevitable results of centralization will be to restrict the activities of smaller centers, and to accelerate the concentration of population in the larger cities.

Under the unit system of recent years, the percentage of loss to depositors in large banks has been so small that it is practically negligible. The extent to which failures have been confined to smaller institutions is demonstrated by the fact that in the eight years ended December, 1928, 63 per cent of the total number of failures was confined to banks with a capital of $25,000 or less and that 88 per cent of the total was in banks of less than $100,000. Further, as showing the extent to which the trouble was confined to small municipalities, 40 per cent of the total failures occurred in towns of 500 population or less (and it is a very unusual situation where a bank is justified in a town of less than 500), 60 per cent in towns of 1,000 or less, and 80

per cent in towns of 2,500 or less. The problem of safety is therefore largely a small-bank problem. The group banker suggests that he will solve this by extending his branches or chains to the communities in which these little banks are located. How does he intend to do this? Does he intend to buy up the good banks of the community and incorporate them in his chain? If so, he hasn't improved the situation. Does he intend to buy the bad banks? I have not heard of them suggesting this. Does he intend to compete with the good banks? This would not be desirable, as it would substitute absentee control with no compensating advantages. His answer would hardly be that he would want to compete with the poor banks, as obviously that would quickly cause their failure and injure the community. It seems to me that the only claim must be, and it may be a fair and reasonable one, that his objective is to eventually supply branch or chain banks to every community that needs banking facilities, and to the complete exclusion of the unit bank. If he can operate as economically and serve the community as well as the unit bank he will soon eliminate the unit banks.

Unit banks can not survive the competition of chain or branch banks. They serve the community better, but it is at a serious disadvantage in two respects. In the one case certain clients who are very profitable to a bank are compelled to patronize the chain or branch institution in all matters because they can serve them in some. The management of a concern which operates in a number of different cities is very often associated in business enterprises with the men who are conducting central institutions, and will, as a matter of course, patronize their branches at the expense of the unit banks. When he is not associated with them either socially or in a business way he frequently has to meet them in connection with the issuance of securities. When he does this he incurs, either directly or indirectly, an obligation to patronize their branches. Whether he wants to or not, he is in a position where he feels that his interests require him to throw his business to the big chain rather than to his friend and neighbor. This class of patron usually constitutes a large portion of the cream that is now coming to the unit bank. Furthermore, entirely outside of the banking relations, the operators of small commercial and business enterprises are very much handicapped in meeting their larger competitors if those competitors have the ear and the approach to the avenues of credit that can only be reached in central cities after the unit system has been discarded. This situation can not be ignored by the assertion that the chain bank can offer facilities that the unit bank can not, because there has never been a time in the history of this country that, through the operation of the correspondent system and the use of various methods of syndicating loans in financing, it has not been possible for the small banker to accommodate his clents who are entitled to credit. The difference is that in the one case the client is dealing with a friend and a neighbor, and in the other he is dealing with a stranger in a distant city, and as every unit bank becomes attached to a chain the opportunity for syndicating cooperative arrangements between others is narrowed. It can not, I think, be contended with justice, that when the country is eventually under the centralized system these banking arrangements can be made with more celerity, if at all. There are few business men who are not familiar with the red tape which is essential to safety in the operation of a very large organization.

Whatever the fundamental reasons, the fact remains, nevertheless, that few localities can be shown where unit and chain banks or branches have existed for a very long period in competition, and it is the centralized group that is the survivor; but it is not, in my opinion, a case of the survival of the fittest, unless the social aspects are disregarded. The issue is one of survival, and it is hopeless to attempt to compromise.

In spite of general claims to the contrary, these new syndicates have done little, if anything, to solve the difficulties of the unsound small bank, whose failure is being enlarged upon as an argument for the inauguration of a new economic era. They can not solve this question, and it never will be met except by the inexorable operation of natural laws. Just as truly as there is a point at which too great size destroys efficiency, there is a point below which the unit can not survive. There are hundreds of banks of less than $100,000 capital that are sound and strong and have every element of vitality inherent in them, but the measure of such banks' ability to survive is not the size of their capital but the extent of the resources which the community can put into them. Generally speaking, however, the banks with very small capital may be assumed to have very small deposits, and the overhead cost of such an operation is such as to prevent their thriving, and the principal reason for their failure is the fact that they can not afford the expense involved in securing the service of competent officers. To expect to secure a very high class of talent for a salary of $2,500 to $3,000 a year, which is all that a very small bank can pay, is unreasonable.

The responsibility for this rests primarily with Congress and the State legislatures in permitting the chartering of too small institutions, and secondarily with the authorities, both State and national, to the extent that they should have exercised discretion in refusing charters where communities did not require them. The discontinuance of the issuance of further charters below a reasonable limit would be constructive. The only thing that can be done for the unsound banks which are now in existence is for the supervising authorities, State and national, to help them to bring about liquidation in a way that will occasion the least loss and to supervise the sound banks as carefully as possible and stop chartering too small institutions for which there is no need. The injection of the branch and the chain system will only exaggerate a bad condition.

The Federal reserve has been in successful operation for a matter of some twelve years and it is natural to fall into the habit of thinking of it as though it were an independent unit rather than as it actually is, a coordinating agent. It is merely the composite of the members of the system and automatically changes with any change of its constituents. To recall this obvious fact centers attention on the effect of changes which private banking innovations will have on the Federal reserve system. The operations of State and national banks and the Treasury Department and the Federal reserve are inextricably interwoven and it is impossible to legislate in any matter affecting one independently of the other. The Federal reserve was organized because of the ability of the Federal Government to enforce the more or less unwilling and certainly unenthusiastic cooperation of the national banks. This was later followed by the timid and tentative approach of the State banks, so that its membership at

the present time is partly compulsory and partly voluntary. It is the final evolution of a century of finance and the solution of the conflict of the years between the centralization theory and the independent unit theory. In a sentence, it consists in the application of coordination to independent units.

With the development of chain, branch, and syndicate banks the membership is being changed from that of independent, locally operated units to centralized groups under absentee control. Every group which is organized along these lines decreases the number of persons who, in its last analysis, would control the operations of the system. In the case of holding companies, the holding companies themselves are under the jurisdiction of State officials. The State banks are under the supervision of 48 different superintendents, and the national banks are the only private institutions engaged in banking over which the Government has direct control.

This brief statement of fact makes clear that with the decline of the national banks, the direct influence of the Government on banking operations is decreased, and the further fact that with the organization of groups, the democracy which has characterized the operation of the Federal reserve system is being undermined. It seems to me desirable, therefore, that the Government should do every possible thing that it can, in justice to the State banks and the Federal reserve, to strengthen and develop the national banks, through which it financed the Civil War and organized the Federal reserve system. The other matter of the centralization of the control of independent units involves a control of the Federal reserve system. When in the logical development of this tendency, the control of banking in the United States gets into a very few hands, control of the Federal reserve system will go with it into the same hands. In discussing chain, group, and syndicate banking you are, therefore, discussing the whole fiscal system of the country, both private and governmental.

It seems to me that there is no room for compromise on this subject and that a determination should be reached as to whether the United States wishes to embrace a national system of branch banks or to preserve its coordinated independent units. It can not do both.

When the greatest exponent of branch banking, both in practice and in theory, states that in his opinion the development of chain and syndicate banking is a step toward national and international branch banking, it bears the weight of logic, as well as of his prestige. Rather than to temporize and to attempt to compromise a fundamental issue, the interests of the public would in my opinion be better served by determination as to whether or not branch banking is desirable. Compromise and permissive legislation would have the effect of strengthening the movement to such an extent that when, at some later time, the public rebelled against monopolistic tendencies, it would bring about a convulsion which would hurt everyone.

The CHAIRMAN. Mr. Dawes, it is the custom that the members of the committee interrogate the witness. I suppose you are prepared to back up your statements and to answer questions.

Mr. DAWES. I may not be prepared, but I shall try.

The CHAIRMAN. Mr. Dawes, would you recommend that the law be changed as regards the capital of national banks, so as to make a minimum of $100,000?

Mr. DAWES. Yes; I would. But I hesitate to name an exact minimum. If the comptroller were left with pretty wide discretion as to the chartering—which is a job I think he would not particularly crave—it might be safe to make a smaller amount, but my offhand opinion is that $100,000 would be about the right amount.

The CHAIRMAN. I rather gained the impression that if you favored branch banking at all, it would be county-seat branch banking?

Mr. DAWES. I do not favor branch banking at all. My idea is with the elimination of the small and uneconomic bank that the county seat bank—the large bank in the community—would be strengthened to such an extent that it would carry on all the banking that is necessary to meet the economic requirements of the community

The CHAIRMAN. What bearing on this development has the Federal reserve had—the starting and putting into operation of the Federal reserve system? In other words, prior to its establishment, we had the unit system in the United States. The organization of the Federal reserve system joined together the national banks in a compulsory manner and permitted the State banks to join voluntarily. After all, it is a form of branch banking. Do you think that the development which has subsequently taken place in the operation of the Federal reserve system has been a factor in this driving out of the unit system?

Mr. DAWES. I do not think it is a form of branch banking. I draw a wide distinction between coordination and control and ownership. The Federal reserve system, in my opinion, is simply a coordinating agent for the banks. The Federal reserve has no control of the operation of the banks.

The CHAIRMAN. It has a very dominant influence in the operation of every bank that is a member of the Federal reserve system.

Mr. DAWES. My own personal feeling is it is not so dominant as a great many people seem to think. I think it simply offers facilities which the banks can use. But further than acting in an advisory capacity, I do not think it dominates the operation of the banks.

The CHAIRMAN. Through the classification of eligible paper and the administration of policies laid down, do you not think they have a very dominant influence over the operation of independent banks?

Mr. DAWES. Well, it depends on the way you use that word "dominating." I think it is very powerful, but I think their duties in operation are merely one of coordination and of giving the banks an opportunity to cooperate. It is almost in the nature of a clearing house.

The CHAIRMAN. Do you think that the methods of operation of the office of the Comptroller of Currency have been a factor in this situation?

Mr. DAWES. Well, I think it would have been an impossible situation without the efforts of some one to supervise the banks. I think he can do a great deal. However, I think the powers of the comptroller, if anything, should be extended. They should be made a little more direct, perhaps.

But I do not think that the Comptroller, or any other official, would be able to exercise power of saying to whom or what corporations or individuals they should lend money, which, of course, occurs in branch banking.

The CHAIRMAN. I have a letter here from a small country banker down in Georgia, received this morning, which is very pertinent to this study. Of course I recognize the fact that the committee has forbidden the introduction of letters of this nature into these hearings unless the witness is present to be questioned.

This man makes a very complete statement, however. He does not leave very many questions to be answered from this statement. Among other things, he says in here that unit banking must be protected.

"Yet this constant parade of big group, chain and branch bankers before the Committee on Banking and Currency, who proclaim that the unit system has broken down, might conceivably cause it to break down. Is it not time that this murderous procession stop?"

There is one suggestion that comes from this independent banker who feels that a great injury is being done to unit banks of the United States by the presentation of arguments on the question of group, branch and chain banking before this committee.

Of course, in that connection, we are beginning now to hear some of the unit bankers and those who are opposed to branch, chain and group banking.

Mr. BUSBY. Did we not finally leave that rule so that we would pass on the individual matters when they presented themselves for our consideration, such, for instance, as you hold in your hand?

The CHAIRMAN. I am presenting it to the committee because this letter contains many facts relating to this subject that ought to be made a part of the hearing. I am reluctant to put it in because of the previous action of the committee.

Mr. BUSBY. I did not understand it absolutely to bar that type of information where the committee might determine that it was proper to be included in the hearing.

The CHAIRMAN. I should like to read this letter to the committee. After it has been read, the committee can decide whether or not it should go into the record. Without objection, I am going to read it. It is from the Citizens Bank & Trust Co. of Bainbridge, Ga., and is addressed to the chairman of the committee.

(The chairman read the letter referred to.)

Mr. SEIBERLING. I do not see, Mr. Chairman, why we should make an exception of this man's letter and put it in the record. If we do that, there are other men who can make just as strong an argument for group, chain or branch banking.

The CHAIRMAN. Very well, we will not insert it in the record.

Mr. LUCE. Mr. Dawes, various persons who are communicating with us in this matter appear to lay a shaky foundation for their arguments. A communication that I hold in my hand says:

> It is true that occasionally a small bank fails, but there are things that are far worse. Perchance, if it were not for our unit banks, the people who occasionally lose a few dollars in our small country banks, would not have had them to lose in the first place.

These hearings began with a statement by the present Comptroller of the Currency, in which he laid the foundation for his argument by informing us that in the last nine years, between five and six thousand banks had failed, involving a total that I will put in the record as soon as I can lay my hands on the figures.

Now, he represented to us—and I think it means on its face that the figures do not correspond with statements to the effect "that occasionally a small bank fails" and the further reference in this letter to "a few dollars"—it would seem evident that between five and six thousand bank failures constitute a sizeable situation and not deserving of treatment after this fashion.

Now I take it, sir, that these five or six thousand banks that failed were established in the expectation that they would prove of service to the community where they were placed, and that the bankers would get a legitimate profit out of rendering that service. It follows, therefore, that between five and six thousand communities in the United States—assuming that there was but one bank in a place; and of course I do not know how often another bank was left—but let us suppose that five or six thousand places in the United States have lost the convenience of a local bank in the last five or six years: What I have not observed in your statement is how you would suggest meeting the needs that these banks were meant to serve.

Your tangible proposal is that we lift the minimum capitalization of national banks, the effect of which would be to deprive still other communities of the convenience of banking facilities. Is it your judgment that we might sit by and ignore or suppress or destroy the facilities in the smaller communities of the country?

The CHAIRMAN. Before you answer that, Mr. Dawes, may I supplement what you said, Mr. Luce, by some additional facts?

Mr. LUCE. If you will, please.

The CHAIRMAN. During the first four months of 1929, there were 194 failures. Up to the present time in 1930 there have been 389 failures—42 national banks and 347 State banks.

In 1929, for the 4-month period, there were 26 national banks and 168 State banks.

Mr. LUCE. These figures add to what I have said showing the steady lessening of banking conveniences for the fellows in the smaller communities throughout our land. How would you suggest meeting that need, if it be a need?

Mr. DAWES. In the first place, in connection with the bank failures, I think they afford an economic index of conditions in the various districts. I think the failures in the northwestern section, which were confined largely to the smaller banks, were not due to bad banking, but due to conditions that did not exist in New York and Massachusetts. So, I do not attribute that condition to the conduct of the banks.

When you speak of five or six thousand communities being deprived of banking service because five or six thousand banks have failed, I think you are in error. You will find, in quite a large proportion of the communities, the failures were due to too many banks being established in any one community. Perhaps they should not have had over one bank, and if one bank is left they are not deprived of adequate banking facilities where, as a matter of fact, they are left with a better situation.

I am not attempting to offer a solution for the question, but I would make the general observation that it would be better to have a few scattered unit banks go, than to have a whole chain fail. Size does not necessarily mean safety.

While I think the banking system has been faulty in certain respect, nevertheless I would rather continue to see a few banks fail than see the economic independence of five or six thousand communities entirely destroyed, as would be the case with the establishment of these large chains.

The chief answer I would make to your question is that it seems to me that the clamor for this complete change in banking which is taking place now does not originate in the communities which are supposed to be the sufferers. It is rather on the part of those who are anxious to extend a practice in order that they might make money out of it. It is a perfectly laudable and proper thing to do if it is hedged around with reasonable safeguards and that protection which should be given to the public which is served by trustees.

Principles that may be properly applicable to industrial enterprises, in my opinion, should not be applied to banking.

I would say that 90 per cent of the population of small towns who have bank accounts own or have access to automobiles. These banks, or the greater bulk of them, were founded when people did not have automobiles, but when they used horses and buggies to get to the small towns. The farmer does not have to go to the bank every day. I think he would be willing to go 50 or 60 miles to the county seat bank, thereby eliminating the need for the cross-roads bank. Ample facilities can be afforded in unit banks in county seats. At any rate, I should rather wait until there is a great demand on the part of the public to be served before I changed our general banking system.

It is an exceedingly difficult thing for your committee to get testimony on this subject. The average man—and even the average business man—does not know much about banking, and yet the average man is, after all, the one who puts the funds in the banks on which they operate, and it is to the banks that he must go for support at times of stress when he needs money. However, he does not know anything about how they are carried on, and almost all the discussion I have read about the subject has been on the part of bankers.

It would be natural to ask the so-called Wall Street banker what he thinks about chains. He may privately tell you he does not like them, but he does not like to say anything publicly, because he is accepting the deposits of these same chains. Ask the stockholder in the small bank what he thinks about syndicate banking. He dislikes it but if he thinks he sees a chance to sell his stock in his bank to them, at inflated prices, naturally he feels reluctant to incur their ill will.

Take your bond man: The independent bond houses all over the United States have been going out of business because of the absorption of the outlets by the chains. He does not want to say anything because he is likely to lose an existing customer, if he opposes a potential destructive competitor.

Take the ordinary business man, and he hesitates to criticize any system of banking because he has to go to the banks to get credit.

I sympathize with the committee a great deal in their endeavors to get impartial testimony. It is a very difficult thing.

Mr. LUCE. Now, let us center our attention upon the question of the convenience of the customer. You said it was difficult to get

testimony from the customer. That may warrant me in testifying as a customer. I shall relate one or two experiences I have had as a customer, and ask your judgment.

Four years ago I had occasion to pass some time with a relative in a town in California 15 or 20 miles out of San Francisco and I had occasion to cash a draft. I went to the center of the village and found an attractive, commodious banking office where I quickly completed my business. It was not a branch of the Bank of Italy, but of a San Francisco bank. It is true that I could have traveled some miles to a larger community, but it was a convenience to me, as it was a convenience to all the people of that town, to have at hand a teller's window—I presume it was not much more—and had it not been for the fact that that office furnished the convenience and therefore made a profit, benefiting both sides of the bargain—and every business transaction that is economically sound benefits both parties—that would not have been kept open. That is an illustration of the benefit received by the customer in a small town in California. Now, let me testify as to the benefit to the customer in a small town in Maine, where I pass as much of the year as Congress will permit. I am 12 miles from the nearest sizable business center, and even that is a town of not more than, I suppose, 1,500 or 2,000 population, and it has two banks. It is important to me to have access, once a week, at least, to a bank. I get there in half an hour. If those small banks should disappear, I would have to travel 32 miles to a large town and it would take me the best part of the forenoon to go and come.

I should like to testify there as to the convenience of banking facilities in small places.

Now, it has been shown by your view of the matter and by the views of Mr. Pole, and by the figures set forth, that unit banking in the small places is dangerous and likely to bring loss. In my own case every summer it may expose me to the loss of what deposits I may keep there in the place I occupy.

Is it quite sufficient to say, under those circumstances, "Shut up your small banks and travel farther?"

Mr. DAWES. There is an expression which is used very largely in public service matters, and I notice it in some of these discussions—the public convenience and necessity. I think you are emphasizing more the question of public convenience than public necessity.

However, assume you are a small business man in a small town and need occasional loans: You need the money and you need it badly. Your credit is good and your background is good and you are willing to work and the bank is willing to lend you the money even perhaps if your collateral is not strictly conventional. When a bank serves you in making a loan without which you would go into bankruptcy it is performing what is to you a necessary service. When the banks which can do this are replaced by branches or tellers' windows those facilities may give you as convenient service as the unit bank but they will not minister to your dire necessity. In my opinion the introduction of the branch banks will destroy the unit banks, and when this is done the community will have bartered necessary service for a superficial convenience.

Mr. LUCE. I want to be very courteous, Mr. Dawes, but I do not think you are answering my question. I want to know whether you

want to cut me off from the use of banking facilities during every month I pass in the State of Maine.

Mr. DAWES. Well, Mr. Luce, if I may speak plainly, I do not care particularly about the convenience to you at the expense, perhaps, of robbing the people, who put their money into these banks, of the privilege of borrowing their own money.

Mr. LUCE. Were you not a little strong in the use of the word "robbing"? I do not think, sir, that the Old Colony Trust Co. in Boston has robbed anybody by acquiring branch banks.

Mr. DAWES. My obvious meaning was that they had deprived the public of their control of their own funds.

Mr. LUCE. I still fail to see any loss that will come to anybody from allowing banking facilities in the towns of which I spoke. I do see the desirability of making them more safe and of protecting depositors and customers and everybody, as might come if it was a branch of a larger bank, but for the life of me, I can not see the economic desirability of depriving small communities of the country of banking facilities.

Mr. DAWES. I think the small communities of the country that require banking facilities can support them, and the only reason why there has been an unreasonable—if there has been—number of failures (and you can not say they have been unreasonable until you study the economic conditions that exist in any particular area) is that there has been overcompetition. I admit, franky, that banks have been established in too small communities to be economically supported.

You have the same thing in the gasoline business, in the service stations. I do not believe any part of the public would be seriously hurt if you had a few less service stations.

Mr. LUCE. Evidently our views can not be reconciled in that particular.

Now, let me inquire on another phase of the subject, to which the attention of recent witnesses has been called. A recent writer on the subject of investment trusts, who seems to have given the subject full and thorough study, predicted that within a very not long time all the stock of the substantial banks of the country would pass out of individual ownership into corporate ownership. Does that strike you as an ominous prospect?

Mr. DAWES. You say all the stock of all the banks of the United States?

Mr. LUCE. The stocks of the important banks of the United States.

Mr. DAWES. Yes, I think that would be unfortunate.

Mr. LUCE. Would you think that the seriousness of that situation is great enough to require action on our part?

Mr. DAWES. I do not know exactly to what you are leading, Mr. Luce.

Mr. LUCE. We have been informed, within a week, that 50 banks in Pennsylvania are in process of being taken over by a chain, and there seemed to be two ways that what I referred to may come about; one is where all the stock of a bank, or the controlling stock of a bank is secured by a holding company, and the other, which seems to me ought to be distinguished therefrom, is the process whereby a consolidation of investment in investment trusts will result in their taking

up bank stocks whenever they are offered for sale, so that ultimately, in view of the attractiveness of investment in the larger banks, the ownership of banks will be in the hands of the trustees of the investment trusts.

It is the second of those things that I am particularly interested in and not the holding company. I am particularly interested in the process of individual stockholders dwelling in the communities concerned, through the ordinary processes of the stock exchange, presently disappearing, with the stock holdings in the large banks, as is already the case, I fear, in respect to the largest of these banks, to a considerable extent, if not to a dominating extent, falling into the hands of trustees dwelling in the big centers.

Mr. DAWES. I think I have expressed myself about it as well as I can on that subject. I think that is about the most unfortunate thing that could be developed in banking.

Mr. LUCE. What can or should we do about that?

Mr. DAWES. I do not know. The only point I would particularly stress is that I would suggest precipitating the issue as between the unit system of banking and centralized banking. The solution I do not know. My feeling is that if you temporize with the principle and compromise with it, the solution will not come as quickly as if you face the issue frankly as to whether something should be done to prevent extreme centralization. I am a little at a loss, when it comes to suggesting a solution to that, but I think that is the issue you should face.

The CHAIRMAN. In that connection, we are facing a practical situation. We have this chain and group banking here in our midst to a very great extent and it is daily increasing. We also have branch banking.

What is the practical way, in your judgment, for Congress to deal with this subject? Would you prohibit branch banking or an extension of it—forbid any further extension? We have it to the State limits so far as State banks are concerned and city limits for national banks, but the advocates for this system say that we should extend it to trade areas, nation-wide and permit it internationally. That is for branch banking.

Now, for holding company banking, which is the substitution of the group for the individual holding of bank stocks, which is proceeding under State laws, and over which Congress has no power, apparently—and as you know, while you were Comptroller of the Currency, although we tried, we never could get language to cover it—have you any suggestion as to how we can control chain banking or group banking? That is what the committee wants to know.

Mr. DAWES. No; I would rather not try to express myself on that, because my ideas are not clear enough, naturally. But I do not think there should be any further extension of the principle you embody in the McFadden bill. My belief was that the purpose of the McFadden bill was to restrict branch banking and not to extend it. However, the argument was made frequently before the committee that the establishment of offices in one city was the first step in the direction of Nation-wide branch banking.

When it comes to a definition of economic areas, you run into all kinds of difficulties, but I am convinced that once you admit the principle, it is extended indefinitely.

I have always contended that the principal office with branches within the limits of a single city did not in any way impinge on the principle of absentee ownership. But when you come to trade areas, that is entirely different. I remember when I was on the Federal Reserve Board we spent much of our time arguing as to what was a trade area, and the definitions extended from contiguous counties to all over the State and from coast to coast.

The CHAIRMAN. The confining of branch banking to city limits does not restrict a customer from doing business wherever he wants. For instance, a man living in the city of San Francisco can do his banking business in New York City, as many of them do. There is no control over the customer as to where he shall do his banking business. That restriction is as to additional facilities of the banks to serve their customers.

It has been pointed out here that these hearings are accelerating the activities of these various groups in picking up banks all over the United States. It presents quite a problem to this committee. In attempting to deal with that question while this study is going on and while Congress is trying to find out what it is all about, and with the idea of determining whether legislation is necessary and, if necessary, how such legislation shall be framed—all of which takes time—I introduced, on April 30, 1930, a bill, and I should like to have your thought and judgment on the wisdom of it. The bill reads:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That after the approval of this act it shall be unlawful for any corporation, copartnership, or trustee, to purchase or otherwise to acquire more than 10 per centum of the shares of the capital stock of more than one member bank of the Federal reserve system, whether State or national bank member, except after first obtaining the approval of the Comptroller of the Currency with respect to national banks, and of the Federal Reserve Board with respect to State member banks. Any person or corporation violating this act shall be deemed guilty of a misdemeanor and shall upon conviction thereof in any district court of the United States, be fined not more than $10,000.

What I was there trying to do was to check this apparent activity until Congress has had an opportunity to decide what should be done. Of course I realize that is a crude bill, but it was placing the authority in the comptroller and the Federal Reserve Board, which would reach national banks and State banks of the Federal reserve system. This would not, of course, reach State banks which are not members of the Federal reserve system.

Mr. DAWES. I would very heartily favor something of that kind if it is practical and legal. I presume it is, or you would not have drawn it. Of course, it offers the objection that a bank can withdraw from the Federal reserve system, and as these chains become larger they are gradually becoming independent of the Federal reserve system.

As Mr. Luce suggests, these groups, through trustee ownership, may create a situation where they can overthrow the whole Federal reserve system. It seems to me—although I am frank to say I am incompetent to advise—that it might be possible to strengthen the Federal reserve system. I do not mean so much by punitive measures, as by the constructive service they might give to its member banks, so that any bank, in order to prosper, would want to join, and would have to join, the Federal reserve system.

I feel very strongly that this situation, the danger of which is so generally recognized by students, may possibly be solved through building up the Federal reserve system to such a point that membership in it is necessary for successful operation by either State or national banks. If this is done conditions of membership in the Federal reserve of such nature could be imposed that they would put a stop to any form of controlled banking which was either irresponsible or subject to monopolistic development. The difficulty in the past in getting constructive legislation for the benefit of the Federal reserve and its members has been that it was attacked as class legislation for the benefit of bankers. If the Federal reserve system should be presented to the public and to the Congress as the instrumentality through which efficiency and democracy in banking could be preserved I believe that constructive legislation could be secured. If it could be made clear that syndicated banking is essentially opposed to independent banking, and that the Federal reserve system is the bulwark of coordinated independent banking this prejudice could be overcome. Unfortunately and unjustly constructive Federal reserve legislation has been attacked as class legislation. Certainly the preservation of independent banking is not class legislation.

The CHAIRMAN. This development is proceeding under the direction of bank officers who are practically the trustees of the people's money, as it is intrusted to their care and management. These people who control the assets of banks are very much concerned about this particular development. You very aptly described the ignorance of depositors so far as practical banking methods are concerned, as to safety and risk, and it is a problem in which the public is tremendously interested, and the difficulty of this committee is to get an expression—a correct expression—from the public who are most interested in this whole undertaking.

We are hearing these trustees who are managing the banking business of the country, and it seems to me that some action should be taken here while this study is proceeding, and while it will take time to consummate something definite in regard to what should be done to guard the public's interests, I think some kind of legisltaion, whether this bill or something else, should be passed to maintain the present status quo.

Mr. DAWES. Do you not think one of the chief dangers of the situation is that the public will suddenly wake up to the fact that the issue is concentrated control or monopoly, and when they break loose you will have another Andrew Jackson attack on banking?

The CHAIRMAN. I am fearful of a subsequent reaction such as you indicate. How far it will go no one can foresee.

Mr. WINGO. I have listened with a great deal of appreciation and interest to this discussion which has just taken place between you and the chairman with reference to his so-called 10 per cent bill. I congratulate him on getting someone to approve his bill. You are the first one that I have heard who has.

The CHAIRMAN. Do you not remember Mr. Ottley, of Atlanta, who suggested it?

Mr. WINGO. I do not think he suggested this. I noticed that in one of your statements just now you said you thought we should do everything we can to build up the Federal reserve system. Did I understand you correctly?

Mr. DAWES. Yes.

Mr. WINGO. Now, we will take this bill, which makes it unlawful for anyone, either corporation, copartnership, individual, or trustee, to purchase or otherwise to acquire—and, of course, that might include an inheritance—more than 10 per cent of the capital stock of more than one member bank of the Federal reserve system, whether State or national bank member.

I presume you favor that because you think that will check monopoly?

Mr. DAWES. I favor the general principle expressed in the bill. I have not even read it, and I do not think Mr. McFadden read it all.

The CHAIRMAN. I stated frankly I did not know whether this would reach the thing we are after, or not, but that I think some bill should be passed that would deal with this subject and maintain the status quo.

Mr. WINGO. I want to drive home and direct the attention of the witness to the difficulties of the situation, and that is the chief object I had in attempting to analyze the bill with the witness and getting his opinion on it—as much for my information as the chairman's.

Suppose that I and some other gentleman or gentlemen belonging to a group wanted to build up a chain of banks in the Federal reserve system and wanted to get a monopoly, which you and the chairman oppose. Under this bill we would have to do one of three things. If we could get the blessing of the Comptroller of the Currency—if he would pronounce his blessing on the monopoly—that would be all right under the bill. That would relieve us from any further trouble if he said it was all right.

However, if the comptroller would not give his blessing, then we would be confronted with two practical propositions. We would have to do one of two things; either we have to keep just one of the banks in the Federal reserve system and let it act as a syphon to get the benefits of the system for the chain, and get the others out of the system; that is, if they are national banks, turn them into State banks and not have them members, or, if they are State banks, have them withdraw from membership in the Federal reserve system. In that way they would escape from the scope of the bill.

So, there would be two tendencies—one, to take national banks out of the system, and the other to take State member banks out of the system. You would not favor either, would you?

Mr. DAWES. No; I would not.

Mr. WINGO. The other alternative that the lawyers will tell you about, is this: If the game is worth the price, and you want to build up this monopoly, you can go in and pay a little $10,000 fine and get control.

Now, you have had some dealings with lawyers. Do you think they would have very much difficulty in getting around this provision?

Mr. DAWES. I think it I were committed to that principle, the first thing I would do would be to ask a lawyer, to draw the bill.

Mr. WINGO. I think that is the wisest thing you have said this morning.

Mr. DAWES. The point, however, I should like to make, is that if you introduce some such bill as this, you will precipitate sentiment and you would discover whether the public wanted branch banking.

It seems to me it is the most important issue we have before the public and I am hopeful it will be solved before it becomes a political issue.

If you can get at it while it may be appreached in a judicial, reasonable and constructive way, I think something may be accomplished, but I am frankly frightened at what will occur if this trend is permitted to go much further.

Mr. WINGO. I agree with you. My criticism and analysis of the bill are not directed towards ridiculing the effort. It is to drive home the difficulties that confront this committee in undertaking, by piecemeal, to cover a major question like this, which is, after all, a monopoly of credit. I do not think anybody will defend a monopoly of credit, in the abstract.

All of these men come in and insist their chain banks will protect us against a monopoly of credit. The group bankers make the same plea, and the branch bankers make the same plea. So, it is not the question of what you are driving at; it is a question of how you are going to do it.

I notice in your prepared statement you state:

> It seems to me desirable, therefore, that the Government do every possible thing that it can, in justice to the State banks and the Federal reserve, to strengthen and develop the national banks, through which it financed the Civil War and organized the Federal reserve system.

With that abstract statement I think we all agree. We agree with what the chairman is driving at in this bill. When you say you approve the bill, you mean you approve the idea expressed; that is, a check on monopoly of credit through branch, chain, or group banking?

Mr. DAWES. Yes.

Mr. WINGO. Appreciating the difficulties, as you must, from your experience as Comptroller of the Currency, and from your experience in the business world, have you not some suggestion to make how we can maintain, in a practical way, the freedom of credit in the country and the freedom of the machinery of credit from what you call bureaucratic control? Have you not some practical suggestion you can make?

Mr. DAWES. That suggestion of Mr. McFadden's strikes directly at that—control. That is what you are after.

The CHAIRMAN. My thought is a temporary check to this thing until we see what it is all about and then deal with it in some permanent way.

Mr. WINGO. I am simply thinking out loud. It is the practical thing that is disturbing me. It is easy enough for me to pick up a bill that Mr. McFadden introduces and criticize it. I recognize that, but when I possibly appear to be captious, it is simply for the purpose of driving home the difficulties that confront us. You will admit there is almost as much difficulty that confronts us in the business world as in the banking world, or more?

Mr. DAWES. No; I think the industrial combinations have gone about as far as they can on account of the laws. I can not see that there is any law which at the present time would prevent a clever manipulator with enough cash, from legally getting control of all the banks in the country.

Mr. WINGO. But is not that true also in the automobile business?

Mr. DAWES. I know that is not true in the oil business.

Mr. WINGO. Have you any assurance that we will have a Department of Justice that will repeat the dissolution of the old Standard Oil Co.? Is there any tendency now to check combinations? The

thought I have is this: Is there not a growing thought, and is it not hammered home to us each day, through financial papers and leading economists who want to preserve the freedom of opportunity in the country—are they not constantly preaching the economies of these great amalgamations and the efficiencies that will result from the wonderful reduction in cost flowing from mass production? Is not the whole psychological pressure operating not toward checking consolidations but toward encouraging consolidations, telling the people they will get a finer product and greater volume and greater prosperity and greater wage scales and higher standards of living? Is that not the whole psychological trend?

Mr. DAWES. Yes, sir; but the quantity-production theory has nothing to do with banking and that is the thing that makes it particularly difficult for me to understand the analogy. It costs the big bank as much as the little bank to operate. In fact, in many ways it is less efficient.

Mr. WINGO. Last night I ran across a statement that Mr. Hoover made a few years ago, while he was Secretary of Commerce, and the thought he expressed is that you reach a point in your consolidation where efficiency is lost and inefficiency creeps in on account of the cumbersomeness of the machinery. I read that in one of Mr. Hoover's utterances, and I was delighted to see it.

I had entertained the same thought but was fearful of expressing it around the table here for fear I would be suspected of injecting politics and being out of touch with the times, but with such a high economic authority as Mr. Hoover, I am not now afraid to express the thought. Do you feel that way about that?

Mr. DAWES. Yes, I do.

Mr. WINGO. Here is another thought that has occurred to me, on which I have been told my fears are unfounded: As I look around and study these men who have been handling these combinations—men like Judge Gary and others—I find that they have practically grown up with the development of these great machines and developed along with them. Now, as these men pass off, I am wondering if you will have enough practical and capably trained executives strong enough to carry forward these great activities, so as to maintain an efficient and sound business structure?

Mr. DAWES. I do not think the men who follow and carry on these business enterprises are as able as the men who founded them.

Mr. WINGO. That is practically another way of stating the old theory that there are only three generations separating shirt sleeves from shirt sleeves?

Mr. DAWES. Yes; you might put it that way.

Mr. WINGO. You do not think there will be men efficient enough to carry on these great operations?

Mr. DAWES. I do not think they will have the training and executive ability to carry on as the former generation.

Mr. WINGO. I mean having the acute executive comprehension necessary in handling these great organizations. In other words, you can not send them to a training school like you can an accountant and develop them; it is something that has to develop, and that is the reason you believe in the individual unit banking system?

Mr. DAWES. Yes.

Mr. SEIBERLING. I have just a few questions. Mr. Dawes, the objective of your statement is that you want to avoid monopoly of

money and credit on the one hand and you want to get sympathetic and human consideration for the small depositor and borrower on the other hand?

Mr. DAWES. Yes.

Mr. SEIBERLING. You do not think that that can be reached through chain or group systems of banking and you even go so far as to say branch banking also?

Mr. DAWES. No; I do not think so.

Mr. SEIBERLING. Now, let us assume that you have 10 large banking institutions in Chicago and they are permitted to go into branch banking in the area around Chicago, and they succeed in taking over most of the unit banks: The stock of these banks is listed on the Chicago Stock Exchange and all individuals in that territory would have the opportunity of acquiring the stock in the various banks.

Mr. DAWES. Well, I think so.

Mr. SEIBERLING. They would have the opportunity of acquiring the stock in the various banks, would they not?

Mr. DAWES. Yes.

Mr. SEIBERLING. And as far as being stockholders is concerned, then, the local unit branch would be just as much a stockholder as if they were unit banks in their communities?

Mr. DAWES. Yes.

Mr. SEIBERLING. They would have greater safety for their depositors?

Mr. DAWES. I think that is more or less debatable.

Mr. SEIBERLING. We had a witness here yesterday who testified that they loaned more money in the territory where some of their branches were located than their total deposits. In one case it was 50 per cent. So, if branch banks were conducted in that way, the objection they would withdraw money from the outlying districts into the center would not be correct, would it?

Mr. DAWES. Well, I would rather, instead of answering your questions one at a time, answer more comprehensively——

Mr. SEIBERLING. You may answer them any way you want to.

Mr. DAWES. I grew up in a small town, and if the banks were owned in Chicago, Cleveland, or Cincinnati, I do not believe I would receive as much sympathetic attention from them as from people who lived in that same small town. I have had enough opportunity to observe the operations of the railroads to know what sympathy is extended by the railway agent——

Mr. SEIBERLING. The railroad situation is not like the banking situation at all. If you do not like the railroad, you can not build another railroad. But a branch bank that continued for any length of time mistreating its local customers, would soon have local competition?

Mr. DAWES. I do not think they would eventually. I think after branch bank systems had been developed up to the point where there are only three or four of them in a State the inefficient banks would be eliminated and competition destroyed.

Mr. SEIBERLING. But a bank must deal with its borrowers and depositors in the right way in order to grow.

Mr. DAWES. The unit bank; yes, sir.

Mr. SEIBERLING. And also the large mother bank of the system, if I may describe it as that——

Mr. DAWES. As long as they had competition; yes.

Mr. SEIBERLING. And even though it did not have competition, the fear of competition would compel them to do that, would it not?

Mr. DAWES. Well, as I say, as long as they have actual or potential competition.

Mr. SEIBERLING. Of course, as a matter of fact, from the witnesses we have had here, they do not operate in the manner in which you have itimated. They leave the local managements in the branches who have always lived in the communities.

Mr. DAWES. Well, the branch banking game is very new in this country and I think if you will investigate the branch banks in other countries you will learn a better lesson than by examining the bankers here.

I remember a friend of mine, an Englishman, who came to this country from Canada, and he heard my argument about this branch banking. He said, "That is the reason I am an American." He said, "I came to a western Canadian town and did not have any money and I wanted to go into business. I went to a branch banker but he could not loan me it. So, I came to one of the western towns of the United States and went to the head of the bank there and got the money and I have stayed here ever since." He said, "Perhaps from the strict banking standpoint I was a pretty poor risk," but he eventually developed into a valued customer.

Mr. SEIBERLING. Showing that bankers sometimes make mistakes. In view of the fact that something must be done, is it not a fact that branch banking, limited as you think right, would be a much better step than permitting group and chain banking?

Mr. DAWES. I prefer branch banking to any other form of group banking, but I think the fundamental principle is the same. The mechanical application is different.

Mr. SEIBERLING. But if you have to make the step, then the better step is to go to branch banking with such restrictions as you want to put around it, than to permit chain and group banking to go on?

Mr. DAWES. I do not think the issue is between branch and chain banking, but between coordinated unit banking and branch banking. I think I agree with Mr. Giannini, in that feeling.

Mr. SEIBERLING. Do you consider a holding company that owns the capital stock of 15 or 20 or more banks as being in the banking business?

Mr. DAWES. If it owns control of them?

Mr. SEIBERLING. If they own control of 15 or 20 banks and are running them. Do you consider that company in the banking business?

Mr. DAWES. I am not a lawyer, Mr. Seiberling. I can only make the obvious answer to that. I really do not understand just what you mean.

Mr. SEIBERLING. If you had a company that owned the stock of a dozen different banks and you were running them through that stock control, would you consider that you were running a banking business or some other business?

Mr. DAWES. I think it is perfectly obvious you are in the banking business.

Mr. SEIBERLING. If we passed a law that any corporation owning more than so much stock and owning more than one bank would be considered in the banking business and would have to have its charter

state it was in the banking business and comply with the banking laws of the country, would you not think we would be taking a long step toward stopping chain and group banking?

Mr. DAWES. Yes, sir.

Mr. SEIBERLING. We would at least have the double liability in the holding company stock?

Mr. DAWES. Yes, sir.

Mr. SEIBERLING. If we had branch banking extending beyond State lines, that would tend to bring these State banks into the national banking system, would it not?

Mr. DAWES. I think it would.

Mr. SEIBERLING. Is it not desirable to have the Federal Government, that has the only power to coin money and issue circulating medium, have those banks under its control rather than under the control of a group of men off somewhere, whose responsibility we do not know and whose motives we do not know?

Mr. DAWES. I have developed the argument many times on the desirability of the maintenance of the national banking system on account of its governmental connection.

Mr. SEIBERLING. I just want to ask you one more question. Why did the Legislature of Illinois repeal the usury law on call money, if you know?

Mr. DAWES. I do not know. I did not know that they had any.

Mr. SEIBERLING. Could you venture any reason for it?

Mr. DAWES. No; I do not know anything about it.

Mr. GOLDSBOROUGH. Mr. Dawes, I was not here when you made your statement. However, I gather your view is that this branch banking will first become extremely powerful and then monopolistic and then inefficient and there will be a public revolution against it. Is that what you have in mind?

Mr. DAWES. Yes, but I would rather you would not put as strong terms as that in my mouth.

Mr. GOLDSBOROUGH. I want you to modify them, then, any way you see fit.

Mr. DAWES. I think those inferences may be drawn within reasonable limits.

Mr. GOLDSBOROUGH. Now, Mr. Dawes——

Mr. DAWES. Mr. Goldsborough, I do not know how you keep these records. I do not want to be put on the record as having made just that statement.

Mr. GOLSDBOROUGH. The reporter is taking down what you are now saying.

Mr. DAWES. Then I will modify what I have said by saying that my paper speaks for itself. I do not want to place myself in the position of having made an unqualified and extreme statement on anything.

Mr. GOLDSBOROUGH. Now, the argument has been made here in this committee and on the floor of the House ever since I have been in Congress that we had to extend the privileges of national banks in the matter of branches because that was the only way to give them a proper competitive basis with the State banks. The argument has recently been made very strongly that we must extend the branch banking privilege of national banks in order to stop chain banking and group banking. As far as I have been able to visualize it, those

are the only two major arguments that have been made with the exception of the failures of the unit banks mentioned here to-day.

Now, on January 9, with those condition in mind, I introduced a bill which would amend section 5144 in the matter of the election of directors, or at least one section would. It reads:

> In all elections of directors, and in deciding all questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him: *Provided*, That where a corporation is a shareholder, neither such corporation nor any other person, firm, corporation, or association shall be entitled to any vote or votes on the share of stock held by such corporation.

The purpose of that was to do away with the holding company.

Then, in another section, this bill says:

> No State bank which is a member of the Federal reserve system and which owns shares of stock in any other bank shall vote such shares of stock, or cause or permit such share of stock to be voted, at any election or meeting of the shareholders of such other bank.

Then a question arose as to how to control the State banks not members of the Federal reserve system. A section was added like this:

> Bank checks: On each check drawn upon any bank, banking association, trust company, or savings bank (*a*) which establishes any branch after the passage of this act, or (*b*) more than 25 per cent of the stock of which is owned by any corporation, a tax of 2 cents on each dollar or fractional part thereof of the amount for which such check is drawn.

Now, what comment if any can you make on that bill?

Mr. DAWES. I do not think I can make any intelligent comment on it until I have studied it throroughly. I do not know the points of law involved.

Mr. GOLDSBOROUGH. I am not discussing with you the legality of it. I have to be responsible for its being legal. But assuming it is legal, what do you think of the bill?

Mr. DAWES. Frankly, I would not want to express an opinion. It would require too much study.

Mr. GOLDSBOROUGH. The bill, as it stands, would absolutely stop where it is group banking as it now exists, chain banking as it now exists, and branch banking as it now exists.

Mr. DAWES. Well, you know where my heart is on that subject. If that is the best way to do it, I am for it. I am not trying to dodge answering the question. Frankly, I just can not understand it.

Mr. GOLDSBOROUGH. It is perfectly obvious if the holding company can not buy the stock of a bank, it would automatically dissolve itself. That is the purpose of the first provision.

It is also obvious that if banks had to pay 2 cents on each dollar or fractional part thereof of every check that it issued, it could not afford to establish any branches in the future, nor could it afford to act as a holding company and own more than 25 per cent of the stock in the other banking institutions.

Now, I am not committed to the bill, but the purpose of that bill is to answer the two arguments that we had to have branch banking in order to stop holding companies and these chain banks from growing and the other argument that we had no way to stop the establishment of branch banks within the States. This bill will do both of those things, assuming it is legal.

Now, would you be in favor of legislation that wide in scope?

Mr. DAWES. My opinion, Mr. Goldsborough, would not be worth anything on that.

Mr. GOLDSBOROUGH. Well, then—I will ask you this question and you may answer it if you fell like answering it. It does not make any difference to me whether you answer it or bot—but are you or are you not in favor of stopping group, chain, and branch banking right where it is?

Mr. DAWES. Yes.

Mr. GOLDSBOROUGH. That is what this bill does.

Mr. DAWES. That clears me of any apparent disposition to evade.

Mr. GOLDSBOROUGH. And your theory is that inefficiency in the branch banking system does not necessarily immediately mean resumption of competition?

Mr. DAWES. I think after the chains are thoroughly established and unit banks are eliminated to a certain extent, at least, the chains can go along and be pretty inefficient.

Mr. GOLDSBOROUGH. If they acquire that much strength and power, it will require a very great inefficiency before there is sufficient public mental revolution to create competition for them?

Mr. DAWES. Yes; I agree with you and, by inefficiency, you are not referring to the mechanical operation. You are referring to the service to the public?

Mr. GOLDSBOROUGH. The technical part and mechanical part, as far as I am concerned, will take care of themselves, if we establish correct principles. That is the way I feel about that.

When I speak about "inefficiency," I mean inefficiency in the sense that the public which should be served by institutions are not served with the same amount of personal interest as they would be served under the unit system. That is what I mean by "inefficiency."

Mr. DAWES. Having in mind the fact that the banks are given money which already belongs to the community?

Mr. GOLDSBOROUGH. Yes. That is all, Mr. Chairman.

Mrs. PRATT. Several witnesses who have appeared before this committee have been, I think, exponents of the idea that credit was perhaps too much centralized in New York and that it was desirable to establish centers of credit throughout the country. I think there is some feeling that branch banking would do that in a certain degree. Are you in facor of decentralizing credit more than it is now? Do you feel that the concentration of credit is too great, perhaps, in one or two places, primarily in New York City?

Mr. DAWES. I do not think that their suggestion was that the decentralization would come through the branch banks. I think the idea was that the decentralization would be brought about through the Federal reserve banks. I do not think they could accomplish very much in that direction by branch banks. If they do succeed in establishing nation-wide branch banking, I think it will lay the way open for immediate further centralization, and whether that centralization will be controlled from New York, St. Louis, or San Francisco will be immaterial. I think that will be the eventual outcome, and I do not think there is any difficulty in getting credit over the country generally for people who are entitled to it. When they say they go to New York for money, they really do not go to New York for the money. They go to the technical organization there, which secures it from the banks of the whole United States.

I think there has been a great deal more buncombe about that than anything I know of.

Mrs. PRATT. In a small community, where they have a unit bank and the community is perhaps too small to support a successful bank, nevertheless that community is entitled to banking service of some sort. How would you suggest meeting that situation?

Mr. DAWES. I do not know of any community that can not afford to support a bank that is entitled to it.

Mrs. PRATT. Do you not think they are entitled to it?

Mr. DAWES. If they are entitled to it, they can furnish it themselves. I think any community entitled to a bank will eventually get it. The unfortunate thing is that they have been supplied not with one bank but with five or six banks.

Mrs. PRATT. Banks fall somewhat, do they not, into the category of public utilities?

Mr. DAWES. They will if they build up the chain, group, and branch systems.

Mrs. PRATT. In other words, then, you would keep them out?

Mr. DAWES. They are quasi-public institutions.

Mrs. PRATT. The object is to give service of that type to everyone in so far as it is possible. I am wondering if people who need banking facilities can always afford to motor to the centers.

Mr. DAWES. I think the average person who has not an automobile keeps his money in his sock.

Mrs. PRATT. I notice on the last page of your statement that you say you feel that everything should be done to strengthen the national banking system. I do not see that you make any suggestion to that end. How would you suggest that that be done, specifically?

Mr. DAWES. You have got me there. I do not know. I think that all the help should be given the national system which can be done fairly without penalizing the State institutions.

Mrs. PRATT. You could not be a little more specific, could you, as to how you think the system could be strengthened?

Mr. DAWES. You may refer to some of my old reports, but I do not think they are particularly valuable now.

Mrs. PRATT. You have no present suggestion along that line?

Mr. DAWES. Not now.

Mrs. PRATT. I notice you said a while ago that you feel the Federal reserve system should be made more attractive. Have you any specific suggestions as to how that could be done?

Mr. DAWES. I have not. I think that matter should be approached with such care that I would not want to make any offhand statement. I think there is a very unfair provision affecting member banks. They get 6 per cent on their money, it is true, but I think they should participate to a larger extent in the additional earnings.

Mrs. PRATT. I think you are very sympathetic with the troubles that face this committee. That is all, Mr. Chairman.

Mr. BUSBY. I should like to ask you this question: If chain, group, and branch banking is not entirely a new adventure with respect to its nation-wide activities——

Mr. DAWES. You do not mean in the United States?

Mr. BUSBY. In the larger sense in which we find it.

Mr. DAWES. I think chain banking has always been——

Mr. BUSBY. Oh, I understand back with the first United States Bank and the second one and all like that but not under the holding company method.

Mr. DAWES. I think that is a new development. That is my opinion.

Mr. BUSBY. Most all of the leading groups and the leading holding companies that own groups and chains are of recent development.

Mr. DAWES. That is my impression; yes.

Mr. BUSBY. Do you not think that is one reason why you can present such glowing pictures of their future—the promises they can make to the financial world—because they are new and have not had time to have any of their weaker places or many of their weaker places tested by the trials of time?

Mr. DAWES. I should like to say this, that as far as my observation and knowledge are concerned, most of these companies that have been organized under the holding company system are under the control and direction of very competent bankers and I think they will succeed, but the principle of getting banks together in that way, by the exchange of stock is, I think, one of the most dangerous things ever introduced into banking.

Mr. BUSBY. Suppose there were really watered places in the stock of the holding company exchanging its stock for properties that were established banks that were solvent and going in the surrounding section of the country, that would not likely appear up to the present time, even if they were not entirely sound?

Mr. DAWES. I presume that is so.

Mr. BUSBY. I notice in the hearings held before this committee, Mr. Wakefield, vice president of the First National Bancorporation of Minneapolis and St. Paul, stated, in answer to this question:

> If I remember correctly, you stated you had $22,000,000 in assets and you exchanged that for $30,000,000 for stocks in the holding company.

The reply was:

> Yes, sir.

And then he answered on page 1001 that the $8,000,000 difference between the assets and the amount of the holding company stock received by his banks, represented the good will and earning power of the banks. He also said, "That is a sound basis."

I called attention to the fact that it looked to me like water that went into the stock, but he denied that persistently and said it was good will and earning power of the properties that were put into the holding company.

Mr. DAWES. These are the banks that they are going to make safe?

Mr. BUSBY. All of that being new, of course, we can not tell what the general effect of such differentials as $8,000,000 on $22,000,000 is going to amount to to the people of the country.

Now, I believe it was the State Banking Commissioner of Oklahoma that very forcibly suggested that most all of the bank failures that had come upon us in the last 8 or 10 years were banks which had been organized prior to the period of 1920 and 1921 when we had the deflation which left so many frozen assets in their hands and they had been trying to work out from under the conditions that they acquired during the inflated prices and ultimately found themselves unable to do so.

Do you have any thought along that line?

Mr. DAWES. I think it is undoubtedly true. I do not think anybody will dispute that.

Mr. BUSBY. Have there come to your attention the failures of any banks that have been organized within recent months or within the last three of four years—that is, since the holding comapnies and the groups have been so active in getting together—I speak of unit bank failures?

Mr. DAWES. No; I do not know. But that is not of any significance, because I do not follow that closely. You mean unit banks?

Mr. BUSBY. Organized in the last few years.

Mr. DAWES. That have failed?

Mr. BUSBY. Yes.

Mr. DAWES. I do not think there have been any. I think the best illustration you can get of the extent to which basic conditions are responsible for bank failures would be to contrast, for instance, the Northwest during this period of depression and some of the States in the East. I do not hold there is very much difference in the ability of bankers in one section as contrasted with another. They are all human beings.

Mr. BUSBY. You think the northwest territory, in which we have had so many bank failures, was largely inflated in land values during the war, and soon after the war period, when agricultural products were at a good price, banks made loans on mortgages and paper based on those lands and that when the deflation came and the land values shrank, then the banks found themselves unable to meet their obligations or to realize on their loans and that that was largely the cause of the bank failures in the agricultural sections?

Mr. DAWES. I can not see that that is a subject for debate. I confess I used to get very impatient when I was here in Washington with the contrasts made between the Northwest and the Florida banker and the eastern and the southern banker. I think the difference is largely imaginary.

Mr. BUSBY. In my section of the country, we have small cities and towns with unit banks. They seem to be thriving and paying good dividends and getting along in their several communities in a first class sort of way. Some of the experts who have been before the committee tell us that a unit bank can not operate profitably in a city of less than from six to ten thousand people.

Mr. DAWES. I can answer that readily. Look at the statements of the banks operating in the towns under that size. Almost all are operating profitably. I have not the statistics before me, but I have no hesitancy in saying that.

Pardon me, however, I want to say that you should draw your dead line. When you speak of towns under 5,000, I do not think you should mix in with those towns the towns of 500 or less. Of course that is not what I mean.

Mr. BUSBY. I understand that. I am very much of the opinion that you can over bank any territory and perhaps there are sections of my State and other States, when we did not have transportation facilities and communications such as we have now, where we established too many banks and some are going out of business, from the fact they are not being patronized sufficiently to keep them going.

I believe that is all.

The CHAIRMAN. Are there any further questions? If not, the committee will stand adjourned, with thanks to Mr. Dawes.

(Whereupon, at 1.00 o'clock p. m., the committee adjourned.)

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Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

AUTHORIZING THE BANKING AND CURRENCY COMMITTEE TO STUDY AND INVESTIGATE GROUP, CHAIN AND BRANCH BANKING

JUNE 3, 4, AND 5, 1930

VOLUME 2

Part 14

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1931

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, JUNE 3, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY
Washington, D. C.

The committee met at 10.30 o'clock a. m., in the committee room, Capitol, Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order. Mr. George W. Davison, of the Central Hanover Bank & Trust Co. of New York, is present this morning, and we will be very glad to hear any statement Mr. Davison cares to make.

Our usual procedure, Mr. Davison, is that the witness make such statement as he desires, after which members of the committee may want to ask some questions.

STATEMENT OF GEORGE W. DAVISON, PRESIDENT, CENTRAL HANOVER BANK & TRUST CO.

Mr. DAVISON. Mr. Chairman, I think the most succinct form in in which I could say anything is to give you this pamphlet containing an address I made in San Francisco last October, before the bankers' convention. I am sure you do not want me to burden you by reading it, but I will summarize what I said there, in a few words.

The CHAIRMAN. Have you given expression to any other opinions in regard to this subject, in addition to those contained in the pamphlet?

Mr. DAVISON. I think I was interviewed by a man from Printers Ink, who printed what I stated to him at the time of the interview, which was along about the same lines. If anybody desires me to, I can amplify what I have stated in that address.

The traditions of our country are wholly against any concentration of any power of any kind; particularly against the concentration of banking or money power.

You have only to recall the days of Andrew Jackson and the changes made before the Pujo committee made any report. It only requires a statement of the conditions that then existed to realize how sensitive the people are to conditions of that kind.

I further feel very strongly that the unit bank, the independent banker, in the community, locally owned and locally responsive, has been a tremendous force in the development of our country and one of the essential elements that makes our people different from those in other countires.

I do not think that any comparison can be drawn between the continental countries, with their branch systems, and America, for they have all been brought up to a different manner of thought and are quite accustomed to part of their people being the underdog,

being subservient, and, of course, all of them are, compared to the stretch of the American Continent, comparatively small and cover a very narrow, localized area.

For example, in England the total area of the five great banks is no greater than New York and New Jersey.

I think also you will find that the experiences of some of the large banks abroad have not been such as to justify any of the claims made for branch banking—that it prevents failures and crises. The experience of the large bank in Denmark, even with Government help, was most unfortunate. Probably the economic crises in Japan were very much extended and the development of the country retarded for a long period by the fact you had great banks with Government help which stayed liquidation in 1922, which we had in 1920 and 1921, and it was not until 1927 that the thing broke loose there, but, in the meantime, for five years you had a position of stalemate, with business practically at a standstill.

In Canada there are at least two instances of great banks becoming involved in extreme difficulty.

The suggestion that branch banking is going to take care of the small community—the community too small to support a local bank—I do not feel has any great merit. None of these chains formed thus far have ever been known to take over poor banks. It is not the weak bank they buy, and the change in our own methods of transportation and communication has probably rendered unnecessary the existence of banks in very small communities.

When you come to consider that the failures in American banks have been confined largely to localities in the South and the territory from Minnesota south, you can find a cause quite apart from the general banking situation that gave rise to these results. Both of them were undoubtedly the result of the high prices of certain agricultural commodities during the war, with a consequent increase in the value of the price of real estate, and, of course, the Florida boom was the same thing.

I think some of you must be alarmed by the change that is taking place in the character of some of our communities with the vast extension of chain stores, for they are replacing merchants and men of responsibility with clerks on a small salary who can not advise, and certainly can not support, local charities and public institutions.

Banks are one of the very few corporations which advertise their debts. You see a bank speaks of its total resources, which include all deposits. Of course, their deposits are debts to some one esle. Four-fifths, at least, of a bank's money is money deposited with it by other people and the primary duty, I think, of every bank, is to its depositors rather than to its stockholders. Experience shows that when that duty is well done, it is profitable to its stockholders.

But the first aim of every banker is to know that he is going to be able to pay his debts. There is no doubt chain banking has come because branch banking is still illegal and it started, beyond any question in my mind, as a speculation and promotion matter. It has stopped generally because of the debacle that took place last fall in the price of securities, and except in local communities it is going on now in smaller areas and largely because of fear.

There have been a great many people in talking with me and talking with some of our officers, who are afraid because of the source from

which the suggestion for wider branch banking was made, that branch banking is going to come, and they do not want to be taken over by some foreign and remote group, and they are combining, as a measure of defense and not from any desire or belief in an extension of branch banking.

I think I have summarized pretty well the things that were in my mind. I have been very brief, and I shall be glad to elaborate my views if the committee desires on this subject, and, if you desire, I will send a copy of this pamphlet to every member of the committee. I have some natural modesty about——

The CHAIRMAN. I am going to suggest that, without objection, this statement of Mr. Davison, which is the speech he delivered in the American Bankers' Association convention at San Francisco, be made a part of the record at this point.

(The statement referred to is printed in full as follows:)

In the case of Georgia, you had an instance of chain banking, and when the Bankers Trust Co., of Atlanta, failed, some 80 banks, supposedly independent, went down within 40 hours. Our history of chain banking has been been that when one goes bad the others go.

I do not believe that there is anything that chain banking can do for banking members of its group that can not be done , and is not now being done, by correspondent banks. It was thought when the Federal reserve act was passed that the need for correspondent banks had ceased to exist. The national bank used to carry part of its reserve with its correspondent in a reserve city, but there are many needs that the Federal reserve does not meet for the bank in outlying districts. It has collateral that is not available and I do not think should be available at the Federal reserve bank, and it can send that to its correspondent and can secure funds on that, if needed. It can get and does get advice as to securities, and when it has a surplus of funds it can send them to its correspondent, either to be invested in commercial paper or in loans on call and, in the same way, it has been known and does call on its correspondent for aid when the financial needs of that community are great.

The great difference in that, to my mind, is this, that the local bank sends its funds to its correspondent because it wants to, and not because some one in a reserve city tells them to. It is a transaction between principals and not a transaction between a head of a system and a clerk or employee.

BANKING EVOLUTION IN AMERICA

A DISCUSSION OF MERGERS, BRANCH BANKING, CHAIN BANKING, AND THE UNIT BANK

(By George W. Davison, President, Central Hanover Bank & Trust Co., San Francisco, October 3, 1929)

The privilege of addressing you to-day is deeply appreciated. It is as the head of an institution which has been intimately associated for more than a half century with the work and problems of bankers all over the country that I am venturing to talk to you, and the subject which I shall discuss concerns every one of us. I propose to talk to you about current portents for our American banking future.

What is happening to our American banking system in this era of accelerated speed, innovation, and change? When the dust of the era has cleared away will our American banking system be radically different from the banking system

with which America faced the new conditions at the end of the Great War a little more than a decade ago? What is denoted by the rapid progress of the merger movement for larger and larger banking institutions? By the persistent movement for the expansion of branch banking beyond municipal confines? By the movement for what is called chain banking, obviously an endeavor to establish a compromise with National and State statutory limitations on branch banking? Are all these movements to go on with gathering force and widening sweep until we have a few hundred or even a few score mammoth banking institutions with myriads of branches? Or are we going to preserve our banking system essentially unchanged in form, organization, and control?

These are only some of the questions which we, who are engaged in what is not too accurately called the banking business, are all asking ourselves and one another. The very questions give concern. The implications of an answer in favor of an intense concentration of control in the banking field must give us still more concern because of the basic characteristics of American banking in its historic past and because of the contribution of our banking to the exploitation of American economic resources and the prosperous growth of American enterprise.

The general reason for addressing you on the subject chosen is the common interest we all have in whatever adaptations we should make to fit our activities to the needs of the time and the future. The particular reason for addressing you on this subject is the special interest I have in the work and problems of a great many separate banks. The bank and trust company which I have the honor to direct is the depository and correspondent of a large number of banks. Their interests are our interests. We are the possessors of a pioneer tradition in the establishment of correspondent bank relations, and all the thinking I have been able to do on questions affecting our banking future has centered around some of the most valid conclusions which are to be drawn from the contacts and experiences of a correspondent bank with its depositing banks. When we recall, and recall we can with pride, the encouragement and assistance which the freedom of independent initiative in our highly individualized banking system has given to the constructive achievements of American history and trade and the enhancement of the popular welfare, I am satisfied that all these questions can receive an answer affirming that there is no necessity in our banking, past or present, for a revolutionary change in our banking system in the near or further future.

So that I shall not be misunderstood, I wish to make it clear that I believe in bank mergers, up to the point where they are not restrictive of interbank competition and up to the point where independence can be retained and relations with customers do not become mechanical or stereotyped. I believe in branch banking in limited local areas where the closest kind of contact can be kept with the main office and, of much greater importance, where the main office has a close and exact knowledge of local business conditions and the local people. Regarding it solely as an experimental form of branch banking I shall not argue here against the endeavor to weld banks into chains moored to holding companies which are in turn subsidiary to or allied with institutional banks. One of our great advantages as Americans has been the opportunity offered by our vast geographical extent, by the different qualities of our population, and the different resources of our far-flung land to engage in experiments, political, social, and economic. In our laboratories of such experimentation we have made helpful discoveries. One of the discoveries which we have been continually making is that what was often supposed to be new has not necessarily been new, and, far more often, what was thought to be desirable because it was new has turned out not to be good. It might be asked, in passing, if you go in for buying banks in order to make a chain or to set up branches, or if you go in for mergers for the sake of size, where are you going to stop? These are awkward questions to answer, but at long last I do not argue against experiments in branch-banking expansion, because I believe that we have something else which is better; which argues for itself.

AMERICA HAS THE BEST BANKING SYSTEM IN THE WORLD

What is there about American banking which would indicate that it is in the way of a great change in organization, form, and control? Is there anything fundamentally wrong in the present organization, form, and control? I think not. I believe that to-day America has the best banking system in the world; the most flexible; better adapted than the banking system of any other country to the enhancement of the economic welfare of all its people. What other country can show anything like our highly developed check system for facilitating the

exchanges of its domestic trade? What a tribute to our banking system is our check system which gives such currency to confidence.

Undoubtedly this was not always so. It was not so prior to 15 years ago, when the Federal reserve system was set up. Nevertheless, our banking in our whole history has matched the requirements of American opportunity and contributed invaluably to its realization. Every lesson that experience set for our banks was learned and the teaching was put into effect; whether the lessons taught by the destruction of the first and second Banks of the United States; the lessons of the periods of free banking and wildcat bank note issues; the lessons of the battles for sound money; the long lesson of our panics which finally enabled our banks to convince themselves and so convince the people that our banking system must have some centralized direction, some centralized ability to render solvency liquid, and give fluidity to credit, some coordinating factor of banking power through mobilized reserves; or the further lessons learned in the recent war years as the result of which our bankers, instead of being chiefly brokers in loans, have become dealers in credit for the Nation and the world.

FREEDOM OF INITIATIVE AND COMPETITION SHOULD BE RETAINED

Through all the decades and generations of banking mistake and banking failure the periods of disordered currency, the cycles of boom, panic, and depression, American banking has persistently gone forward and, taught by experience, has suited itself to the demands of each new day. What is there about the record which is to account for this, and why is it that America has, as I believe firmly it has, the best banking system at present for its needs? The answer is to be found in the one universal fact which stands out in our banking history; that our banking has been done by individual banks, locally owned and headed by responsible individuals who were free to make their own decisions and accomplish their own successes, who were intimately associated with the activities of their local communities, thoroughly acquainted with local conditions and local people, and, because the ramifications and contacts of banking are endless, more or less in touch with industrial, trade, and financial conditions elsewhere. I believe that it has been vital to the interests of America that our bankers have had the individual freedom of initiative and competitive action which they have enjoyed (subject to such statutory restrictions and governmental supervision as the popular will has demanded and time has shown to be wise and desirable), and I believe that it is going to be equally vital to the interests of America in the future that the largest possible amount of individual freedom of initiative and competitive action should be retained by our bankers.

The prime characteristic of American banking has been its intense individualism. This used to be true also of American enterprise in trade and industry where it is becoming less true. Reasoning by analogy is always dangerous and never more so than in the attempts to draw analogies between the economic movement toward concentration in manufacturing and merchandising and a movement toward a similar concentration in banking. The character of the service is fundamentally and essentially different.

HOW BANKING DIFFERS FROM BUSINESS

Earlier in these remarks I said that it was inaccurate to speak of the banking business. We know how unlike banking is to the business to which it ministers. The vocations of the banker are far more akin to the vocations of the professions than they are akin to the activities of business. In the case of banking institutions directly or indirectly engaged in merchandising securities there is a resemblance between banking and business, but in my view the merchandising of securities is not an essential of deposit banking. True, the banker deals in money, but very little in real money which is a commodity, and very much in promises and orders to pay money which are not commodities. Real banking is dealing in credit, and credit can hardly be regarded as a commodity. The banker is all the time engaged in exchanging his better-known credit for the lesser-known credit of his customers; or if you like, engaged in giving a circulating quality and a buying and debt-paying power to the credit of his customers on his judgment of their character and resources. Basically, banking is engaged with character, and in this engagement a bank renders service to its many customers. Its earnings are more of the nature of the fees received by a physician or a lawyer than they are of the nature of the money price obtained by a manufacturer or merchant for the goods which he sells. I might add further that the difference between banking and business is indicated strikingly by the fact that the competi-

tion between banks is in quality of service; that there is seldom a question of price; that there is no real problem of cheaper banking for us to solve.

It has often been said that the great fault with American banking has been that there were too many banks. The criticism is important and has its veracity. It is quite likely that during the last generation particularly there may have been a too liberal chartering of national and State banking institutions. With some 24,000 State and national banks and trust companies, we have, it seems to me, a sufficient assurance of banking competition. Because we have had so many separate banks, competition between them has too often conduced to excesses of departure from sound banking principle and wise banking policy. It has also conduced to an excessive amount of uncompensated service by banks generally in the effort to gain or retain deposits. Because of the very multiplication of banks there has been on occasion an undue amount of bank failures. Your retiring president, Mr. Hazelwood, has recently contributed an article to one of the magazines pointing out that the multiplication of banks in communities successfully maintaining one bank, a too liberal chartering by both State and Federal authorities has been the primary cause of bank failures. The remedy for this lies in administration, not in legislation nor revolutionary changes. It is for these reasons among others that I believe in bank mergers—up to a point, as I have already said, and in localized branch banking. Nevertheless, I think that all which our multiplicity of individual banks has cost the banking community and the American people has been a trifling price to pay for the values inherent in and the benefits derived from our individualistic banking and from the maintenance of banking freedom of initiative and competitive action. In no phase of our American life has our individualistic tradition maintained so thoroughly the free play of competition as among our banks. It is that which is primarily responsible for the adaptability shown by the American bank and the American banker to all the changing needs of new conditions and the promise of new opportunity.

BETTER BANKING AND HUGE CONSOLIDATIONS ARE NOT NECESSARILY SYNONYMOUS

One thing we must grant; that as in other economic fields all institutions, organizations, methods, practices, and controls must justify themselves by persistent progress to the best results, so must our banking system justify itself. This is only another way of saying that while we believe we have now the best banking system in the world for our needs we have not attained perfection and never shall; that we must work for still better banking. That the way to better banking lies along the road of a banking system intensively concentrated to the last degree I am not prepared to admit; indeed I am disposed to deny that better banking and huge banking consolidations which tend to reduce materially the individualism of American banking are at all synonymous. Good banking is good banking, whether in the large or in the small, and it is my firm conviction that the best possible banking can be done just as well by the banks in the sparsely settled agricultural regions as by the larger banks of the towns and the much larger banks in the cities. I believe that it is only possible for better banking to be done by banks which are individually free to improve their services as their situation permits; banks which have independent freedom of individual initiative basing their action on their own knowledge of local conditions and their own judgment of local character and credit worth and are at liberty to make their own choice of cooperative affiliations.

It is my conviction that a study of our banking history and of our banking system as it is to-day reveals the lines along which our banking individualism can be preserved. Have we need of importing the organization and practices of other lands, even if they are lands of a much older banking history than ours? I doubt it.

We have come to have a great deal to do with foreign countries and shall have more. We have learned a great deal from abroad and shall continue to learn more from countries and peoples with older experience. Yet what we appropriate from abroad we are most apt to apply in terms of our own experience and tradition and transform it to the requirements of our own more fluid and dynamic life. When our financial education had been carried so far that we were prepared for the legislation which took shape in the Federal reserve act we did not set up a central bank. We provided for a centralized banking system which should be a coordinating factor of cooperation between all of the banks of our entire banking community.

FOREIGN BANKING SYSTEMS AND THE UNITED STATES

The statement, often heard, that we should take lessons from European banking systems and concentrate into a relatively few large banks through the country at large with manifold branches is not well founded. True, it may be wise to strengthen through consolidation and consequent stronger capital accounts within prescribed geographical limits and within localities where kindred interests assure a mutual and related benefit; but the vastness of our country with its great geographical distances and varying sectional interests, pride, and prejudice, presents a problem wholly different from that of any European nation.

The branch manager of the English banks would be unacceptable to the American citizen who wishes always to deal in banking with one whom he regards as having greater special knowledge but his equal in other respects. Small deposits can not here be fed directly to the great urban centers. Tribute and the feudalistic overlord have no place in American banking when the hearts of the people are consulted, and any banking system not approved in the hearts of our people has no place in our present nor in our future. Great changes in system in this country rarely take place by creations at the top; they come from a determined wish in the hearts of the great body of citizenship which eventually expresses itself. We have been too long nurtured on independent doctrines to permit a final concentration of that which in its essence belongs to countless individuals, namely, the deposit account.

Nor can the French system, which centers in Paris, be presented as desirable for us. The leadership of the great banks in France is blindly followed, but where is there a French farmer or local merchant akin to our farmer or local merchant, and where is our small manufacturer or investor akin to the Frenchman of equal rating who relies on Paris and unhesitatingly and unquestioningly follows its banking dictates.

And in Germany another wholly different picture offers. The paternal industrial bank flourishes there, a creation unknown to America until the last few years, when some of our great banks have established adjuncts whereby they have taken a leading part in creating and fostering industrial enterprises. This business is one which must be done, but whether by banks of deposit or their adjuncts or by private entrepreneurs is for the future to determine. It seem certain that the banking institution which is prejudiced by its own creations can not be the choice of the independent local banker as a depository of his reserves or his surplus funds and that the accumulations of capital represented by deposit accounts in all sections of the country which should be maintained in as liquld a form as possible will not, without the independent local banker's consent, be used extensively in promoting industrial undertakings.

BANKING INDEPENDENCE SHOULD BE MAINTAINED

So it would seem that no European system has any real part in our banking life as a whole, although we may select from it whatever may be suited to aid or to balance our own devices or ideas. We have worked out over a long period our own banking development. It has been steadily improved and there is encouraging room for further improvement; but it has always maintained the independence of its individual parts, be they large or small, and we are not ready to surrender our independence. The larger will become larger and, we hope, stronger. The smaller will become larger and, we hope, also stronger, but independence in the best meaning of the word and within proper local areas should be cherished and maintained. Strengthen the smaller bank, unify and consolidate within localities, foster direct dealings between clients and those bankers who have their own money at stake and take just pride in the prosperity of their surrounding territory. That plus a close and friendly association with a reserve city bank earned by years of affiliation is the ideal situation.

THE HOLDING COMPANY

What shall we say of the development of the holding company for the ownership of bank stocks if its avowed purpose is only to control banks throughout the country and direct their policy? Even as an interim step toward a branch banking expansion which may be legalized I believe it to be a development without promise. The banker far and wide throughout the United States can not take kindly to the ideas which it embodies. Is it to be carried out to the point where our bankers are asked to divide themselves; on the one side those who wish to control the vast power of much money for purposes of their own and on

the other side those who cherish independence of thought and action joined to close relationships more intensified even than in older days with correspondents bound together as partners in aims and ideals who have their own money and reputations at risk and who believe in the independence of their territory and depositors? If so it is with this latter class that we wish to align ourselves and to serve them to our utmost ability in fraternal partnership. Do we want to see banking become so monopolized that a given section shall be visualized as a source of tribute only with its industries and merchants not regarded as individuals and with a remote control able to lay its heavy hand on local industry and trade?

Trusteeship is becoming a common and much overworked word. It is to be feared sometimes the part it occupies and must ever occupy in our relations to our customers and depositors, if not overlooked, is not sufficiently emphasized. Our primary responsibility as bankers is to our depositors who have intrusted us with the care of their funds. Experience has shown that this responsibility when well exercised can be profitable to stockholders. Possibly at times the profit side of the matter is too much in mind. We are among the few corporations who boast of their debts, the loans to us by our depositors, called deposits. The strength of the capital structure and its relation to deposits is apt to be submerged in the grand figure of "total resources." The duties and responsibilities owed by us to our depositors are very real and our care should be how best we can serve those who have become our customers. That it is a trusteeship in a very real sense with all the implications of the word can not be stated too strongly.

I have been surprised since reaching San Francisco to learn how great a part the price of bank stocks is playing among the group and chain people. Time was—and will be again, I am confident—when it was not considered becoming in a banker to be concerned in the selling price of his bank stock, much less to be active in the market for it.

Almost on my arrival a man came to me and asked if I remembered his offering me control of a bank within a year. I did and he gleefully told me he had sold it for two and a half times that price to a well-known group. He had hardly left when another told me of the difficulty a recent group had had in maintaining the price of their stock and how much stock they had to take in doing so. Another sale at twice its market value was then reported.

Have we here some explanation of the purpose of group and chain activity—immediate market appreciation—and little, if any, regard for intrinsic values, earning capacity, and the customers of the bank on whom with good management the future must depend?

WE NOW HAVE MORE THAN THE EQUIVALENT OF FOREIGN BANKING

I contend that we already have in our banking system what I believe to be more than an equivalent of foreign branch banking and its development will be consistent with our traditions. Long prior to the creation of the Federal reserve system banks throughout the country established relations with banks in the principal cities as depositories for portions of their funds; as correspondents who could be consulted about all kinds of problems and to which the depositing banks could turn for cooperation in meeting the credit requirements (and for many decades the currency requirements) of their vicinities. While the establishment and development of these correspondent bank relations began with the national banks as a direct result of the provisions of the national bank act for the deposit of certain percentages of reserves with banks in reserve and central reserve cities, the need for these correspondent bank relations grew far beyond the needs for reserve depositories alone. Proof of what purpose these correspondent bank relations served was furnished by the action of State banking institutions which also established their position with strong correspondents and this proof has been emphasized by the experience we have had since the Federal reserve system began to function. One of the contemplated purposes of the framers of the Federal reserve act was to do away with the deposit of reserves in correspondent banks and to "keep bank funds at home." Have correspondent bank relations ended? Most certainly they have not. And why? Because correspondent banking has grown to meet needs and requirements of our banking community which have cemented correspondent and depositing bank relations almost indestructibly.

CORRESPONDENT BANKING VERSUS BRANCH BANKING

It is to correspondent banking, if I may be allowed to use a phrase which carries its own definition to all bankers, that, in studying our banking history and our banking system as it exists, my thought turns for the assurances that

will safeguard and preserve the individualism of American banking which, I believe, we all regard as indispensable to the health of the American economic future if we as bankers are to serve our people as well in the future as we and our predecessors have served them in the past. The growth of correspondent bank relations is a normal economic evolution of the individualism of our banking. I think that the line of advance to still better banking and the provision of a complete service suited at all times to make its contribution to the realization of American opportunity and the diffusion of increasing prosperity lies in the normal evolutionary development of correspondent banking.

Branch banking, should it become legalized, may possibly give us better mechanical banking. Nobody knows better than we do that banking is not an enterprise of formulas and machinery. It is profoundly involved with the human side of life, with people engaged in the business of making a living. Let us have all of the better banking machinery that our ingenuity can devise and our judgment approve, but let us not place our confidence in the perfection of banking mechanism, for if we should our banking system would become increasingly rigid and lose the flexibility which is indispensable to the service that banks have to perform. For the preservation of that essential flexibility I believe our correspondent banking to be most admirably adapted.

Our correspondent banking safeguards the individual initiative and the independence of banks everywhere. It is questionable if extensive branch banking is compatible with the preservation of the values which our individualistic banking system has fostered. Correspondent banking certainly is compatible with the preservation of these values precisely because it has fostered them. I think it almost not too much to say that close relations formed by the independent banks themselves with strong institutions of their own choosing in the financial centers of the country, now more than ever, can contribute to the protection of those popular liberties which are associated with our American tradition of the independence of the individual and the right of every individual citizen to equality of opportunity. It seems to me that in these days of economic concentration and consolidation our banking system, with its continuing achievement of increasing cooperation by thousands and thousands of independent banks, exemplifies more than does any other form of our economic institutions the basic American idea. That idea has been illustrated in our national attitude toward other nations, governmentally interpreted and expressed. Our position in the world to-day is not one of isolation and aloofness; it is a position of entire independence of entanglements of formal alliance but of a readiness to cooperate for the advance of every essential interest of the world. This, it seems to me, has been the relation which our banks hold toward each other and toward the American public, and I believe that the development of this sort of banking can go on to make the position of our banking system still more effective as an exhibition of cooperative independence.

I am sparing you statistics. There is little significance in the total number of banks that can now be counted in an extension of branch banking beyond strictly limited localities. The figures of branch banking expansion which are frequently cited are small when set against the thousands of banks grouped together in relations with correspondent banks. Statistically stated the branch banking movement to date is very limited. Its import is all that I am considering here. The point which I seek to make is that we have not perceived the potentialities of correspondent bank relations and that it is imperative to perceive them and to take steps to realize them. All the separate banks in our correspondent bank groups have perhaps only a little less in the way of active relations with each other than have the branches of any one of the great banks abroad where the principal relation of the branch is, after all, to the head office. Precisely the principal relation of our depositing banks is to their correspondent banks; but is there any reason why relations can not be cultivated between the depositing banks in a group headed up by the leadership of correspondent banks in reserve and central reserve cities? I would like to have you direct your thought to the answer which should be returned to this question and in thinking of it I am sure that many things will occur to you which can be done to extend and improve correspondent bank relations so that if I may paraphrase in part and in part quote the language of the constitution of the New York Clearing House Association, the interests of the correspondent banking groups may be promoted and so that all banks associated in correspondent bank relations may assure the "maintenance of conservative banking through wise and intelligent cooperation."

WIDENING THE SCOPE OF CORRESPONDENT RELATIONS

Tell us how we may all work together for such a purpose and what we, as correspondent banks, may do to help you give a more complete service to your communities. In what new ways may we cooperate with you to strengthen your own independent position? If you are adding to your service and building up trust departments, for example, can we help you out of our long and large trust experience? Can we help you to make sound loans which are the real guarantee of bank deposits? Can we help you to make sound investments and keep your investments liquid? Should there be conventions of depositing banks under the leadership of the correspondent banks with which they are associated so that out of such conventions may come closer affiliations between the depositing banks themselves? Should there be some form of conference committee in each such correspondent banking group which can act as a clearing house for the ideas and problems of members of the group? Customarily the banks which are members of the Federal reserve system call public notice to this membership in their letterheads, their literature, and their advertising. Do you or should you, as depositing banks, in the same way set forth the names of your correspondent banking institutions?

The service which correspondent banks render to their depositing banks is well known. There is ample room and a beckoning opportunity to build up stronger and closer relations of mutual helpfulness to better service by our entire banking system. Good banking has had to be done in the local communities by the banks which have established good relations with correspondents in reserve and central reserve cities. The nature of the balances maintained by the depositing banks, the quality of the loans and discounts offered to the correspondent banks as excess lines or rediscounts, the way in which loans are handled by the depositing banks; all that goes to constitute the record of correspondent relationships makes for good banking everywhere. It certainly makes for as good banking all around as could possibly be the result of destroying the individual integrity of banks by absorbing them as branches under a distant control. So far as concerns the solidarity of the banking community, the historical relationships of correspondent banks are cemented by strong, invisible ties of loyalties and business friendship arising out of years of fair and honorable dealing and mutual confidence. What ties of branch banking can be as strong as these? What can we do to make stronger the ties which bind together men proud of their independence, their individual integrity, and their freedom of action?

The relations of depositing banks to their correspondents have been a normal, natural evolution encouraged by the spirit of our banking laws and the political and economic traditions of our country. These relations have fostered the initiative and independence of our banks everywhere. The independently owned and controlled bank can do far more in serving its particular community than a bank owned by distant interests. All the knowledge and confidence derived from local contacts can not be translated into terms understandable by some controlling authority at a remote point. I propose a resolute endeavor to make the largest possible and most effective use of correspondent bank relations and in making such an endeavor we can rest our confidence in an expectation of success on the sturdiest of foundations.

THE INDEPENDENT LOCAL BANKER CAN NOT BE REPLACED

In banking nothing can take the place of the man on the ground who knows local conditions and the men with whom he is dealing and has the power to make his own decisions under a responsibility owed only to resident ownership control. Also, and I would like to stress this, we American people have a deep-seated distrust of concentrated power, especially concentrated financial power, money power. This distrust has often been latent for long periods; but however dormant, it has been there. It was that which made it possible to destroy the first and second banks of the United States. It was that which less than two decades ago threw the country into the turmoil of the "Money Trust" investigation. Let us not forget that in the statute books of the Nation and of the States we have laws against excessive concentration of economic power. They have been invoked in the past and can be invoked again. They can be amplified and be equipped with more iron teeth. Our annals show that the invariable accompaniment of any protracted period of economic depression is a fresh political lurch in the direction of just such legislation and a fresh invocation of its enforcement. Just now there are no signs of an impending period of economic depression but it

is reasonable to expect that some day it will come. If we as the men charged with the wise administration of our banking system, because we are charged with the wise administration of our own banking institutions, should allow ourselves to be guided into courses alien to American traditions we may reckon upon hearing in such a period of depression the voice of the specious political agitator calling for "more socialized banking."

We as a people, have, in the long run, and will always, in the long run, interpret equality of opportunity not as meaning a chance for everybody to be a hired man but as a chance for every American who has the ambition, will, and ability, to become the owner of his own business, run his own show, be his own boss. I know of nothing in our national economy which seems to me to stand so signally for the preservation of equality of opportunity as our individual banking system. Individualism is being submerged in other economic fields, as it is in politics. Our banking system is the stronghold of individualism. Economically, it may yet be the last citadel.

Preservation of the individualism of American banking rests, in the last analysis, in the individual banker. He can save his individual freedom of independent initiative only by furnishing the most complete and best possible banking service to his community in accordance with sound banking principles and wise banking policies. He can help himself to this end by availing himself of all the possibilities which correspondent banking offers, and I pledge my institution to your assistance in such a cause.

The CHAIRMAN. Mr. Davison, your summary here this morning is a very complete statement.

Mr. DAVISON. Thank you.

The CHAIRMAN. You call it a summary, but I think it is one of the most intelligent summaries that has been presented to this committee, and we appreciate your coming before the committee.

Mr. DAVISON. You know how sorry I am that there was any misunderstanding about my appearance here.

The CHAIRMAN. We are having some difficulty in getting men who represent the viewpoint you represent to appear before the committee and present the difficulties and the views of that class of banks, and I am sure you can recognize the reasons for that.

Mr. DAVISON. I think you will find it a much larger element than is thought. A great many are really anxious and fear they have to do something.

The CHAIRMAN. Realizing the importance of this study to banking in the country at this time, we are trying to do the job and we are trying to get all the information we can. We have only a few more days, because our authority ceases with this session of Congress. However, we are trying to get all the information we can during the session so that if legislation is necessary it can follow at the next session of Congress.

In view of your statement and in view of the fact also that you are the head of one of the larger banks in New York City, your statement is particularly interesting. It is interesting in this respect to me, at least, because there has been a fear throughout the country, in years gone by, of the possible centralization of banking in New York, and you, representing one of the largest institutions in New York, rather confirm that view.

It is evident to those of us who have been hearing statements from the heads of the large group or chain banks that have been developed that they are building up a condition in trade areas throughout the United States which is taking from New York some of the business which otherwise would naturally come to New York as the money center.

In view of your stated opposition and your well-known attitude on this subject, I should like to have you tell us about the Central Hanover Bank & Trust Co. of New York. Will you put into the record, if you have it, a statement of the bank? If you do not have it with you, will you insert it in the record?

Mr. DAVISON. Our bank has a capital of $21,000,000, a surplus of $69,000,000, and undivided profits of about $25,000,000, the deposits running from four to five hundred million. We have a number of correspondents throughout the country and we do a general banking business. We do a great deal of foreign business with most of the countries of Europe, except Russia.

The CHAIRMAN. Have you any branches or any affiliated companies?

Mr. DAVISON. We have no affiliated companies. We have branches within the Borough of Manhattan only. We have a very large trust business, bot corporate and personal, and safe-keeping.

The CHAIRMAN. You see a distinction between branches within the city limits and branches within the trade area or the Federal reserve district, or nation-wide, do you not?

Mr. DAVISON. I certainly do. I think that experience has shown that branch banking within a locality is a service to the community. We have shown that we know how to do it and do it well. The head of the bank must be in constant touch with all conditions, and you are not so remote that it is not a matter of policy that is determined by the head from actual knowledge rather than based on reports made from remote or far-distance districts that guide him in making policies.

We do not issue or sell securities, nor have we any affiliated companies that do anything of that kind.

The CHAIRMAN. Your relationship with any and all banks is that of correspondent?

Mr. DAVISON. Absolutely.

The CHAIRMAN. Is there any more connection between the Central Trust Co. of Chicago and your institution?

Mr. DAVISON. None at all.

The CHAIRMAN. Than with any other?

Mr. DAVISON. Not at all.

The CHAIRMAN. There is no connection there?

Mr. DAVISON. No, sir; none at all. I am afraid we are not principal correspondents.

The CHAIRMAN. I know there has been a suggestion made in the past that the two institutions were connected.

Mr. DAVISON. Not at all. General Dawes has been a great personal friend of both myself and my predecessor.

The CHAIRMAN. It will be interesting to the committee, in view of the fact that so many banks throughout the country have affiliated companies, to know why your institution has not gone into that branch of the business.

Mr. DAVISON. The affiliated company, in the first place, I think, started because national banks were unable to buy stocks. We do a very large personal trust business, probably larger or as large as any bank in the country. I have always believed that the way to avoid sin is to avoid temptation, and I am better able to serve those trusts which have been committed to our care by not having anything to sell.

I have always been afraid of the ability of a man running a bond or securities department to sell them to our people as well as to outsiders, in case things get sticky or slow, and I have avoided any possibility of being in the business or having something to turn over to people who have intrusted us to make the best decision without any self-interest.

The CHAIRMAN. There is pending before the committee, and of course it is a matter that has been referred to frequently in the hearings, a question of giving the examining authority, the Federal reserve system or the Comptroller of the Currency, the power to examine affiliated companies connected with national banks. I gather from what you have said you also think that that would be necessary.

Mr. DAVISON. I do not see where there could be any objection to that.

The CHAIRMAN. Of course it would be very difficult to examine a national bank unless they examined the affiliated company.

Mr. DAVISON. Beyond question.

The CHAIRMAN. In connection with this study, Mr. Davison, it is quite important to the committee to know who controls these large banks. Will you have any objection to furnishing us, as was furnished to the Pujo committee during that examination, a list of your largest stockholders?

Mr. DAVISON. No.

The CHAIRMAN. If you will furnish that to the committee, it will be for the committee's confidential use only.

Mr. DAVISON. I do not think there is any stockholder in the Central Hanover Bank & Trust Co. who owns over 2½ per cent of the stock.

The CHAIRMAN. Then, control in the bank is not vested in the officers and directors of the bank?

Mr. DAVISON. No, sir.

The CHAIRMAN. It is a free and open control?

Mr. DAVISON. Absolutely, and always has been.

The CHAIRMAN. How do you conduct your foreign business? Have you your own agencies abroad? Are they correspondent agencies, or do you have your own officers abroad?

Mr. DAVISON. We have representatives in Berlin, Paris, and London. They are merely agents, and we are correspondents of many of the principal banks abroad and do a great deal of business with them. The office in Paris, I would say, is merely a service station for those who use our credit when they go abroad. We have found it necessary to open an extra office in London for that purpose. We have a business office in the city that is able to get credit information, and so forth, for us.

The CHAIRMAN. Suggestions have been made from time to time and are pending here now in regard to increasing the line of eligible paper for rediscount in the Federal reserve system. In that connection, we are confronted with requests that we make eligible for rediscount paper growing out of partial payments and to make mortgages, railroad bonds, and good municipal bonds eligible, under certain set out provisions, and so forth.

Is there a dearth of eligible paper to secure the release of the proper amount of Federal reserve credit at the present time?

Mr. DAVISON. Not at the present time.

The CHAIRMAN. Would you favor enlarging the scope to include those lines that I have referred to?

Mr. DAVISON. I would not.

The CHAIRMAN. My analysis has been rather general, but do you agree with that?

Mr. DAVISON. I think that our experience with installment paper is rather meager. I think, after our experience with that type of paper is greater, we may consider that, but I do not know. I think it is still too unknown, although the record of the experience we have had with it has been surprisingly good.

Certainly bonds would simply be opening the door for securities of all kinds, and I do not see that that should be done. There has not been, up to the last few years or the last three or four months, as much commercial paper in the market as we were accustomed to having. I think it has been due to several reasons: One, primarily, corporations have taken advantage of the situation since 1921. A great many were caught in 1921 with large debts, and they were compelled to raise additional capital, but the price of their securities has furnished an opportunity to raise capital without taking on a fixed debt, and most of our great corporations have had money to lend rather than having to borrow, which they ordinarily do, at a bank.

The CHAIRMAN. Do you see any harm in the use of Government securities, short or long term, as practiced now by the banks, in securing Federal reserve credit?

Mr. DAVISON. I think it is invaluable to the bank.

The CHAIRMAN. You approve, then, of the plan now in operation in connection with the release of Federal reserve credit, particularly by banks in New York and other large cities?

Mr. DAVISON. I do.

The CHAIRMAN. You do not think that that makes easier access to the release of that credit than should be?

Mr. DAVISON. No; I do not think so.

The CHAIRMAN. You do not think it leads to any abuse whatsoever?

Mr. DAVISON. I have not seen it. I think it has worked wonderfully well and shown a flexibility that has been remarkable.

The CHAIRMAN. You do not think that that releases credit to stock market speculative operations, through the absorption of brokers' loans by the banks?

Mr. DAVISON. I do not. You can easily see what would happen, however, with a money market such as we had last summer, if the deposits of the whole country, or the outlying sections, were available and the New York banks simply drew them in to loan at the rates money commanded in New York last year.

The CHAIRMAN. I think it was the clearing house rule that permitted banks to make brokers' loans on the market.

Mr. DAVISON. No; the clearing house rules made a charge and recognized a condition that actually existed.

The CHAIRMAN. Was that a stock exchange ruling, that one-half of 1 per cent charge?

Mr. DAVISON. No; a clearing-house rule. The situation grew up from what I told you. Corporations had raised money from their securities for their necessary capital, and under the clearing-house

rules they were getting a low rate of interest, and there was a higher rate available by asking the bank to lend it. I remember eight or nine years ago I refused to do it, but I found I was losing deposits and everybody had to do it, and the clearing house made a uniform charge for it.

The CHAIRMAN. The question was asked some weeks ago, when the Comptroller of the Currency was present, as to whether or not there was any legal authority for them to permit a bank to make these loans and make a charge. The comptroller suggested that he would furnish the committee with the information with regard to that, but he has not done so as yet.

Mr. DAVISON. I do not see what more you need. A bank can act as agent for its correspondent, whether a corporation or an individual, and perform any service that the man asks it to do. That is all they are doing. I do not see what limitation there would be on our doing that.

The CHAIRMAN. The suggestion has also been made to this committee that one of the main causes of this great suction of money into New York from the country during speculative periods is due to the fact that the big banks in New York offered to their customers to place so much of their funds in the market, provided they would keep certain balances with them, and that that has been a method of securing this business from the country which has finally resulted in plaguing the big New York banks.

Mr. DAVISON. I do not think there is anything in that. What I am trying to emphasize is that at the present time the action of the correspondent bank is the action of the bank in the locality. It is not the action of the New York banks or what the New York banks would like. It is what they wanted to do. They are independent, and to sacrifice that I think would be a great sacrifice and would be a menace to our general welfare.

The CHAIRMAN. The Comptroller of the Currency has recommended to this committee, as you know, an extension of branch banking over its present limitations—within the city limits—to a larger undefined area known as the trade area. Would you think it advisable to extend branch banking as he suggests?

Mr. DAVISON. No; I would not.

The CHAIRMAN. Would you extend it beyond the present limitations?

Mr. DAVISON. I think your national bank act has got to provide that the national banks can have branches wherever the State legislation permits State banks to have branches. You have got to do that, probably.

I can see no reason for the extension, and I think if the comptroller's suggestion were followed, you would find a wild orgy of speculation in bank stocks by the bigger banks and by big outlying banks that would make last year's affair pale.

Mr. STRONG. Mr. Davison, I apologize for being late and not having heard your statement, but from what questions you have answered, I understand you are opposed to an extension of branch banking?

Mr. DAVISON. Yes.

Mr. STRONG. The comptroller is advocating branch banking in trade areas, which he says is that circle of territory around the large moneyed or commercial centers that controls the trade of that terri-

tory. In the examination of the Governor of the Federal Reserve Board he intimated that they were trying to work out a system of trade areas in the United States which might amount to 37. He also said that he thought that trade areas would be broken down or at least he said this, that within 50 years, and it might be sooner, we would have nation-wide branch banking. He was followed on the stand by Mr. Giannini, of the Bank of Italy, who favored world-wide branch banking.

We had before us group bankers from Minneapolis, Detroit, St. Paul, Buffalo, and Atlanta. They seemed to think they had reached a proper system of banking and insisted they had improved financial conditions in their territories and they were in a sound condition. I remember that the group banks of Minneapolis and St. Paul had, within the year, gotten together over 100 banks each and insisted that it was a proper and permanent system of banking.

I have just been out to Tulsa, Okla., and Wichita, Kans., addressing the State bankers of those States, and a reliable banker, a man whose word can be accepted, stated he had visited St. Paul and Minneapolis and asked those groups up there what will be the ultimate result. They said, "Oh, well, eventually we will have nation-wide branch banking and we will sell out to New York interests and make several million dollars."

Mr. DAVISON. I think you have put your finger on the main spur to chain banking thus far, and chain banking is simply something they can do when they can not do branch banking. I think there are now groups of chains forming out of fear.

Mr. STRONG. I mention this because I believe the desire for group banking is eventually to make money by selling out to branch banking systems in the great money center, which is New York.

Mr. DAVISON. I have called attention in the memorandum I submitted—I did not put it in the paper which I took out to San Francisco because, while I had it in the back of my head, I did not have enough concrete instances to speak about it, but when I got out there I injected a little memorandum that is contained in the paper which is typewritten here [exhibiting]. The thing that amazed me was the way everybody was talking about the price of bank stocks and the price of group shares and the effort every member was making to maintain the prices. That was all I heard, and there is no question in the world, and I am very firm in what I stated before you came in, that the primary purpose of chain and group banking has been stock promotion and speculation; and if you open the door, you will see some more.

Mr. STRONG. Another thought that comes to me in connection with this whole development, and which these hearings evidence will eventually lead to nation-wide, if not international branch banking, is the proposition you suggest, namely, that the head bank's control of the branch banks destroys the independence of individuals in the community where unit banks previously existed. If we had nation-wide branch banking, that can result in but one proposition; that is, driving out the middle class of people, as it has driven them out in every country of the world where they have had branch banking, and that will destroy the independence of the American citizen which this Government was built to maintain. Do you agree with that statement?

Mr. DAVISON. I do.

Mr. STRONG. I thank you. That is all.

Mr. DAVISON. There was a suggestion, I do not know how true it was, that a premium was being offered to the branch manager or the manager of an outlying branch who could send money to the local center. That is a natural development of that idea, beyond any question, whether it actually happened or not.

The CHAIRMAN. Some of the members of the committee are in quite a quandary as to just what this committee or Congress should do. We are in the midst of this study, and the disclosure of the fact that there is an opportunity for business or for making money has undoubtedly accelerated the development of this movement to chains and groups; and almost daily we are advised through the press of new groups being started, combinations which are attempting to build up stronger positions in this particular line. We know perfectly well that this committee can not act, in a legislative way, until we have completed this study. None of us knows what should be done. We will be very glad, in view of this situation, if you have any suggestion in regard to what we should do, to have you make those suggestions.

I introduced on the spur of the moment, a few weeks ago, when Mr. Ottley was on the stand and somewhat at his suggestion and others, a bill which would tend to limit the acquisition by groups of national banks and member banks of the Federal reserve system, these being the only banks over which we have authority. This bill provided that before any banks or groups can acquire member banks, they should have the approval of the comptroller's office or of the Federal reserve. This was intended as a possible check on improper associations being built up, as there is a limitation in the bill to 10 per cent ownership of the stocks in such banks. Any acquisition beyond that must first be submitted to the Federal Reserve Board or to the Comptroller of the Currency. There has been strenuous opposition to that. It was simply an attempt to obtain some control over such matters until we could decide what should be done in a legislative way, for the best interests of the country. It has been very difficult to find any language which could be introduced into law that would regulate chain banking because, in the final analysis, it comes down to the question of who is fit to own bank stock. Can you give any help along this line?

Mr. DAVISON. I can prepare something and submit it to you. Of course I have not touched on the matter of who is responsible. We have made much of the double liability, and if I form a holding company that holds the stocks of a chain of banks—and the history of chain banking shows that when one goes the others go—you lose your double liability.

The CHAIRMAN. We shall be glad to receive it. If you send it, it will be inserted in the record following your remarks here. I should like to say in addition, that we hope you will be very free in your suggestions to the committee.

Mr. STRONG. And I should like to point out further that while we are engaged in these hearings these banking groups are being formed and being developed.

Mr. DAVISON. Undoubtedly.

Mr. STRONG. In fact, the chairman, in whose opinion I have a great deal of confidence, has stated that within two years we will have branch banking in every State in the Union.

The CHAIRMAN. Here is a clipping from the New York Tribune of May 31, 1930, in which it states:

MARINE MIDLAND GAINS STRENGTH IN UTILITY FIELDS

At the outset Marine Midland consisted of the Marine Trust Co., of Buffalo, Union Trust Co. of Rochester, and 13 others. The total of 15 has been subsequently increased to 18. The Fidelity Trust Co. of New York, recently acquired, gave the Marine Midland banking chain a foothold in New York City, where it is also planned to form the Marine Trust Co. of New York with initial capital of $25,000,000.

That is an enlargement of the scope over that indicated by Mr. Rand when he was before the committee a couple of weeks ago.

The press also carried yesterday a statement covering the formation of the Caldwell group in Tennessee, embracing $600,000,000 of assets, and there are indications around that other situations are developing, especially in western Pennsylvania, where it is indicated a New York group, the August Belmont group, are organizing a $50,000,000 chain of banks in western Pennsylvania. There is also an indication in Pittsburgh that such a thing is happening, and in other sections, this is rapidly developing.

Mr. STRONG. I would suggest, if I had control, that we conduct these hearings for another year, and that we pass legislation that would prevent this development in the meantime.

The CHAIRMAN. This has a very great influence on the Federal reserve, as now constituted.

Mr. DAVISON. I think Mr. Dawes pointed that out very well in his statement.

Mr. STRONG. Mr. Davison, if this control of the credits of banks and of banks, extends throughout large trade areas and throughout Federal reserve districts, so that the banks are united in control, through group banking, what effect do you think that will have on the Federal reserve banks? Would they not control the Federal reserve banks very largely?

Mr. DAVISON. It is quite possible.

Mr. LUCE. Mr. Davison, I gather from the name of the banking institution you represent, yours is not a national bank?

Mr. DAVISON. No.

Mr. LUCE. Why do you continue as a State bank?

Mr. DAVISON. Possibly inertia, because we started that way. The foundation of the company was two trust companies, the Central Trust Co. and the Union Trust Co. At that time national banks could not do a trust service. The main portion of our business was corporate and personal trust business for a long while.

Mr. LUCE. Yours is an amalgamation of a trust company and a national bank?

Mr. DAVISON. Yes. We merged with the Hanover National Bank last year.

Mr. LUCE. You had at that time the opportunity to continue either as a national bank or as a State bank?

Mr. DAVISON. Yes.

Mr. LUCE. What were the reasons that impelled you to choose the State bank form?

Mr. DAVISON. I think largely our history.

Mr. LUCE. And I infer that you see no practical advantages that either system has over the other?

Mr. DAVISON. Practically none to-day.

Mr. LUCE. We are in this situation: We are now considering this and many other problems that come before this committee and we find ourselves hampered by the existence in this country of one system that seems to be quite beyond our control. Do you expect that the memorandum you contemplate submitting will show us any way in which this committee or this Congress can interfere with your operations?

Mr. DAVISON. As a matter of fact, most of the banks of the country now belong to the Federal reserve system—75 per cent, at least.

Mr. LUCE. Not in number.

Mr. DAVISON. Certainly in assets. We are a member of the Federal reserve system; so that you do control our operations.

Mr. LUCE. So long as you choose to stay in the system, but you can, at any minute, leave the system.

Mr. DAVISON. No State bank has gone out of the system.

Mr. LUCE. I thought our information was quite to the contrary in reference to some Ohio banks.

Mr. DAVISON. I was not familiar with that.

Mr. LUCE. I am informed by the chairman that I was in error about the Ohio banks, but there still remains the fact that, excepting indirectly and with no complete power, we, in this room and in Congress, may not issue orders to you.

Mr. DAVISON. No.

Mr. LUCE. Now, if you and I were building a new banking system in this country, might not that embarrassing situation be one of the first we would face?

Mr. DAVISON. I do not know. I do not know that it is as acute as you suggest.

Mr. LUCE. Let me continue the line further. I understand that the measure of temporary restraint which the chairman has introduced applies to national banks. Is there any way in which we could compel your bank to refuse ownership of more than 10 per cent of its stock to any other person?

Mr. DAVISON. As long as we remain a member of the Federal reserve system, yes.

Mr. LUCE. But if you found it to your advantage to leave the system——

Mr. DAVISON. I can not conceive finding it to my advantage.

Mr. LUCE. But there are scores of banks in the country that seem to find it to their advantage to leave and to join a group, see more advantage in joining a group than staying in the Federal reserve system, perhaps.

Mr. DAVISON. I can not conceive of that situation arising with respect to our bank or to any bank of our character. As I stated—I do not know whether you were here—I think since the stock market debacle, the principal formation of chain and group banks has been influenced by fear, fear inspired by the pronouncement made that Washington favored an extension of branch banking, and groups in

localities are getting together so that they will not be easy prey to anyone who wants to buy them.

The CHAIRMAN. Will you explain just what you mean by "favored by Washington"?

Mr. DAVISON. The statement came out that the comptroller's office favored it. When I was in San Francisco I heard that the Treasury Department favored it. I do not think that has been borne out by the facts, and everybody was in a tremor that this thing was coming and it was a situation they had to meet. That is why I repeat what I said, whatever opinion your committee has and Congress has, the sooner it is determined, the better I think for the whole situation.

Mr. LUCE. We observe in every important line of activity in this country to-day a marked tendency toward consolidation. We observe that the important lines of retail trade and of wholesale trade and of important industries are all responding to what looks like an economic urge. In none of those fields that I have observed, has any element of fear entered. It has apparently been wholly due to the belief of men that more profit is to be made through the economies that result from consolidations. Why do you think that in banking this movement has some unique cause?

Mr. DAVISON. I do not say that it has any unique cause. I do say that the analogy between chain stores and other consolidations in no sense exists in banking. Banking has always been regarded as a public service and regulated, and should be regulated, because of its public character. As I stated before you came in, four-fifths of all the bank's money is depositors' money. It is not the bank's money; and I think the obligation of the bank—and I am repeating what I said before you came here—is primarily to the depositors and secondarily to the stockholders.

Mr. LUCE. I am greatly interested, of course, in your line of thought; but to my mind, to use a threadbare quotation, "it is not a theory but a condition that confronts us"; and, at the moment, it strikes me that it is our duty to face a condition and not a theory of banking; not the wisdom or prudence of it primarily, but the palpable fact that in every path of human endeavor consolidation is the order of the day, and you still do not make it clear to me why, on the sole line of profit through consolidation, banks should be considered in a class by themselves and somehow different in respect to the motives that are urging men to act.

Mr. DAVISON. I certainly have tried to make it clear that I think you should regulate branch banking and you should regulate chain and group banking so as to prevent any one central community controlling and dominating the banking interests and banking powers of smaller communities. I made that very emphatic. I do not know whether you were in the room or not.

Mr. LUCE. At this time in the session of Congress every Member of the House is greatly burdened with duties, and it is not possible to be here for every minute.

Mr. DAVISON. I do not——

Mr. LUCE. I am simply saying that in apology for not being present when you made your opening statement.

Mr. DAVISON. It is not necessary to apologize, but I simply repeat that in this memorandum I go quite fully into the reasons why banking is different from selling groceries.

Mr. LUCE. Certainly we all appreciate that fact, but that is not the question I am driving at. I am leading up in the endeavor to find a concrete basis for action. I am leading up to an inquiry as to how it is possible, viewing all the methods of evasion that are open, to prevent one man owning the stock of two banks.

Mr. DAVISON. I know of no way.

Mr. LUCE. If there is no way to prevent it how is it going to be possible to check group banking?

Mr. DAVISON. The chairman suggested one method that certainly membership in the Federal reserve bank will enable you to make effective, that no one should be permitted, or that no outside group should be permitted to own more than a certain percentage of the stock of a bank of that kind.

Mr. LUCE. Granting that a law could be passed that would prevent Jones from holding stock in a greater amount than 10 per cent in your bank or any other bank, how can you prevent Jones from owning more than 10 per cent in one bank and Mrs. Jones more than 10 per cent in another bank, or how can you escape the ordinary recourse to straw men? How can you prevent a group of men from dividing up amongst themselves, the stock of the banks? It is the possibility of evasion, at any time, of legislation that is one of the factors we must consider, and if we, so far, have been shown no way to do these things, I think we must accept the condition and face it.

We have this same problem before us in other fields. There is a committee now engaged in studying the question of joint holdings of railroads. The members of that committee look upon it as even more important than our problem. There are measures that are being urged upon us to prevent the joint holdings of chain stores. Our mail contains many appeals to stop this, but no one tells us how, assuming it should be done.

Now, after that little speech, let me ask you this question: If it should prove beyond the powers of legislative bodies to stem the tide of consolidation, and we had open to us only the power of regulating and directing, would you prefer that we direct the carrying of bank consolidation into the branch field rather than the group field?

Mr. DAVISON. I would.

Mr. LUCE. That answer meets one very important problem before us. Now, if we are going to direct it into the branch field, will you give me a reason why your bank ought not to have a branch in Jersey City?

Mr. DAVISON. Well, of course, Jersey City is not very remote from New York.

Mr. LUCE. Well, make it Newark.

Mr. DAVISON. Well, Newark has its own problems. It has credit situations and public situations that we, in New York, probably could not be fully familiar with. We would have to get a second-hand report from someone else and I think it would be altogether wrong that New York should be dictating the credit and banking policy of a locality in another city and one in which we were really foreigners and strangers.

Mr. LUCE. You feel more at home in Harlem than in Newark?

Mr. DAVISON. Naturally we would; yes, sir. But the situation is altogether different. Harlem is a place of small businesses and homes and the banking situation there would not involve big industries.

It would not involve the city or the county or a great number of local different activities like a city of the importance and character of Newark or Jersey City.

Mr. LUCE. Does the New York law permit you to open a branch in Poughkeepsie?

Mr. DAVISON. No.

Mr. LUCE. In many States, state-wide branch banking is permissible.

Mr. DAVISON. Yes, sir.

Mr. LUCE. Of course you know a great deal more about the situation there than I do, but I live in a suburb of Boston, 10 miles out. Newark is about 10 miles from New York, is it not?

Mr. DAVISON. Ten or fifteen miles, something like that.

Mr. LUCE. As a suburbanite, all my business life, I have a reasonable belief that the business men in Boston are pretty well informed about the district within a radius of 15 miles. Most of them live there.

Mr. DAVISON. Newark would resent being called a suburb of New York.

Mr. LUCE. Resent it or not, the fact is, geographically, it is in propinquity to New York.

Mr. DAVISON. I do not think economically, socially, or in any other way, it is a suburb of New York. As a matter of fact, you call up Poughkeepsie. In discussing this paper last August with one of my officers, in clarifying one point, he happened to ask me, "What would you say about a branch in Bridgeport?" I said that "That would probably involve a great many of the elements we have here, but if you go to Poughkeepsie, you will find a great many elements that do not exist here, especially with respect to farming conditions."

Mr. LUCE. If you have your office in Poughkeepsie, the observation we have had here of the workings of branches wherever they have been established, has led us to think that in all the ordinary, everyday transactions, the authority rests with the local representatives of the central banks.

However, that is all, and I thank you.

The CHAIRMAN. Mr. Davison, before turning you over to another member of the committee, in view of what you have said, I should like to ask you whether or not promoters and officers of banks engaged in organizing chains and groups, and also the extension of branch banks beyond the present limits, are not forgetting the fact that four-fifths of the banks' assets belong to the public and that the officers are, in a sense, only trustees, and rightfully subject to State and governmental supervision, and under these circumstances, whether we should not be even more careful in supervision to protect against possible exploitation by aggressive and greedy operators who are doing this for a profit. Should not the public have the assurance that these operations are being scrutinized more than heretofore?

Mr. DAVISON. I agree with that.

Mr. GOLDSBOROUGH. Mr. Davison, in discussions on the floor of the House in the last nine years and in this committee, as far as I can tell, the three major reasons given by the proponents of branch banking have been first, the number of failures that has taken place in banks in the last 9 or 10 years; second, the fact that branch banking would stop group banking and chain banking; and third, that branch banking in the national system is necessarily in order to enable

national banks to compete with State banks in States that grant the right to State banks to establish branches.

Now, my theory has always been that none of these three reasons had anything to do with the real reasons behind this movement for branch banking and, in order to try to clarify that situation, on January 9, 1930, I introduced a bill which, if enacted into law, would do three things: It would compel dissolution of group banks and chain banks and it would prevent any further extension of branch banking among State banks.

Now, assuming that that legislation, in its entirety, is constitutional and could be done, do you think you would favor it?

Mr. DAVISON. I think so.

Mr. GOLDSBOROUGH. With your permission, I should like to send you a copy of this bill, and a copy of a statement that I made in support of the constitutionality of it, and when you communicate with the committee I would appreciate it if you would comment on this bill.

Mr. DAVISON. I would be very happy to do that.

Mr. GOLDSBOROUGH. Now, these banks that have failed, especially in the Northwest, in the last nine years, in your judgment, in the case of most of those failures, have they not occurred because of credit conditions arising out of the war?

Mr. DAVISON. I think so. I made that statement.

Mr. GOLDSBOROUGH. I am very sorry I could not be here to hear it. You think, do you, that the unit system, which has built up the country, is as valid now, under normal conditions, as it ever was?

Mr. DAVISON. I certainly do.

Mr. GOLDSBOROUGH. Now, do you not think that the pressure which is coming for branch banking, is coming not from the districts which would have branches, but from interests in metropolitan areas who would like to acquire credit control over those districts? Putting it in another way, do you think that the rural districts of the country are making any demand for branch banking?

Mr. DAVISON. I do not. I think the thing started in the opportunity for speculative and commercial profits.

Mr. GOLDBSOROUGH. I think that is all.

Mr. LETTS. Mr. Davison, I have only one question. I was impressed with your statement as to the talk which you encountered at San Francisco. I understood you to say that you found the conversation out there to be with respect to the price of bank stocks and of group holdings.

Mr. DAVISON. I did.

Mr. LETTS. And that, I take it, arises from the fact there have been many consolidations, more than anything else?

Mr. DAVISON. Yes.

Mr. LETTS. And that implies speculation?

Mr. DAVISON. It does.

Mr. LETTS. In your judgment, would it be advisable, if possible, to stop speculation in bank stocks?

Mr. DAVISON. No.

Mr. LETTS. We think we should have speculation there the same as in other stocks?

Mr. DAVISON. I do not think you can help it. Anything that is ever sold, you can not escape people buying in the hope it will go up.

Of course, the history of bank stocks in New York City has been, over a long period of years, that they are very profitable.

Mr. LETTS. Assuming it were possible, do you think it would be advisable to prevent speculation in bank stocks?

Mr. DAVISON. I do not like legislation that restricts normal activities.

Mr. GOLDSBOROUGH. It is a restriction of trade, is it not?

Mr. DAVISON. Absolutely.

Mr. LETTS. I have often noted, where there is a consolidation of two banks, that when the prospect or plan for consolidation is announced, the stocks of each bank go up.

Mr. DAVISON. That is frequently bound to be the case, because one bank is getting a little more in price than it heretofore commanded in the market.

Mr. LETTS. Do you not frequently see where stocks of both banks go up?

Mr. DAVISON. Frequently, like last year, where you had a speculative furor; yes.

Mr. LETTS. But is it not a fact that when you get a better price for the stock of one bank, you decrease the assets of the other?

Mr. DAVISON. I do not think so always. There may be an actual gain to both in the consolidation.

Mr. LETTS. That is what I want to get at. How can there be profit in the mere combination of two banking houses?

Mr. DAVISON. Well, now, take the merger of the Hanover Bank and the Central Union Trust Co.: We had a commercial business in modest proportions, and a very large trust business and had a large number of correspondents and a large number of commercial customers. Instead of doing business in two offices, we do it in one. It happens to be the one we have just moved in. We can handle the whole of the commercial business and the trust business much more economically than we could handle separately the two types of business. The contact we have had in years past with the number of new customers has awakened them to the possibilities in the line of our trust service that the bank can offer that customer now that the Hanover did not handle. I think there has been a decided gain to both companies, the two services supplementing one another. It is well rounded and complete.

Mr. LETTS. Is it not a fact that in these consolidations, the personnel of the two banks are retained, perhaps going in one house, with the result that the bank is overmanned?

Mr. DAVISON. I think that will correct itself if it is true.

Mr. LETTS. Is it not often seen that the agreement for the consolidation resolves itself finally to a case of taking care of the personnel of the two institutions?

Mr. DAVISON. I have seen but two such agreements in my life and personnel has not been mentioned in either.

Mr. LETTS. You think, then, that the profit which arises out of such a situation is due to the economies which are effected?

Mr. DAVISON. Yes; and the increased contacts and business that goes with it.

Mr. LETTS. Does it give you increased contacts or simply combine the contacts of the two institutions?

Mr. DAVISON. I explained to you a moment ago that the Hanover had very little trust business. We call to the attention of all Hanover customers what we could do in taking care of securities and trust business. It has given us a contact with people that we ordinarily would not have had. That is merely one instance.

Mr. LETTS. I have seen bank stocks sell very much above their book value.

Mr. DAVISON. They always do and there is a reason why they should.

Mr. LETTS. Will you please explain that reason?

Mr. DAVISON. Take our situation here: I explained that our capital surplus, and undivided profits aggregate $105,000,000. It represents an investment of $7,000,000 by the stockholders; in other words, the book values of our stocks and the dividends paid have never measured their earnings because we have always, over a long series of years, put back part of our earnings into surplus and built it up.

Mr. LETTS. Does not that reflect itself in the book value?

Mr. DAVISON. Possibly, but it also means——

Mr. LETTS. The book value——

Mr. DAVISON. It also means you are storing up always for the future.

Mr. LETTS. But all of that is represented in book value?

Mr. DAVISON. It is not in book value. The earnings in our trust department are in no way represented by any asset on my books.

Mr. LETTS. How is book value determined?

Mr. DAVISON. The book value is the value of your securities and assets over the amount that you owe your depositors.

Mr. LETTS. Yes, and that would include the reserve, of course?

Mr. DAVISON. Includes everything that we have that we do not have to pay out, but it does not measure in any way the vast business that we have built up where I am acting as trustee or executor or taking care of other people's properties or acting as registrar in the transfer of corporate trusteeships.

Mr. LETTS. Is that spoken of as good will?

Mr. DAVISON. Yes; but it is a very tangible asset.

Mr. LETTS. How is it tangible? Is it not intangible?

Mr. DAVISON. No, it has a regular earning.

Mr. LETTS. It is not anything you can take hold of.

Mr. DAVISON. I take hold of it every year.

Mr. LETTS. How?

Mr. DAVISON. The money that comes in from the service I render.

Mr. LETTS. As soon as you have earned it, it becomes quite tangible.

Mr. DAVISON. Yes, but I am going to earn it the next year too.

Mr. LETTS. You are talking about good will?

Mr. DAVISON. No.

Mr. LETTS. Good will is what you will earn in the next year and the year following. That is not tangible.

Mr. DAVISON. Where the business is fixed, in my opinion it is.

Mr. LETTS. Can it be said that you are a fixed part of that institution?

Mr. DAVISON. I do not mean me.

Mr. LETTS. Can it be said that any part of your personnel is fixed and definite?

Mr. DAVISON. It is not a question of personnel. For example, you have named me as trustee of a trust for which I make an annual charge.

Mr. LETTS. Can it be assumed that this potential earning power is something that may not be destroyed?

Mr. DAVISON. I think so; yes.

Mr. LETTS. It can not be destroyed?

Mr. DAVISON. That is right.

Mr. LETTS. I am not speaking of possibilities in your bank, but in other banks, have we not seen men, by their own dishonesty, destroy those earnings?

Mr. DAVISON. You are not bringing in such elements——

Mr. LETTS. Why not?

Mr. DAVISON. Because I am assuming you are going to have capable management.

Mr. LETTS. How can we avoid it when we are talking about potential earnings which I prefer to call good will and which you do not accept under that name?

Mr. DAVISON. No; now just a moment. I say some of the earnings of the future are not in what we would call ordinarily good will. Good will, as I figure it, means an earning which it is assumed will go on because you have been earning in the past that sort of money.

Mr. LETTS. And because you have the confidence of the community that you serve.

Mr. DAVISON. We have the confidence of the community that we serve, yes. Now, any increase in my trust company I would say would go to your form of good will, but what is already on the books and which I retain as long as I remain honest, is not good will. So, we only differ as to part, anyway.

Mr. LETTS. I went a little further into this than I intended to, because you resisted the idea there was an intangible character——

Mr. DAVISON. And I was probably wrong.

Mr. LETTS. And you seemed to think it was something that is tangible.

Mr. DAVISON. I was trying to separate your good will into two elements. It is purely technical however.

Mr. LETTS. I would like to get that into the record—just what those two elements are. A part of it, I assume, would be the faith that the community has in the personnel.

Mr. DAVISON. Yes.

Mr. LETTS. And a part of it would rest upon the success of the institution in the past and its ability——

Mr. DAVISON. I think that is good will.

Mr. LETTS. And its ability to serve the community in its needs?

Mr. DAVISON. Yes.

Mr. LETTS. What other elements are involved?

Mr. DAVISON. In good will, I should say none.

Mr. LETTS. Then, in this potential earning power that you speak of, would there be anything else?

Mr. DAVISON. What I was trying to make clear and I do not think I got across to you, is that, for example, we have been created a joint trustee in a number of estates or by a number of individuals and those trusts run on for an indefinite period of years. They are terminable only for misconduct, say. Now, I say that the earnings

you make from that are a measurable quantity and do not constitute an element usually known as good will which depends on your continuing to have the confidence of the community and to get new business and make earnings. That is the distinction I was trying to make.

Mr. LETTS. That relates to the trust activities of the institution?

Mr. Davison. Yes.

Mr. LETTS. And not what we regard as banking, technically?

Mr. DAVISON. No.

Mr. LETTS. Well, the thing I was primarily interested in, was in knowing whether it is a good thing that we should have speculation in bank stocks.

Mr. DAVISON. I think most speculation is unfortunate, but it has some advantages in some cases, and I do not know how you can stop it without restraining unduly freedom of activity.

The CHAIRMAN. May I ask a question right there, Mr. Letts?

Mr. LETTS. Certainly.

The CHAIRMAN. In connection with speculation in bank stocks, do your increased facilities for trading accelerate trading in bank stocks?

Mr. DAVISON. I think the facilities have come because of the desire to trade. They are not quoted on any exchange. It is all over-the-counter market.

The CHAIRMAN. Of course the general public does not always recognize it is a slower market and subject to more fluctuations than in the listed stocks.

Mr. DAVISON. Beyond peradventure.

Mr. LETTS. Can book values be accurately determined from bank statements?

Mr. DAVISON. I should say so, generally; yes.

Mr. LETTS. How close does that come to actuality?

Mr. DAVISON. As far as the physical assets are concerned, I think, it is actual.

Mr. LETTS. Then, some of these elements that we have been talking about would induce any prudent investor in going to a higher value?

Mr. DAVISON. Absolutely.

The CHAIRMAN. Referring to your colloquy with Mr. Letts in regard to good will, that asset might be entirely depreciated, might it not, by a change of management, where an inefficient management would come in?

Mr. DAVISON. I think so; yes.

Mr. SEIBERLING. I understand from your San Francisco speech and from your statement here to-day that you believe that correspondence banking is a solution of many of our difficulties?

Mr. DAVISON. No, I say that correspondent banking offers all the advantages that are claimed for branch banking, and that the correspondent banking has been a slow growth which some thought would be terminated by the Federal reserve system, but still persists because of the service it renders.

Mr. SEIBERLING. But you think it is very much the better system?

Mr. DAVISON. Yes, sir: leaving principal dealing with principal and not employee with employee.

Mr. SEIBERLING. Approximately how many correspondents has the Central Hanover Bank & Trust Co.?

Mr. DAVISON. Approximately 3,000.

Mr. SEIBERLING. What I want to get at is what your relationship is and what you really do. You loan these correspondents funds from time to time, I take it?

Mr. DAVISON. Yes.

Mr. SEIBERLING. And do you require collateral?

Mr. DAVISON. In some cases we have collateral and in other cases we do not have collateral.

Mr. SEIBERLING. In most cases you have collateral?

Mr. DAVISON. I would not presume to say which is which.

Mr. SEIBERLING. If you loan a country bank in Ohio or in Illinois—one of your correspondents—you would have collateral?

Mr. DAVISON. Sometimes yes and sometimes no.

Mr. SEIBERLING. You charge interest on those loans?

Mr. DAVISON. Certainly.

Mr. SEIBERLING. Would you consider it good business to loan money to a correspondent out in the country if you did not have good collateral for your loan?

Mr. DAVISON. We have done it.

Mr. SEIBERLING. But there are not very many instances of that? I have been connected with the banking business, and as a rule when banks borrow money from New York they put up collateral, do they not?

Mr. DAVISON. I should say, generally, yes.

Mr. SEIBERLING. Then, that part of it is a business arrangement; in other words, your correspondent carries a balance with you and draws drafts on you and you pay interest on those daily balances?

Mr. DAVISON. Yes.

Mr. SEIBERLING. And when they get into trouble and need money, you go out and look them over——

Mr. DAVISON. It is not only when they are in truoble they need money. In the normal course of business, they frequently need money. They have collateral or receipts which they can not discount with the Federal reserve bank.

Mr. SEIBERLING. If, for any reason, they need money, they have to bring satisfactory collateral to New York and pay a satisfactory rate of interest, and then you lend them money?

Mr. DAVISON. Yes.

Mr. SEIBERLING. Now, you have heard some talk about the number of banks that have failed. I think it is somewhere around 10,000, since 1920. These have been unit banks and it is the failure of these unit banks that gives rise to this investigation and to an endeavor to find some method of rectifying these great losses, which has occurred to sections of our country.

Mr. DAVISON. There have been no failures in New Jersey——

Mr. SEIBERLING. I find I should have said between five and six thousand bank failures. You are opposed to chain and group banking, of course?

Mr. DAVISON. I think it is unfortunate.

Mr. SEIBERLING. You believe in the unit bank?

Mr. DAVISON. I do.

Mr. SEIBERLING. If we had to make some change you would prefer to go to limited branch banking rather than chain and group banking?

Mr. DAVISON. I would, because of the responsibility.

Mr. SEIBERLING. How many of your correspondent banks fail during the period from 1920 to 1930?

Mr. DAVISON. I could not tell you.

Mr. SEIBERLING. Some of them have failed, have they not?

Mr. DAVISON. Yes.

Mr. SEIBERLING. Now, what did your bank do as correspondent in New York, to keep these banks from failing?

Mr. DAVISON. Well, in many cases, we loaned them money in trying to help them.

Mr. SEIBERLING. But not without giving collateral, and you had a prior claim on the assets of the bank when it failed?

Mr. DAVISON. On some of the assets. It has not always been a fortunate loan.

Mr. SEIBERLING. You got your money before the depositors?

Mr. DAVISON. We did not always get it.

Mr. SEIBERLING. You loaned some of those banks?

Mr. DAVISON. Yes.

Mr. SEIBERLING. But not many where you did not get it back?

Mr. DAVISON. Not too many or I would not be in business.

Mr. SEIBERLING. But you have loaned them money?

Mr. DAVISON. Yes; that is the reason they have us as correspondents.

Mr. SEIBERLING. A bank that is in bad financial condition—you could not do anything to protect the depositors of that bank, could you?

Mr. DAVISON. Unless the loan I make him carries him over.

Mr. SEIBERLING. If you take any collateral out of the bank, that does not help the depositor at all?

Mr. DAVISON. It frequently does.

Mr. SEIBERLING. Yes, if you save the bank.

Mr. DAVISON. We have frequently saved the bank.

Mr. SEIBERLING. The fact the bank was your correspondent, in some of these cases, did not keep them from failing?

Mr. DAVISON. They did not avail themselves of our advice.

Mr. SEIBERLING. You say Newark is too far away to give advice to from New York, yet you stress the point you can give advice to correspondents all over the United States which is valuable. I do not see how you can reconcile those two statements.

Mr. DAVISON. I can see how I can.

Mr. SEIBERLING. I wish you would do it.

Mr. DAVISON. I can give advice to a banker on the trend of the money market. If he has a lot of bonds and I am of the opinion that money is going to get dear, which necessarily means bonds will necessarily go down, I might save him many dollars by telling him when to sell, and I can investigate the securities and know more about them with a large organization, than he can with a small organization and being remote.

We are helping now correspondent banks that are sending young men on and staying six or seven weeks and learning about the trust business.

Mr. SEIBERLING. You do not think it would inure to the benefit of your Newark correspondent bank?

Mr. DAVISON. Yes; but the ordinary business of this bank is living from day to day and using the funds in loaning them in that community. That is the main business of a bank, and the country has been built up on character loans made by small bankers in small communities that knew the men they were lending money to, loans that would not pass muster if studied from the purely statistical viewpoint.

Mr. SEIBERLING. Your correspondent bank usually maintain balances in your bank?

Mr. DAVISON. Yes.

Mr. SEIBERLING. What rate of interest do you pay?

Mr. DAVISON. I do not know whether it is 1¾ or 2 per cent.

Mr. SEIBERLING. You pay them a rate that enables you to realize a profit out of the loaning of it?

Mr. DAVISON. Yes.

Mr. SEIBERLING. They can purchase securities from your bank?

Mr. DAVISON. We do not sell securities.

Mr. SEIBERLING. You do not sell securities at all?

Mr. DAVISON. No, sir.

Mr. SEIBERLING. They can loan on call through your bank, can they not?

Mr. DAVISON. Yes.

Mr. SEIBERLING. And of course you get a certain percentage of that?

Mr. DAVISON. We have recently; yes.

Mr. SEIBERLING. Now the questions I have asked you bring about the relationship between the correspondent bank and your bank, do they not?

Mr. DAVISON. Well, I think the questions and answers do. I think it is a much wider service than you apprehended when you started to ask me.

Mr. SEIBERLING. These 3,000 correspondent banks, maintaining balances in your bank, greatly increase your deposits and the money you loan on the street means a profit to your institution?

Mr. DAVISON. Yes.

Mr. SEIBERLING. Now, if there should be adopted trade area branch banking, and we had 35 different areas with large parent banks, many of the banks now correspondent branches of your bank would be lost to you, would they not?

Mr. DAVISON. I do not know. Some of these groups that have been formed maintain deposits with us.

Mr. SEIBERLING. If two or three big Chicago banks organized branches in trade areas and took over the unit banks in their trade areas that were correspondents of yours, you would lose them?

Mr. DAVISON. Unless the Chicago bank maintained a larger balance with us.

Mr. SEIBERLING. You would not have as many unit correspondents?

Mr. DAVISON. But I might have more money.

Mr. SEIBERLING. Now, the branch-banking plan that you were criticizing would really be detrimental to the interests of the New York banks, would it not?

Mr. DAVISON. I do not know—not necessarily.

Mr. SEIBERLING. Would not these large branch banks be independent, more or less, of New York?

Mr. DAVISON. They are quite independent now. That is the one thing I want to maintain—that they should remain independent.

Mr. SEIBERLING. Would they not be more independent of New York?

Mr. DAVISON. They would not. New York ultimately would probably dominate them.

Mr. SEIBERLING. In what way?

Mr. DAVISON. The ownership would get to New York.

Mr. SEIBERLING. You mean they would go out and buy the stock of these parent banks?

Mr. DAVISON. I think that is a natural thing.

Mr. SIEBERLING. This domination of money and credit is a valuable thing to New York?

Mr. DAVISON. No.

Mr. SEIBERLING. Why should they go out and buy the stocks?

Mr. DAVISON. To have the domination they do not now have.

Mr. SEIBERLING. If it is not valuable to them why would they buy them?

Mr. DAVISON. We are probably talking about different things. I did not say the New York banks, but I said the domination and control would probably end in New York, which is the money center.

Mr. SEIBERLING. Now, is not the main reason for your opposition to branch banking that you are sitting very prettily in New York now and you do not like to have any change made that would affect you?

Mr. DAVISON. Not at all.

Mr. SEIBERLING. You think that would have nothing to do with you at all?

Mr. DAVISON. I know it has not in my case.

Mr. SEIBERLING. I think in your San Francisco speech you said you believed that a small country bank, say in a 1-crop community, can diversify by placing part of its resources with a correspondent bank in a great city and through that bank purchase open-market commercial paper, readily marketable bonds, and acceptances, and make call loans.

Mr. DAVISON. I do not think I said it that way. I said that the correspondent bank would perform those services for the country bank.

Mr. SEIBERLING. Would not that practice result in a restriction of banking services to the local community in which the small bank is situated and throw the bulk of the business to a great metropolitan bank, by means of which the metropolitan bank makes a profit on every transaction?

Mr. DAVISON. It has not so far and would not do it near as much as if the bank in the community was a branch of a New York bank and then it would take money, if it was guided solely by the desire for profit, and place it where it would make the most money. At present the local bank decides where the money is to be placed, if it is available and not needed for the community—decide it, as a principle.

Mr. SEIBERLING. They are free to select their metropolitan bank?

Mr. DAVISON. Yes, sir; and use as much or as little as they care to in the community. If they were a branch, that matter would be decided for them by the parent bank.

Mr. SEIBERLING. Some of these local banks have several New York correspondents, do they not?

Mr. DAVISON. Yes.

Mr. SEIBERLING. Now, if a city bank in New York should endeavor to force its policy upon a correspondent bank or dictate to it what it should do, it could easily switch its account to another bank?

Mr. DAVISON. Yes; under the present system, which gives them entire freedom of action.

Mr. SEIBERLING. Now, then, if that is true and that switching of deposits or accounts to another New York bank is possible, and would be done if interference distasteful to the local bank is indulged in—can't prevent the New York bank from establishing or enforcing any given policy of banking in the country?

Mr. DAVISON. We can only offer advice. We can not compel acceptance of it.

Mr. SEIBERLING. And you have to be very careful about that?

Mr. DAVISON. I do not know. We have a rather nice relation with the bulk of them.

Mr. SEIBERLING. You have to be very careful about your advice because they may change to another correspondent bank?

Mr. DAVISON. It is built up in mutual confidence, on the same basis on which you maintain an account in your bank—because you like the people.

Mr. SEIBERLING. The banking business, above all other businesses in the country, is based on confidence?

Mr. DAVISON. Absolutely.

Mr. SEIBERLING. No bank can pay all of its depositors in one day and have to depend on the regular course of business and rely on that to conduct its business and I assume that is one of the reasons you are opposed to group and chain banking, because if one bank fails, confidence in the whole group is destroyed?

Mr. DAVISON. That is the experience.

Mr. SEIBERLING. And that is so with branch banking?

Mr. DAVISON. Well, a branch bank can not fail unless the parent bank fails.

You have the case in Georgia where 84 banks fail when one member of the chain fails.

Mr. SEIBERLING. I want to ask this question because nobody has yet satisfactorily answered the question here. Can you tell me how the call-money rate is fixed in New York?

Mr. DAVISON. As a rule by the demand for money and the supply.

Mr. SEIBERLING. And is it true the higher the stock market goes the more demand there is for money?

Mr. DAVISON. It happens that way because the higher the stock market goes, as a rule, the more speculation there is and the more people borrow on stocks, who do not own them, and naturally the greater the demand for money.

Mr. SEIBERLING. And when you have a large list of customers at your bank to borrow money on listed stocks, and the banks of New York are short and they have to have more money, the call rate goes up?

Mr. DAVISON. We do not have a list of customers at our bank borrowing on securities.

Mr. SEIBERLING. I do not mean little customers through the window, but if you have a lot of demand for money on good securities on the proper margin, you like to supply the money?

Mr. DAVISON. If we have it.

Mr. SEIBERLING. If it is not available in New York, they can put the call-money rate up and get the money?

Mr. DAVISON. Yes; it usually brings in more money.

Mr. SEIBERLING. Where did that money come from?

Mr. DAVISON. Part of it comes from out in the country. During the last year a great deal came from abroad.

Mr. SEIBERLING. What do you mean by "out in the country"?

Mr. DAVISON. In the United States.

Mr. SEIBERLING. Can you make any estimate as to the amount of outside money that was drawn into New York during the abnormal call-money period last year?

Mr. DAVISON. I can not.

Mr. SEIBERLING. Can anybody make an estimate?

Mr. BUSBY. I can give it to you if you want the percentage.

Mr. SEIBERLING. Can you figure that out for us?

Mr. DAVISON. If the statistics are available.

Mr. SEIBERLING. If you had the statistics, could you make a computation of it and give us a guess?

Mr. DAVISON. I think it could be done.

Mr. SEIBERLING. Would you mind doing it?

Mr. DAVISON. I will see what can be done.

Mr. SEIBERLING. I should like to have you put in it the record and show how much money came to New York during the high call-money rate period. Do you think the experience New York had last year in October was a good thing for the country?

Mr. DAVISON. Well, New York was the center of a disturbance which was the creation of a situation that was country wide.

Mr. SEIBERLING. I know, but——

Mr. DAVISON. And New York handled it wonderfully.

Mr. SEIBERLING. Do you think that the inflation and the stock-market collapse were good things for the country?

Mr. DAVISON. Of course not.

Mr. SEIBERLING. How bad a thing was it?

Mr. DAVISON. We have not yet found out.

Mr. SEIBERLING. It was very widespread?

Mr. DAVISON. Of course it was.

Mr. SEIBERLING. Have you any solution, not perhaps to stop it, but restrict it so it can not happen again?

Mr. DAVISON. I do not think you can stop it.

Mr. SEIBERLING. We are in a position where the Government that coins the money and is responsible for the circulating medium of this country, is without power to rectify a situation that produces disastrous results, which can not be remedied and can not be estimated?

Mr. DAVISON. Yes.

Mrs. PRATT. I think my ingenuity will be taxed to find new questions. However, I should like to get one point clear. Mr. Davison, you believe in the unit bank, not only in the large centers, but in the small towns, and I was wondering if you feel that this correspondent system—a system of having correspondents throughout the country,

large banks in the metropolitan centers having correspondents—takes care of the trouble better than any branch banking would?

Mr. DAVISON. I think it does, and I think it is truer to our traditions and prevents what you have been talking about, a money denomination or control.

Mrs. PRATT. Does it, in your mind, take the place of branch banking?

Mr. DAVISON. I think so.

Mrs. PRATT. It has been brought out here this morning that you have somewhat the relationship, with your correspondents, that a parent bank would have with its branches; that you are willing to give advice. In this instance you are in the central money market of the world and you are willing to help them out of difficulties?

Mr. DAVISON. I think we do everything that tends to benefit the community served by our correspondents, by lending money and giving advice, and so forth.

Mrs. PRATT. You think the trouble arises, largely, due to this country really being overbanked?

Mr. DAVISON. Yes. The statistics show that they had one bank for every 750 people in North Dakota and you have had more failures in North Dakota than anywhere else.

Mrs. PRATT. And it is adjusting itself and you would not be in favor of legislation to promote a new system?

Mr. DAVISON. I would not. I think the system that has grown up in our country is infinitely better than any branch system that is in existence in any foreign country, even in Canada, which is more like us than any European country could be. Their experience has been that it has not worked to the advantage of the people in the smaller communities as the unit system has worked here.

Speaking of speculation, I think you ought to stop the Florida speculation.

Mr. SEIBERLING. But the Florida speculation did not center around any organization in Florida that you know of, did it?

Mr. DAVISON. No.

Mr. SEIBERLING. But the stock speculation centers around the New York Stock Exchange.

Mr. DAVISON. Oh, there are three or four exchanges.

Mr. SEIBERLING. But the stock exchange in New York——

Mr. DAVISON. That is the largest exchange.

Mr. SEIBERLING. There is the center where this speculation is carried on.

Mr. DAVISON. I think the speculation in San Francisco is just as wide. Of course New York is the ultimate place.

Mr. SEIBERLING. That is not comparable with the Florida speculation. There was no center where it was carried on there. Individuals went down there and invested their money——

Mr. DAVISON. The brokerage offices in San Francisco were more crowded than the brokerage offices in New York, from what I have heard.

Mr. SEIBERLING. The stock exchanges are centers to encourage speculation.

Mr. DAVISON. Not to encourage it.

Mr. SEIBERLING. That is the way they live. You can not maintain an exchange unless there is speculation.

Mr. DAVISON. Oh, yes.

Mr. SEIBERLING. I do not think your illustration of the Florida speculation is comparable, myself.

Mr. DAVISON. All right.

Mrs. PRATT. I think it has been brought out here several times during the course of the hearings that there is a feeling possibly that New York is responsible for the money that comes into New York. Now, is not that really human nature? I think New York is blamed continuously that so much money is drawn there. The pressure does not come from New York to bring in the money, does it? Is not the anxiety of people outside of New York to get in responsible for its getting there?

Mr. DAVISON. I think you have expressed it very well.

The CHAIRMAN. In view of Mrs. Pratt's previous questions to you and your answers, in which you state you would not recommend any change in banking laws——

Mr. DAVISON. I mean revolutionary change, such as branch banking.

The CHAIRMAN. You realize since this development has taken place, that the unit bank is being succeeded by these other forms, and it is in a struggle—you might call it a death struggle. Many of the men who testified here, who are in favor of group and chain banking, have said that unit banking could exist along with it. Do you think that is possible?

Mr. DAVISON. I do not know. I read, coming down, what Mr. Dawes said about that, and I do not think I fully indorse his conclusions.

I happened to be speaking, last week, with a man in a rather sizable city who has a bank there, where the larger bank in that town had been purchased by a group or chain and his opinion was that his bank was growing while the other bank is not growing. His bank is growing for reasons of local pride and because it was locally managed and he thought the other was shrinking a little. That can only happen in a community that will support more than one bank. In a community that would support only one bank, I presume it would not be a unit bank.

The CHAIRMAN. Earlier this morning I referred to the scarcity of eligible paper. What effect on the amount of eligible paper for rediscount does the absorption of bankers' acceptances and prime bills by banks acting for foreign correspondents or foreign countries have on the eligible paper available for release of credit by the Federal reserve banks? Is that one of the reasons for the shortage?

Mr. DAVISON. I do not think so.

The CHAIRMAN. Would it not be logical, if eligible paper is absorbed by those banks to cover investments here, to be one of the reasons?

Mr. DAVISON. It might be.

(Discussion off the record.)

The CHAIRMAN. I think this completes the hearing before the committee, and the committee appreciates very greatly your appearance here, Mr. Davison.

(Whereupon, at 12.40 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m. Wednesday, June 4, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, JUNE 4 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10.30 o'clock a. m. in the committee room, Capitol; Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. In pursuance with an invitation extended by the committee, we have here this morning Mr. Albert H. Wiggin, head of the Chase National Bank in New York. Mr. Wiggin, will you please give the reporter your title, and so forth?

STATEMENT OF ALBERT H. WIGGIN, CHAIRMAN OF THE GOVERNING BOARD OF THE CHASE NATIONAL BANK OF NEW YORK

Mr. WIGGIN. My name is Albert H. Wiggin, chairman of the governing board of the Chase National Bank of New York.

The CHAIRMAN. Mr. Wiggin, as you know, the committee are engaged in the study of branch, chain, and group banking, under the authority of House Resolution 141. We are attempting to complete that study, under the authority of the resolution, at this session of Congress. Realizing the important position that you occupy as the head of one of the largest banks and banking groups in the country, if not in the world, the committee will value very highly any statement that you can make which may enlighten us or be helpful in this study.

We realize a great change in our whole banking situation in the country is under way, and the committee are desirous of getting all the light we can in case Federal legislation should be necessary. Therefore, we shall be very glad to hear any statement you may care to make.

Mr. WIGGIN. You should understand, Mr. Chairman, any statement I may make, or any questions I answer, are my own opinion. I am not here under instructions from our board or from the stockholders, or after any official consideration of the subject.

I have not prepared a statement for this occasion, my preference being to answer any questions that are asked, but I might, for the benefit of the record, to bring the subject up, read a statement I made at the time of the merger with the Mechanics and Metals National Bank.

The CHAIRMAN. Without objection, that will be placed in the record—or do you want to read it?

Mr. WIGGIN. It will be satisfactory simply to place it in the record.

The CHAIRMAN. Without objection it will be placed in the record at this point.

(The statement referred to is as follows:)

This merger, together with similar steps on the part of other institutions in the last two or three years, has been made the occasion of comments to the effect that mergers are the order of the day and that the line of logical development is toward fewer and much bigger banks. I am not prepared to subscribe to this doctrine without qualification, and I would not have our merger with the Mechanics and Metals National Bank judged on that basis alone. It is significant that while bank mergers are taking place, new banks of moderate size are also coming into existence and doing well. A merger may bring together organizations which can not work harmoniously and may combine interests which are not compatible. Each case must be judged on its own merits. Haphazard mergers merely for the sake of large figures do not assure good banking. In the case of the merger of the Chase National Bank and the Mechanics and Metals National Bank a great deal of careful thought and planning preceded the decision. The responsible officials of both institutions knew one another well before the merger, and were sure that they could cooperate in a friendly and efficient way. The merger has been accomplished with entire good will and with a minimum of friction and disturbance.

It may be observed that the Chase National Bank reached the position of the second largest national bank in the country in volume of net deposits without any mergers at all. Attaining great size through growth alone, it was able to develop a body of traditions, ideals, and practices which give it a distinctive character. The mergers which have since taken place have made it possible for us to give larger lines of credit to great business organizations, have made possible the more economical handling of many functions, and have broadened the range of our activities, but they have not destroyed the distinctive character of the Chase National Bank.

The CHAIRMAN. Have you any further statement?

Mr. WIGGIN. No; I would rather answer questions.

The CHAIRMAN. The other witnesses who have appeared have given us information pertaining to the institutions with which they are connected. If you have not with you this morning that information, I am going to suggest that you furnish for the record a statement of the Chase National Bank of New York.

Mr. WIGGIN. I shall be very glad to do that.

The CHAIRMAN. And affiliated companies.

Mr. WIGGIN. You mean a list of the affiliated companies or a statement of all of the affiliated companies?

The CHAIRMAN. We would like to have a statement of each company.

Mr. WIGGIN. We can do that very readily, and I will start it with the bank statement that was published this morning which is right up to date, and then give you the other statements.

The CHAIRMAN. I have a statement which appears in the New York Times under date of June 2, which gives a list of your branches, and so forth. I presume it is the same——

Mr. WIGGIN. This is a statement of the bank.

The CHAIRMAN. The two probably cover the picture and, without objection, they will both be placed in the record at this point, to be followed by other detailed data as regards your various affiliated companies.

Mr. WIGGIN. I shall be glad to furnish it.

(The statements referred to are printed in full, as follows:)

[New York Herald Tribune, Wednesday, June 4, 1930]

On June 2, 1930, The Chase National Bank, The Equitable Trust Co. and Interstate Trust Co. were formally merged as The Chase National Bank of the city of New York.

Statement of condition at close of business, June 2, 1930 [1]

RESOURCES

Cash and due from banks		$592,458,308.83
Loans and discounts		1,435,359,900.64
U. S. Government securities		228,710,596.93
Other securities		106,580,632.51
Real estate		34,771,643.58
Redemption fund—U. S. Treasurer		386,825.00
Customers' acceptance liability	$172,184,069.87	
Less amount in portfolio	20,018,289.14	
		152,165,780.73
Other assets		1,001,374.98
Total		2,551,435,063.20

LIABILITIES

Capital		148,000,000.00
Surplus		148,000,000.00
Undivided profits		60,723,478.27
Reserved for taxes, interest, etc		9,744,827.59
Dividend payable July 1, 1930		5,550,000.00
Deposits		1,916,236,313.91
Circulating notes		7,736,500.00
Acceptances	$176,775,899.86	
Less amount in portfolio	20,018,289.14	
		156,757,610.72
Liability as indorser or maker on acceptances and foreign bills		94,501,162.90
Other liabilities		4,185,169.81
Total		2,551,435,063.20

Each shareholder of The Chase National Bank is also the holder of a like number of shares of Chase Securities Corporation.

Capital funds of Chase Securities Corporation, which are in excess of $125,000,000, are not included in the bank statement.

Responsibility for policies and service is vested in the following board of directors:

Albert H. Wiggin, John McHugh, Charles S. McCain, Robert L. Clarkson, Winthrop W. Aldrich, Frank Altschul, Vincent Astor, Gordon Auchincloss, Earl D. Babst, Howard Bayne, Amos L. Beaty, Hugh Blair-Smith, Henry S. Bowers, E. N. Brown, Francis H. Brownell, Kenneth P. Budd, H. D. Campbell, Henry W. Cannon, Newcomb Carlton, Walter S. Carpenter, Jr., Malcolm G. Chace, Harold Benjamin Clark, J. S. Coffin, Howard E. Cole, Edward J. Cornish, Harvey C. Couch, Frederic R. Coudert, Clarkson Cowl, Paul D. Cravath, Bertram Cutler, Gerhard M. Dahl, Thomas M. Debevoise, Richard Delafield, Clarence Dillon, Franklin D'Olier, Frederick H. Ecker, Halstead G. Freeman, T. M. Girdler, David M. Goodrich, Edward H. R. Green, A. H. Griswold, William E. S. Griswold, Henry O. Havemeyer, Charles Hayden, James N. Hill, Arthur G. Hoffman, Ralph C. Holmes, George H. Howard, Daniel C. Jackling, Otto H. Kahn, Lewis Cass Ledyard, Jr., James T. Lee, L. F. Loree, H. Edmund Machold, John C. Martin, Thomas N. McCarter, Charles G. Meyer, Albert G. Milbank, Jeremiah Milbank, John G. Milburn, George M. Moffett, George Welwood Murray, Joseph D. Oliver, Henry Ollesheimer, Eugenius H. Outerbridge, Thomas I. Parkinson, Frank L. Polk, Robert C. Pruyn, Samuel F. Pryor, Lyman Rhoades, Andrew W. Robertson, Ferdinand W. Roebling, jr., Reeve Schley, Carl J. Schmidlapp, Charles M. Schwab, Alfred P. Sloan, jr., Robert C. Stanley, John C. Traphagen, Cornelius Vanderbilt, Thomas F. Vietor, George P. Whaley, F. Edson White, and Henry Rogers Winthrop.

Head office, Pine Street, corner of Nassau. Equitable Trust Branch, 11 Broad Street. Forty-five other branches in Greater New York.

Foreign offices: London, England (2); Havana, Cuba; Cristobal, Canal Zone; and Panama City, Republic of Panama.

Berlin Representative: Unter den Linden 57. Rome Representative: Piazza Mignanelli, 3.

[1] This statement does not include the statements of any of the affiliated organizations mentioned below.

Affiliated organizations: Chase Securities Corporation, American Express Co., Equitable Eastern Banking Corporation, American Express Bank & Trust Co., the Chase Safe Deposit Co., and the Chase Bank (Paris and Mexico City).

[The New York Times, Monday, June 2, 1930]

To-day the Chase National Bank, the Equitable Trust Co., and the Interstate Trust Co. are formally merged as the Chase National Bank of the City of New York.

The consolidated institution is controlled by a directorate of recognized leaders in American finance, industry, law, transportation, insurance, and public utilities.

Outstanding executives, chosen for their wide experience and ability in banking, investment, and trust service are available for personal consultation to clients of the consolidated bank.

Head office, Pine Street, corner of Nassau.

The merger gives the Chase National Bank 46 branch offices, in prominent residential and business districts of Greater New York.

Equitable Trust Branch, 11 Broad Street (formerly head office, The Equitable Trust Co.).

Produce Exchange Branch, 25 Broadway.

Mercantile Branch, 115 Broadway.

Maiden Lane Branch, 75 Maiden Lane.

National Park Branch, 214 Broadway.

Worth Street Branch, Broadway at Worth Street.

Importers and Traders Branch, Worth Street, corner of Church.

Franklin Branch, Franklin Street, corner of Hudson.

Prince Street Branch, Broadway at Prince Street.

Stuyvesant Square Branch, Second Avenue at Fourteenth Street.

Metropolitan Branch, Fourth Avenue at Twenty-third Street.

Garfield Branch, Fifth Avenue at Twenty-third Street.

West Twenty-third Street Branch, 338 West Twenty-third Street.

Fifth Avenue Branch, 204 Fifth Avenue.

Madison Square Branch, Madison Avenue at Twenty-sixth Street.

Twenty-eighth Street Branch, Madison Avenue at Twenty-eighth Street.

Pennsylvania Branch, Seventh Avenue at Thirty-second Street.

Mutual Bank Branch, 49 West Thirty-third Street.

New Netherland Branch, 40 West Thirty-fourth Street.

Seventh Avenue Branch, Seventh Avenue at Thirty-sixth Street.

Forty-first Street Branch, Madison Avenue at Forty-first Street.

Times Square Branch, Seventh Avenue at Forty-first Street.

Grand Central Branch, Lexington Avenue at Forty-third Street.

Forty-fifth Street Branch, Madison Avenue at Forty-fifth Street.

Forty-sixth Street Branch, Park Avenue at Forty-sixth Street.

Forty-eighth Street Branch, 18 East Forty-eighth Street.

Fifty-seventh Street Branch, 143 West Fifty-seventh Street.

Fifty-ninth Street Branch, Lexington Avenue at Fifty-ninth Street.

Park Avenue Branch, Park Avenue at Sixtieth Street.

Seventy-second Street Branch, Broadway at Seventy-second Street.

Seventy-fourth Street Branch, Broadway at Seventy-fourth Street.

Seventy-ninth Street Branch, Madison Avenue at Seventy-ninth Street.

Eighty-sixth Street Branch, Broadway at Eighty-sixth Street.

Columbus Avenue Branch, Columbus Avenue at Ninety-third Street.

Ninety-sixth Street Branch, Madison Avenue at Ninety-sixth Street.

Harlem Market Branch, 2011 First Avenue.

One Hundred Tenth Street Branch, Broadway at One hundred and tenth Street

Harlem Branch, Third Avenue at One hundred and sixteenth Street.

Manhattanville Branch, 422 West One hundred and twenty-fifth Street.

One Hundred Forty-ninth Street Branch, 368 East One hundred and forty-ninth Street.

One Hundred Seventieth Street Branch, 96 East One hundred and seventieth Street.

Washington Heights Branch, Wadsworth Avenue and One hundred and eighty-first Street.

Fordham Branch, 301 East Fordham Road.

Hamilton Trust Branch, 191 Montague Street, Brooklyn.

Avenue "M" Branch, Avenue "M" at East seventeenth Street, Brooklyn.

Queens Village Branch, Jamaica Avenue at Two hundred and seventeenth Street, Queens Village.

Foreign offices: London, England (2); Habana, Cuba; Cristobal, Canal Zone; and Panama City, Republic of Panama.

Berlin representative: Unter den Linden 57. Rome Representative: Piazza Mignanelli, 3.

Affiliated organizations: Chase Securities Corporation, American Express Co., Equitable Eastern Banking Corporation, American Express Bank & Trust Co., The Chase Safe Deposit Co., and the Chase Bank (Paris and Mexico City).

The CHAIRMAN. We should like also to have a list of your stockholders.

Mr. WIGGIN. The list of stockholders would be rather long. There are some 70,000 stockholders.

The CHAIRMAN. Could you do as was done in the Pujo Committee, furnish is a list of the stockholders owning over 500 shares of stock?

Mr. WIGGIN. We will furnish whatever limit you would like to put on. You understand that list of stockholders does not necessarily give the correct picture. They are frequently in broker's names or in the names of clerks; so, it does not necessarily give you what you are driving at, but we can give you whatever you want.

The CHAIRMAN. The question of double liability has been before this committee on various occasions. Where bank shares are held in the name of a dummy or in the name of brokers, or what you might call street names, the double liability goes against the name to whom the certificate is issued?

Mr. WIGGIN. The man in whose name it is, is liable to collect from the real owner. It usually carries through.

The CHAIRMAN. There is no getting away from that double liability when the stock is held in that manner? In some instances, it has been called to the attention of the committee that there was an increasing amount of stock being held by dummies who were not responsible and, by that method, they are getting away from the enforcement of the double liability.

Mr. WIGGIN. That might be true. The fact that the number of stockholders increases so rapidly, from year to year, does bring in a great many names that are not the actual owners and, of course, it would be very much more difficult to collect from the actual owners.

The CHAIRMAN. It is rather difficult to follow the ownership of the bank, particularly during these days of active markets on bank stocks?

Mr. WIGGIN. Correct.

The CHAIRMAN. And it raises practically a new issue as regards ownership of banks?

Mr. WIGGIN. Of course, the trading is apt to be in good banks and there is not very much danger of that liability.

The CHAIRMAN. I suppose that is so. We have pending here before the committee, Mr. Wiggin, a bill in connection with the regulation or supervision, more particularly, of affiliated companies by the supervising authority, the Comptroller of the Currency. You recognize, do you not, the necessity for such an examination to be made of affiliated companies with a national bank, when the comptroller makes his examination?

Mr. WIGGIN. Each unit would be under supervision. I assume that the purpose in auditing the holding company would be to prevent abuse in the use or the substitution of units.

The CHAIRMAN. To avoid a mixing of the assets; in other words, unless the supervisory force has access——

Mr. WIGGIN. I do not know that it is necessary, but it certainly would not do any harm. Each unit is going to have its own bank

officers. They take an oath of office and are bound to run that bank in an honest way, but I can see no harm in auditing the holding companies.

The CHAIRMAN. Take, for instance, your affiliated or holding companies, they are organized under the State of New York?

Mr. WIGGIN. We have no holding companies in the sense that they are bank holding companies. We have nothing of that kind. We do have the Chase Securities Co., but it was not organized to buy bank stocks, or anything of that kind.

The CHAIRMAN. The Chase Securities Co. originates and sells securities?

Mr. WIGGIN. Yes.

The CHAIRMAN. What other affiliated companies have you in your group?

Mr. WIGGIN. We own the American Express Co.; that is, we own 98 per cent of it.

The CHAIRMAN. What does the American Express Co. do now?

Mr. WIGGIN. The American Express Co. is a travel bureau, selling steamship tickets and transportation; it sells travelers' checks and, in Europe, a subsidiary company of the American Express, called the American Express (Inc.), does a banking business in various cities.

The CHAIRMAN. And that is owned entirely by the American Express Co. here?

Mr. WIGGIN. Owned entirely by the American Express Co. here; yes, sir.

The CHAIRMAN. Do you carry on a banking businesss through the offices of the American Express Co.?

Mr. WIGGIN. Not in this country. The American Express Co. is the principal owner of a bank called the American Express Bank & Trust Co., which has an office in their building in New York and does a purely banking business in that one office.

The CHAIRMAN. It has a great many offices throughout the world?

Mr. WIGGIN. Yes; I can get the exact number.

The CHAIRMAN. Will you please put that in the record, together with its offices in the United States—both the bank and the express company?

Mr. WIGGIN. The bank has but one office. If you will give me a minute, I will give you that information.

The American Express Co. has 34 offices in the United States and 66 in the rest of the world.

The CHAIRMAN. Does the Chase National Bank, or any of its affiliates, other than the American Express Co., have foreign branches?

Mr. WIGGIN. The Chase National Bank has to-day 4 foreign branches; it has 1 in Havana; it has 1 in Panama, and 1 in Crisotal, and, since Saturday last, has 1 in London.

The Chase Securities Co., for its distribution of securities, has—without refreshing my memory I can not give the exact number—some 15 or 20 branch offices throughout this country; also 1 in London.

The CHAIRMAN. The London office is the only one abroad which the Chase Securities Co. has?

Mr. WIGGIN. We have our sign on the door in the Paris bank as well, I think you can count the Paris office also.

The recent merger, which took in the Equitable Trust, made necessary the formation of a new bank under the Edge Act, known

as the Chase Bank, which is organized to take over the Paris branches of the Equitable Trust Co. It seemed wiser to do it through the subsidiary, under the Edge Act, rather than have a branch of the main office. A tax question was one of the matters involved.

Mexico City has a branch of this Chase Bank, which is a subsidiary of the corporation organized under the Edge Act. There are other affiliations, but owing to this recent merger and the rapidity with which things are happening it is a little difficult to keep all of those things straight in my mind. However, the Equitable Corporation, a subsidiary company of the Equitable Trust, is now merged with the Chase Securities Corporation. The Equitable Trust Co. had an affiliated company called the Equitable Eastern Banking Corporation, with offices in Shanghai and other cities. That remains intact.

There is in process of organization a new Equitable Trust Co. The formation of the Equitable Trust Co. has the advantage of protecting that name and, so that it can be possible, will do a certain amount of trust and banking business. That is in process of organization.

I think that is the complete picture of the affiliations.

The CHAIRMAN. If it is not, if you will supply the committee with the further information, we will be very much pleased.

Mr. WIGGIN. There is one more affiliation. That is the Chase Safe Deposit Co. That has nothing to do with the banking business, however.

(The statements of the affiliates referred to are printed in full, as follows:)

STATEMENT OF THE CONDITION OF CHASE SECURITIES CORPORATION AT CLOSE OF BUSINESS DECEMBER 31, 1929

RESOURCES

Cash		$7,136,976.33
Bills and accounts receivable		28,754,717.93
Securities		75,603,974.05
Total		111,495,668.31

LIABILITIES

Bills and accounts payable		5,272,380.01
Suspense		49,686.02
Reserves:		
General	$1,000,000.00	
Tax and other reserves	2,644,482.74	
Dividend payable Jan. 2, 1930	1,312,500.00	
		4,956,982.74
Capital stock (5,250,000 shares, no par value)	73,000,000.00	
Surplus and profits	28,216,619.54	
		101,216,619.54
Total		111,495,668.31

OFFICERS

Trust department: Reeve Schley, George E. Warren, J. Sperry Kane, Ralph L. Cerero, vice presidents; George A. Kinney, second vice president; Howard F. Walsh, corporate trust officer; George I. Pierce, personal trust officer; Edward S. Dix, George J. Runge, Oliver B. Hill, Vincent L. Banker, Frederick Pintard, Paul H. Selchow, Norman W. Andrews, John I. Brooks, jr., Frederick T. Burrows, Edward C. Kerr, Lester A. Kraushaar, Caspar A. Blass, Horace Tomlinson, William F. Wilson, Robert M. Dunwoody, Esmond B. Gardner, assistant trust officers.

Foreign department: Joseph C. Rovensky, Lynde Selden, Arthur W. McCain vice presidents; Manfred Barber, Ernest H. Kuhlman, John B. Heinrichs, second vice presidents; John G. Peterson, William E. Hughes, James A. MacIlvaine, Otto T. Kreuser, assistant cashiers; Allan V. Daily, manager; Walter E. Sullivan, Edmund M. Ellerich, Nicholas J. Murphy, Frank N. Powelson, James G. Baker, Edmund G. Powell, Oscar Armburster, Louis Dezzi, assistant managers.

Credit department: David MacKenzie, assistant casbier and manager; Malcolm Corduan, assistant cashier; Arthur B. Murray, Richard Griffiths, Andrew S. Ross, Edward Bartsch, Ernest C. Schwarz, assistant managers.

Investment service department: John E. Bastedo, manager; Wilton A. Pierce, assistant manager.

Comptroller's department: Arthur M. Aiken, second vice president and comptroller; Arthur K. Schulz, William W. Besson, assistant comptrollers.

Condensed statement of condition of American Bank Express & Trust Co., New York, N. Y., at close of business June 6, 1930

RESOURCES

Cash and due from banks	$3, 072, 814. 13
Loans and discounts	20, 608, 432. 54
United States Government securities	1, 018, 143. 10
Other bonds and investments	4, 487, 913. 28
Customers' liability on acceptances	14, 130. 25
Accrued interest receivable	67, 857. 71
Total	29, 269, 291. 01

LIABILITIES

Capital	$10, 000, 000. 00	
Surplus	5, 000, 000. 00	
Undivided profits	99, 942. 03	
		15, 099, 942. 03
Reserves: Interest, taxes, etc		782, 857. 75
Discount collected but not earned		992. 61
Liabilities as acceptor, indorser, or maker on acceptances and foreign bills		548, 679. 01
Deposits		12, 836, 819. 61
Total		29, 269, 291. 01

AMERICAN EXPRESS CO. AND THE AMERICAN EXPRESS CO. (INC.)

RESOURCES AND LIABILITIES APRIL 30, 1930

[Issued by vice president and comptroller, New York, June 11, 1930]

American Express Co. condensed statement of resources and liabilities April 30, 1930

RESOURCES

Cash on hand and in banks	$3, 661, 718. 49
Demand and time loans secured	13, 611, 346. 49
Due from banks and bankers	8, 716, 210. 14
Branch offices working funds and items in transit	1, 354, 511. 56
United States Government securities	36, 474. 60
Other public securities	11, 254, 003. 27
Other securities and investments	26, 423, 130. 35
Real property and equipment	6, 068, 773. 02
Customers' liability under acceptances and letters of credit	869, 587. 24
Bank guaranties on travelers' cheques and circular letters of credit	5, 252, 105. 25
Accrued interest and accounts receivable	702, 036. 39
Deferred debit items	163, 991. 04
Total resources	78, 113, 887. 84

LIABILITIES

Capital			$18,000,000.00
Surplus December 31, 1929		$5,898,745.36	
Net earnings from current operations	$432,463.46		
Less:			
Dividends accrued	$90,000.00		
Dividends declared	270,000.00		
	360,000.00		
		72,463.46	
		5,971,208.82	
Adjustment to profit and loss of prior periods		1,921.09	
			5,973,129 91
General reserves			4,643,250.22
Reserved for depreciation, taxes, losses, and other items			3,290,511.04
Dividends payable			
Due to banks and bankers			9,636,379.60
Travelers' cheques and travelers' letters of credit			30,928,680.17
Money orders, drafts, and other financial paper issued and not yet presented for payment			4,270,401.68
Acceptances and letters of credit			871,087.24
Accrued and other current liabilities			272,372.90
Deferred credit items			228,075.08
Total liabilities			78,113,887.84

The American Express Co. (Inc.) condensed statement of resources and liabilities (as per New York books and not including branches), April 30, 1930

RESOURCES

Cash	$5,117,922.32
Securities and investments	1,923,715.34
Real property and equipment	770,574.14
Operating capital advanced to foreign offices	905,293.58
Accounts receivable	65,550.85
Expenses paid in advance	291.66
Total resources	8,783,347.89

LIABILITIES

Capital stock			6,000,000.00
Surplus Dec. 31, 1929		$1,572,454.47	
Net earnings from current operations		11,661.44	
		1,584,115.91	
Adjustments to profit and loss of prior periods		1,374.78	
			1,585,490.69
General reserves			832,551.07
Reserved for depreciation, taxes, losses, and other items			329,656.40
Accrued and other current liabilities			35,270.73
Deferred credit items			379.00
Total liabilities			8,783,347.89

American Express Co. directory of division managers of outside territory, United States (May 1, 1930):

H. C. Elwes, vice president, 65 Broadway, New York.

Eastern division: A. C. Heffernan, manager, H. R. Kibbe, assistant manager, 65 Broadway, New York, N. Y.

Central division: E. M. English, manager, J. T. Walsh, assistant manager, 58 East Washington Street, Chicago, Ill.

Southern division: G. F. Fetscher, manager, 606 the Standard Building, Atlanta, Ga.

Southwestern division: C. S. Taylor, manager, W. A. Schaperkotter, assistant manager, Ninth and Locust Streets, St. Louis, Mo.

Pacific division: G. B. Viets, manager, O. D. Colby, assistant manager, Market Street at Second, San Francisco, Calif.

American Express Co., directory of independent office organization May 1, 1930 (United States and Canada):

H. C. Elwes, vice president; T. L. Happ, assistant to vice president, 65 Broadway, New York.

G. M. Shirey, R. M., 91 Luckie Street, NW., Atlanta, Ga.

R. D. Angell, R. M., T. E. Greenwood, D. P. A., P. Barbet, F. I. T., 118 W. Fayette Street, Baltimore, Md.

G. R. Bart, R. M., 4 North Nineteenth Street, Birmingham, Ala.

L. E. Stearns, R. M., A. A. Prickett, A. R. M. and F. I. T., P. G. Hedrick, A. R. M. and F. I. T., Statler Hotel Building, Park Square, Boston, Mass.

E. J. Maloney, R. M., E. S. Radecki, D. P. A., E. Kienast, F. I. T., Main and Erie Streets, Buffalo, N. Y.

E. L. Walsh, R. M., E. T. Madden, A. R. M., J. H. Doesburg, A. R. M., A. H. Ward, F. I. T., 70 East Randolph Street, Chicago, Ill.

J. E. Weaver, R. M., W. D. Distler, D. P. A., Fourth and Elm Streets, Cincinnati, Ohio.

J. G. Kehoe, R. M., M. H. Nealon, D. P. A., J. Roy Galvin, F. I. T., 1003 Huron Road, Cleveland, Ohio.

C. Dorris, R. M., S. E. Whipkey, D. P. A., X. F. Drexler, F. I. T., 1306 Commerce Street, Dallas, Tex.

E. H. Bailey, R. M., S. A. Dunsay, D. P. A., 1643 Stout Street, Denver, Colo.

W. F. Whitbeck, R. M., O. A. Johnson, A. R. M., A. A. Barthel, D. P. A., F. H. Vonesh, F. I. T., 23 Fort Street West, Detroit, Mich.

R. S. Cauvin, manager, John Falkenburg, A. M., Agramonte (Zulueta) 15, Havana, Cuba.

R. S. Ferguson, R. M., 257 South Meridian Street, Indianapolis, Ind.

H. C. Templeton, R. M., A. J. Baldwin, D. P. A., 933 Walnut Street, Kansas City, Mo.

L. H. Kellan, R. M., B. W. Marsh, D. P. A., A. Hunnex, F. I. T., 609 West Seventh Street, Los Angeles, Calif.

J. F. Brooks, R. M., 206 East Flagler Street, Miami, Fla.

F. B. Tendick, R. M., F. W. Sieger, D. P. A., C. E. Fletcher, F. I. T., 457–459 East Water Street, Milwaukee, Wis.

J. E. Beard, R. M., V. M. Bloom, D. P. A., G. C. Sedard, F. I. T., 117 South Seventh Street, Minneapolis, Minn.

J. J. Bulger, manager, J. W. Hunt, D. P. A., 1233 (521 Phillips Square, Montreal, Canada).

R. J. Cooper, R. M., E. A. MacCarthy, D. P. A., 876 Broad Street, Newark, N. J.

N. H. Pope, R. M., W. H. Worden, D. P. A., 707 Gravier Street, New Orleans, La.

George Simpkins, R. M., William Bennett, D. P. A., 65 Broadway, New York, N. Y.

E. Williams, R. M., G. C. Finehout, A. R. M., H. C. Hosier, D. P. A., 150 West Forty-first Street, New York, N. Y.

O. Schumacher, R. M., S. A. Knight, F. I. T., 551 Fifth Avenue, New York, N. Y.

W. G. Smith, R. M., A. B. Montgomery, A. R. M., J. S. Shaw, F. I. T., 1708 Chestnut Street, Philadelphia, Pa.

T. J. Worthman, R. M., J. E. Gilbert, D. P. A., C. E. Dekock, F. I. T., 512 Grant Street, Pittsburgh, Pa.

R. L. Dunham, R. M., C. Beerli, D. P. A., 65 Sixth Street, Portland, Oreg.

S. L. Woods, R. M., W. R. Hein, D. P. A., B. J. Haas, F. I. T., Ninth and Locust Streets, St. Louis, Mo.

P. C. Child, R. M., 26 West Second Street, South, Salt Lake City, Utah.

F. P. Rhoads, R. M., J. B. Hubbard, D. P. A., Market Street at Second, San Francisco, Calif.

C. Harmon, R. M., J. H. Cassen, F. I. T., 1209 Fourth Avenue, Seattle, Wash.

D. P. Aub, R. M., Willard Hotel Building, 1414 F. Street, NW., Washington, D. C.

TRAVEL BUREAU

Mr. A. H. Young-O'Brien, First National Bank, Baltimore, Md.
Miss L. L. Redding, Abraham Straus (Inc.), Brooklyn, N. Y.
Mr. William K. Wunsch, Hyde Park National Bank, Chicago, Ill.
Mr. W. C. Gevers, Marshall Field & Co., Chicago, Ill.
Mr. M. V. Callaghan, The Central Trust Co., Cincinnati, Ohio.
Miss P. R. Manger, The May Co., Cleveland, Ohio.
Miss E. M. Cowley, Crowley Milner Co., Detroit, Mich.
Mr. J. W. Fuchs, The Michigan Trust travel office, Grand Rapids, Mich.
Mr. H. Kingsley, National Bank of Commerce, Houston, Tex.
Mr. R. B. Preble, Florida National Bank, Jacksonville, Fla.
Mr. G. M. Meagher, Trust Co., of New Jersey, Jersey City, N. J.
Mr. M. D. Reid, Bank of America of California, Los Angeles, Calif.
Miss F. L. Richey, Bullock's, Los Angeles, Calif.
Miss Christine Hare, Hotel Clark, Los Angeles, Calif.
Mr. W. R. Gray, Hotel Alexandria, Los Angeles, Calif.
Mr. W. F. Box, Bank of Bay Biscayne, Miami, Fla.
Miss B. E. Strache, Gimbels, Milwaukee, Wis.
Mr. Fred Danaher, Windsor Hotel, Montreal, Canada.
Mr. L. Janssens, Guardian Trust Co., Montreal, Canada.
Miss R. M. Bain, James McCreery & Co., New York, N. Y.
Mr. C. G. Starcke, Chase National Bank, Pine & Nassau Streets, New York, N. Y.
Mr. P. Boentgen, Chase National Bank, Broadway and Eighty-sixth Street, New York N. Y.
Miss D. Shaw, Chase National Bank, Park Avenue at Sixtieth Street, New York N. Y.
Mr. L. Zeh, Chase National Bank, Twenty-third Street and Fifth Avenue, New York, N. Y.
Mr. S. M. Loebl, Manufacturers Trust Co., Eighth Avenue and Forty-third Street, New York, N. Y.
Miss H. R. Peyser, F. B. Schlesinger & Sons, Oakland, Calif.
Mr. W. D. Schuster, Central National Bank, Oakland, Calif.
Mr. E. V. Fricker, Wanamaker's, Philadelphia, Pa.
Mrs. G. O'Brien, Gimbels, Pittsburgh, Pa.
Mr. F. R. Burn, The Bank of Pittsburgh, N. A., Pittsburgh, Pa.
Miss L. A. Kain, Multnomah Hotel, Portland, Oreg.
Miss M. Wright, Olds, Wortman & King, Portland, Oreg.
Mr. W. M. Power, First National Bank in St. Louis, St. Louis, Mo.
Mr. W. R. Simon, The First National Bank of St. Petersburg, St. Petersburg, Fla.
Mr. A. E. Francke, Claifornia National Bank, Sacramento, Calif.
Miss V. Rose, Weinstock, Lubin & Co., Sacramento, Calif.
Mrs. G. A. Cooper, New House Hotel, Salt Lake City, Utah.
Mr. P. G. Nazzari, San Diego Trust & Savings Bank, San Diego, Calif.
Mr. S. T. Lasson, Anglo-California Trust Co., San Francisco, Calif.
Miss C. N. Brown, City of Paris Dry Goods Co., San Francisco, Calif.
Miss H. Garrett, Clift Hotel, San Francisco, Calif.
L. McKeown, Palace Hotel, San Francisco, Calif.

Equitable Eastern Banking Corporation—Consolidated Statement as of May 31, 1930

ASSETS

Cash on hand and in banks	$1,945,526.03
Bullion on hand and in transit	3,156,478.91
Due from foreign banks	1,645,757.20
Loans and discounts	6,818,071.51
Customers' liability on acceptances	10,545,284.97
Acceptances in portfolio	471,396.09
New York State bond	1,000.00
Other assets	38,904.46
Total	24,622,419.17

LIABILITIES

Capital		$2,000,000.00
Surplus		2,000,000.00
Undivided profits		659,029.89
Deposits		6,242,965.95
Acceptances outstanding		10,545,284.97
Acceptances anticipated		347,611.28
Due to foreign banks		437,858.30
Items in transit with foreign branches		947,982.00
Due to The Equitable Trust Co., of New York		216,062.01
Unearned discount		13,995.53
Reserve for taxes, etc		494,897.10
Other liabilities		716,732.14
Total		24,622,419.17
For information only:		
In undivided, May 31, 1930	$659,029.89	
Profit in future exchange, not on books, New York office, May 31, 1930	113,136.02	
Profit in futue exchange, foreign offices in reserve on New York books, May 31, 1930	43,593.16	
		$815,759.07
Reserve for contingencies:		
New York office	70,000.00	
Shanghai	137,000.00	
Hong Kong	50,000.00	
Tientsin	13,000.00	
		270,000.00
Reserve for taxes	181,303.94	
Reserve for future exchange, foreign offices	43,593.16	
		224,897.10
		494,897.10

H. C. TITUS, *General Manager.*

The Chase Safe Deposit Co. balance sheet at close of business March 31, 1930

ASSETS

Cash on hand and in bank		$51,232.97
Vaults	$959,165.24	
Less reserve for deposit	465,802.40	
		493,362.84
Fixtures	582,050.72	
Less reserve for deposit	240,234.14	
		341,816.58
Furniture	20,707.75	
Less reserve for deposit	13,911.76	
		6,795.99
Auto truck	1,404.47	
Less reserve for deposit	1,141.14	
		263.33
Accounts receivable:		
Due from rentals	32,711.11	
Due from storage	6,422.73	
Due from cartage	223.99	
Due from key and lock charges	73.00	
		39,430.83
Total		932,902.54

LIABILITIES AND CAPITAL

Capital		$400,000.00
Profit and loss		69,671.49
Notes payable		420,000.00
Key deposit fund		3,759.00
Income tax withheld, New York State		41.22
Past-due rentals	$32,711.11	
Past-due storage	6,422.73	
Past-due cartage	223.99	
Past-due key and lock payments	73.00	
		39,430.83
Total		932,902.54

The CHAIRMAN. The proposal has been made to this committee that branch banking be permitted to extend beyond its present limits to trade areas whose limits are still undefined. There is some question in the minds of the committee as to whether or not trade area limits can be properly defined. Other suggestions have been made to the committee that branch banking be extended state-wide in those States where branch banking is permitted to State banks.

Other suggestions have been made that branch banking be extended to Federal reserve districts; other suggestions have been made that branch banking be permitted nation-wide, while still further reference has been made to the fact that the Federal reserve act permits international branch banking.

The committee would be glad to know the limits, if any, to which extensions should be granted under the national law, to branch banking.

Mr. WIGGIN. I do not know what trade areas are. While my preference would be not to have branch banking, New York is in the situation of being the banking center of the country. We have some 7,000 correspondent banks throughout the country. The New York banks render the same service to towns in the mid-west or towns on the Pacific slope as they do to towns in Connecticut and New Jersey. There is just as much reason for a New York bank having a branch in a Pennsylvania town or an Ohio town or an Indiana town or a Kansas town as there is for having one in Connecticut or New Jersey and our own preference would be not to see an extension of branch banking.

The CHAIRMAN. Beyond its present limits?

Mr. WIGGIN. Yes, sir. We think that a national bank should have the same privileges of branch banking in one city as in another. We think if State banks can have branches in any city, a national bank should have the same right and, vice versa, if the national banks are allowed to have a branch bank in a city, a State bank should have that privilege. I am speaking of the limitations on branch banks confined to the city.

The CHAIRMAN. If the State law premits branches within the confines of the State to the State banks, you think the national banks be given the same privilege?

Mr. WIGGIN. Yes, sir.

The CHAIRMAN. You can see difficulties, however, in the way of conflict over Federal reserve lines and State lines?

Mr. WIGGIN. Great difficulties; yes.

The CHAIRMAN. As you know, we have had before this committee the heads of various groups who engaged in this comparatively new form of group and chain banking. The committee would be glad to

have your views on this new development which is proceeding under the authority of State laws, many of the corporations being organized under the laws of the State of Delaware, taking over both national and State banks and State bank members of the Federal reserve as well as nonmembers, with particular reference to its effect on the banking development of the United States and its possible effect on the continued development of the Federal reserve system.

Mr. WIGGIN. My own opinion is that we, of the Chase National Bank, do not want to do it, but we have not the slightest objection to other men doing it. We feel that in certain districts—and there are many cases, as you know, of these holding companies—such a district as the one that centers on St. Paul and Minneapolis, where they go into the towns which they know and the business they know and own the banks—we have not the slightest objection to their doing it and we believe does strengthen the banks of those towns.

But we do not want to do it ourselves because if we start, there will be no limit to it. There is just as much reason for doing it in one State as another.

Mr. LUCE. The astonishing growth of the investment trusts in recent years—almost within recent months—has brought into consideration a wholly new factor that has not yet been widely discussed in connection with banking.

A recent writer, however, publishing a series of articles on the subject that indicate familiarity with it, hazards the prediction that within a comparatively short number of years no individual stockholders will remain in the important banks. This suggests a novel form of holding and not, on its face, the usual kind of holding company that appears, for instance, in the public service field, but still one that threatens or promises, according to how you look at it, a new relation between a bank and those who operate it. Does your observation indicate that this process is making rapid headway in New York?

Mr. WIGGIN. A number of the investment trusts that are located in New York have made investments in bank stocks. Now, as to the amount of percentage, I would not say, but there are substantial ownerships of bank stocks in investment trusts.

Mr. LUCE. Do you have any apprehension that this may furnish you a new problem?

Mr. WIGGIN. No, sir. The successful bank, or the standing of the bank, goes hand in hand with the reputation of the management, and the ownership of the stock, if the property is not properly run, would not help or hurt it. It is the management that makes the reputation of the bank.

Mr. LUCE. You are speaking, of course, from the point of view of one who could properly be called a big banker. We had before us one witness who was more concerned with the banks in the smaller cities and he expressed the opinion that the personality of the stockholders was of prime importance to the banks in the matter of bringing business and good will. In a large bank, such as your, does that count for anything?

Mr. WIGGIN. Yes; the stockholders bring business. We enlist their cooperation the moment they become stockholders and ask them to bring us business.

Mr. LUCE. Any advantage accruing in that direction would disappear under the investment trust holdings?

Mr. WIGGIN. Not necessarily. In New York, some of these investment trusts are very good customers.

Mr. LUCE. But the holdings or the holders in the investment trust are not reached by you?

Mr. WIGGIN. No.

Mr. LUCE. That leads me to point out to you that the champions of group banking before us have permitted us to understand or secure the impression that the group-banking principle leads to a combination of the solid and substantial banks; that the head of a group system makes no endeavor to salvage the weaker banks that are on the point of failing and avoids bringing in anything but the clearly profitable institutions.

Our hearings started off on the premise presented by the comptroller that there was great need to face the situation presented by the alarming number of failures of small banks, and he urged branch banking upon us as a remedy, or at least a help, in the critical situation prevailing especially in the Northwest and in some of the Southern States.

Apparently group banking promises no benefit in that connection and, as far as witnesses have enlightened us, it would seem as if branch banking was the only recourse in the case of a great many of the smaller communities which would be completely deprived of banking facilities if the present tendency to close the little banks continues and nothing is put in their places.

You have branches in various parts of New York City?

Mr. WIGGIN. We have 46.

Mr. LUCE. And that serves a public convenience to the customers?

Mr. WIGGIN. Yes, sir.

Mr. LUCE. Do you see any objection, in principle, to furnishing the same convenience to customers in places more remote? Why should this affect the principle involved?

Mr. WIGGIN. It may not affect the principle involved, but it certainly makes management a very much more difficult problem. The only branches we have in New York City are run from the head office. There are no loans made without being passed on by the head office. That is not practicable in far-distant offices.

Mr. LUCE. Yet, in the upper end of Harlem, there would appear to be no more occasion for a teller's window than in the outskirts of Jersey City, would there?

Mr. WIGGIN. There would be no more occasion for a teller's window?

Mr. LUCE. I speak of a teller's window as simply a convenient way of compressing in one phrase all the routine facilities that may be furnished by some type of banking in a small suburb or in a rural community.

Mr. WIGGIN. Yes; there is just as much reason for a bank in one section as another.

Mr. LUCE. Is there any reason, in principle, why you should not be allowed to open a branch?

Mr. WIGGIN. No; the principle is the same. In Jersey City we could run a branch just as well as in Harlem. You are right.

Mr. LUCE. Then, to some extent, at any rate, the State lines have no logical relation?

Mr. WIGGIN. Jersey City is really a suburb of New York City, as you know. The fact the State line is there does not make any difference. I agree with you entirely that it is just as practicable to run a branch in Jersey City as in Harlem.

Mr. LUCE. That brings us to the proposal of the comptroller that we consider trade areas. It is a difficult thing to determine, of course, but still the most practical thing, perhaps, that has been suggested to us.

Would you find objection to accepting his proposal with reference to extending branch banking to trade areas?

Mr. WIGGIN. I do not know what a trade area is. If you will tell me what a trade area is, I will try to give you an answer.

Mr. GOLDSBOROUGH. You are asking for something that can not be done.

Mr. WIGGIN. How can I answer it, then?

Mr. LUCE. In the Federal reserve districts, we approximate big trade areas, and there has been no great complaint—some friction, it is true—but no great complaint as to the mapping out of these great trade areas; those that feed the big cities. Would it be essentially more difficult to subdivide those 12 big areas we have already determined?

Mr. WIGGIN. Of course, we do not want to see a system of branch banking established that means that the banks in the cities of the country are going out in competition to buy up the banks in the small towns. We hope that it would not come. We do not think it is the way to build up a banking business—to go in on the basis of competition to buy up other banks, and that is exactly what will happen if you establish that system.

Mr. LUCE. As I said to Mr. Davison yesterday, quoting the that very trite saying that it is a condition and not a theory that confronts us—that while we are talking about principles in this room, the practice is, with leaps and bounds, proceeding to the contrary. Holding companies are growing every day, and group systems are growing every day, and we are faced not with putting into effect theories, where we might be in perfect accord but with the problem presented by the fact that these holding companies are growing and are doing this very thing.

Mr. WIGGIN. We feel if there were a branch banking system started, we would be compelled, for the protection of our stockholders' interests, to establish branches through the country and in the various towns. We do not want to do it. We are not under that compulsion under the present system. If anybody wants to do it, God bless them; let them do it; but we do not want to do it. However, we have no reason for stopping other men, if they want to invest their money that way.

I do think the holding company, in a great many ways, adds to the strength of a bank in a small place. Naturally, no bank in Minneapolis or St. Paul is going to buy a bank in Stillwater, or somewhere else in Minnesota, unless it is a good bank when it is bought, but if conditions change and conditions in the surrounding districts are such that the bank loses money, the ownership of that bank is a great addition to its strength, if it is the right holding company.

Mr. LUCE. Let me get a little clearer idea of why you discriminate between the effect of branch banking and group banking in that

matter of business compulsion upon you. Suppose that somebody in control of one of the New York banks goes and buys a bank in Orange, N. J., or any place in New Jersey, or anywhere else: The same man controls the two banks, but they continue under separate names. You, I gather, bid that man Godspeed and do not worry about it.

Mr. WIGGIN. That is right.

Mr. LUCE. But if, instead of keeping the same name, the man in control changes the name of the Orange bank to the same name as used by the New York bank and calls it a branch, you then feel you would be compelled to do the same thing. Why?

Mr. WIGGIN. Competition.

Mr. LUCE. Is not the group bank bringing you the same competition?

Mr. WIGGIN. No. It may some day, but it has not yet affected us and we do not believe it will.

Mr. LUCE. In Massachusetts, my understanding is it is already doing it.

Mr. WIGGIN. I think the situation in Massachusetts is perhaps different from the one in New York; or rather, I will put it differently: Boston is the New England banking center, but I do not think Boston serves the entire country as New York does.

Mr. LUCE. No.

Mr. WIGGIN. I think there is a natural geographic limit in that branch banking that does not exist in the case of New York.

Mr. LUCE. That does not affect the puzzle before us of this question of favoring or discouraging branch banking or group banking or both of them or neither of them. That is the problem we are up against—a practical problem—and I wanted to clear, in my own mind, if I could, why branch banking would have a more pronounced effect than group banks upon big city banks.

Mr. WIGGIN. We feel that there is a marked difference.

Mr. LUCE. One other aspect of the situation. We have had some witnesses who have testified in the case of banks in which they are interested, that have affiliated companies—securities companies—and we have been assured that the securities companies are not permitted to buy any securities in which the bank is interested. Is that the case with your bank?

Mr. WIGGIN. Our bank does not have any securities, practically, so that question does not come up. We do make it a rule not to have any of our trusts buy from the bank or from an affiliated company.

Mr. LUCE. But that rule is not universal?

Mr. WIGGIN. No, sir.

Mr. LUCE. Would you think it desirable, by legislation, to insure something of that sort?

Mr. WIGGIN. I do not think so. No laws under the sun would cover it if there was a desire to evade it.

Mr. LUCE. You, of course, are perfectly familiar with the fact that, in Massachusetts, we have embodied the idea, which I am bringing out, in our laws, requiring State banks, known as trust companies with us, to comply with the restrictions imposed on mutual savings banks for the segregation of deposits and that we so strongly believe in drawing special safeguards around the savings of the masses for the same reasons, with reference to trust holdings, that we insist

upon a particularly safe type of investment and we are quite complacent and self-satisfied in the effect of that legislation.

Does your experience in New York lead you to think that that is an unnecessarily cautious policy?

Mr. WIGGIN. I do not know that it is unnecessarily cautious, but it gets back to what we think is the essential question of banking. You would not select any institution on the basis of laws, but on the basis of its standing and credit.

Mr. LUCE. That is true in some of the larger places, but in some of the smaller places, that would impose the necessity upon the depositor of traveling some 20 or 50 miles to such a State institution, instead of using the institution next door.

Mr. WIGGIN. That is true.

Mr. LUCE. We have had it impressed on us, that due to the failures of these small banks in the last 10 years, there has been great suffering to the salaried man and wage earner through this failure to make savings a preferred account. I think that is all.

The CHAIRMAN. I should like to ask you whether your bank is affiliated with, or sny of your companies associated with, any other banking house in New York or elsewhere which might be construed as one of the major institutions?

Mr. WIGGIN. Only those I have mentioned.

The CHAIRMAN. Those are all, then, your own affiliations?

Mr. WIGGIN. Yes, sir.

The CHAIRMAN. The suggestion has been made that your group owns and controls the Transamerica Corporation.

Mr. WIGGIN. We have not the slightest interest in it.

The CHAIRMAN. Or the Transamerica Corporation embraces the controlling stockholders in your group.

Mr. WIGGIN. The bank has not the slightest interest in the Transamerica Corporation. There may be some stockholders in the Transamerica Corporation that own stock in the Chase National Bank. That we have no way of checking, but there is nothing of the slightest importance or significance in it.

The CHAIRMAN. Of course the size of your institution and the activities of late indicate the growth of a very powerful institution which is doing business that is not only nation-wide but international in its scope. Would you care to express what the scope of the Chase National Bank is?

Mr. WIGGIN. The Chast National Bank is a large institution with tremendous capital. It has a very large commercial business. It has, by far, the greatest number of bank accounts in the United States. It has built up a very large trust department under a committee of unusually high reputation. It does a world business—not in every country, but in most of the countries in Europe. We have correspondents and connections and receive business from many of those countries.

The CHAIRMAN. And you undoubtedly do business with some of the foreign countries?

Mr. WIGGIN. Yes; we have business with the countries and with the Government banks of the countries. Does that cover it, Mr. Chairman?

The CHAIRMAN. Well, in further elucidation, it is a frequent comment throughout the country in this development and concentration of bank resources that ultimately we will have in New York City from two to six banks patterned somewhat after the system of the two banks in London, with branches scattered all over. Do you contemplate future development in New York to that extent?

Mr. WIGGIN. No, sir; I think there will always be the middle-sized bank and the little bank.

The CHAIRMAN. I should like to ask further, in connection with your bank and your affiliated companies—who originate securities and who, of course, are interested in seeing that the securities in which you are interested move properly and are properly recognized—whether you protect the market on the securities which your companies originate and whether you protect the stocks of your own bank and affiliated companies?

Mr. WIGGIN. The securities business and the origination of securities issues is usually done by the formation of a syndicate. Usually there is, in conjunction with the formation of the syndicate, a syndicate formed for the purpose of what you allude to as the protection of the market in the buying and selling of securities.

The CHAIRMAN. Mr. Brand, have you any questions?

Mr. BRAND. I yield to Mr. Seiberling.

Mr. SEIBERLING. I have no questions at this time.

Mr. BRAND. I yield to Mr. Busby.

Mr. BUSBY. I have no questions to ask at present.

The CHAIRMAN. Mr. Steagall?

Mr. STEAGALL. I yield to Mr. Seiberling.

The CHAIRMAN. I will call on Mrs. Pratt first.

Mrs. PRATT. Is everybody frightened? [Laughter.] I have not very many questions to ask Mr. Wiggin.

This whole situation and these hearings have arisen from the fact that it seems desirable to make some change in the laws and enact some provision by which the small communities will have proper banking facilities without facing the fiasco some have faced during the last 9 or 10 years. So this question of branch banking has been presented.

I judge from what you say, Mr. Wiggin, that you are utterly opposed to branch banking.

Mr. WIGGIN. I would prefer not to see it.

Mrs. PRATT. When Mr. Davison was here yesterday, he stated that he felt that through the system of having correspondent banks that situation would be covered and eventually it would adjust itself; that the real trouble that was being faced in this country was due to the country being top-heavy, more or less, with banks, owing to emergencies that occurred during the war. You would agree with him that this can be taken care of by existing banks strengthening their correspondents?

Mr. WIGGIN. That is what has been going on, but there have been failures in certain districts regardless of that. We have this great number of what are known as country bank accounts, but we do not feel justified in loaning those country banks money unless they are solvent.

Mrs. PRATT. But if they got into trouble, as your correspondent bank, you would help them out?

Mr. WIGGIN. We are doing it all the time, as long as they are solvent.

Mrs. PRATT. What would you have in mind as proposed legislation necessary to be adopted, or do you think none should be adopted?

Mr. WIGGIN. I would leave the situation as it is.

Mrs. PRATT. I think that is all.

Mr. BRAND. With reference to questions the present chairman of the committee (Mr. Luce) propounded to you in regard to the situation in the Northwestern States and Southern States, what would you suggest to remedy this situation in the agricultural sections referred to by Mr. Luce—in regard to the character of banks that ought to be established to accommodate the borrowers in these sections of the country?

Mr. WIGGIN. You are referring to losses suffered by depositors and not losses made by the stockholders?

Mr. BRAND. I am referring to those sections of the country where banks have failed to such an extent they have no banking facilities at present and therefore borrowers, generally, have no opportunity to secure loans.

We have been discussing chain banking and branch banking and group banking. I should like to get your opinion as to what character of banks or what banking system should be established to accommodate the people in those sections of the country.

Mr. WIGGIN. There is no reason, under the present law, why they can not organize their own banks and go ahead as always.

Mr. BRAND. Take Georgia, for instance: The State has repealed its branch banking law and there are several sections of the State and, I think in Alabama also—although Mr. Steagall can speak for that State—and in South Carolina and several other States which are in the same situation, which is a serious one.

Mr. WIGGIN. Serious in the point that they have no place to deposit money?

Mr. BRAND. I mean no banking facilities. It is true they can go to Macon or Savannah or Atlanta, but those places are 75 or 100 miles away.

Mr. STEAGALL. The difficulty is not in finding a place to deposit, but a place at which they can borrow.

Mr. WIGGIN. I thought so.

Mr. BRAND. Many people in different sections of the country have money but they are keeping it at home and putting it in no banks. They have lost confidence in the banks because they have failed so much but I am asking about people who want to borrow money and have no bank to loan the money.

Mr. STEAGALL. There is some of that, of course.

Mr. BRAND. I myself have not the same confidence in the banks that I used to have. However, the question I am propounding is: Should this Congress authorize a branch banking system to accommodate such people or group banking or unit banking?

Mr. WIGGIN. I do not suppose a change in the law permitting branch banking in that section or in a more comprehensive section, would justify banks in opening branches in communities that would not support banks.

Mr. BRAND. Well——

Mr. WIGGIN. Why should a bank put a branch in a place that is not going to be profitable and their records indicate it would not be profitable?

Mr. BRAND. I am not taking such a position. You appear to be willing to let the situation remain as it is in all these great agricultural sections of the country?

Mr. WIGGIN. Your banks have failed in certain sections, and there are no banking facilities left. The cause of it was too much credit. The farmers borrowed too much money. You made it too easy for him, and that has caused the banks to fail.

Mr. BRAND. I am talking about the situation as it exists and as I have tried to picture to you.

Mr. WIGGIN. I am talking about what will justify another bank in organizing or in putting a branch there if that is the situation.

Mr. BRAND. Capital is willing to go anywhere and put its money in operation where the field is open and vacant if it is profitable for a bank to do so. Of course, it is assumed they will not lend to anybody who will not give good security. I am assuming a situation exists where there are no banking facilities, on account of the failure of banks, and where people want to borrow money and make loans to carry on their farms and operate their businesses, and where they can give satisfactory security.

Mr. WIGGIN. Yet the previous bank had failed.

Mr. BRAND. Yes.

Mr. WIGGIN. It is not a very encouraging situation in opening a bank.

Mr. BRAND. Do you think that chain or group or branch banking would be preferable?

Mr. WIGGIN. I do not think either one would be attracted by that opportunity. I think an independent bank could be established as well as a group or chain or branch bank started. However, the opportunity is not very attractive.

Mr. BRAND. Suppose you, as a banker, should reach the conclusion to go into any section of Georgia, Alabama, or any other southern State and establish a branch which you think would be profitable to you—and that is all the banks are in business for, to make money; they are not in it for patriotism; what system would you suggest, as a banker, at the head of one of the biggest banks in the world, to take care of that situation?

Mr. WIGGIN. In a district that has a bad record?

Mr. BRAND. You would let them go?

Mr. WIGGIN. I would answer that this way——

Mr. BRAND. Up to date, you have not given me any answer to that question.

Mr. WIGGIN. I think I have given one or two answers. I think this is the answer to that——

Mr. BRAND. You are satisfied with the situation in your territory, but we are not in ours. New York is not the only State in this Union. There are other parts of the country that are willing to contribute to its general welfare if given an opportunity. You have customers, I suppose, in Georgia?

Mr. WIGGIN. A great many of them.

Mr. BRAND. Naturally, you would be interested in the State.

Mr. WIGGIN. Very much. We have done a great deal for the State, as you know.

Mr. BRAND. I know that.

Mr. WIGGIN. Now, if you will tell me the questions, I will see if I can answer them.

Mr. BRAND. Conceding, or assuming say, there are half a dozen great agricultural communities in South Carolina, Georgia, North Carolina, and so forth, that have no banking facilities; the people being engaged in agricultural pursuits and all sorts of business in the little towns and cities, and also assuming that if a bank was put up in some of those sections, it would make money; in your judgment, what character of banking system would you recommend to those sections of the country?

Mr. WIGGIN. I think if the community will support a bank, the community would start a bank.

Mr. BRAND. How can they start a bank if there is no capital there?

Mr. WIGGIN. Then, there is no occasion for a bank.

Mr. BRAND. You can not sell any stock in any bank in Georgia that I know of, outside of Atlanta and Savannah, to people who have got money.

Mr. WIGGIN. If they have money, they ought to start the bank themselves.

Mr. BRAND. I am talking about people without money, but who have good and satisfactory security and who want to borrow money to do business with, say, as a farmer or merchant.

Mr. WIGGIN. That is the best answer I can give.

Mr. BRAND. Which, I respectfully submit, is not an answer to my question.

Mr. SEIBERLING. Mr. Wiggin, I take it you have made quite a study of this problem we have before us here.

Mr. WIGGIN. I do not claim to have done that; no, sir.

Mr. SEIBERLING. You have studied it sufficiently to make up your mind that you are not in favor of group, chain, or branch banking?

Mr. WIGGIN. I did not say that. I said we did not want to do it ourselves.

Mr. SEIBERLING. If it was a good thing, you would want to get into it, would you not?

Mr. WIGGIN. It may be good for the other fellow, but we do not want to get in it.

Mr. SEIBERLING. Between group, chain, and branch banking, which one would you prefer?

Mr. WIGGIN. I do not think it is possible to answer that question until you know what the branch-banking plan would be—how far—

Mr. SEIBERLING. I mean in limited areas.

Mr. WIGGIN. I would just as soon have chain banking, from my personal interest, rather than branch banking.

Mr. SEIBERLING. I am talking from the standpoint of the interest of the country.

Mr. WIGGIN. I think chain banking would be as safe as branch banking. If you have branch banking, it is one risk for the whole system, just as it is for the chain. If the parent bank is not well managed, the whole thing goes.

Mr. SEIBERLING. Now, I understand that you are at the head of the largest bank in the world, with a capital of $148,000,000 and total resources of $2,400,000,000, approximately.

Mr. WIGGIN. I am the head of the Chase National Bank, but I never know whether it is the largest until I see the figures of the other banks.

Mr. SEIBERLING. Well, it was yesterday.

Mr. WIGGIN. I do not know until I see the figures for the Midland.

Mr. SEIBERLING. Well, it is one of the largest.

Mr. WIGGIN. Yes.

Mr. SEIBERLING. Have you given us the number of branches?

Mr. WIGGIN. Forty-six in New York city and four foreign branches.

Mr. SEIBERLING. How large is the Chase Securities Co., in total resources?

Mr. WIGGIN. About $130,000,000.

Mr. SEIBERLING. Where does it have offices and branches?

Mr. WIGGIN. Its main office is in New York City, and it has offices in Boston, Albany, Cleveland, Chicago, Philadelphia, Washington, St. Louis, San Francisco, and Los Angeles.

Mr. SEIBERLING. Has the Chase Securities Co. also foreign branches?

Mr. WIGGIN. They have an office in London and also in Paris.

Mr. SEIBERLING. In what manner is the Chase Securities Co. controlled by the Chase National Bank—stock control, I mean.

Mr. WIGGIN. The stockholders are exactly the same. Neither corporation owns the other. When you buy a share of what is listed on the Street as Chase National Bank, what you really get is a certificate of deposit saying that you are the owner of one share, or whatever it may be, of the Chase National Bank, and also one share of the Chase Securities Co.

Mr. SEIBERLING. The number of shares is exactly alike?

Mr. WIGGIN. Yes; and they can not be separated.

Mr. SEIBERLING. Then, the Chase Securities Co. stock is all deposited with the Chase National Bank and you issue one certificate for both?

Mr. WIGGIN. For years it has been deposited with the Bankers Trust Co.

Mr. SEIBERLING. Have you given us a complete list of the principal corporations in which the Chase Securities Co. owns the majority of the stock or is in any manner tied up with the Chase National Bank or the Chase Securities Co., through stock control?

Mr. WIGGIN. I have tried to. Have you anything in mind that may assist me?

Mr. SEIBERLING. I was thinking of the American Express Co.

Mr. WIGGIN. I mentioned that.

Mr. SEIBERLING. How much do you own?

Mr. WIGGIN. Ninety-eight per cent.

Mr. SEIBERLING. Where are their branches located?

Mr. WIGGIN. Thirty-four of them are in this country and 66 in other countries.

Mr. SEIBERLING. Do you count in such an office as we have in Columbus Ohio, and Cincinnati, where the American Express Co. does business?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. Does not the American Express Co. have offices in almost every town and hamlet in the country?

Mr. WIGGIN. In every office they issue checks, the American Express Co. does not own the office.

Mr. SEIBERLING. Do they not handle express business?

Mr. WIGGIN. No, sir; they are not in the express business. They are in the steamship ticket business and the selling of transportation; handling of a traveling bureau and so forth, and sell checks, but do not receive deposits.

Mr. SEIBERLING. Are not these 66 offices of the American Express Co. in foreign countries in reality branches?

Mr. WIGGIN. In Europe?

Mr. SEIBERLING. In this country.

Mr. WIGGIN. There are only 34 in this country.

Mr. SEIBERLING. Yes, those in this country.

Mr. WIGGIN. Not at all. They do no banking business. They simply sell tickets and are run as a travel bureau.

Mr. SEIBERLING. It would be readily possible to operate them as branches?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. And in a profitable manner?

Mr. WIGGIN. I do not know.

Mr. SEIBERLING. You have not tried that?

Mr. WIGGIN. No.

Mr. SEIBERLING. I have before me the bulletin called the "Chase Economic Bulletin," dated May 8, 1930, which I assume is an official publication of the Chase National Bank. This bulletin contains an article headed "Branch Banking Throughout the Federal Reserve Districts," by Benjamin M. Anderson, economist of the Chase National Bank of the city of New York. Am I correct in my assumption, Mr. Wiggin, that this represents the position of the Chase National Bank of New York with respect to branch banking?

Mr. WIGGIN. When you ask if it correctly states the position of the Chase National Bank, you must remember that the Chase National Bank stockholders or board of directors have not given any definite consideration nor have they come to any formal decision in this matter. That is Doctor Anderson's report and what he believes to be the best thing.

Mr. SEIBERLING. But put out by your bank?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. And headed "A Revolutionary Proposal." I do not know whether that is intended to be complimentary or not. George Washington had a perfectly good revolutionary proposal.

Mr. WIGGIN. If it would suit you, Doctor Anderson is here and Doctor Anderson will testify to-morrow and you can put it up to him.

Mr. SEIBERLING. Do you say that this represents the sentiment of the Chase National Bank of the city of New York or does not represent it? You are at the head of the bank.

Mr. WIGGIN. I will not say it either does or does not. I will repeat what I said a moment ago, that the stockholders have not considered the matter and instructed us nor have the directors considered the matter and instructed us. That is the opinion of our economist.

Mr. SEIBERLING. In reference to the opinion of the comptroller and the governor of the Federal reserve, representing the Government, from an entirely unselfish viewpoint for the benefit of the people of the country. You, of course, have put out this circular from a purely selfish business viewpoint.

Mr. WIGGIN. I do not think so. You can ask the doctor about it himself.

Mr. SEIBERLING. You have already stated you did not approve of branch banking.

Mr. WIGGIN. I have stated we would rather not see branch banking. I have great respect for the people who suggest it and great confidence in them, but we would prefer not to see it.

Mr. SEIBERLING. I understand you have testified that your bank has 7,000 correspondents—the Chase National Bank?

Mr. WIGGIN. Something like 7,000 bank correspondents; yes, sir.

Mr. SEIBERLING. Are these banks located all over the United States, or in any particular section?

Mr. WIGGIN. All over the United States.

Mr. SEIBERLING. You have correspondent banks in Southern States, such as Florida, Georgia, South Carolina, Alabama, and also in Western States?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. You lend your correspondent banks when they need funds, I take it?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. And you require collateral?

Mr. WIGGIN. We do.

Mr. SEIBERLING. You never make an exception in that?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. What are those exceptions?

Mr. WIGGIN. They are very, very rare.

Mr. SEIBERLING. And of course the bank pays interest on the loan?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. It would not be good business for you to lend correspondent banks unless you had good collateral for your loan?

Mr. WIGGIN. We would not be justified in lending the money unless we thought it was a good loan.

Mr. SEIBERLING. Then this correspondent system which you have is purely a business arrangement for profit to your bank? Is that correct?

Mr. WIGGIN. It is a business arrangement expected to be profitable to the bank and expected to be of benefit to the correspondent.

Mr. SEIBERLING. You are trying to increase your correspondents all the time?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. How many of your correspondent banks failed during the period 1920 to 1930?

Mr. WIGGIN. I can not answer that offhand—quite a number.

Mr. SEIBERLING. And they were mostly unit banks situated throughout the country?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. What did your bank do to keep these correspondent banks from failing?

Mr. WIGGIN. A bank that we believe to be solvent can borrow whatever it needs.

Mr. SEIBERLING. Well, who determines the solvency of the bank?

Mr. WIGGIN. The officer that is passing on the loans.

Mr. SEIBERLING. You are making the loan and you determine whether it is solvent?

Mr. WIGGIN. Some officer in the bank makes the decision.

Mr. SEIBERLING. You determine whether you want to make it and what collateral you want?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. When you lend a bank that needs money on collateral, that gives you a preferred claim, of course, on the assets of the bank?

Mr. WIGGIN. Only on the collateral.

Mr. SEIBERLING. If the bank fails later, you get your money before the depositors get theirs?

Mr. WIGGIN. If we have the collateral.

Mr. SEIBERLING. You stated you do not lend except on collateral. Now, your system of correspondent banks does not reach the root of our trouble here; that is, namely, to try and prevent the failure of banks throughout the country—does it?

Mr. WIGGIN. No. You always have bank failures.

Mr. SEIBERLING. But your system of correspondent banks which you indorse and engage in and want to extend, does not reach the root of the trouble that the comptroller of the currency and the governor of the Federal reserve board have to deal with here.

Mr. WIGGIN. It does not prevent bank failures?

Mr. SEIBERLING. Yes.

Mr. WIGGIN. No; and nothing else will.

Mr. SEIBERLING. What is your idea of the diversification as used in connection with loans made by banks? In this connection do you not distinguish between diversification of loans made by a bank in a given community and the explanation of diversification as made by Mr. Anderson in the article with respect to which is, as I understand it, the purchasing of securities through the correspondent city banks, the loaning of call money to the city bank, the purchase of open market commercial paper, readily marketable bonds and acceptances.

Mr. WIGGIN. What is that question again?

Mr. SEIBERLING. What is your idea of diversification? I will ask that first and then you can explain the others.

Mr. WIGGIN. I think a brief definition of diversification would be a variety of loans—a variety of kinds of loans.

Mr. SEIBERLING. Now, you purchase commercial paper, bonds and acceptances and lend money on call for these correspondent banks?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. And out of them you, of course, make a profit on every transaction, of some kind?

Mr. WIGGIN. Not out of every transaction.

Mr. SEIBERLING. What transaction would you not make a profit on?

Mr. WIGGIN. Read them off and I will tell you.

Mr. SEIBERLING. Loaning of call money.

Mr. WIGGIN. Yes, there is a charge for that.

Mr. SEIBERLING. The purchase of open market commercial paper.

Mr. WIGGIN. There is no charge on that.

Mr. SEIBERLING. Of course if you pay par for that paper, it has to have an interest rate higher than the New York rate, or you would not pay par for it.

Mr. WIGGIN. I do not understand that question.

Mr. SEIBERLING. If you purchase for par it has to carry an interest rate higher than the New York prevailing rate.

Mr. WIGGIN. It does not necessarily.

Mr. SEIBERLING. What is the call money rate to-day?

Mr. WIGGIN. Three per cent.

Mr. SEIBERLING. Are you buying commercial paper on 3 per cent?

Mr. WIGGIN. I see what you mean. The commercial paper is usually higher than the call rate. Sometimes it is higher and sometimes lower.

Mr. SEIBERLING. As a usual thing, you make money out of that transaction?

Mr. WIGGIN. No, sir.

Mr. SEIBERLING. Now, if we had branches in these localities throughout the country, under Mr. Anderson's set-up here, in his address, his plan takes money from the rural community and throws it into the metropolitan center, does it not?

Mr. WIGGIN. I wish you would ask Doctor Anderson that question.

Mr. SEIBERLING. If money is sent down to be put on call, it takes it out of the local community and puts it in the metropolitan center?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. Your correspondent banks maintain balances with you?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. They can purchase securities from your bank or upon your advice—take your advice on that?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. Is that about a description of the relationship between your bank and the correspondent bank?

Mr. WIGGIN. I did not realize we were making a description of all the relations.

Mr. SEIBERLING. Well, will you make one, briefly?

Mr. WIGGIN. The correspondent bank finds it desirable to keep an account in New York——

Mr. SEIBERLING. It is required by you, is it not?

Mr. WIGGIN. No; I wish we could require it.

Mr. SEIBERLING. To some extent?

Mr. WIGGIN. We can not require it. We are glad to get them.

Mr. SEIBERLING. You mean to say you let a correspondent bank draw a draft on you that does not have a deposit in your bank?

Mr. WIGGIN. We would not pay it.

Mr. SEIBERLING. The business necessities require that they maintain a balance with you?

Mr. WIGGIN. Most of the banks keep an account with us and we are very glad to have them, and we handle the accounts and pay their checks and receive their deposits and follow their instructions with reference to the payment of papers and delivery of securities. It is a regular banking business.

Mr. SEIBERLING. Can you estimate the deposits that come to your bank from the 7,000 correspondent banks?

Mr. WIGGIN. I am sorry I can not give you that figure.

Mr. SEIBERLING. It is a large amount?

Mr. WIGGIN. Several hundred millions.

Mr. SEIBERLING. And with the call money rate high, like it was last year, you would make a lot of money on those deposits?

Mr. WIGGIN. As a matter of fact, they lend the money themselves. We get our charge, of course, for lending the money.

Mr. SEIBERLING. They could not draw their balances down very close?

Mr. WIGGIN. It depends on the banks. As a matter of fact, we do not have much opportunity to put out call money for ourselves at those rates, as you can readily understand. The customers were loaning their own money.

Mr. SEIBERLING. This system that you want to stick to and are indorsing, is very profitable to the New York banks in all their relationships?

Mr. WIGGIN. We regard our business from the out-of-town banks as good business.

Mr. SEIBERLING. Of course you do not want to lose that business?

Mr. WIGGIN. No.

Mr. SEIBERLING. Now, if Congress were to adopt the trade area plan of branch banking and there were, say, 35 different areas with large parent banks and many of the banks now correspondents became branches of these banks, you and the New York banks would lose a great many correspondents, would you not?

Mr. WIGGIN. I think so. We might have to go into the business.

Mr. SEIBERLING. And you would lose a profitable business and prestige?

Mr. WIGGIN. Yes, sir; possibly. We might have to go into the business ourselves.

Mr. SEIBERLING. Would not these large independent parent banks be much more independent of New York, which is now the money center, as you state, than they are at the present time?

Mr. WIGGIN. Possibly.

Mr. SEIBERLING. In other words, many of them would be large enough to stand on their own feet and finance industries in their own sections?

Mr. WIGGIN. They do now.

Mr. SEIBERLING. But they would be much more able to do so?

Mr. WIGGIN. Possibly.

Mr. SEIBERLING. Now, Mr. Wiggin, I just want to ask this question: Is not that the main reason why the Chase National Bank, according to this bulletin and yourself, are opposing the comptroller's and the Federal reserve's proposal about branch banking?

Mr. WIGGIN. Not at all. If we were confident it was to the best interests of the country, we would not object to it.

Mr. SEIBERLING. Now, country banks can choose their own correspondents in New York?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. And some have several correspondents?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. So that you are not able, in the slightest degree, to dictate to the country bank how it shall run its business?

Mr. WIGGIN. That is true.

Mr. SEIBERLING. You are therefore not in a position to assist the country in encouraging and carrying on a proper banking policy?

Mr. WIGGIN. Well, if they want assistance from us, they must keep their bank in shape.

Mr. SEIBERLING. If they want assistance from you, but as long as they merely carry a balance with you, you have no influence with hem in that regard and can not exercise any?

Mr. WIGGIN. Absolutely not.

Mr. SEIBERLING. Now, as a matter of fact, this correspondent bank system means a profit to the city correspondent, but does not keep the correspondent banks from failing?

Mr. WIGGIN. That is right; nothing will keep some banks from failing.

Mr. SEIBERLING. If you had a large branch banking system with a big metropolitan bank back of the system, there would not be any danger of the small bank failing?

Mr. WIGGIN. It would depend on the metropolitan bank. We have had failures in big cities.

Mr. SEIBERLING. But not very often?

Mr. WIGGIN. No.

Mr. SEIBERLING. It would be less likely to fail?

Mr. WIGGIN. It would be a larger bank, of course.

Mr. SEIBERLING. You have testified that you operate your branches abroad successfully and that the branches of the securities companies are operated successfully and those of the express company. Why can you not operate branches of the bank successfully in a more limited trade area?

Mr. WIGGIN. I have not so testified. Perhaps we can.

Mr. SEIBERLING. But you are a successful banker.

Mr. WIGGIN. I think so, but we have had two of the branches only two days.

Mr. SEIBERLING. But the branches you have had have been successful?

Mr. WIGGIN. Habana has not been successful.

Mr. SEIBERLING. As a whole, they have been successful or else your bank would not be successful.

Mr. WIGGIN. But I do not think that bears on the question. As a matter of fact, they have not been successful. I am perfectly willing to grant that some branches would be successful.

Mr. SEIBERLING. Well, now, your bank is the largest in the world—I think it is—with branches in New York City and abroad and affiliated with the Chase Securities Co., doing business all over the world, with the recent acquisition of the American Express Co., and the organization of the American Express Trust Co., with branches in every important city in the civilized world, and you are hardly in a position as has Doctor Anderson that it is "The creation of giant branch banking systems, with enormous capital, ranging over 'trade areas' which may equal Federal reserve districts in size"?

Mr. WIGGIN. We have no national branch banking system at all.

Mr. SEIBERLING. You have branches in Europe and in this country?

Mr. WIGGIN. We have a branch in London, a branch in Habana, and two branches at the Isthmus.

Mr. SEIBERLING. Do you not think that Doctor Anderson is the last person in the world that should arouse fear on account of the concentration of enormous banking capital, and so forth?

Mr. WIGGIN. Well, you will have to ask the doctor that question, but I do not think he has aroused very much fear.

Mr. SEIBERLING. I think that is all.

Mr. BUSBY. I will ask this one question, if I may: Mr. Davison, who was with us yesterday, said that the correspondent bank was performing every function that the branch bank could perform to

the outlying section of the country, he having in mind particularly the New York banks of a type like his and yours and others.

The branch bank established in some outlying section would naturally have the cooperation of the parent bank to this extent, over the correspondent bank, if I understand it, that the parent bank would stay by the branch bank even when the branch bank was losing money in operating, especially if bad crops or some local condition caused a disastrous situation to present itself from the standpoint of the bank; whereas your bank would not feel called on to go far enough to suffer any unforeseen losses in standing by your correspondents.

Mr. WIGGIN. Let me see if I understand it: If a bank had a branch in a town it would keep on lending money even though they did not think it was good?

Mr. BUSBY. That is part of it. But a branch in a town would be protected even when it was losing money by the parent bank.

Mr. WIGGIN. If the whole bank is solvent and good, that branch is perfectly protected. There is no question about that.

Mr. BUSBY. If it was apparent that its trouble was temporary in the locality where the branch was located, the parent bank would not hesitate to hang on and continue to continue to carry the branch along for months and months?

Mr. WIGGIN. Of course we do not know what they would do, but they would have to pay the debts of that office.

Mr. BUSBY. But the correspondent system would not have any obligation along that line.

Mr. WIGGIN. It would not have any legal obligation, but it is done.

Mr. BUSBY. It is not done to the extent that the parent bank would be called upon to protect its branch.

Mr. WIGGIN. There would be no legal obligation.

Mr. BUSBY. The correspondent bank would not feel and, in actuality, does not stay on with the correspondent in distress as a parent bank does with its branches?

Mr. WIGGIN. It frequently does.

Mr. BUSBY. I do not get an answer to my question, but by comparison, one with the other, the correspondent bank does not stay on as long as the parent bank would with its branches?

Mr. WIGGIN. Of course you are asking a very general question.

Mr. BUSBY. I am asking a general question to get through.

Mr. WIGGIN. I agree with you entirely that if a bank had a branch, legally responsible for the deposits, it would have to stay with it and see it through.

Mr. BUSBY. If it had a legal responsibility it would naturally have to stay with it and see it through further than a bank that had no legal obligations to the correspondent.

Mr. GOLDSBOROUGH. I just want to ask one question. Mr. Wiggin, Mr. Seiberling asked you if you were not benefited by the business you received from correspondent banks and whether that was or not the reason you did business with them, now, is it not a necessary incident to any trade that there is a benefit to both parties; that the deal would not take place unless it was a benefit to both parties?

Mr. WIGGIN. I agree with that.

Mr. GOLDSBOROUGH. And do you not think a bank, in a rural district, can be relied upon not to send money to New York to be loaned on call that is needed for the business purposes of the community in which the bank is doing business? Do you not think it would be bad business for the bank to send money to New York to be used on call that was needed for the local business?

Mr. WIGGIN. I think it is a bad business.

Mr. SEIBERLING. You asked whether it was done. He admitted it is bad business, but he did not answer the question as to whether it was done.

Mr. WIGGIN. I do not know whether it is done or not. I do not know about the needs of the local communities.

Mr. GOLDSBOROUGH. Now, is it not a fact that rural banks now have access to improved banking methods away beyond what they did when the country was being built up on the unit system?

Mr. WIGGIN. There is no question about it.

Mr. GOLDSBOROUGH. And under normal conditions, when we get away from the collpase of the war, do you not think that the unit system is just as valid as it was during the formative period of this country?

Mr. WIGGIN. I do.

Mr. GOLDSBOROUGH. Do you believe, Mr. Wiggin, that a rural community, which is supplied by a branch bank, will receive for its industries the same sympathetic help that it would from a unit bank?

Mr. WIGGIN. I think it depends entirely on the management. I do not see how you can come to a conclusion on that in general. I think it must be in specific cases.

Mr. GOLDSBOROUGH. Of course, that is so in anything, but as a rule—that is what I mean—would a branch bank of a metropolitan bank be as much interested in the local welfare as the unit bank, located in the section, would be.

Mr. WIGGIN. I think there may be a community feeling where the bank is owned in the community and is a local bank both in the way of deposits and loans. It would be perhaps a little more enthusiastic than if it were a branch of a distant bank.

Mr. GOLDSBOROUGH. Do you believe that the value of the morai risk would be considered as sympathetically by a branch bank as a unit bank?

Mr. WIGGIN. What kind of a risk?

Mr. GOLDSBOROUGH. The moral risk or the character risk?

Mr. WIGGIN. I think it would give consideration to that.

Mr. GOLDSBOROUGH. Are they in a position to do it when the loans are really considered by the metropolitan institution rather than by the branch?

Mr. WIGGIN. I think so. But you must remember that the bank is not going to lend its money, if it is a well-run institution, whether a unit or branch bank, unless they think it is good.

Mr. GOLDSBOROUGH. Of course not.

Mr. WIGGIN. They might be a little more liberal in a local unit bank than in the other, but I do not think you can answer that question except in specific cases.

Mr. GOLDSBOROUGH. The moral risk is really the principal thing to consider in a loan, in my opinion. I believe that the country banker, the unit banker, has a better conception of that part of the risk than the metropolitan bank would have.

Mr. WIGGIN. It may be. I do not believe you can answer those questions generally. You must remember that even if it is a branch, it must have a local man running it.

Mr. GOLDSBOROUGH. That is true, but he is circumscribed. He can only go so far, as a rule. You believe that local industries can be built up as well under a branch system as under the unit system?

Mr. WIGGIN. It depends on the management of the particular bank. There is no reason why they should not.

Mr. GOLDSBOROUGH. Then why do you object to the branch system? I object to the branch system for the reasons I have indicated, but you do not consider them valid. Why do you object to the branch system?

Mr. WIGGIN. I object to it because I do not believe we could run the business properly. Now, it depends on how far it goes. I do not want to see it start. There is just as much reason for the Chase National Bank having a branch in Wichita, Kans., as Hartford, Conn., and perhaps more, and we do not believe it is possible to run it at that distance. Perhaps I am a little inconsistent in my answers.

Mr. GOLDSBOROUGH. From a banking standpoint, you prefer the unit system?

Mr. WIGGIN. Yes.

Mr. GOLDSBOROUGH. From the public standpoint, you have no preference?

Mr. WIGGIN. From the public standpoint, I would prefer the unit system.

Mr. GOLDSBOROUGH. That is all.

Mr. GOODWIN. There is nothing complex or intricate about the correspondent system of banks?

Mr. WIGGIN. None at all.

Mr. GOODWIN. Are not the fundamental principles involved pretty much the same as between an individual depositor in a bank and the bank except you furnish some additional service in the way of advice and taking care of the business of the correspondent bank?

Mr. WIGGIN. It is very much the same.

Mr. GOODWIN. I live in Minnesota, in a State where we have had a great many bank failures, as you know. In studying this question I have come to the conclusion it is not the fault of the independent unit system that has caused the failures, but it is due to the mighty poor judgment on the part of the officers of the banks that failed, in loading themselves up with assets that were not liquid, but were frozen and remained so.

Mr. WIGGIN. I think in many cases the troubles have come from natural conditions.

Mr. GOODWIN. I have in mind several banks in my district—a small bank, in particular, with a capital of $30,000 and a surplus of $200,000 and total deposits of almost $2,000,000, situated in a section that is no different from other sections in my district. There are several such banks there—perhaps not as large as the one I speak of in volume of deposits or assets—but that indicated to me, with good prudent judgment in the matter of making loans and taking care of the bank's business, the unit bank can serve the public as faithfully now as in the past.

You are opposed to branch banking?

Mr, WIGGIN. I would prefer it as is. I do not say I am opposed to it, but I prefer the system as is.

Mr. GOODWIN. You think the present system of independent unit banks, with the branch banking in certain limited areas, can serve the country as faithfully in the future as it has in the past?

Mr. WIGGIN. I do.

Mr. BUSBY. I noted that at the peak of the loans on the stock market, when they loaned close to $7,000,000,000 a day, the New York banks furnished from their own funds about 16 per cent of those loans; that New York banks loaned, for the account of other banks outside, about 28 per cent of those loans, and that about 56 per cent of the loans were made by the New York banks for the account of others.

Now, undoubtedly the proportion of money loaned by the New York banks—16 per cent—was out of proportion to their assets compared with the assets of banks in other sections.

Mr. WIGGIN. Sixteen per cent was a greater portion——

Mr. BUSBY. A less proportion of their assets than the 28 per cent loaned for banks outside of New York, which had funds in New York City. I do not mean their total assets, but that had funds in New York City.

Mr. WIGGIN. I do not believe I get that question.

Mr. BUSBY. The New York banks had all their assets in the city and they had assets from correspondents in their hands.

Mr. WIGGIN. Yes.

Mr. BUSBY. The New York City banks, taking this as an arbitrary figure—but I think it is practically correct—loaned 16 per cent of the funds that were loaned on the New York Stock Exchange, most of which, or 90 per cent of which, was call money, and 28 per cent was loaned by New York banks for the account of outside banks. Was there not a disproportionate amount of funds loaned for outside banks than loaned by New York banks out of their own funds?

Mr. WIGGIN. That money from outside banks came from all over the country, and until you know what the total is it will be pretty hard to answer the question.

Mr. BUSBY. What do you get for loaning funds for other banks?

Mr. WIGGIN. One-half of 1 per cent interest.

Mr. BUSBY. If the funds loaned reached $7,000,000,000 average, that would be, I believe, $35,000,000 a year that all the banks in New York that were loaning money on the Stock Exchange would receive as their fee. That would amount to——

Mr. WIGGIN. Give me the question again and I will see if I can answer it.

Mr. BUSBY. If the money loaned on the New York Stock Exchange by the New York banks for which these banks received a fee of one-half of 1 per cent for making the loans, averaged $7,000,000,000, the average amount paid to New York banks for handling the loans would amount to $35,000,000 a year, and if they had 300 banking days in the year, that would give the New York banks a fee for handling that business, only a small percentage of which was their own funds, of something like $120,000 a day. Do you agree with that?

Mr. WIGGIN. I would have to figure it, but I would assume you are correct.

Mr. BUSBY. I just wanted to point out the source from which the profit came to the New York banks by having correspondents out-

side. I am not blaming them for having them or blaming the depositors for putting their money out on call.

Mr. WINNIN. Of course there was not any $70,000,000,000 loaned.

Mr. BUSBY. I said $7,000,000,000.

Mr. WIGGIN. Oh! The charge for loaning money on the Street—one-half of 1 per cent—was based as a low banking charge for the service rendered. The cost of handling it is enormous. The risk of handling it is enormous.

Mr. BUSBY. I might ask you to amplify that risk slightly.

Mr. WIGGIN. The risk of seeing that the collateral is not stolen from us and seeing that the collateral always covers the loan. There is a real risk in the business and there is a tremendous volume of detail. It is what we believe a just and a low charge for the service rendered.

Mr. BUSBY. Yet, withall, a very profitable business, when it amounts to $120,000 to the banks every day.

Mr. WIGGIN. You are figuring on gross figures.

The CHAIRMAN. Are you now a member of the clearing house committee?

Mr. WIGGIN. No, sir.

The CHAIRMAN. You have been a member of the clearing house committee?

Mr. WIGGIN. At various times.

The CHAIRMAN. We should have in this hearing an amplification of the functions of the New York Clearing House. I wonder if you could furnish us with the information.

Mr. WIGGIN. I had better not. I am not up to date. I would suggest the chairman of the clearing house committee.

The CHAIRMAN. Who is chairman now—do you recall?

Mr. WIGGIN. I think it may be Mr. Potter of the Guaranty Trust Co. I am not sure.

Mrs. PRATT. Perhaps I was stupid, but I did not quite understand Mr. Wiggin. These branches in Albany and other cities are branches of the Chase Securities Co.?

Mr. WIGGIN. Yes; they sell securities.

Mrs. PRATT. And you have branches abroad?

Mr. WIGGIN. Yes.

Mrs. PRATT. But through your securities company do you have what is practically a branch banking system?

Mr. WIGGIN. Not at all. They do not loan money or receive deposits. They simply try to distribute securities. They are a sort of selling agency.

The CHAIRMAN. Statements have been made to the committee as to the effect the building up of these trade area banks throughout the country would have on the distribution of securities from organizations like yours in New York; that is, the combining together of all banks in a certain area would preempt largely the securities business in those localities. Would you view that as a restriction on your ability to sell securities?

Mr. WIGGINS. I do not think so. I think their personal judgment on what is the best to buy governs in the matter of securities purchases.

The CHAIRMAN. You do not think the building up of these big groups would affect the ability of New York banks to sell securities in their territory?

Mr. WIGGINS. I do not think so.

The CHAIRMAN. My attention has been called to a recent sale of Treasury notes. For the first time it appears those notes were successfully bid in by a group; namely, the Marine Midland group of Buffalo, they successfully bidding them in in competition with New York bidders. Have you any fear that they may take unto themselves exclusively the securities business in their trade area?

Mr. WIGGIN. I do not think so.

The CHAIRMAN. In other words, you do not feel, in the management of the securities business—in originating and distributing securities you would lose out selling direct to customers in this particular area but that you would have to do business with the head of such an institution, who would, in turn, distribute the securities to the people in this trade area?

Mr. WIGGIN. I think the distribution of securities is governed by the taste of the individual buyer, and that is governed largely by the return.

The CHAIRMAN. As far as the banks that formed that group are concerned, in the purchase and sale of securities, they would be directed by the head officers of the group?

Mr. WIGGIN. Yes; but in buying any quantity of securities they have to buy in the open market.

The CHAIRMAN. I should like to ask you how many branches you have in New York?

Mr. WIGGIN. Forty-six.

The CHAIRMAN. With respect to the examination of your parent institution, is there a simultaneous examination of these branches?

Mr. WIGGIN. Yes, sir; they count the cash in every place simultaneously. Mr. Pole can answer that question better than I.

Mr. SEIBERLING. Can you tell us what is the average rate of interest you pay on daily balances of your correspondent banks?

Mr. WIGGIN. Two per cent, I think it is now.

The CHAIRMAN. We are very grateful to you for your statement, Mr. Wiggin.

Mr. WIGGIN. I hope I have been of some use to you. I doubt whether I have.

The CHAIRMAN. The committee will stand adjourned until 10.30 to-morrow morning.

(Whereupon, at 12.25 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m. Thursday, June 5, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

THURSDAY, JUNE 5, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10.30 o'clock a. m., in the committee room, Capitol, Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order. We have before the committee this morning Dr. Benjamin M. Anderson, jr., economist of the Chase National Bank of New York. Mr. Anderson was present yesterday during the testimony of Mr. Albert H. Wiggin, chairman of the governing board of the Chase National Bank. We will be very glad to hear any statement which Mr. Anderson cares to make at this time.

STATEMENT OF BENJAMIN M. ANDERSON, JR., ECONOMIST, CHASE NATIONAL BANK, NEW YORK CITY

The CHAIRMAN. I am presuming, Mr. Anderson, you would like to make a brief statement?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. And then submit yourself to questioning later on?

Mr. ANDERSON. Any procedure the committee wishes to follow.

The CHAIRMAN. I think it will be best if you will proceed with your statement and the members of the committee will question you pertaining to anything you may say or to things that are pertinent to this study.

Mr. ANDERSON. My opinions, set forth in the two documents which I am going to submit for the record, are opinions of long standing.

For the record, I want to submit a speech that I made in New Hampshire on October 12, 1929, called Bank Consolidations in a Period of Speculation; and a speech which I made in North Carolina on May 8, 1930, called Branch Banking Throughout Federal Reserve Districts.

(The speeches referred to are here printed in full, as follows:)

BANK CONSOLIDATIONS IN A PERIOD OF SPECULATION [1]

(By Benjamin M. Anderson, jr., Ph. D., economist of the Chase National Bank of the City of New York, October 12, 1929)

REVOLUTIONARY CHANGE TO BE AVOIDED

The question of the comparative merits of the European system under which a country has a few great banks with numerous branches, and the American

[1] An address delivered before the joint convention of the Northern Bankers Association and the New Hampshire Bankers Association, at Whitefield, N. H., on the evening of Saturday, Oct. 12, 1929.

system of 26,000 independent unit banks, is not one to be settled offhand. There are countries where country-wide branch banking works admirably; and, by and large, our system of unit banks has worked admirably. Either system can work well if the country is adjusted to it, if the bankers of the country are trained in handling it, if the banking laws of the country are adapted to it, and if the standards of banking and commercial morality in the country are high. Neither system could work well if suddenly adopted in a country which had long been accustomed to the other system. Revolutionary changes in the banking system of a great country are to be avoided. Changes which may be desirable if they come slowly as an evolutionary process, with a careful study of the problems involved, with experimentation and the correction of mistakes in the light of experimentation, may easily be unfortunate if put through wholesale on a country-wide scale. It would be particularly unfortunate if our American system should suddenly be transformed as an incidental by-product of a competition between the State banking system and the National banking system, or as an incident of a period of excited stock market speculation, or as a result of a competitive struggle for great size and large figures.

Branch banking confined to the city of the head office is not the point at issue. We have learned how to do this well in many American cities. The problem before us to-day is one of consolidations running far beyond a single city, and, in many cases, consolidation by means of holding companies, rather than by mergers with branch banking.

We should move slowly in the readjustment of our banking system. It is not enough to study the matter from the standpoint merely of the prices of bank shares or of holding corporation shares. It is not enough to study the matter only from the standpoint of the much more important question of the profits of banking. We must consider the problem also from the standpoint of the services which banks perform for the country.

But, in general, under a competitive system, the prosperity of the banks and the prosperity of the country move together. In general, that banking system which, preserving competition, makes most profits is serving the country best. A prosperous bank, strengthening its capital structure by accumulating a large surplus out of earnings, can serve the country better than a bank which is not making money. In general, a bank prospers as its customers prosper, and under a system of competitive banking a bank makes money with its customers, instead of out of them.

It is, therefore, fair argument for the proponents of a change in our banking system to make the case that the change will increase banking profits. A carefully analyzed consolidation plan which does not destroy competition, which takes adequately into account the problems of management, control, and responsibility, which prices properly the various elements taken into the consolidation, and which definitely accomplishes economies in operation, is thoroughly justifiable. On the other hand, movements toward consolidation in every field are intensified during periods of active speculation in securities and are greatly facilitated by the ease with which new securities can be issued and marketed in such periods. Abuses and mistakes easily occur in such periods, and movements which are economically justified may easily be carried to uneconomic extremes.

MR. WIGGIN'S VIEW

In his annual report as chairman of the board of directors of the Chase National Bank in January, 1927, speaking of the merger of the Chase National Bank with the Mechanics & Metals National Bank, Mr. A. H. Wiggin said:

"This merger, together with similar steps on the part of other institutions in the last two or three years, has been made the occasion of comments to the effect that mergers are the order of the day and that the line of logical development is toward fewer and much bigger banks. I am not prepared to subscribe to this doctrine without qualification, and I would not have our merger with the Mechanics & Metals National Bank judged on that basis alone. It is significant that while bank mergers are taking place new banks of moderate size are also coming into existence and doing well. A merger may bring together organizations which can not work harmoniously and may combine interests which are not compatible. Each case must be judged on its own merits. Haphazard mergers merely for the sake of large figures do not assure good banking. In the case of the merger of the Chase National Bank and the Mechanics & Metals National Bank a great deal of careful thought and planning preceded the decision. The responsible officials of both institutions knew one another well before the merger, and were sure that they could cooperate in a friendly and efficient way. The

merger has been accomplished with entire good will and with a minimum of friction and disturbance.

"It may be observed that the Chase National Bank reached the position of the second largest national bank in the country in volume of net deposits without any mergers at all. Attaining great size through growth alone, it was able to develop a body of traditions, ideals, and practices which give it a distinctive character. The mergers which have since taken place have made it possible for us to give larger lines of credit to great business organizations, have made possible the more economical handling of many functions, and have broadened the range of our activities, but they have not destroyed the distinctive character of the Chase National Bank."

BIGGER CUSTOMERS AND BIGGER BANKS

One of the important considerations making for the consolidation of banks has been the recent great growth in size of American business corporations, customers of the banks. The banks must be big enough to meet the needs of their customers. But this argument can not be applied throughout without careful consideration of the individual case. Just how big do the banks need to be to take care of their customers? Precisely how much have their customers grown? An answer can not be given for the country at large. It must rest on a study of individual cases, and individual communities and regions.

Undoubtedly unit banking has been carried to uneconomic extremes in a good many rural regions. Undoubtedly there are too many small banks struggling along with such small earnings that they can not pay the salaries required for adequately trained bankers. Undoubtedly many rural communities would be better served by fewer and bigger banks. Undoubtedly, too, the development of the automobile and hard roads has made unnecessary the existence of a good many very small banks which formerly were quite necessary for a local community.

THE HOLDING COMPANY IN STRICKEN RURAL REGIONS

Further, there are great regions where, as a consequence of the unfortunate position of agriculture since 1920, so many small banks have gone under that public confidence in banks has been undermined. A well managed holding company, organized by powerful city banks, owning the stock of rural banks in such a region, may restore the impaired prestige of the country banks, lead their local customers to trust them fully and use them freely and build up their deposits once more, and restore sound credit to a distressed agricultural region. But the problem is not one for sweeping generalization. It is a problem that requires the careful study of individual cases.

HOLDING COMPANIES VERSUS MERGERS

I think that the propositions involved in Mr. Wiggin's discussion of mergers apply with even greater force to chain banking and bank holding companies. The merger, with branch banking, is a much more satisfactory form of consolidation from the standpoint of the problems of personnel and control and the centering of responsibility, than holding companies and chains of banks. The latter forms of consolidation, however, are often possible where merger with branch banking is impossible for legal reasons, and it is this less satisfactory form of consolidation that is being most widely employed of late, the supposition being in many cases that it is in anticipation of a change in the law which will make real mergers, with branch banking, possible at a later data. A real question arises as to the desirability of putting American banking into a halfway house awaiting a change in the law which may not come.

THE ARGUMENT FROM BANK FAILURES

One of the most used arguments offered for consolidation movements in rural regions is the large number of failures of rural banks since the crisis of 1920. A good many rural banks have gone under simply because the local community as a whole went under in the great collapse of land values and agricultural commodity prices. The figures were swollen, moreover, by the failure of a large number of very inadequately capitalized banks, the laws of certain States permitting banks to be organized with a capital of $10,000 in small places. There is need for reform in the banking laws to make sure that all banks have adequate capital, and that all banks are large enough so that they can afford to employ men with real banking training.

Commenting on these failures, Mr. Rudolph S. Hecht, president of the Hibernia Bank & Trust Co. of New Orleans, very properly remarks:

"However, neither chain nor branch banking is necessarily a panacea for such conditions. Overexpansion and frozen credits can occur under one system as well as another. This is best illustrated by the fact that within the same period covered by the above statistics we had failures such as the Bankers Trust Co. chain of Atlanta, which a few years ago caused 83 apparently independent banks in two States to close their doors within 48 hours, the failure of the Home Bank of Canada with 78 branches, and the practical failure and forced absorption of the Merchants Bank of Canada with 400 branches."

To Mr. Hecht's American and Canadian illustrations it would be easy to add illustrations from Europe, including the failure of a great bank with branches in Denmark (mitigated by the action of the Danish Government in guaranteeing its future obligations and continuing its activities), and the very disastrous collapse of the Banca di Sconto in Italy, with its numerous branches scattered throughout that country. We have seen also the failure of the great Banque Industrielle de Chine in China, and of several great banks with numerous branches in Japan, the latter mitigated by the Government's powerful aid. I agree thoroughly with Mr. Hecht's further proposition that:

"After all, good banking is not a matter of size. A properly conducted small country bank can be as safe as a large city institution with many branches. Success in the banking field depends on good management, whether the unit be large or small. It can not be denied, of course, that larger institutions can and usually do employ more capable men with greater experience and sounder judgment than can the average small unit bank. They also have on the whole better facilities for standardizing their business, keeping themselves properly informed, and thus escaping many losses resulting from actual operations as well as from poor credits.

"However, we have reached a point in our profession where most of the deficiencies of the small town bankers can be supplied, not necessarily by making any fundamental changes in our banking system or by giving up any of the unit bankers' independence, but merely by bringing about a better spirit of cooperation and mutual helpfulness."

BRANCH BANKING VERSUS CORRESPONDENT RELATIONS

A central point in this cooperation and mutual helpfulness to which Mr. Hecht refers is, of course, the relations between the small banks in interior places and their great city correspondent banks. The small bank can not afford a great credit department, but from its city correspondent it can and does get abundant and adequate credit information. The small bank may not trust its own judgment in the purchase of securities, but the full resources of its city correspondent are at its disposal in this connection. Through its city correspondent it can and does diversify its assets, purchasing safe open market commercial paper or bankers acceptances or obtaining other liquid assets.

One of the supposed advantages of country-wide branch banking is the facility with which funds can flow from regions where they are excessive to regions where they are needed. The head office, finding funds piling up in excess of local need in one part of the country, can transfer them to other parts of the country where borrowing demand is heavy. But it is an old story in American banking that precisely this same flow of funds takes place through our system of correspondent banking. Rural banks send excess funds to the money centers during their dull seasons, and during the period of their peak need for funds they borrow in the money centers.

BRANCH BANKING AND LOCAL INTERESTS

One difference, however, between the foreign practice of country-wide branch banking and the American system of unit banking is that the decision as to when and where funds shall flow is not made merely in the head office in the financial center, but rather is a matter of negotiation between principals in which an authoritative voice speaks for the interests of the local community. Very much is to be said for the argument of the country banker in opposition to the consolidation movement that he, the man on the ground, with his heart and his interests in the local community, can consider the interests of the local community more zealously and more expertly than a branch of an institution with headquarters in a distant great city could do. This is not always true. The local branch might be manned by abler bankers than those who man the inde-

pendent local bank. A capable branch manager might persuade the head office to send larger funds than the head office would lend to the local independent bank.

The experience of various foreign countries with respect to this matter gives us no universal answer to the question of how well branch banking serves local communities. In some cases country-wide branch banking has drawn in funds from the Provinces to be employed primarily in the financial center, or to be used in making foreign loans. In other countries country-wide branch banking has increased the funds at the disposal of the local communities. But the desire for local independence in financial matters is one that appeals strongly to the American public, and the desire to be the head of an independent bank is one cherished by many thousands of American bankers. It is not certain that the banking profession would draw to itself as high a percentage of our capable men as it now does if we made a revolutionary change in our system.

THE AMERICAN SYSTEM OF DIFFUSION OF RISKS

One further point with respect to the difference between American and foreign systems is to be considered in connection with the question of how big American banks need to be to take adequate care of American businesses. The American system of commercial banking emphasizes the diffusion of risks. Commercial loans, including loans to manufacturers, are normally short loans, and "lines of credit" are normally reviewed once a year. It is a general practice, moreover, for businesses of any size to carry accounts with several banks and even with banks in several cities, and to have lines of credit and borrowing relations with several banks. This makes for diffusion of risks, and for greater liquidity of banks assets. It makes business freer from bank domination, and banks freer from business domination. The tendency in foreign countries, on the other hand, where a few large banks with branches control the banking field, is for most businesses, excluding sometimes the very largest, to have only one bank, and for the bank and the business to be tied together very closely. The business is not independent of the bank and very often the bank is not independent of the business. The American banking practice of "cleaning up once a year," under which the borrower is expected to be out of debt to each bank for at least a part of the time, does not obtain to anything like the same extent in these foreign countries. The bank very often can not be paid in full without bringing the business to a close. Is it desired by those who urge that banks must be very much larger in order to take adequate care of their customers, that we shall abandon the American practice of short loans and diffusion of risks and go over to the practice of each business dealing only with one bank? The matter merits consideration before a decision is made.

BANKING CONCENTRATION AND ECONOMIC FLEXIBILITY

There is a further related point upon which my own mind is quite clear. It is definitely not desirable that consolidations should go so far in the United States as to make it possible for concerted action by the banks to stop a necessary liquidation and to carry over stale positions for protracted periods. In the crisis of 1920–21, our many thousands of independent banks, by cooperative effort and by resort to the aid of the Federal reserve banks, were able to prevent the crisis from degenerating into a panic, and were able to go through the liquidation in an orderly manner. But they were quite unable to prevent the necessary liquidation. In a surprisingly short time we "cleaned up" the weak spots, readjusted prices and costs, absorbed our losses, brought liabilities into reasonable relation to assets, and got ready for the next upward move in business. The business tide turned in the third quarter of 1921, and the year 1922 was a year of strong recovery. In Japan, on the other hand, concerted action by a few great banks, a few great industries, and the Japanese Government, choked off the crisis and the liquidation early in 1920, and the stale position, unliquidated, was carried over, despite a partial liquidation at the time of the earthquake in 1923, until the great crisis in 1927, when some great banks went under. Japan endured seven years of business stagnation in the vain effort to avert losses which our system of banking compelled us to take in 1920 and 1921. And Japan is not the only country where banking concentration has unduly delayed necessary liquidation. When many thousands of independent banks must independently meet their obligations at the clearing house every day, it is impossible to carry economic mistakes anything like so far as is possible when only a few great banks dominate

the picture. In the interest of the flexibility of our economic life, we must preserve vigorous competition both in banking and in business, and we must have a large number of independent units in order to assure this.

In conclusion, it has not been my purpose in this discussion to arrive at a definite verdict as to what is desirable in the future of American banking. It is my purpose rather to urge that the matter be not hastily settled. Each individual case must be studied on its merits. The distinction must be made between consolidations which are called for by the technical banking situation, and those that occur because it happens to be "the fashion of the day," or because it is easy to market new securities in a period of speculation. Obviously, too, the character and the caliber of the men who are making the consolidations are of crucial importance, and in this connection it is important to remember that the brilliant, able, and upright promoter is not necessarily a capable administrator.

Branch Banking Throughout Federal Reserve Districts[1]

(By Benjamin M. Anderson, jr., Ph.D., economist of The Chase National Bank of the city of New York, May 8, 1930)

A REVOLUTIONARY PROPOSAL

The Committee on Banking and Currency of the House of Representatives at Washington has been holding a highly important set of hearings on the subject of group, chain, and branch banking. It is giving very special consideration to a proposal that the national bank act be amended so that national banks may have the power to extend branches throughout "trade areas" which may overlap State lines, which may be as wide as Federal reserve districts, and which may even overlap Federal reserve districts in cases where a city's "trade area" runs beyond a Federal reserve district. National banks, under this plan, would be empowered to do this whether the States consent or not. National banks located in one State could invade another State whose laws prohibit branches of banks chartered elsewhere. The primary purpose of this proposal is to arrest the failures among small banks in country districts. A secondary purpose is to give the national bank charter such an advantage over State bank charters that the national banking system will grow at the expense of State banking systems. The theory of "parity" between State and national banks is definitely abandoned, and the purpose is to give national banks a definite and great advantage over State banks.

The main emphasis is placed upon the arrest of bank failures. During the 9-year period June 30, 1920, to July 1, 1929, about 5,000 banks, nearly all of them in agricultural communities, closed their doors and tied up deposits of approximately $1,500,000,000. (The average of deposits is thus very small for these failed banks, being only $300,000.) The figures for the year 1929 show no decline in the rate of failures among these small banks.

The proponents of this widespread extension of branch banking outside the city of the head office apparently intend to make use of the recent rapid developments of group and chain banking, by adopting legislation to permit the groups and chains to transform themselves into branch systems.

With much sympathy for the main purpose which lies behind these proposals, sincere proposals made by able men who undoubtedly have the good of the country bank at heart and who undoubtedly have a great deal of knowledge of country bank conditions, I am, none the less, obliged to disagree radically both as to their diagnosis and as to their prescription. The causes of the failures of small country banks are to be found in special circumstances which have little to do with the general question of chain, group, and branch banking versus unit banking. And the remedy proposed would touch and help very few of the existing country banks which are in a weakend condition.

We do not need to make a revolution in the general banking system of the United States because of conditions in small banks in stricken agricultural regions. Other, much more moderate, proposals may be made which would be much more effective from the standpoint of the goal aimed at.

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[1] An address delivered before the North Carolina Bankers' Association at Pinehurst, N. C., on the morning of Thursday, May 8, 1930.

THE EXISTING CHAIN, GROUP, AND BRANCH BANKING MOVEMENT LEAVES OUT THE SMALL BANK

At the end of 1929 there were in the United States 24,645 banks and 3,547 branches, or a total of 28,192 banking offices. Of this total of banking offices there were 6,353 banks and branches that belonged to branch banking systems and chain or group banking systems or to both. This leaves 21,839 banking institutions that are definitely "independent unit banks." The overwhelming number of our banks is thus outside of chain-bank, group-bank or branch-bank systems. On the other hand, on the same date, the branch, chain, and group banking systems had total loans and investments of approximately $30,000,000,000, leaving $28,500,000,000 of loans and investments for the 22,000 independent unit banks.

This figure, $30,000,000,000, however, gives a very exaggerated picture of the extent to which the movement has gone. From the standpoint of the question in hand, we may take out the many billions represented by the great New York banks whose branches are all within the city of New York or else in foreign countries, and the bulk of whose loans and investments are in any case not in branches but in the head offices. A similar reduction can be made for a number of other important cities. Of the banks that belong to chains or groups, but operate no branches, there were on this date 1,984, with total loans and investments of $4,913,000,000, the average of loans and investments being about $2,500,000. In addition there were 119 banks, belonging to chains or groups, that operate branches, with total loans and investments of $6,264,000,000, or an average of $52,600,000 per bank.

These figures show the immense disparity in average size between the banks that have gone into chains and groups, and the small country banks that have been failing, with average deposits of $300,000. The existing chain and group bank movement is primarily a movement which is bringing relatively large banks together. In exceptional cases, it is including some of the small banks which the legislative proposals are designed to help. Even in these cases, it is not taking in those that are weak and failing. I should not know how to draw a constitutional legislative proposal which would compel good bankers to absorb weak and failing banks. Further, from the standpoint of what is administratively possible, the managers of a great group-bank system can contemplate with some equanimity the absorption of $60,000,000 of banking resources in a dozen well organized banks in sizeable cities, when they would very properly shrink from the task of taking over sixty millions of banking resources scattered among 200 banks in very small towns.

THE SIZE OF THE FAILED BANKS

Over 40 per cent of the failed banks were situated in towns and villages having a population of less than 500 persons. Over 60 per cent were in towns of 1,000 people or less; 80 per cent were in towns of 2,500 people or less; 92 per cent of the failures were in places having less than 10,000 people. Of the remaining 8 per cent of the failures, a high percentage was in very small banks in larger places.

From the standpoint of capitalization, 63 per cent of the failure were among banks having $25,000 capital or less; 71 per cent were in banks having less than $50,000 capital, and 88 per cent among banks having less than $100,000 capital.

During the past nine years there were no failures at all of banks having capital of two millions or more, and there were only four failure among banks having over one million capital.[2]

Practically, it may be said that for cities of 10,000 or more people, and that for banks with $100,000 capital or more, there has been no problem of sufficient magnitude to justify extraordinary concern, or to call for more than local attention.

Certainly there is nothing in the experience of the past nine years, as revealed in the foregoing figures, to justify a legislative revolution in our banking situation, or to justify the creation of giant branch-banking systems, with enormous capital, ranging over "trade areas" which may equal or even exceed Federal reserve districts in size. Much more moderate measures would apparently be indicated.

THE CAUSES OF BANK FAILURES IN THE PAST NINE YEARS

The first and foremost cause of the large number of bank failures since 1920 is the great boom in agricultural prices and land values before 1920, the collapse

[2] Branch, Chain and Group Banking, hearings before the Committee on Banking and Currency, H. R., 1930, Vol. 1, pt. 1, pp. 11-12.

of agricultural prices and land values following 1920, and the adverse conditions in agricultural communities which have since continued. The second great cause is real estate speculation in the period since 1920, in certain important sections of the country, notably Florida and some adjacent States.

This is strikingly evidenced by the geographical distribution of the failures, which are largely centered in four Southeastern States, namely, Florida (123 failures), Georgia (305 failures), South Carolina (191 failures), North Carolina (110 failures), and in a second group of agricultural States, namely, Minnesota (378 failures), Iowa (467 failures), Missouri (246 failures), North Dakota (444 failures), South Dakota (315 failures), Nebraska (307 failures), Kansas (194 failures), Montana (191 failures), Oklahoma (227 failures,) Texas (217 failures).

During this same period, all of New England had only 26 failures. New York had only 12 failures, and Ohio had only 36. New Jersey had none at all. The failures were concentrated, in other words, in the regions which had been most affected by the agricultural boom and collapse, and by the real-estate speculation in Florida and adjacent States. This concentration of the problem in special areas again would raise the question as to whether Federal legislation, affecting banks all over the country, is called for, or whether—in so far as the matter calls for banking legislation at all—it is not a matter for the States most concerned, with such concurrent legislation on the part of the Federal Government as would permit national banks to have the same branch-banking rights that State institutions have in these States.

From the standpoint of the contrast between our unit-banking system and the system of branch banking, it may be observed that the same grave sequence of events, namely, the war, the boom of 1919–20 and the collapse of 1920–21, which undetermined so many of our small agricultural banks, also undermined great branch-banking systems in many parts of the world. These include a great bank in Denmark, a great bank in Canada with 400 branches, the Banque Industrielle de Chine in China, with its widespread branches and its power of note issue, and the Banca di Sconto in Italy, with branches spread all over that country. More recent troubles of the same sort, deferred consequences of the same causes, have occurred in Japan and Austria. An incomplete record shows, also, for the United States, that 226 banks, with deposits of $102,000,000, belonging to chain systems, failed during the period we are considering.[3] And it is further to be observed that in all these American agricultural States the great bulk of the unit banks, measured in resources, survived the shock, and that in every State the majority of the unit banks in number stood intact.

The situation was very greatly aggravated in many of these States by the excessive number of very small banks. "No community can possibly provide adequate resources, competent officers, and experienced directors for one bank to every 750 of its inhabitants as in North Dakota, or to 1,400 as in Iowa. And the situation in these States was not exceptional; on the contrary, an excessive number of banks have been established throughout those sections of the country that are mainly devoted to agriculture." [4]

New Jersey's total immunity from bank failures in the past nine years is probably due in part to the fact that New Jersey's banking authorities are not over-ready to grant charters to new banks, unless there is real evidence that a new bank is needed, and that the Federal Comptroller is influenced by the State policy when granting national bank charters in that State.

The situation was complicated further for many small country banks by the withdrawal of an important source of revenue which they had formerly enjoyed, namely, the making of exchange charges on checks drawn against them for which remittance was expected in another place. Their checks, when presented over their counters, they paid at par. But when they were expected to make remittance to other places, they very generally made a liberal (and often excessive) "exchange charge," which was an important source of revenue. The Federal reserve system of par collection of checks has largely wiped out this source of revenue for very small banks.

Again, the institutions chartered by the Federal Government for making mortgage loans reduced an important source of revenue which many of these small banks had, in acting as intermediary in the making of mortgage loans.

At the same time these Federal farm loan agencies brought into the agricultural communities an unaccustomed volume of funds which were deposited with the local banks at high rates of interest, and which the local banker felt obliged to

[3] Hearings, Vol. I, pt. 4, p. 457.
[4] Recent Economic Changes, Vol. II, p. 695.

reemploy at high rates of interest. Many a small-town banker, who was a good banker when his loanable resources were somewhat less than the borrowing demands of his good customers, and who could make good loans when he could discriminate among competing borrowers, found himself to be a very poor banker when he faced the unaccustomed problem of employing surplus funds. He was not trained for that.

It may be added that the well-meant efforts of the Federal Government to improve the condition of agriculture by multiplying the facilities of agricultural credit have had as their main result a great and excessive increase in the mortgage debt of agriculture, without a commensurate increase in the productiveness of agriculture, and with a consequent narrowing of the margin of free income and the percentage margin of equity in land, on the basis of which the farmer could ask his banker for credit.

Very especially has the position of the very small bank in villages been weakened by the coming of hard roads and automobiles, which, in many places, have largely destroyed the usefulness of the small local village, doing away with the local merchant, the local mill, and the local church, as well as the local banker, making it possible for the people to do their business and seek their social life in the county seat and nearby larger cities. Industrial consolidations, moreover, even where leaving local factories in small places, have very often taken away the banking business which the local factory gave to the local banker, and concentrated it in larger places. The growth of chain stores has had a similar effect. The very small bank has had a difficult time in recent years, and the marvelous thing is, not that so many have gone under, but rather that such an enormous number have stood, and have even prospered, despite these adverse tendencies.

DIVERSIFICATION OF RESOURCES THROUGH CORRESPONDENT BANKS

One cause assigned for the failures of many small banks is that they have been unable to diversify their resources because located in a 1-crop district, whereas a great bank with branches stretching over a whole Federal-reserve district could accomplish this diversification. It is true that many small banks have failed through lack of diversification of their resources, but it is also true that the majority of small banks in the same communities have survived because they have diversified their resources. They have accomplished this diversification by means of their correspondent relations with great banks in great cities. They have refrained from putting all of their resources into local loans, and have placed part of them, through their correspondent bank, into open market commercial paper, or readily marketable bonds, or call loans on the stock exchange, or acceptances, and deposit balances with their correspondent bank to build up a "borrowing equity." When times of stress have come, they have thus had secondary reserves, and they have been able to borrow from their correspondent banks sums needed to tide them over seasonal needs and emergencies. Good banking and diversification of banking resources is perfectly possible for a small bank in a 1-crop community. We do not need branch banking either for the purpose of securing diversification or for the purpose of bringing about a seasonal flow of funds from region to region. The system of correspondent banking relations has accomplished this for many decades, and good bankers everywhere know how to do it.

THE REMEDIES

I see nothing in all of this to call for a radical change in Federal laws regarding branch banking. The problems do not extend throughout the United States. They are centered in particular States. The problems do not relate to institutions of sufficient size to be beyond the power of each State to deal with for itself.

Radical changes in the banking legislation of a good many States are undoubtedly indicated. The minimum capital required for banking in many States is far too small. There ought to be sweeping consolidation movements among the smallest banks in many States. Many villages which now have two or three struggling banks would be much better served by one strong bank State legislation giving the State banking authorities power to guide, and even to compel this in their discretion, would be very desirable in certain States.

A limited extension of branch banking by State law would probably help the situation in a good many States. The national bank act should be amended so as to permit National banks to do in this connection what the different States allow their State banks to do.

County-wide branch banking, branch banking in groups of counties, even, in some cases, State-wide branch banking, or branch banking centering about three or four main cities of the State, ought, in certain States, to be permitted and encouraged. There may even be one or two cases where a State will feel itself so much in need of outside banking capital that it will welcome the branches of powerful banks whose head offices are in other States.

Mr. Platt, of the Federal Reserve Board, has made moderate proposals along the line of county-wide branch banking, having especially in mind the very small country banks, which deserve very careful study. Ambassador Charles G. Dawes, when Comptroller of the Currency, in his annual report for the year 1898, recommended that branch banking be authorized in communities of less than two thousand inhabitants, since many of such communities were not able to support independent banks. Many such villages would undoubtedly be better served by inexpensive offices of strong banks, whose head offices are in nearby county seats than they are by their local independent unit banks which are not making profits and which must charge very high rates for the limited local loans they are able to make.

It is probable that legislation along this line, authorizing banks in larger cities to establish branches in outside communities with ten thousand or less inhabitants, or even with five thousand or less, would accomplish virtually everything, with respect to the prevention of small bank failures, that branch banking could in any case accomplish. At the same time it would avoid the grave evils that would come from the sudden revolution in our general banking system, and from the destruction of local financial independence, that the larger program now under consideration would involve.

Further, such a limitation would concentrate upon the communities most in need of help the attention of the bankers who are in favor of such developments, but who would be hunting bigger game in larger cities if the whole field were thrown open. Such legislation ought to be drawn in such terms as will encourage the organizers of branch-bank systems to take over the existing banks, and to discourage the starting of new branch offices in places where such action would merely increase the difficulties of existing small banks. Permission to establish such new branches, competing with existing banks, ought not to be automatic, but should involve some "certificate of convenience and necessity," to be issued by the authorities only after hearings.

But the problem differs greatly in different States. The different State bankers' associations should take it up and they should carry their proposed legislation to their State capitals, rather than to Washington. The one piece of legislation needed at Washington would seem to be that the national banks be allowed to have branches in a given State on the same terms that the State banks and trust companies in that State are allowed to have them.

STATE LINES AND LOCAL FINANCIAL INDEPENDENCE

We are moving much too fast and too far in the direction of centralization. If an evil arises, we rush to Washington for a remedy which, even if a good remedy for part of the country, is often ill adapted to the special needs of other parts of the country, and which, if a bad remedy, makes another nationwide evil. It is far better that we should use the machinery of our 48 States for social and economic experiments. If they work well, other States may adopt them. If they work well in part, other States may modify them in adopting them. If the new measures are good for some States and bad for others, those that find them good may use them. If the remedies are definitely bad, as guaranty of bank deposits proved to be, we develop the fact by a relatively small scale experiment, and the country as a whole is saved. There is, for example, little danger of Federal legislation for the guaranty of bank deposits, but I should not feel so sure of this if experience in Oklahoma and Nebraska and elsewhere had not already given us an object lesson upon the point.

I should strongly oppose Federal legislation which would force upon a State which was unwilling to accept it the branch-bank system, and, above all, Federal legislation which would compel a State to admit the branch of a bank chartered in another State against its will and against its laws. Specialiats in every field, eager to bring about widespread adoption of their remedies and reforms, are continually going to Congress to secure congressional legislation covering matters which are properly matters of State concern. Congress is continually giving attention to matters which ought to be handled piecemeal among the 48 States. Congress is overburdened with measures of this kind, and Washington has grown topheavy with bureaus for administering such legislation.

We need the States. They are a vital part of our political machinery. And we must be content to see them make mistakes occasionally, as part of the price which we must pay for a proper balance between centralization and local self-government. If the choice were between an infallible Congress and fallible State legislatures, the issue might not be so clear, but Congress can also make mistakes, and such mistakes are more serious than those made in a single State. The banker is not merely a banker. He is also, and first of all, a citizen. As a citizen, he may be permitted to attach a higher importance to the preservation of the fundamentals of our Federal system of government than to technical points in banking legislation.

LOCAL INDEPENDENCE AND CORRESPONDENT RELATIONS

I believe in the general system of local financial independence. I am opposed to having the bankers of one city dominate the banking of another city. I believe that this country ought to have in every city several strong, independent financial institutions interested in the local community, and dealing as principals with the banks of other cities, rather than acting merely as their agents. I believe that our system of correspondent banks gives us, in general, all the financial interdependence that we need, and that the services which the correspondent bank in a great city performs for the banker in a smaller place make it unnecessary for him to have the elaborate facilities which a great bank has. The unit-banking system has gone to extremes with us in many States. There are too many very small banks. But correcting this excess of the system will leave our American banking system, I believe, far better adapted to our needs than the European system of a few great banks with a multitude of branches, with all power centered in a few great financial centers.[5]

PARITY OF STATE AND NATIONAL BANKS

I can not sympathize with the view that it is necessary to pass unsound legislation for the purpose of giving such supremacy to the national banking system over the State banking systems that banks would be compelled to drop their State charters and take out national charters. It is now well demonstrated that the Federal reserve system does not depend for its success and growth upon the growth of the national banking system. Virtually all of the great State banks are members of the Federal reserve system. Seventy-five per cent of the commercial banks of the country, measured in volume of loans and investments, are members of the Federal reserve system. The Federal reserve system can at any time dominate the money market, which is dependent on Federal reserve credit for a high percentage of its cash reserves. Through the Federal reserve system, Federal supervision extends to the great bulk of the banking resources of the country at present.

The original purpose of the national banking system was to supply a uniform bank note issue throughout the country, and to make a market for the Civil War Government bond issues. With the Federal reserve act and the Federal reserve note, the national bank note has become a matter of relatively minor importance. There is no need for artificial support of the Government bond market. The national banking system is important, and it is desirable to maintain it. It has helped set good banking standards throughout the country. The Federal comptroller's supervision and inspection of banks is better than State supervision and inspection of banks in many States—not in all. But the State banking systems are also good systems, by and large. It is thoroughly undesirable that great issues of banking policy should be settled as a mere incident to a competition between the State and national banking systems.

A GRAVE PRACTICAL DANGER

The adoption of the proposed Federal legislation authorizing national banks to establish branches throughout great "trade areas" which may be as wide as Federal reserve districts or even, in certain cases, wider, would be like the firing of the starter's pistol at a race. It would initiate one of the fiercest competitive struggles the country has ever seen among the powerful banks in each of the districts for supremacy throughout the district. Many hasty and ill considered consolidations would be put through. Efficiency would suffer. A great readjustment in the relations of banks and businesses would be necessary. It would

[5] The Chase Economic Bulletin, Vol. IX, No. 5, Bank Consolidations in a Period of Speculation, discusses the comparative merits of the American and European systems.

mean competitive bidding for the stocks of the banks which would be absorbed into the great branch-bank systems. It would mean an orgy of speculation in bank stocks. It would bring into play the vigorous activity of promoters, not necessarily bankers or men with capacity in bank administration, who would buy up or obtain options upon large numbers of banks with a view to selling them to the competing great banks.

Those of us who believe that the primary business of a banker is banking rather than bank-stock jobbing would not welcome a situation of this sort. Within recent months a great many conservative bankers have been saying that they would dislike very much a competition of this sort, that they hope it will not be forced upon them, but that if it is forced upon them, they will, of course, act to protect their positions. I should think that legislative restraint, rather than legislative encouragement, would be called for by tendencies like these.

Mr. ANDERSON. Let me say that I speak as an individual citizen and as a professional economist. What I say will have no reference to what Mr. Wiggin said yesterday. I had just a word with him before he left. I asked him if he had any suggestions to make regarding my testimony to-day, knowing very well what he would say, and what he said was, "Simply tell them what you think without any reference to what I said."

In 1918 I was asked, while I was still a professor at Harvard University, by the Carnegie Endowment for International Peace, to make a study of the effects of the war on money, credit and banking, in France and the United States; a study published by the Carnegie Endowment for International Peace in 1919, The Effects of the War on Money, Credit and Banking in France and the United States.

In that book, written 12 years ago and published 11 years ago, based on my study of branch banking in France primarily, I expressed the same opinions regarding the undesirability of branch banking in this country that I shall express before you to-day.

Mr. GOLDSBOROUGH. That was before you were connected with any New York financial institution?

Mr. ANDERSON. It was written before I was connected with a New York financial institution. I went to the National Bank of Commerce in the autumn of 1918. The preface to the book, when I turned the manuscript over to the Carnegie Endowment, was dated November, 1918, shortly after I went to the Bank of Commerce, but the bank had nothing to do with it. The book was not published until 1919. The Carnegie Endowment was slow in publishing. I am sorry I have not a copy of that book here. It is out of print and I have only my personal copy. It will be in the Library of Congress and the Carnegie Endowment library in the city and will be available to the committee.

The CHAIRMAN. Would you care to make any reference to it, just briefly?

Mr. ANDERSON. I want to say some things about foreign branch banking, because I have had occasion to study branch banking in a number of foreign countries, without finding any foreign branch banking system that I want to recommend to the United States. There are many good systems, many systems well adapted to the foreign countries. Almost any system will work well if your bankers are used to it, if the laws of the land are adjusted to it, if your bankers are able men, and business habits are adjusted to it.

No system is going to work well if you suddenly transplant it from one place to another. Banking is a part of the organic life of the community and it has got to fit the rest of the scheme.

I want to speak about several possibilities. In France before the war, branch banking meant very largely that the branch offices out-

side of Paris were bond houses, collecting the deposits of people and then when the deposits got up to rather a good size, the central office would put out a bond issue or a security issue and the people would take those. They lent very little to the local communities. They collected funds from local communities for the purchase of securities.

The situation has changed a good deal in France since the war. Many of the statements made in this study would not be true of France to-day. The securities that they sold then were not very good securities as it turned out; Russian loans, Bulgarian loans, Turkish loans. Quite a tragedy for France came out of that.

Branch banking can work that way; instead of putting money into the local communities, it can take it out.

In Canada they tell me it works the other way, and that the maritime provinces, the eastern provinces complain that too much money is taken away from the east to put into the west. There is no general rule about it.

But the assumption that branch banking will bring more money to the local community is not borne out by the facts of foreign branch banking. It has done so and it has not done so.

Now, I want to say something about another problem that grows out of branch banking away from the head office, away from the city of the head office, or branch banking systems in general.

How are you going to adapt the banking facilities to the needs of the community?

Mr. GOLDSBOROUGH. Before you go into that, have you any information you can give us of how it works in England?

Mr. ANDERSON. I am coming to that with reference to this point.

Mr. GOLDSBOROUGH. I beg your pardon.

Mr. ANDERSON. How are you going to adapt the number of offices, the number of paying tellers' windows, and so forth, the facilities, to the needs of the community?

When the thing is done locally it is at least locally studied and decisions made locally. Sometimes they overdo it. They have overdone it in North Dakota and they have overdone it in Iowa and a great many rural communities in this country; too many little banks where fewer and bigger banks would have been more useful and would have survived. But I think we have done it better in this country, judging it from an American angle, than many foreign countries have done it.

In Holland there was, in 1919–20, competition between two great banking institutions that filled the villages with branches, unprofitable branches. They had to pull up, close them out, in a good many cases.

Here is the picture in England. In London, you go about the streets; there is a bank office on every corner, almost. You go into a branch. You are often the only man there, the only customer there. You go in to cash a check under a letter of credit and the officer of the bank has got lots of time to talk to you. He is glad to see you. He is a little bored. I do not mean that that is true of all of them, but of a lot of them. I think they have too many there. I think it is not profitable. I think it involves needless overhead.

What about it in the provinces? I will give you some illustrations in the provinces.

For your records, Mr. Chairman, I will give you an unsatisfactory document as to form, but fairly satisfactory as to the information. Having to prepare this in great haste, I simply had sheets torn out of the British Bankers Almanac and Year Book (published by Thomas Skinner & Co., London), giving the locations of the banks throughout Great Britain and Ireland. Then I had some clerks get me the populations of the cities and towns as far as possible. They worked rapidly and their population figures may not be exactly right in some places. The population figures are written on the margin and in pencil.

I have not gone through it all myself, but here are some samples. Abbots Langley, a town of 3,400 people. Here are the complete banking accommodations of Abbots Langley: Barclays Bank, (Ltd.), open on Thursday, Lloyds Bank (Ltd.), open on Thursday. There are the banking accommodations of this town of 3,400 people.

Mr. STRONG. Open one day in the week?

Mr. ANDERSON. One day in the week; yes, sir.

Mr. STRONG. If anybody wants to do any business with the bank on any other day, he finds on the door, "We have gone fishing."

Mr. ANDERSON. They have not gone fishing.

Mr. STRONG. But there are no accommodations?

Mr. ANDERSON. They have gone to another town. There is a crew of bankers. They work six days in the week; sometimes in one town, sometimes in another town.

Mr. STRONG. They go around from one town to the other?

Mr. ANDERSON. Yes, sir.

Mr. STRONG. If a man wants banking accommodations, he waits until they get back?

Mr. ANDERSON. Yes.

Mr. STRONG. Fine!

Mr. ANDERSON. Almondsbury; this is in Gloucester. Twenty-two hundred people. The National Provincial Bank is open on Friday.

Abertillery, 22,000 people. That is what the figures on my margin show and I raise a question as to whether that figure is right, because it looks incredible. I should like to have your committee, if you are interested in this, have an independent check made of these population figures. They were hastily got by clerks, working under time pressure. [A later checking with Hammond's World Atlas shows the population of Abertillery to be 38,805. It is in Monmouthshire, England, near the border of Wales.]

Mr. SIEBERLING. I would like to have you give us the proximity to larger towns where they can get banking facilities all the time.

Mr. ANDERSON. I regret I can not.

Mr. SEIBERLING. You can see that is important.

Mr. ANDERSON. It is, and if I had had time, I would do it.

Barclays, Lloyds, Midland, and National Provincial, open on Monday.

Mr. STRONG. In a a town of 22,000?

Mr. ANDERSON. I say, the thing is so startling, I want you to make an independent check of the population figures there.

Mr. STRONG. If it were 2,200, it would be an outrage.

Mr. ANDERSON. Acworth, 3,400, two branches of Barclay's Bank and one of the Midland Bank, Tuesday and Friday.

You can see I have not gone through the "A's" yet.

Acomb, 2,800; Barclay's Bank, Midland Bank, Tuesday and Saturday.

Anstrey, 2,600 people; National Provincial and Westminster Banks, Monday, Wednesday, and Friday. It has good facilities, three days a week.

Arlesey, 2,300 people; Barclays on Thursday.

Bradninch, 2,000 people; Lloyds on Thursday, Midland on Thursday.

Here is an Irish town, Carrick Fergus, 4,208 people; Tuesdays and fair days, the Belfast Banking Co.

Chalford, 2,980 people; Lloyds on Thursday.

Chasetown, 5,188; Midland on Tuesday, Thursday, and Saturday.

I have just gone down through my "C's." I will not go through the alphabet with you.

Mr. STRONG. That will be in the record?

Mr. ANDERSON. Here is the alphabetical list, which I have already submitted for the record, with the towns of England, Ireland, and Scotland, with the population indicated in some cases.

Before I leave that, let me say another thing. Here are some very little places that have something. Here is Allonby, 450; the Midland Bank (Ltd.), Tuesday, October to June, and Tuesday and Thursday, July to September.

There are some very small ones that have something that probably would not have anything if it were not for the branch banking system. I think we may learn something from that.

I think that branch banking perhaps centered about a county seat, with little offices in small places that could not afford independent banks, is worth studying.

Mr. STRONG. But the main benefit there would be those little window stations, to collect the accumulations of the people and take them to the main bank. They could not do much of any other kind of banking business for the people.

Mr. ANDERSON. They make loans there.

Mr. STRONG. But a man who wanted to make a loan would have to wait until the next week or the next season.

Mr. ANDERSON. Well, an Englishman can do that. An Englishman works methodically and looks ahead and plans a long time and probably talks over the question whether he wants that loan, for a month before he applies for it. Our rapid-fire methods they do not use.

Mr. STRONG. Anybody in this country who wants to borrow money for a specific purpose does not want to wait until next week or next month to know whether or not he can get the accommodation.

Mr. ANDERSON. I do not question the goodness of this system for England. I ask you if you want it here; that is all.

In Germany, at the present moment, as a result of the merger of two great banks with nation-wide branches—every community practically in Germany is being affected—they are closing down, consolidating these branches, reducing the number. It is making a difference all over Germany. It is making merchants shift their banking connections all over Germany. Customers are changing.

The effects of a merger in New York are in New York, in the institutions affected. The effects of a merger, if you have a great branch banking system, run all over the country. Anything of that sort has wide ramifications.

I believe in the banking profession from a good many points of view. I have known bankers in many countries. I have known them in many parts of the United States. The banker, by virtue of his education in his business, the education that comes just from the work he does, tends to take a broader point of view than the man in most other lines of business, not because he is a better man, but just because his work educates him. He has got to look at all the interests in the community. Everybody deals with him. His prosperity depends upon the prosperity of the community as a whole. He does not want feverish development here at the expense of some other part of the situation. He gets to be a very good adviser. As he talks with people and customers come in and tell him things and talk over things with him, he gets a generalized picture of business, not knowing as much about business A as the man in business A knows, but knowing the philosophy of business. A man in the textile trade comes in who has a problem; well, somebody else in steel had a similar problem and the banker knows about that, knows how it was solved and he has an idea to pass over to the textile man.

I do not want to see good bankers disappear from the smaller communities. I think that it is a good thing to have strong, trained, independent bankers, interested in the local community, stay in the local community. As I have traveled about meeting bankers in this country, meeting bankers in Europe—there are extraordinarily able bankers in the financial centers of Europe, but you go into the branches away from the head office, and you do not find bankers of the caliber that you find in cities of the same size in the United States, where they are independent men handling their problems as masters of their own banks.

I believe that the country would lose a very important influence making for good business, for initiative, for business education, not right away but in the course of time, if we change from the general system of unit banking to the general system of branch banking away from the city of your head office.

Mr. Chairman, I do no twant to take very much time in making my statement. I would rather have the committee have all the time it wants to ask questions. May I ask how many members of the committee have read this speech that I made in North Carolina?

The CHAIRMAN. I think a number of them have seen it.

Mr. ANDERSON. Perhaps I had better make a summary of some of the main points. For the benefit of my friend, Mr. Seiberling——

Mr. BRAND. I think he has read your speech. He stepped out just for a moment.

Mr. ANDERSON. He has evidently read it. He raised the question about my first heading, "A Revolutionary Proposal." That is a short way of saying, "A proposal of fundamental change." I did not mean it as an epithet.

I have a great admiration for the comptroller, a great admiration and affection for Governor Young. I have not known the comptroller long; I had not had the pleasure of meeting him personally until yesterday. But my feeling about the thing is this: The governor, the comptroller, and others who have presented the proposal for branch banking here have done it sincerely, based on knowledge, based on study, in the interests of the country.

I think that I have some ideas which also in the interest of the country ought to be presented on the other side.

The question of personal opposition is not there at all. They are our friends; we are their friends. But in the controversy, in the presentation by fair men of opposing points of view, the truth comes out, and it is just in that spirit that I have taken a citizen's right to oppose their position.

Mr. SEIBERLING. Were you explaining, while I was away, your statement with reference to a revolutionary change?

Mr. ANDERSON. I am going to give it a new phrase that I think you will not object to. I will withdraw "revolutionary proposal." I will call it, "A proposal of fundamental change," and I will make the same point with reference to it, that a proposal of fundamental change calls for much stronger argument that a proposal for minor amendment, and it ought to be much more carefully considered.

I was just explaining that I had no disposition to say anything offensive to my good friend, Governor Young, or to the comptroller, for whom I have great admiration.

I make the point here that the existing movement toward group banking and branch banking leaves out the little banks, the microscopic bank almost, the bank of $300,000 deposits on the average, which has been failing. That is the average size of the failed banks in the last nine years. These group banking and branch banking plans handled by able and intelligent bankers, who must take care of their stockholders' and depositors' money, call for good banks.

Mr. BUSBY. You said something about the average size. Is that from the standpoint of deposits or number?

Mr. ANDERSON. Deposits. The average size was $300,000 of deposits.

Mr. BUSBY. You were not speaking from the standpoint of the number of banks that failed?

Mr. ANDERSON. The figure of failed banks is about 5,000, and the deposits of those banks is $1,500,000,000, and the average is $300,000. The average size of banks going into the group and chain systems is very much larger.

These figures I have taken from your own record. I want to say, Mr. Chairman, you are doing an admirable service here in publishing this record and the facts that the comptroller presented and the facts that Governor Young presented, especially, are valuable, significant facts.

Mr. SEIBERLING. I understood that you were about to say when you were interrupted that the chain groups only wanted good banks.

Mr. ANDERSON. In general.

Mr. SEIBERLING. You made that statement, did you not?

Mr. ANDERSON. In general. As good bankers they are not going to pick out a failing bank that is going to cost them more money than it is worth. It might happen in individual cases that something would be done along that line. In a great emergency, good bankers will sacrifice money to save the general situation.

We all pitched in, you may remember in, in the rescue party for the Northwest that Mr. Jaffray conducted, put up money that we did not know whether we would get back or not, to meet an emergency situation. But that is not usual banking practice and no banker responsible to his stockholders, responsible to his depositors, has any

right to make a move that is going to cost his bank money, except in some such emergency.

As to the size of the towns where these failed banks were situated, 40 per cent were in towns of less than 500 people; 80 per cent in towns of 2,500 people or less; 92 per cent in places having less than 10,000. There were no failures at all of banks having $2,000,000 or more of capital. There were only four failures among banks having over $1,000,000 of capital. And I conclude that it may be said that for cities of 10,000 or more people and that for banks of $100,000 or more, there has been no problem of sufficient magnitude to justify extraordinary concern or to call for more than local attention.

The causes of these failures I do not find in things that have any particular concern with the question of branch banking on the one hand or unit banking on the other.

The first and foremost cause was the great boom of agricultural prices and land values before 1920, the collapse of agricultural prices and land values following 1920, and the adverse conditions in agriculture that have since continued.

The second great cause is real-estate speculation in the period since 1920 in certain important sections of the country, notably Florida and some adjacent States.

Mr. STRONG. Would you mind an interruption there? The bank commissioner of the State of Oklahoma in a statement before the committee presented this condition. He said that a very small per cent of the banks organized since 1920 in the rural communities have failed, giving evidence of the fact that the failures were caused by the hangover of frozen loans during the war and the boom and the deflation period that followed.

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. Since you speak of bank superintendents, I would like to introduce Mr. Nelson, the auditor of the State of Illinois, who is present with the committee this morning. Mr. Nelson is the superintendent of banks of the State of Illinois who is visiting Washington and has just dropped in at our hearings.

Will you proceed, Mr. Anderson?

Mr. ANDERSON. I have figures here taken from your records showing the geographical distribution of these failures that bears out this proposition. During that same period all of New England had only 26 failures, that is, during that 9-year period. New York had only 12 failures and Ohio only 36. New Jersey had none at all; not a failure. New Jersey was not lacking, by the way, in some agricultural difficulties. Monmouth County had a bad period with her potatoes and there were certain other sections where small country banks had to struggle along. But not one went under.

What about branch banking during that same period, and exposed to these same causes? You had in Georgia, and running into Florida, as I remember, a chain, which went down, which would have gone down if it had been a group, which would have gone down if it had been a branch banking system.

In Canada, the Home Bank, and the Merchants Bank, with 400 branches, went under from these same causes.

In Denmark, a great bank with branches widespread, went under.

The Banque Industrielle de Chine in China collapsed with its bank notes out, bringing disaster all over that great country.

The Banca di Sconto in Italy, with a great head office and big branches in the big cities, with little branches in the smaller cities, all went down together at one time. That is a fearful thing.

Mr. FENN. What about South Africa?

Mr. ANDERSON. I have not the facts there.

In Japan, they held it off. I am going to make another point about Japan and about banking concentration. In Japan, in 1919, a crisis started. Silks broke violently. A crisis started. A few great banks and the Government and a few great industries got together. The thing was so concentrated that they could choke the crisis off, just held it without getting in liquidation, without getting a break in commodity prices on a great scale. They carried it over, unliquidated, frozen for seven years. For a time, they even paid out wages to idle labor, borrowed at the banks to get some money for it. They paid out dividends out of corporate reserves when the corporations were not earning any money, trying to hold it, trying to prevent the crisis. Then in 1927, after enduring seven years of stagnation to avert losses on one year's inventory, a greater and more disastrous crash came and not only did the industries go down, but some great banks went down; great banks with branches, gigantic systems affecting the whole country.

In the meanwhile, we in this country with 25,000 banks, when the crisis hit us in 1920, could not stop it. Each bank had to meet its obligations at the clearing house every day. We could not hold frozen positions. We had to liquidate. Calling on the Federal reserve banks, we could steady it, make it steady, keep it from turning into a panic, but a liquidation, a readjustment, we had to have. And so we cleaned up the weak spots, got prices down and got costs down. Cases of necessary failures, we took care of. There were no unnecessary failures. We got clean and got ready for the net upward move, and by the third quarter of 1921 business began to improve in this country. The year 1922 was a good strong year. I like the flexibility of our competitive American system. I do not want to see banking concentration or any kind of concentration go so far that a few men can get together and say, as these bankers and government officials in Japan did, in the interest of the country, believing that it was a good thing to do, "Let us stop the liquidation; let us hold it."

No; I do not want anybody to be powerful enough to do that. I want the automatic economic forces to work. I want the competitive play of the markets to work so that readjustments will come, as they have to come, and we will get through with them and start up again.

Austria had a break last year, a great branch banking difficulty growing out of the same deferred causes, trying to carry things over. If they had been separate banks, some of them would have gone under and some of them would have survived years ago. As it was, it all hung together until it all went down.

Now, as to remedies. I see nothing in this situation regarding banking failures that we have been having, to call for radical changes in laws regarding branch banking. The problems do not extend throughout the United States. They are centered in particular States. They do not relate to institutions of such size as to be beyond the power of the States to deal with for themselves.

I think the main legislation should be State legislation; that the chief legislation which would be called for here would be such modi-

fication of the laws as to let the national banks in a given State do what the State banks may do in the matter of branch banking, in the interests of parity between State and National banks.

That is a conclusion, Mr. McFadden, that I have come to rather reluctantly, because I liked your idea about it when you were dealing with the matter two or three years ago. But I am inclined to think you have to make a further concession of that point in the interest of parity between State and national banks. And maybe you will not have to go that far; maybe something less than that would meet the situation.

The CHAIRMAN. You like the confining of the operation to State lines rather than trade areas?

Mr. ANDERSON. The State line, by all means. I should strongly oppose forcing upon an American State that was opposed to branch banking, by Federal law, a branch of an outside institution. And I think, Mr. Chairman, that the specialist is always in danger of forgetting that he is a citizen and in his zeal to do a thing that seems good from the standpoint say of banking or from the standpoint say of health or from the standpoint of this or that, he is too cheerfully willing to destroy the Federal system of Government of the United States. I believe in the States. I believe that Washington already has too many things under its control; that it makes too many decisions for the country. I believe that problems differ in different parts of the country and ought to be handled locally as far as possible.

I find on the other side of the water—in England, for example—a movement toward devolution, that Wales and England and Scotland separately may do more things for themselves rather than have them all done by general law. Centralization has gone too far in many places and I do not want to see the State destroyed or the State's power destroyed in these matters.

I like very much some of the moderate ideas of Mr. Platt, of the Federal Reserve Board, with reference to local branch banking, in order to give something to the little village that can not afford a real bank. A bank in the county seat, a good bank in a good county seat, with small inexpensive offices out in the villages might serve them much better than they can be served by independent banks in the villages.

Sometimes these little banks are awfully good. I have a prize, in a tiny village in Missouri, which is about 30 miles from the railroad. I am a Missourian and for my sins I own some land down near there that I have had for about 21 years and can not sell.

Mr. SEIBERLING. How long are you going to keep it?

Mr. ANDERSON. I wish I knew, sir. I will sell it to you very cheaply, if you will take it. But here is a bank, capital $10,000, surplus $3,000, undivided profits $784 and 6 bits, deposits $78,000. It is a good bank. It has an able man running it, and he is mighty useful in that little place. There are about 250 people. He is remote from the railroads, and the automobile roads are not good through there. In general, however, a village of that size can not support a bank. It might have an office open Tuesdays and Thursdays to advantage, might it not, from the near-by county seat? That is better than no bank at all.

Now, legislation along this line, State legislation, simply supplementary legislation here, such as to enable the national banks to do

the same thing, authorizing banks in the larger cities to establish branches in outside communities with 10,000 or less inhabitants, or even 5,000 or less inhabitants, would accomplish virtually everything with respect to the prevention of small-bank failures that branch banking could in any case accomplish. Furthermore, such a limitation would concentrate upon the communities most in need of it the attention of the bankers who are in favor of such developments but who would be hunting bigger game in larger cities if the whole field were thrown open.

I said something at the end about a very grave practical danger that I shoud apprehend if the legislation that has been proposed here were put through.

If you authorize banks of the country to establish branches throughout great districts, wide as Federal reserve districts, or wider——

Mr. STRONG. Trade areas?

Mr. ANDERSON. I am not talking about trade areas. I have not got a definition here yet. It is clear that it can be for a big city bigger than the Federal reserve district in some cases, and if it is going to be an economic trade area, then for New York it is going to be a very big district indeed and for Chicago it is going to be a very big district indeed, with overlapping. And St. Louis had a big trade area. You can not limit it to the Federal reserve district if you are talking economics. If you are talking about the natural course of trade, it runs wide. Even if it is just Federal reserve district wide, you are going to start a competition among the big banks, buying up other banks; all over that I should shudder at. I do not want to see it. I do not want to see that orgy of bank-stock speculation. I do not want to see promoters running in there to get options on banks to sell to big banks.

I do not want a revolutionary change. I want evolutionary changes. I want an experiment here, an experiment there. We are adopting things generally to our present system. If we are going to change it, it should grow, it should be modified. But let us do it gradually. Let us not start a thing in Washington sweeping all over the country that will make this revolutionary change or this fundamental change.

I think I will not talk longer, Mr. Chairman.

The CHAIRMAN. The committee will not go into executive session for a few moments, and we will resume this hearing a bit later.

(Whereupon the committee went into executive session.)

(The hearing was resumed, following the executive session, Hon. James G. Strong, presiding.)

Mr. STRONG. You may proceed, Mr. Anderson.

Mr. ANDERSON. I want to make one statement, in addition to what I have said, if you will permit me.

There are exceptions to the general statement I made that the groups are not taking an interest in the small banks. In one case there was a bank of $410,000 deposits taken into a group. There may be others; the average size is very much larger.

I am informed also that one of the groups in the Northwest, although it started out taking in only the strong banks, has lately put four or five million dollars of new money into some communities where the banking situation was very bad, to give them banks.

That is exceptional, but I want to put into the record the fact that the exceptions really exist.

Mr. STRONG. Doctor Anderson is now ready to answer questions. Heretofore we have proceeded to permit the members to cross, examine a witness according to seniority. Some of us have taken so long a time in our cross-examination that when we got down to the end of the table some members have been deprived of their opportunity to ask questions.

I want to suggest that in the first round of questions we limit each member to five minutes; and if that has the approval of the committee we will proceed in that way.

Mr. STRONG. Doctor Anderson, your statement I think has been very valuable to the committee in many ways. One of them was in showing to this committee the fact that in countries that have long had established branch banking the small towns have finally been reduced to the banking privileges of perhaps one day a week.

Mr. ANDERSON. I would not generalize from England. These are the facts about England.

Mr. STRONG. Is not that because of the practical elimination of the middle-class people in England?

Mr. ANDERSON. I would not say so.

Mr. STRONG. There is a wealthy class and then the employees in England. Individual business has pretty well been eliminated.

Mr. ANDERSON. There is a large employee class and a lot of shopkeepers.

Mr. STRONG. Small ones?

Mr. ANDERSON. Yes.

Mr. STRONG. We are starting upon a system in this country of mergers, mass production, and chain stores of all kinds, clothing stores, grocery stores, drug stores, and cigar stores; and if we adopt the system of branch banking it means the elimination of the small bank, making it simply a teller's window, with that responsibility only, and the head bank will be in some other place, and tending to further eliminate the individual man in business.

Mr. ANDERSON. I think the local bank is more likely to help the smaller business man, to help the growth of the smaller communities than a branch would, and yet there are exceptions to that.

Mr. STRONG. Certainly.

Mr. ANDERSON. In some countries they tell me the thing has often worked the other way.

Mr. STRONG. In small-sized cities and small communities the privately owned bank, owned by the community, is generally operated, practically always operated, in the interests of the community. Is not that banker generally the backbone of that small community?

Mr. ANDERSON. I believe he is very important.

Mr. STRONG. The Comptroller of the Currency in suggesting trade areas for branch banking was not able at that time to give us a picture of what the trade areas would be when applied to the United States, but he said they were working it out.

When the governor of the Federal reserve system was before us he stated, I think, that they were working out a plan that probably would embrace about 35 trade areas in the United States, which would mean not necessarily following the lines of the Federal reserve districts, some of them, perhaps, overlapping.

Then the governor of the Federal Reserve Board suggested that he thought within 50 years we would have nation-wide branch banking.

I did not cross-examine him as to what his conclusions were, but to my mind if we are now going to go from branch banking controlled by cities to trade areas of 35 units in this immense country, some of them overlapping, undoubtedly that overlapping will enforce an enlargement of the trade areas, which will finally mean nation-wide branch banking. Would not that be your conclusion?

Mr. ANDERSON. I think if you sanction the movement it might go very much farther.

Mr. STRONG. If we are to expand branch banking to 35 trade areas in the United States, which you feel and I feel will gradually become reduced to a lesser number and finally produce nation-wide banks, those branch banks and groups would naturally be controlled in the larger moneyed centers.

Mr. ANDERSON. Yes.

Mr. STRONG. They themselves would have a tendency toward combinations?

Mr. ANDERSON. A tendency to combination with the springing up of new banks. Perhaps you have noticed the growth of Mr. H. P. Howell's new bank in New York in the last three or four years. I am not sure that the growth of banks in the big cities has been out of line with the growth of customers in the big cities, great corporations, and so forth.

Mr. STRONG. I am putting that as a final conclusion. Then that would lead to a few great groups not only controlling the money but the credit of the Nation.

Mr. ANDERSON. The tendency would be there.

Mr. STRONG. Would not that put the entire Nation under the domination and control of those groups?

Mr. ANDERSON. To the extent that competition was eliminated; yes. But if the groups remained numerous enough so they competed vigourously, I think that would not be true.

Mr. FENN. I did not have the opportunity to be here when you began your statement. In your long experience and your intimate experience, do you think the system of branch banking would be beneficial or detrimental to the Federal reserve system? Have you given that consideration?

Mr. ANDERSON. I had not given it special consideration. Offhand I can not see how it would affect the Federal reserve system greatly if the branch banks are in the Federal reserve system. It works in Europe. This system works along with central banking.

Mr. FENN. And works well?

Mr. ANDERSON. The central bank can control the money market just as well in Europe as it can here.

Mr. FENN. I am speaking of the relationship of the member banks to the Federal reserve system.

Would you extend the provisions of the McFadden Act in regard to branch banking; and if so, would it be beneficial or detrimental?

Mr. ANDERSON. You mean allow the national banks to do what the State banks do in a given State?

My suggestion would be that the only legislation this committee need to recommend so far as branch banking is concerned, would be that national banks may do in a given State what State banks and trust companies may do in that State.

Mr. FENN. In other words, you would extend the provisions of the McFadden Act?

Mr. ANDERSON. Under the McFadden Act they are limited to the large cities.

Mr. FENN. You would extend the McFadden Act?

Mr. ANDERSON. I think it may be necessary. It is a conclusion I come to reluctantly, but it may be necessary in the interest of parity between the national system and the State systems to allow national banks to do in a given State what the State laws allow State banks to do.

Mr. GOLDSBOROUGH. Doctor Anderson, I understand your view to be that even though you do not approve state-wide branch banking, you think that in the interest of the national system as a system, it should be allowed the same branch-banking privileges as State banks are allowed?

Now, I think I am correct in saying that recently at least in two States laws have been passed which prevent any extension of branch banking in State banks.

The pressure which has done that, in my judgment, is the pressure of the national banks which were not allowed to indulge in branch banking in those States.

Would it not be better to allow the condition to remain as it is, so we would still have in the States which allow branch banking the pressure of the national banking system against branch banking in an endeavor to eliminate branch banking in States which now allow it, my thought being that if you have in a State not only state-wide branch banks of State banks, but state-wide branch banks of National banks it would almost take an economic revolution in the State to get rid of that system, however bad it might be found to be.

Mr. ANDERSON. You are raising a question which I do not feel very competent to answer. It is not a question of economics; it is a question of politics. It is a question of what is the best way to control the legislative policy of a State.

In general, I do not like to consider an argument of that kind; I had rather have the case up for its merits as an economic question in the State, trusting to the good sense of the State to work it out.

I am not so absolutely sure that I am right about these matters not to be willing to see the State experiment along different lines if the good sense of that State wants to experiment along that line and to learn something.

Mr. GOLDSBOROUGH. In a speech I made in the House some time ago I presented the argument that we should allow States like California, for instance, to work this thing out and find just what the final reaction was before we extended the national system.

But what I am afraid of is that if we extend the national system in States like California, for instance, branch banking among national banks would become so widespread it would develop itself, whether it is sound in principle or not, and that the best way to handle the matter is to attempt to stop branch banking in State banks rather than to extend branch banking in the National banks, provided we are right in principle that the unit bank is the better system for a country like ours.

Mr. ANDERSON. When you say "a country like ours," we have every variety of situation in this great country of ours. I am not sure that any one practice is best for the whole of 48 States.

Mr. GOLDSBOROUGH. You do not think, then, that there is a basic principle involved. You do not think there is a principle which says it is better, even at the expense of what appears to be efficiency for the moment, for the communities in the country to develop as individual entities, so they will have their own institutions, their own banks, and their own businesses fostered by these banks?

Mr. ANDERSON. That is a principle which I believe in; but I believe in some other principles which might oppose it.

I think you have a number of factors to take into account, and you have to work out an adjustment among the different factors. Suppose you have a State with only one city of any size, the rest being small communities, and they have not a great deal of banking capital anyway. Might it not be better centered about that one city in the State and have it aggregated there?

Mr. GOLDSBOROUGH. If you could control it. But after it starts, can you control it? After a while does not the bank, get so much control over legislation that the system will develop itself and get out of control? That is the difficulty I see.

Mr. ANDERSON. I do not believe in inevitable economic tendencies. I think that law is a powerful instrumentality that can change economic tendencies.

Toward the end of the eighteenth century England and France both had immense concentration of land in a few hands. But England and France are widely different in that respect now. The land is widely broken up into very small holdings in France, while in England it remains as it was.

Mr. GOLDSBOROUGH. But France had to have a terrible revolution to arrive at that result.

Mr. ANDERSON. It did not need to have.

Mr. GOLDSBOROUGH. But it did have.

Mr. ANDERSON. France changed the law of inheritance. The English law gives all the land to the oldest son, while the French law provides for equal distribution among all the children. Within a century you had this immense change.

Mr. GOLDSBOROUGH. So this change in France took place——

Mr. ANDERSON (interposing). As the result of the revolution——

Mr. GOLDSBOROUGH. As the result of the revolution, of course.

Mr. ANDERSON. But the change could have taken place by simple legislation in a democratic country.

I believe in democracy; I do not think democracy is powerless against capital or against economic interests of other kinds. I would rather see the States left with a good deal of freedom to experiment, and make mistakes if they want to.

Mr. GOLDSBOROUGH. I agree with that. But the question which arises in my mind is whether we ought to sacrifice a principle we believe in because it will be more expedient or more profitable for the national system to do so.

Mr. ANDERSON. I would hate to see such things settled just as a matter of competition between the States and the national system.

Mr. GOLDSBOROUGH. That is your present position?

Mr. ANDERSON. Yes; I am making this as a reluctant concession. Maybe you do not need to go so far. It is a concession I am making to the comptroller's views.

Two or three years ago, when the McFadden bill was up, I thought he had gone far enough. I am making this concession after reading the comptroller's testimony.

Mr. GOLDSBOROUGH. I want to state the condition in Caroline County, Md., which is typical of conditions throughout Maryland, and as I understand it, pretty well throughout the East.

Caroline County has a population of about 18,000 and it has 9 banks. All those banks are prosperous.

The Hillsboro Bank was started in a place of 150 inhabitants in about 1909 with capital stock of $12,000. That stock is now worth 7 to 1.

The Goldsboro Bank was started in a place of about 100 inhabitants in 1909, and that stock is now worth about 5 to 1, with $12,000 capital.

We have found that having these local institutions scattered around the county has helped the inhabitants of the local communities a great deal and has secured a much better government for the county than when everything was centered in the county seat.

Mr. STRONG. The same thing applies to the Government.

Mr. ANDERSON. What are your sources of income in the community?

Mr. GOLDSBOROUGH. Principally, general farming, truck farming, and the canning industry.

Mr. ANDERSON. Have you some retired capitalists there who have securities?

Mr. GOLDSBOROUGH. No.

Mr. ANDERSON. I like to see the little bank survive in the little village. I have an affection for it.

Mr. GOLDSBOROUGH. Is it not more than a question of sentiment? Is there not a question of solidarity involved?

Mr. ANDERSON. I think it is good for the country to have them, exactly.

In a lot of places they are being eliminated by the new economic developments and in those cases probably we had better have branch banks. If the banking business is diminishing we had better have one strong bank than a lot of weak ones. But if you have a good, strong situation there with several local banks, the more competition the better, if it is good competition.

Mr. GOLDSBOROUGH. I was talking the situation over with the president of one of the leading banks on the eastern shore of Maryland the other day, and I said, "What would happen if some bank came from New York or Baltimore and offered your stockholders one and one-half for one of the real value of the stock?" He said, "They would sell." The unit bank would be wiped out whether it was good or bad.

There are a good many of us, and I am one of them, who feel that what Congress should do is to act as a restraining influence rather than a liberalizing one, certainly until we find what the secondary reaction is going to be in States like California and in these group systems.

It does seem to me that any encouragement on our part of the development of branches in States which already have that system would tend to go in the very direction which the unit banker, that is, the citizen who believes in unit banking does not approve of.

You still feel that we ought to let the national banks do what the State banks are doing?

Mr. ANDERSON. It might not be necessary to go as far as to authorize state-wide branch banking, but I think there are some States where this system of rural branch banking, along the lines that Mr. Platt of the Federal Reserve Board favors, would still help the situation.

I am thinking of our friend from Georgia, Judge Brand, and of his problem, for example.

You might say the national banks could go so far as to put branches into towns of five or ten thousand or less. Then that would not expose you to what you do not want.

Mr. GOLDSBOROUGH. My experience of nearly 30 years in politics is that when you abandon a principle, if it is fundamental, pretty soon you lose control of the situation created by that abandonment. For instance, in connection with this matter we are discussing—when you control the credit of a community you control its political life and its business life; you control practically everything in it from an economic standpoint. You can not get away from it.

Mr. ANDERSON. I do not want to see banking monopoly anywhere; I want competition preserved.

Mr. BUSBY. In regard to extending branch banking by national banks to States having a general branch banking system, do you not see that as an effort to correct what is admitted by you to be an evil situation by acceding to it?

Mr. ANDERSON. I do not think that is the comptroller's purpose.

Mr. BUSBY. If I understand you, you are against a national law extending branch banking to all the States?

Mr. ANDERSON. Yes, sir.

Mr. BUSBY. If that is sound as a general principle, why would it not be sound as to the States that have a branch banking system, such as California?

Mr. ANDERSON. There are two principles involved here; one is whether with a Federal system like ours, with our system of States, with a Federal Government of limited powers, whether under that system the States have a right to say a great deal about what they want.

Mr. BUSBY. Yes.

Mr. ANDERSON. Now, then, here is a banking principle which seems to conflict with that in some measure.

I am willing to concede to the States that want to do a thing I do not approve of, the right to do it, but I do not want the Federal Government, by law, to do the thing we do not want.

Mr. BUSBY. You want to prevent them from doing that thing in order to protect the national banking system in those States?

Mr. ANDERSON. Yes.

Mr. BUSBY. Yet you will concede that it is an error for the State, as it would be an error for the National Government, to place branch banking——

Mr. ANDERSON (interposing). No, sir; that would not necessarily follow. It might be the best thing for a State to establish, say, county-wide branch banking, or branch banking in groups of counties. I would even concede the possibility in some States that state-wide branch banking might be desirable.

Mr. BUSBY. You understand that most of the laws enacted by Congress apply to all States alike.

Mr. ANDERSON. Therefore, I do not want this act passed by Congress.

Mr. BUSBY. That is the general policy that national legislation applies to the entire country alike.

Mr. ANDERSON. Exactly.

Mr. BUSBY. While to extend branch banking for national banks in States that provide branch banking systems, you would be willing to make that exception to the general method of enacting national legislation?

Mr. ANDERSON. I think Congress might be even wise in erecting a principle of national legislation that where you have to deal with local matters, Congress would follow the State law.

Mr. BUSBY. It strikes me you are conceding the point for the sake of expediency rather than carrying out your economic theory and standing on such questions on what you feel and know to be sound. That is my comment on your answer. Have you any reply to that?

Mr. ANDERSON. Yes, sir; and I would like to refer you to some decisions of Mr. Justice Holmes.

Mr. BUSBY. I only have five minutes.

Mr. ANDERSON. Let me say that there are principles of economics and there are principles of constitutional law and there are principles of morality, there are principles of banking technique and you have to harmonize them all. You can not erect one and say this is the principle you have to take, if you want anything.

Mr. BUSBY. Whether involved in this or not.

Now, with regard to controlling established branch banking systems, or coordinating the systems of banks, what is your view with regard to the holding company, or the part it plays in that field just now? How are we going to get by its interest, if we are going to carry out the policy you have indicated?

Mr. ANDERSON. I have not said anything about that.

Mr. BUSBY. I noticed you had not, but it seems to me as fruitful a field for legislation just now as the banking field. It is the thing that is absorbing the banking system throughout the country, by putting into effect its own uncontrolled and unmanageable plan in regard to banking, from one end of the country to the other.

Mr. ANDERSON. I am not enough of a lawyer to know what sort of legislation, if any, should be drawn with respect to that. I believe there should be supervision; I believe in the general American practice of public supervision of banking institutions.

Mr. BUSBY. We have had instances where not only two, but a number of national banks were owned and controlled by holding companies, with not one share of the stock in the hands of individuals.

Is it not getting beyond our national banking system of control when a State-chartered institution comes in and takes control of all the stock and all the capital of the national banks that are chartered under the laws of the United States?

Mr. ANDERSON. There is nothing in that, as far as I know, that violates the law.

Mr. BUSBY. That is our problem now, more than anything else with regard to banking, it seems to me.

Mr. ANDERSON. The comptroller is making some studies, is he not, with respect to that?

Mr. BUSBY. We have heard some views, and I thought maybe you had some additional ones.

Mr. ANDERSON. I have thought about it, but I had not thought it through, and I have not a definite suggestion to make with regard to it.

Mrs. PRATT. Doctor Anderson, in looking over your report again I notice you make the statement that many of those small banks failed because of a lack of diversification of their credits, while many others, because of diversification, continued to exist. Does it not come right down to this, in your opinion, that it is a lack of good management? You state in your report that banks have continued to operate because of their diversification of credits and because of the connections they have made by which they could exist, outside of their own State, and that it has been to their advantage to do that.

It is your opinion, is it not, that the small banks perhaps were founded with too small capital and were without good business management, and that it had been the result of their own mismanagement and lack of foresight?

Mr. ANDERSON. Poor management in a difficult and unusual situation. There were a great many of those bankers who were good bankers in the days when they did not have quite enough money to lend and had to discriminate among their customers, and then came the great expansion of money, and the question of what should they do with their money. They tied up too much in local mortgages. That was the worst element; and when the crash came——

Mrs. PRATT (interposing). Do you not feel that because there were so many of those banks some of them were bound to fail, no matter if all of them had a diversity of credit?

Mr. ANDERSON. There are parts of the country where there were too many very small banks, and some places where there was one bank to six or seven hundred people, or one bank to 1,200 people, and it was not possible for them to get along. There were too many of them and they could not get adequate management for them. If they could have had one bank to 2,500 or 3,000 people they might have got along pretty well. The very tiny bank has been overdone, and we need to correct the system with respect to that.

Mrs. PRATT. In some States where they have the State banking system and where they have branch banks throughout the entire State they have withdrawn from the Federal reserve system in order to do so.

You say you have reluctantly come to the conclusion that national banks should have the same privileges?

Mr. ANDERSON. I think it is better to have them in the Federal reserve system.

Mrs. PRATT. If they do not have that same system, is it not a necessity in those States?

Mr. ANDERSON. To let the national banks do it?

Mrs. PRATT. Yes; because they will then not withdraw and go into the State systems.

Mr. ANDERSON. How many of the State banks have withdrawn?

Mrs. PRATT. I could not state that. That was brought out here.

Mr. GOLDSBOROUGH. Only some very small banks, I think.

Mr. ANDERSON. I do not believe a great bank can get along any more in this country without staying in the Federal reserve system. I think they need the Federal reserve system, and the bigger they are the more they need it. The smaller ones can look to the bigger to be

a reserve bank for them, but the great bank must wither carry a tremendous lot of idle vault cash or else it must be in the Federal reserve system.

Mr. STRONG. Do you not think a local bank, an independent bank, a bank locally owned, where the officers are interested locally outside the bank would be a better bank for the community and be as good a judge of loans as a manager sent in from the outside, whose appointment was subject to the approval of the parent bank?

Mr. ANDERSON. He would know the local community, he would know the people there. His heart would be there. He might not be very well trained as a banker. He might be overenthusiastic about the local community. I think, in general, the proposition is right, but I think there are enough exception so that we must listen to the branch bank side of it.

Mr. STRONG. Do you think that the parent bank would be able to employ a manager in a little town who would be a better banker than a man who grew up in that little town and had his money tied up in it and knew the people?

In other words, they will employ a man with ability in the little town, but he will be a small salaried man. Do you think that on the average the chance would be that by putting in a manager from the outside in that way that you would get the ability in a bank that you would get in a town where a man owned his own bank?

Mr. ANDERSON. I think the presumption is in favor of the local bank.

Mr. STRONG. Did I understand you to take this position, that you are opposed to branch banking, opposed to trade area branch banking, but would consent, as an experiment, to state-wide branch banking?

Mr. ANDERSON. If the State wants it.

Mr. STRONG. Then if you will permit one State to have State-wide branch banking, then the bankers in other States and the people who want the proposition will immediately get busy on the legislature so as to have their States have State-wide branch banking.

Mr. ANDERSON. If the rest of the people of that State do not object and go along with it.

Mr. STRONG. But the rest of the people do not study the question.

Mr. ANDERSON. If it should be demonstrated——

Mr. STRONG (interposing). We have had the case of California already with over 300 banks, and we have had several other States.

Mr. ANDERSON. Yes, I know.

Mr. STRONG. We have the example of California which has developed branch banking to an extent where one bank has over 300 branches, and we have other States that have branch banking, dominating and monopolizing the banking of those States. We have the experiment there.

Mr. ANDERSON. My thought would be that the Federal Government should do nothing to push that along, that the Federal Government should do nothing to encourage it, but that to the extent that it is necessary to protect the national banking system we might go along with it in those States.

Mr. STRONG. Then we would have to go along with it in every State because the State banks will get a state-wide branch bank law passed, with the assistance of the national bankers, and they will have to join it.

Mr. ANDERSON. I do not insist upon my point there, but I was disposed to make that concession to the comptroller's views.

Mr. STRONG. Do you not think we have gone along far enough in branch, group, and chain banking in the United States where Congress should do one thing or the other, do something about it?

Mr. ANDERSON. I feel Congress should not do anything to push it further.

Mr. STRONG. Then it will go a lot further. The advocates of branch banking are putting up this argument, that most group and chain banks are not desirable, but within three years group banks will be established in every State of the United States. If we wait until that time, the only remedy is nation-wide branch banking.

Mr. ANDERSON. I think this, that if it is definitely understood that Congress is not going to sanction transforming existing groups into branch bank systems, if that fact is made clear, then a great many people will lose interest in it.

Mr. STRONG. We have the instance of Minneapolis and St. Paul, where within a year they have organized more than 100 banks each and say they are going to control even the Federal reserve district, going to take in every good bank in that district. We have Buffalo and Detroit and Atlanta that have formed these groups. If we do not do something to stop them, they will form groups in every State, and the only outlet for the protection of the State is this system of nation-wide branch banking.

Mr. GOLDSBOROUGH. A very prominent Member of Congress from the Northwest came to me the other day. Heretofore he had been strongly in favor of unit banking, and he said that this group banking had gone so far in his territory he could not back unit banking any longer, that it would put him out of business to do it.

Mr. STRONG. There is a persistent drive on to force group banking, with the ultimate outlook to branch banking throughout the United States. That has been made very plain in these hearings.

Mr. ANDERSON. You are satisfied that the ultimate purpose is is to transform groups into branch systems?

Mr. STRONG. Certainly.

Mr. ANDERSON. Then suppose you make it very clear that you are not going to approve of that, what about the motives of the banks for going any further?

Mr. STRONG. They will go ahead and establish group banks and say just as the gentleman who came before us representing Minneapolis and St. Paul said, "We have an ideal situation; we have improved the financial condition in our district."

Mr. ANDERSON. That is what I have heard from them, that they feel that the group banking system is better and that they have improved conditions. When that is true, then the question as to being transformed into branches subsequently will not be so important. But I think there are many cases where group systems have been organized simply on the theory that Congress will say yes to them after a while.

Mr. STRONG. I may say in support of your theory that I was told by a very reliable banker, whose word you and I would take, that in a conversation he had with one of these group bankers in Minneapolis and St. Paul, he said to him, "What will the ultimate result be? Is this a permanent thing?" "Oh," he said, "we are going to have

branch banking, and we will sell out to a New York branch banking group and make several million dollars."

There is another question I want to ask you, and that is whether or not giving permission for the continuance of the extending of group, branch, and chain banking will hurt the Federal reserve system? You talk about confining it to States. The Comptroller of the Currency talks about confining it to trade areas which he thought might mean 35 trade areas in the United States, which, of course, would mean one, two, or three cities in a group.

Mr. ANDERSON. The difference between his view and mine is this. He speaks about doing it by positive legislation. I am simply respecting State's rights and suggesting that the experiment be made under the State law.

Mr. STRONG. You think it is safe to do that, but some of us do not think so, in view of the development that is going on now in the banks in Minneapolis and St. Paul, where the bankers in those cities think it should be confined to the Federal reserve district, and that is also true in Atlanta. Do you not think that the Federal reserve district, dominated and controlled by two groups, as they are going to do in Minneapolis and St. Paul, two groups in friendly relation to each other, will dominate and control the Federal reserve banks of that district?

Mr. ANDERSON. If they have all the votes, of course they can elect the directors, in so far as the banks elect them. But there are a great many independent banks in that region.

Mr. STRONG. There will be very few when they get through.

Mr. ANDERSON. There is the further question of the control of the Federal reserve bank. You have control here from Washington.

Mr. STRONG. But they say they will take over every big bank in that district, which means practically every bank in the Federal reserve system. They have now over a hundred in each group.

Mr. ANDERSON. I am not familiar enough with the facts.

Mr. STRONG. If it is true that in the Federal reserve system two groups can dominate and control the great majority of the Federal reserve banks, would they not dominate and control the Federal reserve bank in that district?

Mr. ANDERSON. To the extent that the stockholders can control it.

Mr. STRONG. That being true, if we have nation-wide branch banks controlled by a few big banks, with headquarters in Chicago, San Francisco, and New York, principally in New York, will they not dominate and control the Federal reserve system in the United States?

Mr. ANDERSON. Yes, to the extent that the stockholders can do it. But I must say at the present time, in the past history of the Federal reserve system, the stockholding banks have not had much influence on Federal reserve policy.

Mr. STRONG. The Federal Reserve Bank of New York has had a great deal; they pretty nearly dominate and control the system now.

Mr. ANDERSON. Not as stockholders.

Mr. STRONG. As a bank.

Mr. ANDERSON. That is another thing.

Mr. STRONG. If the stockholders control the bank, the bank will control the system.

Mr. ANDERSON. At the moment, the biggest stockholder in New York is the Chase National Bank, I suppose, and it would amuse my friend Governor Harrison if we should go over and tell him what to do.

Mr. STRONG. But suppose you were in quite friendly relationship with the fellows in the group that controlled all of them.

Mr. ANDERSON. They would have to deal with the Federal reserve agent in Washington. The Federal Reserve Board passes on the discount rate and passes on the open market policy, the latter being formulated by a committee of governors. That would not get very far.

Mr. STRONG. In the hearings a few years ago it was developed that when the president of the Federal Reserve Bank of Boston came down to have its rate changed that was delayed for several weeks, but when Governor Strong of the Federal Reserve Bank of New York asked them to change the rate it only took them 15 minutes to do it.

Mr. ANDERSON. That was not because of the influence of the stockholders.

Mr. STRONG. That was the influence of the Federal Reserve Bank of New York.

Mr. ANDERSON. It was the influence of a dominating personality.

Mr. STRONG. If you have nation-wide branch banking, as declared by the Governor of the Federal Reserve Board, would not that mean a few groups in the United States dominating and controlling the banks of the United States?

Mr. ANDERSON. I do not want it.

Mr. STRONG. I know; but If it comes, do you doubt that those groups will not dominate and control the Federal reserve system? Do you imagine the Federal Reserve Board in Washington standing up against them?

Mr. ANDERSON. It is a question of whether the Government is stronger than private interests; I believe the Government should be stronger than private interests. It is a question of the courage of the citizenship and the courage of the officials.

Mr. STRONG. When a few groups in the United States control the money and credit of the United States, will they not be stronger than the Government?

Mr. ANDERSON. It would be a dangerous situation that I should not like to see.

Mr. STRONG. But the second National Bank became so strong——

Mr. ANDERSON (interposing). That Andrew Jackson had to break it up.

Mr. STRONG. It was broken up, but the bank was strong enough to force the charter through Congress.

Mr. ANDERSON. Which he killed by his veto.

Mr. STRONG. But for his backbone and stamina it would have become a law.

I am speaking of the power of control over the money and credits of the Nation, of the most powerful government on earth.

Mr. ANDERSON. I see many powers and many forces, but I do not often see a situation where any one of them runs away with things all the time. There is action and reaction, back and forth play.

I see one other thing, too, that you must know, and that is that bankers are citizens, too.

Mr. STRONG. But we are going to eliminate the bankers as citizens in the communities of the United States, and the control is going to be in the great centers.

Mr. ANDERSON. I do not want it there, but the standard of citizenship is very high there.

Mr. STRONG. As to the influence and control of money over Government, there is now being advocated by representatives of the men who want this system of banking we are involved in to continue, this proposition, that while the branch banking can not be indulged in in the States under the McFadden Act, they have now found a way to do indirectly what the law prohibits them doing directly by establishing group banks, and they are going to proceed by establishing them in every State in the Union, and before Congress will act they will have these branch banks and get rid of the less desirable group and chain banks.

Can you not see there is an instance of a group, through the control of money, attempting to dominate and control the Government, and if it is successful they will have nation-wide branch banking, as the governor of the Federal Reserve Board says, while they will dominate a few groups in the United States, they will dominate the Government.

Mr. ANDERSON. I think there are very many bankers in the country who have figured out, as a matter of profitableness, that they do not see how they can make more money as a group-banking system than with the unit banks. But if you pass legislation of this sort you will force them into it.

Mr. GOLDSBOROUGH. That is the idea.

Mr. ANDERSON. If you do that, a good many of them will simply say, what is the use?

Mr. STRONG. I can see you are very much afraid of the passage of this legislation. But let me say to you it will not pass, but if they can have group banking established in the States, or they have branch banking established, then they will put it over. We have got to act now to stop this attack, to stop them trying to do indirectly what the law prohibits them doing directly, and to get control of the situation, because if we do not they will have nation-wide branch banking and control of the Government, through control of money and credits of the country and the elimination of the middle-class people.

Mr. ANDERSON. Might I make a suggestion as to what I can be helpful on here? I am professionally an economist, and in these political matters I am an amateur. You are a much better judge than I am of the ways of guiding the business of the Government and passing laws to accomplish such a result. I can not enlighten you on that.

If the questions could be limited to economic questions it might be better.

Mr. STRONG. I am not a politician; I am only a plain servant of the people, and have been for many years the servant of an agricultural group. I am not looked upon as compentent to be a politician.

I only want to point out this. Here we have branch banking starting in California and in several other States of the Union. An appeal was made to Congress that unless we widened the scope of the law to permit national banks to have branches where the States had branches we would hamper the national banking system upon which the Federal reserve system is based. So we passed the McFadden Act. Now it is said we will protect the national system by opening up the flap of the tent to the extent that they can have branch banks in the States that permit branch banks, but only in the cities where the parent

bank is located. That was apparently satisfactory at the time. But you can see it was not satisfactory to the men who want to put this system on the country.

Then they got chain banks and then this group banking system, thereby attempting to force branch banking, nation-wide, upon the country.

Mr. Pole, the Comptroller of the Currency, assures us that if he can put over this trade area proposition, just as we imagined when we passed the McFadden bill, he can satisfy all factions and hold them.

Mr. GOLDSBOROUGH. Say "I" and not "we."

Mr. STRONG. As I and the majority of the committee imagined, and the President of the United States imagined. He has that idea that he can hold them.

But the governor of the Federal Reserve Board said it means the ultimate success of the nation-wide branch banking system perhaps in 50 years.

So you can see what the trend is. We are now engaged in a stock gambling proposition among the banking systems. That is what this system is to be, to make money out of the manipulation of the joining of banks and groups, where it may aid this nation-wide branch banking. Do you agree with that?

Mr. ANDERSON. I do not think that is their aim. I know some of the men.

Mr. STRONG. I thought that until I saw the gentlemen from Minneapolis and St. Paul and until I got the word of a reliable banker that they expect to sell out to a New York group.

Mr. ANDERSON. I do not know about that.

Mr. STRONG. I will tell you personally who that man is, and you will believe his statement is true.

Mr. SEIBERLING. You know the position of the Comptroller of the Currency and the governor of the Federal Reserve Bank on this specific question of branch banking?

Mr. ANDERSON. Yes, sir.

Mr. SEIBERLING. We assume they represent the people of the entire country by reason of the positions that they hold, and you think we are correct in that assumption?

Mr. ANDERSON. They are officers of the Government.

Mr. SEIBERLING. You have been resisting their plan of branch banking in trade areas. Since we know the status of these men, without intending any offense of any kind, I would like to know your status.

Mr. ANDERSON. First, a citizen of the United States; second, a professional economist with knowledge of these matters.

Mr. SEIBERLING. I know that, but by whom are you employed?

Mr. ANDERSON. By the Chase National Bank of the city of New York.

Mr. SEIBERLING. This address of yours was put out in the bulletin of May 8, I take it, with the full knowledge and consent of the Chase National Bank.

Mr. ANDERSON. It was put out with the knowledge and consent of the Chase National Bank—let me say of certain officers of the Chase National Bank who knew I was putting it out. The directors knew nothing about it. There was no official action taken upon it.

Mr. SEIBERLING. You would not call a meeting of the stockholders of the Chase National Bank to give you the authority to put out a bulletin like this. From whom did you get the authority?

Mr. ANDERSON. I have a general authority from Mr. Wiggin to publish such a bulletin.

Mr. SEIBERLING. Then this view you express, while it is your personal view, is also the view of the bank?

Mr. ANDERSON. Mr. Wiggin answered that question yesterday. that is the view of the economist of the Chase National Bank.

Mr. SEIBERLING. Mr. Wiggin saw the address before you delivered it before the North Carolina Bankers' Association?

Mr. ANDERSON. Mr. Wiggin and other senior officers of the bank all had an opportunity to see it before that, but I doubt very much if he did see it.

Mr. SEIBERLING. Now, Mr. Anderson, did you not discuss with the officers of the Chase National Bank the policy you would pursue in reference to this proposition of the Comptroller of the Currency and the governor of the Federal Reserve Board?

Mr. ANDERSON. It is my regular practice in connection with bulletins of this sort to ask one of the senior officers of the bank, sometimes a vice president, sometimes the chairman of the executive committee, and on rare occasions, Mr. Wiggin, to look over the manuscript with me.

Mr. SEIBERLING. Did you do that in this particular case?

Mr. ANDERSON. In this particular case I did, but not with Mr. Wiggin.

Mr. SEIBERLING. I notice in the first paragraph of your article. in speaking of trade areas, you said, "National banks located in one State could invade another State whose laws prohibit branches."

Mr. ANDERSON. That I understand to be the proposition.

Mr. SEIBERLING. As a student of banking, do you not know that from a constitutional standpoint the establishment in a State of a national bank by the Federal authorities is just as much an "invasion" of the State as would be the establishment of a branch bank there by Federal authority?

Mr. ANDERSON. Not in a practical sense, because it is a local man who organizes it, whereas the branch of a bank chartered in another State would be controlled by men in another State outside of the community.

Mr. SEIBERLING. You know, do you not, that the Supreme Court has held for more than a century that Congress was the sole judge of the wisdom with respect to the States in the United States where banking facilities should be set up under national authority and that no consent from the State was necessary or required?

Mr. ANDERSON. The question of congressional power I was not raising. I was raising the question of policy. I am not enough of a constitutional lawyer in the modern sense to know just what the courts have held there. I have read the statements that the comptroller made about that.

Mr. SEIBERLING. You said you believed in preserving State rights.

Mr. ANDERSON. I do.

Mr. SEIBERLING. That may apply to prohibition and a lot of other things; but do you not know that the Constitution of the United

States makes the Federal Government responsible for the coining of money and for the circulating medium, and expressly takes that right away from the State?

Mr. ANDERSON. For the coining of money, yes. On the question of bank notes, no. You have done that by congressional act by taxing State bank notes.

Mr. SEIBERLING. But the Constitution provides that no State can coin money.

Mr. ANDERSON. Yes.

Mr. SEIBERLING. And no State can counterfeit money. Do you not think that the banking business should be differentiated from these other things, when it comes to talking about State control?

Mr. ANDERSON. I would make a very sharp distinction between the coining of money and the running of a bank. I would regard the coining of money as a Government function, and the running of a bank as a private function.

Mr. SEIBERLING. Do you think, or do you mean by that that whenever the Federal Government, in the banking business, invades a State that is running counter to State rights?

Mr. ANDERSON. The term invasion there relates not to what the Federal Government itself is doing, but to what an institution chartered outside of the State is doing. That word invasion is perhaps ill chosen; but if a bank outside a State can come in against the will of a State and put a branch there, that is what I characterize as invasion.

But for the Federal Government, on the other hand, to authorize citizens of that State to charter a bank in a given town is not an invasion in the same sense.

Mr. SEIBERLING. Do you think the State should conduct the banking business of the country?

Mr. ANDERSON. No, I think private individuals, chartered by the States or by the Federal Government, should do that.

Mr. SEIBERLING. Not the States?

Mr. ANDERSON. No.

Mr. SEIBERLING. You do not think there should be a national banking system?

Mr. ANDERSON. I have expressed the opinion in this bulletin that the national banking system has been useful, that it has helped establish good banking standards throughout the country, and that it is desirable to preserve it.

Mr. SEIBERLING. On page 4 of your speech you state that "We do not need to make a revolution in the general banking system of the United States because of the conditions in small banks in stricken agricultural regions." Do you not think that the question goes deeper than that and should be approached from the larger point of view which has been expressed before the committee that the primary aim should be to extend to the general public, regardless of whether it is urban or rural, the same type of banking facilities?

Mr. ANDERSON. I am in favor of giving good banking facilities to every place, but I do not believe it is necessary to pass this legislation to do that. I do not think this legislation would touch that in general, but that local legislation and local remedies should be relied upon primarily for that purpose.

Mr. SEIBERLING. You do not think the branch banking system proposed by the comptroller in trade areas would reach these smaller regions?

Mr. ANDERSON. No, sir.

Mr. SEIBERLING. You do not think that group and chain banking would reach them either?

Mr. ANDERSON. I do not think it is doing it, with certain minor exceptions.

Mr. SEIBERLING. So you think there is no way of reaching them?

Mr. ANDERSON. I have indicated in the section on remedies in that bulletin ways of doing it.

Mr. SEIBERLING. Yesterday you heard Mr. Wiggin in answer to various questions asked by me, testify that the Chase National Bank had 7,000 correspondent banks; that many of these banks had failed in the last 10 years; that the relationship between these banks and the Chase National Bank was purely a business one; that it meant profit to the Chase National Bank; that they could do nothing through such a system to actually prevent failures. Do you agree with Mr. Wiggin in this respect?

Mr. ANDERSON. I do not think you have correctly got the full spirit of Mr. Wiggin's statement.

Mr. GOLDSBOROUGH. I understood Mr. Wiggin to say it was mutually advantageous.

Mr. ANDERSON. Will you allow me to answer that question about correspondent relations in my own way?

Let me say that Mr. Wiggin said to me, "Don't bother about what I said. Tell them what you think." I will tell you what I think about the correspondent bank relations.

Mr. SEIBERLING. I want your opinion.

Mr. ANDERSON. I am not giving Mr. Wiggin's opinion about it.

Mr. GOLDSBOROUGH. I do not think the economist ought to be asked to comment on what Mr. Wiggin said.

Mr. STRONG. He says he is going to give his own opinion.

Mr. ANDERSON. I hope you will not try to put me in opposition to my chief on any point. I have an affection for him, and he has for the 10 years that I have been in the Chase Bank stood with absolute loyalty to the original agreement with me, which was that he would never ask me to say anything I did not believe.

Mr. SEIBERLING. I am here representing the people of the United States, and you are here as a witness. What I want is your opinion and judgment.

Mr. ANDERSON. You shall have it. I just ask you as an act of courtesy to me not to put side by side what I say and what Mr. Wiggin says.

Mr. SEIBERLING. I have no desire to put you in conflict.

Mr. ANDERSON. Let me tell you what I think about correspondent relationship with respect to country banks.

In a Missouri town a few years ago there was a run on a bank in a town of about 30,000 people. A telegram was sent to the Chase National Bank notifying us of the run and asking for help. We knew the bank; we knew they were good; we knew the people.

Four minutes later a telegram went back to that bank saying, "We stand squarely behind you; we will lend you what you need. We are sending cash from a near-by correspondent bank." That was

signed "Albert H. Wiggin, president; Samuel H. Miller, senior vice president."

They put that telegram in the window of the bank and it stopped the run.

In a very few minutes from a near-by town an automobile came in with the cash. We made an arrangement with a Kansas City bank to send them more down. That kind of thing we have done many times.

What do we do to keep them from failing? What do we do to avert the causes of failures? Almost every time we make them a loan we put questions to them. We ask, in substance, "What are you going to use this money for," not always, but in many cases. We do not ask such questions of strong banks, which borrow infrequently and moderately, but we ask many questions when we think it necessary. "What other facilities have you?" We study their whole picture. We help them to figure out their problem, holding them back sometimes when they are going too far.

Mr. SEIBERLING. You do not say anything about collateral.

Mr. ANDERSON. I will tell you about the collateral.

Mr. SEIBERLING. I did not want you to forget it.

Mr. ANDERSON. I will get to the matter of collateral. They constantly ask us for credit information, and our whole credit department is at their service every day. We tell them, "You can safely let this man have money," or, "Your customer can safely take this credit," or "In this case be cautious."

We watch the details of their business in many ways. A correspondent bank in San Francisco was sending us remittances which got to us too late for us to give them interest credit. We have to get to the clearing house at 10 o'clock in the morning. They lost interest for 24 hours. If they had got there a couple of hours earlier they would have got that interest.

So we studied the mail train schedules, and wrote them and told them if they put these items into the mails 2 hours earlier we could give them interest credit 24 hours earlier. We render innumerable services of that kind.

Now, as to the collateral. Here is an actual case. There was a note for $104, signed by John Wilhite—that is a fictitious name—and Lizzie, his wife, secured by chattel mortgage on Molly, Molly being a mare mule, 16 hands high, and broken to single and double harness. That was part of a stack of collateral about that high [indicating], the biggest note being for $3,000, the next for $700, and all the rest under $300.

Mr. SEIBERLING. What was the equity?

Mr. ANDERSON. This was several years ago, this particular loan. But we have similar paper frequently.

Mr. SEIBERLING. I know; you have gone into the details about Molly. Tell us what the equity was.

Mr. ANDERSON. The loan was $100,000 and the stack of collateral was $125,000.

Mr. GOLDSBOROUGH. You mean the face of the collateral?

Mr. ANDERSON. Yes.

Mr. SEIBERLING. You consider that kind of collateral from a great many debtors the very best kind of collateral, do you not?

Mr. ANDERSON. The loan would have been more easily manageable and the collateral would have been better collateral in bonds of the United States Steel Corporation.

Mr. SEIBERLING. There may be some inconvenience in collecting it, but you consider that very good security, where you get a large number of small loans?

Mr. ANDERSON. We would have had a lot of trouble collecting those small loans.

Mr. SEIBERLING. I note you state in substance in your address that small banks in rural communities can accomplish diversification by means of their correspondent relations with great banks in great cities.

You go on to say:

> They have refrained from putting all of their resources into local loans and they place part of them through their correspondent banks into open market commercial paper or readily marketable bonds, or call loans on the stock exchange, or acceptances, or deposit balances, with their correspondent bank, to build up a borrowing equity.

That system of banking takes money from the localities and puts it in the metropolitan centers, does it not?

Mr. ANDERSON. It takes money from the locality in ordinary times when they have an excess and it gives them back a greater amount in time of seasonal need or in time of crisis. I will give you some figures which I collected, and, with the permission of the committee, I will put this in the record.

I asked one of the officers of the bank to get me figures for small banks, picked at random, with reference to what happened in 1920 and 1921 in the relationship between our loans to those banks and their balances with us.

He went across the country, on the southern end, from ocean to ocean, and then he went up in the western part of the country from Mexico to Canada, and he left out all the big places.

He took at random 59 State and national banks—there were a few in Ohio and Indiana; but most of them were west of the Mississippi or in the South.

In January of 1920 the country banks were pretty flush, their loans were small, and these banks had $1,426,400 in balances with us and they were borrowing from us only $459,200.

Mr. SEIBERLING. That was in January, 1920?

Mr. ANDERSON. That was in January, 1920. By October of 1920 the crisis came on; the loans had gone up $1,200,000 and the deposits had gone down $200,000. So they were now borrowing $450,000 more than their deposits amounted to. And by the following January the loans were $951,300 and the deposits amounted to $759,200.

The change in the year was that the deposits were cut in two and the loans were more than doubled, and they got out of us at the time they needed it a lot more money than they originally put in there.

Mr. SEIBERLING. What rate did you get for that money?

Mr. ANDERSON. We gave them—at that time the rates were very high, but the country bank gets a lower rate as compared with some other borrowers. I can not answer that question definitely as to the rate.

Mr. STRONG. About what was it?

Mr. ANDERSON. I would say some of them, at the time we were charging some nonbank customers 8 per cent, I think some of them

may have paid 7 and more paid 6. In general a bank gets a good rate from another bank. I am not sure about the rates, because it was a long time ago.

(The statement above referred to is as follows:)

An examination of credit balances kept with us by 59 State and National banks situated in the South from coast to coast and in the West from Mexico to canada (as far east as the Mississippi Valley [1]) reveals the following:

	Balances	Loans
January, 1920	$1,426,400	$459,200
September, 1920	1,215,800	1,057,500
October, 1920	1,221,200	1,677,800
November, 1920	1,091,800	1,346,400
December, 1920	754,200	801,500
January, 1921	759,200	951,300

The statistics do not include credit balances and borrowings of banks in the larger centers. Otherwise, the banks were picked at random.

Mr. SEIBERLING. You heard Mr. Wiggin say yesterday they always got collateral?

Mr. ANDERSON. Almost always. May I express the opinion as an economist that the only man who ought not to put up collateral, apart, perhaps, from very small personal loans—the only man who ought not to put up collateral, is the man who is in business, who has stocks of goods and "work in process." He can not put them up as collateral, because that would interfere with his operations; but the man who has the kind of collateral that he can put up, ought to do it.

Might I, in further answer to the question about 1921 say that Mr. Sidney Anderson's joint committee of agricultural inquiry brought out some very interesting facts about that, one of them being this, that in the period from January 1920 to July, 1921 New York lost to the outside country, $1,735,000,000, net.

Mr. SEIBERLING. What was the last date?

Mr. ANDERSON. That was from January, 1920 to July, 1921.

Mr. SEIBERLING. How much did you get back last summer?

Mr. ANDERSON. When I say "lost" I do not mean it was a money loss. I mean more went out of New York than came in. New York paid out to the rest of the country $1,735,000,000.

(Thereupon, the committee took a recess until 2 o'clock p. m.)

AFTER RECESS

The hearing was resumed at 2.30 o'clock p. m., at the conclusion of the recess.

STATEMENT OF BENJAMIN M. ANDERSON, JR.—Resumed

The CHAIRMAN. The committee will come to order. When the committee recessed, I believe you were questioning Mr. Anderson, Mr. Seiberling.

Mr. SEIBERLING. I have a few more questions here. Mr. Anderson, there has been a great deal of talk before the committee with reference to diversity of loans.

Mr. ANDERSON. Yes, sir.

Mr. SEIBERLING. Now, if you had a branch system such as suggested by the comptroller, you would have much greater opportunity for diversification of your loans than you have in the unit banks?

[1] Including a few in Ohio and Indiana.

Mr. ANDERSON. Not if the unit bank is run properly. You would have in a community, with diversified interests, plenty of opportunity, of course, even for a local bank; and you can have adequate diversification, through your big city correspondent, if you can not get local diversification.

Mr. SEIBERLING. That is not the question. Would there not be more opportunity for diversification of loans under the comptroller's suggestion for branch banking in trade areas than under the unit system?

Mr. ANDERSON. Not if the unit bank makes use of the facilities offered by its correspondent.

Mr. SEIBERLING. What do you mean by that?

Mr. ANDERSON. I mean the unit bank can diversify its loans through buying outside commercial paper, acceptances, making loans on call, buying bonds, plus the local loans it makes.

Mr. SEIBERLING. Your contention is that the chief means of getting diversification of loans would be through the correspondent in the metropolitan center?

Mr. ANDERSON. If it was a 1-crop town; yes. There are some towns where the banks can get all the diversity of activities right at home. Even in those 1-crop towns or small cities, they can get it through the correspondent.

Mr. SEIBERLING. It is necessary to have diversification of loans; is it not?

Mr. ANDERSON. Yes, sir; absolutely.

Mr. SEIBERLING. Therefore, if they have a community where there is no diversification of paper offered, the only means of getting it is through the correspondent bank in the metropolitan center?

Mr. ANDERSON. That is the best means.

Mr. SEIBERLING. That would not be true if it was a branch of a parent bank located in a metropolitan center, closer to the community, in a trade area, for instance, like the headquarters of the different Federal reserve banks in the country?

Mr. ANDERSON. In most cases that is true, and yet there are some Federal reserve districts that can not sufficiently diversify.

Mr. SEIBERLING. Name one.

Mr. ANDERSON. In 1921 the Dallas district, as a whole, had it been self-contained, would have gone under. The Dallas Federal Reserve Bank was down to within 2 per cent of its own gold reserve. It had to lean on the rest of the country for liquidity.

Mr. SEIBERLING. What relation has that to the subject we are talking about?

Mr. ANDERSON. Well, the district was caught by cotton and other things that were frozen, and it has to lean on the outside for temporary help and diversification.

Mr. SEIBERLING. Then the southern bank that is in territory where cotton is the chief commodity, in order to be safe, under your theory of banking, would have to make a great many loans through its correspondent in the metropolitan center?

Mr. ANDERSON. Yes, sir. I want to say that, in general, agriculture needs to learn one thing which business has learned. The weakest point in agricultural financial technique comes from this matter of lack of liquidity or lack of something they can turn into cash. The farmer and country banker, to a too great extent, look to land as the basis of credit.

If you will contrast the policy, say, of the United States Steel Corporation and the Utah Copper Co. with the policy of agriculture in 1920, the thing becomes striking. Steel and copper went high in price during the war and the post war boom, and broke violently in the period immediately following, the same as agricultural commodities. But whereas the farmer used all of his profits in the boom period to buy more land, the two great business corporations used their profits in paying off debts and building up reserves in marketable securities and cash, so that when the crisis came both the United States Steel and the Utah Copper Co. kept on paying dividends and were perfectly tranquil through that whole trouble and on a basis far better than before the boom, while agriculture was deeper in debt than before the boom.

Mr. BRAND. I think you have sized that up correctly as far as Georgia is concerned.

Mr. SEIBERLING. Mr. Anderson, you can answer these questions in a much shorter way if you desire to do so. However, I do not want to tell you what you must do. It is a fact, then, that a unit bank, in a territory where there is no diversification, must do a large amount of business in the way of securing loans and making customers through the correspondent metropolitan bank?

Mr. ANDERSON. Yes, sir. During the season when it has surplus funds, it sends them to the city, and when the season comes when it needs the funds for local accommodation it brings them back.

Mr. SEIBERLING. Do you not think the Dallas district, if you take the Dallas Federal reserve district, has sufficient diversification? Do you not think or do you not know that they have a great many public utilities and manufacturing institutions there?

Mr. ANDERSON. The experience of 1920 did not indicate it.

Mr. SEIBERLING. Have you any statistics to show there is not great diversification in the Dallas Federal reserve district?

Mr. ANDERSON. No, sir. I would recognize there is diversification there, but I know the situation that existed in 1921.

Mr. SEIBERLING. There would be much more diversification if you had a parent bank with branches in that trade area than for the individual local bank?

Mr. ANDERSON. I do not think so. I do not see any reason why it should be.

Mr. SEIBERLING. You think the individual——

Mr. ANDERSON. I see what you mean. A bank covering the whole district could diversify more than a bank in one town?

Mr. SEIBERLING. Yes.

Mr. ANDERSON. Quite true.

Mr. SEIBERLING. In that respect the branch bank would be much superior to the unit bank?

Mr. ANDERSON. Yes; to the unit bank without a city correspondent, but not to a unit bank with a city correspondent.

The CHAIRMAN. In other words, Mr. Anderson, if Mr. Seiberling will yield——

Mr. SEIBERLING. Certainly.

The CHAIRMAN. You would have us infer that a country bank would be as well or better served under the correspondent system than acting as a branch?

Mr. ANDERSON. I believe that.

The CHAIRMAN. You believe it could give the territory in which it is located better service?

Mr. ANDERSON. Assuming a good bank and a good banker.

The CHAIRMAN. If a correspondent banker situated there relies on the city correspondent to advise him in regard to his investments, he can be a mediocre man if he will consult his correspondent city bank?

Mr. ANDERSON. Yes; and there is a constant consultation about all kinds of banking policies. It would amaze you the questions put up by bank correspondents and the number of things they ask us to do for them, things which, by the way, do not always relate to banking, strictly.

The CHAIRMAN. Do you think the country banker understands that relationship is open entirely to him? Is he not reluctant to put these various determinations before his city correspondent bank,—these decisions he has to make frequently on a moment's notice? Is he not rather handicapped on account of distance?

Mr. ANDERSON. He does not usually consult us about local loans. He runs his own bank.

The CHAIRMAN. You are dealing with surplus funds whereby he can secure diversification in his loans?

Mr. ANDERSON. Yes, sir, and he will very commonly consult us. He will ask us to pick out paper for him and advise him what bonds to buy, etc.

Mr. SEIBERLING. Since he has done that a great deal, the local bank's money is invested in paper you recommend and which the correspondent bank knows about and the local bank does not. Does not that greatly increase the domination and control of money and credit by the correspondent bank in the metropolitan center?

Mr. ANDERSON. No, sir; if we do not treat them right the Central Hanover will and the Guaranty Trust will, and there is constant competition for these correspondent bank accounts.

Mr. SEIBERLING. But they can not leave your bank until they get their paper liquidated that they purchase through you; they are dependent on you to liquidate the paper?

Mr. ANDERSON. The paper is the obligation of some corporation. It has a national market. It is sold through note brokers of national standing. We do not have to collect it for them. We will do it for them if they ask.

Mr. SEIBERLING. But you know about the paper and they do not.

Mr. ANDERSON. But the matter of collecting on the paper is a simple matter.

Mr. SEIBERLING. It is collected through your bank?

Mr. ANDERSON. Yes; but they could change to another correspondent over night.

Mr. SEIBERLING. Now, Mr. Anderson, will you not admit that a realtionship of that kind does give you to a greater or less extent, domination over that community bank?

Mr. ANDERSON. No, sir; I will emphatically deny that it gives us domination over any correspondent bank.

Mr. SEIBERLING. I note your statement, "I can not sympathize with the view"——

The CHAIRMAN. Before you get to that, may I ask this question?

Mr. SEIBERLING. Yes.

The CHAIRMAN. In connection with this relationship which you suggest enables the city banks to advise the country banks, which advice you say is freely given—and I know it is and quite freely sought after by particular banks—I recall some few years ago where a New York publishing house—Harper & Bro., for instance—were issuing large amounts of commercial paper which was sold through a reputable note house in New York, Charles Hathaway & Co.—and country banks were advised by the city correspondent banks to buy that paper freely and many of them did buy that paper freely.

It turned out subsequently that Harper & Bro. were financially embarrassed and they went through a reorganization. It developed afterwards, I think, in the information that came out, that the New York bankers had known a year previous, that Harper & Bro. were in a condition where they were not strong financially and they were called upon to liquidate and they liquidated through the process of selling the paper through these commercial houses, and the result was that the failure really occurred a year before it was announced, and these local banks purchased this paper wholly in ignorance of that situation.

This is what happened: Very much to the surprise of the country banks that held that paper, there was an old mortgage of $850,000 that everyone had lost sight of, which was held by J. P. Morgan & Co.

I mention that as one of the relationships that exist between city correspondent banks and country banks. Might it not be that the city correspondent banks might use country banks in that manner again for the purpose of unloading? Of course, I realize it would be subject to great censure.

Mr. ANDERSON. I do not know the facts about that case, but I know how the thing has been done in two institutions. I watched it for a couple of years in the Bank of Commerce when Mr. Christensen handled the commercial paper. He handled for that bank and its correspondents several hundred millions of commercial paper in one year without loss to himself of anyone else. I know how it is handled in the Chase. We are scrupulously careful about that.

I do not know the facts about the case you mentioned, Mr. Chairman, but I do not think it is in any way a representative case. I came to Wall Street 12 years ago with the background of a countryman—a Missourian, first from the bluegrass region and then from university work—with a great deal of distrust, and taking a great deal of precaution as I went along to guard myself so that I would be free to retain my academic liberty. As I have seen bankers and brokers in the street dealing with one another and with their customers, my confidence in those men has gone up and up. Most of the business goes on over the phone on the stock market and on the foreign exchange market. They could not do it if there was not good faith. I have seen them hold to their word and take their licking without a whimper. The same man might beat his wife that night. That I do not know. But he keeps his word.

In the relationship between the city and country banks that same situation applies. Let me give you an instance. The Bank of Bermuda has been a correspondent with the Chase for 50 years. When I was with the Commerce, I tried to get them away from the Chase. They said, "They have been so good to us for 40 years that if we left them now you would not want us." They are scrupulously honest in their dealings.

That relation lasts because it is handled right.

Mr. BRAND. Was that $850,000 mortgage on real estate?

The CHAIRMAN. It was a first mortgage on the property of Harper & Bro.

Mr. BRAND. Supposing a country bank tells you to buy $100,000 worth of acceptances or some sort of security or commercial paper; how could there be any mortgage on that character of investment without your knowing it?

Mr. ANDERSON. The credit department that passed on that paper ought to know about any mortgage on the property.

Mr. BRAND. Have you any laws in the State of New York that permit you to have a mortgage on that class of paper?

Mr. ANDERSON. It was not a mortgage on the paper. That is an unsecured note. It was a mortgage on the property of the maker.

Mr. BRAND. Is there any law in New York that would give a lien on acceptances or commercial paper or securities that you might recommend to country banks to buy?

Mr. ANDERSON. Not on the paper; no. It was simply that there was a prior obligation on the real estate of the company.

Mr. BRAND. The case mentioned by the chairman was?

Mr. ANDERSON. In that case the negotiable paper is clear.

Mr. BRAND. One other question. How could your bank dominate a country bank, though it had placed money with you to buy different securities, unless that bank owed you something?

Mr. ANDERSON. We could not. If they owed us something and were handling themselves well, we could not. The only case in which the city bank could dominate a country bank is where a note of that country bank matures and it can not be paid. Then a creditor can make terms.

Mr. BRAND. If he does not owe you anything——

Mr. ANDERSON. He can not be dominated. The great difference between the system of correspondent banks and branch banks is this: Under the branch bank system all decisions as to the flow of funds between the head office and the local branches are made at the head office. Under the correspondent system all such decisions are made by negotiations between principals, one of whom represents the local people.

Mr. SEIBERLING. You say they seek advice from you continuously?

Mr. ANDERSON. Yes; and if we give them good advice, they ask for more.

Mr. SEIBERLING. You have taken occasion to step aside——

Mr. ANDERSON. We ask them for advice often, also.

Mr. SEIBERLING. You have taken occasion to step aside and eulogize Wall Street. Why is it that the country has a prejudice against Wall Street if all these things you say are true?

Mr. ANDERSON. Well, I must say that I was brought up with that prejudice myself. Wall Street has done some things that deserve reprobation. There have been, at times, bucaneers on Wall Street; there have been times when Wall Street really deserved severe censure. I think the country, as a whole, does not know Wall Street as well as I do. If it did, I think it would have more respect for Wall Street.

Mr. SEIBERLING. Well, we have not time to go into that. You are working with Wall Street and you are not asking any favors from Wall Street. I note in your statement you say:

I can not sympathize with the view that it is necessary to pass unsound legislation for the purpose of giving supremacy to the national banking system over the State banking systems, that banks would be compelled to drop their State charter and take out national charters.

In the problem before us, it is not a question of whether the national banks should be paramount over the state banks, but rather does not the public welfare demand that Congress under its unquestionable constitutional powers and responsibilities should not at this time step in and take charge of the entire banking situation, not with a view of driving the state banks out of business, but with a view of giving the public a sounder and safer system of banking? Is not that the main consideration?

Mr. ANDERSON. The thing I referred to there was the suggestion brought out in the comptroller's statement in which he indicated he was surrendering the theory of parity of State and national systems and wanted to establish the superiority of the Federal system. I was referring to that particular proposition.

Mr. SEIBERLING. Do you not think in a Government as big and strong as ours, that the National Government should have a supremacy in the banking business of the country?

Mr. ANDERSON. No, sir; I think any country as big and diversified as ours should have as much local banking as is consistent with hanging together.

Mr. SEIBERLING. The national banking system gives local banking, does it not?

Mr. ANDERSON. It would not if you made it spread over State lines and cover great trade areas through branch banking.

Mr. SEIBERLING. I note that you attempt to show that branch banking systems are subject to the same failures as that of unit banks and subject to adverse economic conditions. You gave us examples of the failures of 1 bank in Denmark, 1 in China, and 1 in Italy.

Mr. ANDERSON. Several in Japan, and one in Austria. There have been others—in Canada, for instance.

Mr. SEIBERLING. You did not give the name of the Canadian bank.

Mr. ANDERSON. The Home Bank was one.

Mr. SEIBERLING. You know, of course, that this bank failed solely by reason of the criminal mismanagement of its officers and that practically the entire board of directors were convicted and sent to the penitentiary. You also know, do you not, that this bank had no government supervision, such as we have?

Mr. ANDERSON. I did not know that it was due to criminal mishandling. I know it was greatly aggravated by economic conditions.

Mr. SEIBERLING. If this situation be true you would change your opinion as to the Home Bank of Canada?

Mr. ANDERSON. I would have to know the facts.

Mr. SEIBERLING. Assuming what I say is true, would you adhere to your opinion?

Mr. ANDERSON. If it is true that it failed solely because of crime, then it did not fail because of any other reason.

Mr. SEIBERLING. You do not put the failure of a bank for criminal mismanagement in the class of banks that fail for economic reasons, do you?

Mr. ANDERSON. No, sir. I did not list that as one of the causes, because I think the testimony, as brought out by Governor Young,

put that as a minor influence. Did not Governor Young list that as a minor reason for failures?

Mr. BRAND. It is lower down the list.

Mr. SEIBERLING. I also note that you refer to the failures of 236 banks which belonged to the chain system. Do you know that chain banking has met with almost universal condemnation from witnesses appearing before this committee and can not be placed in the same class as branch banking?

Mr. ANDERSON. I do not believe the difference is anything like as great as many people suppose. I believe the Florida and Georgia chain would have failed if there had been a holding company holding the stock, and would have failed if there had been a central office with branches.

Mr. SEIBERLING. What is your opinion of the economic future of rural banking if carried on indefinitely under present conditions?

Mr. ANDERSON. I think many of the small banks in the small villages will dry up and go under: that the more sizable banks in the substantial towns of four and five thousand people will survive and do well.

Mr. SEIBERLING. Do you not know, Doctor, that there are hundreds and hundreds of small banks in the United States in rural communities that are organized by the people in those communities just to furnish banking facilities and these banks are a constant source of worry to the stockholders and directors and that they would be glad to have a large bank in a metropolitan center take those banks over as branches and relieve them from the responsibility of maintaining banking facilities in the community?

Mr. ANDERSON. And taking cognizance of that, I recommend that certain States pass legislation to take care of that.

Mr. SEIBERLING. That the States should do that, and not the Federal Government?

Mr. ANDERSON. I believe the States should do it. It would simply bring about a great disturbance and a great shifting——

Mr. SEIBERLING. You advocate the Federal Government going entirely out of the banking business?

Mr. ANDERSON. I recommend that the Federal Government pass a law permitting national banks to have the same branch banking powers that State banks have, and that in each State the States take it up as a local problem.

Mr. SEIBERLING. How can you justify the statement that you are afraid of giant branch banking systems with enormous capital ranging over trade areas which may equal Federal reserve districts in size, when the Chase National Bank, with its tremendous size, being probably the largest in the world, has its branches in New York and abroad, its securities companies with their branches throughout the United States and abroad, and its American Trust Co., with 34 offices in this country and 66 abroad, together with the American Express Trust Co. You cover the world——

Mr. ANDERSON. No, sir; we do not cover the world with branches. I am not afraid of giants, but I want the giants confined to giant places.

Mr. SEIBERLING. You state that in your statement.

Mr. ANDERSON. I said giant branch banking systems ranging over Federal reserve districts. I want the big fish to stay in the rivers

and the oceans and keep out of the creeks. The Chase National Bank has branches only in the city of New York and a few out in the world outside of the United States.

Mr. SEIBERLING. It is inconceivable to me that the Chase National Bank, which unquestionably operates successfully these various branches of the bank and the affiliated companies all over the United States and abroad, could not operate successfully branches in trade areas.

Mr. ANDERSON. Well, we would not like the job; the difficulty increases very greatly with distance. In New York we had no branches until 1921, and then only eight in the city. We worked a long time on that, studying how to deal with them, where we could see the men every day and sit with them in committees two or three times a week and with easy telephone communication. You can know them personally and you can get the feel for them. But the proposition of administering branches at a great distance is exceedingly difficult.

In the West Indies, in 1920, I was talking with the branch manager of one of the Canadian banks. This was early in 1920, in February. He said, "I made a loan of $50,000 on sugar a little while ago. My instructions are that on a loan over $2,000 I have to refer it to the home office." He said, "That is not the way to do business. The head office protested and I wired back and offered my resignation. The head office stood for it." At the time the loan was made sugar was selling at 25 cents and the sugar was 2 cents in the autumn following. I do not know whether they wired for his resignation in the autumn or not. The problem of keeping the proper balance between local initiative and head office responsibility is terrific.

Mr. SEIBERLING. That would not be true of the Federal reserve district.

Mr. ANDERSON. They cover considerable distances. One of the California bankers—I hope you will not ask for names——

Mr. SEIBERLING. I will not.

Mr. ANDERSON. One of the California bankers told me that he had a branch in a city some distance away, that was in charge of an excellent man to whom he gave a free hand. He said, "What I will do if that man dies, I do not know. How I can get a satisfactory man to replace him, I do not know."

Mr. SEIBERLING. You will concede that branch banking in trade areas, such as the comptroller suggested, would be injurious to a bank like the Chase National Bank?

Mr. ANDERSON. I am unable to say that. If we went out in these districts and put our branches out there we would probably lose a lot of correspondents, but the fact that they consolidate does not make the necessity of correspondents any less.

Mr. SEIBERLING. The main bank would have to have a New York correspondent, but you would not have all these unit banks to do business with.

Mr. ANDERSON. We might have less correspondents and more deposits—bigger deposits—and probably less detailed business to take care of.

Mr. SEIBERLING. Now you appreciate the fact that at the present time any industrial company or utility company that wants a large sum of money has got to go to New York to get it?

Mr. ANDERSON. No, sir.

Mr. SEIBERLING. I am talking about a large sum of money—$25,000,000.

Mr. ANDERSON. Chicago can swing that easily, and St. Louis could, probably.

Mr. SEIBERLING. They go to New York, do they not?

Mr. ANDERSON. We try to get them to come to New York, but Chicago has a lot to say about that.

Mr. SEIBERLING. The printers of New York print all the documents?

Mr. ANDERSON. You mean the American Bank Note Co.?

Mr. SEIBERLING. Yes.

Mr. ANDERSON. They do a lot of it.

Mr. SEIBERLING. And when a trust company registers the stock, an engraver in New York engraves the bonds?

Mr. ANDERSON. But that is done also in other places.

Mr. SEIBERLING. But you know the reorganizations handled in New York all took place that way—a New York lawyer handles all of that business there in New York.

Mr. ADNDERSON. That situation——

Mr. SEIBERLING. You can answer my question, can you not?

Mr. ANDERSON. That is so much less true than it was 20 years ago.

Mr. SEIBERLING. It is true to-day.

Mr ANDERSON. I do not think it is so true to-day; no, sir.

Mr. SEIBERLING. In the reorganizations at New York, New York lawyers handle those reorganizations?

Mr. ANDERSON. In a New York reorganization, yes; but suppose it is handled at Chicago?

Mr. SEIBERLING. Then a Chicago lawyer will handle it.

Mr. ANDERSON. Yes.

Mr. SEIBERLING. Now, if you had the concentration of capital in the chief cities of the Federal reserve districts, those lawyers, those printers, those engravers, and other people engaged in that business, in those Federal reserve districts, would have an opportunity to do some of this business?

Mr. ANDERSON. There might be more of that. This matter of engraving and printing I do not know about.

Mr. SEIBERLING. Well, I could mention half a dozen more things that are contolled by reason of the location of the reorganization in the financial center. I have been through it and know all about it, and you know all about it.

Mr. ANDERSON. When you are talking about reorganizations, you are not talking about commercial banking. You are talking about investment banking. That is a separate line of business.

Mr. SEIBERLING. You will admit that the branch banking system as recommended by the Comptroller of the Currency, would decentralize money and make probably 20 or 30 large centers? You believe that, do you not?

Mr. ANDERSON. I do not think so. I can see some change, possibly.

Mr. SEIBERLING. What is your objection to it, if you do not see any of these things?

Mr. ANDERSON. My objection is I do not think it would be good for the country. I am not speaking for the Chase National Bank. I am speaking as an economist and as a citizen.

Mr. SEIBERLING. And the fact you are an employee of the Chase National Bank has no influence upon your position?

Mr. ANDERSON. No influence upon my statement here. I am expressing an opinion I expressed 11 years ago, before I entered the employ of the Chase National Bank.

The CHAIRMAN. You said that this system that Mr. Seiberling is referring to is not pertinent to the subject of this study. Do you not think it is pertinent to the subject of group banking, when the Chase National Bank has a group of subsidiary operations in which they originate and distribute securities and do an investment banking business? Practically all the large New York banks now have affiliated with them groups to handle the various kinds of banking and underwriting such as Mr. Seiberling refers to, and the sale of securities.

Mr. ANDERSON. Now, the question is whether more or less of that would be done in New York if you have these groups or if you have branch banking. I would say that the amount of it that any section of the country can do must depend upon the final consumer, and has to depend on the volume of savings in that community, generally. How you can build up a big securities business in a rural section, where the farmer, instead of being an investor, is frequently a borrower. I do not know. At the present time the securities business is a country-wide business. Any issue of any sort might originate in New York or Chicago or St. Louis, or other financial center, and a syndicate to dispose of it might be formed in any great city. If it is a big issue bankers all over the country are interested.

Mr. SEIBERLING. But all they make out of it is a little rake-off or commission.

Mr. ANDERSON. It depends on whether they are in it in the beginning or simply as distributors. There are groups in the syndicate in almost all important centers, when big issues are involved.

The CHAIRMAN. We can recognize that New York is organized to do the kind of business that Mr. Seiberling referred to. They are equipped in their particular line to do that business. They do originate and do reorganize and do bring out original issues and do distribute. They make these bankers' agreements and act as managers and frequently associate with them, in some capacity, banks from all over the country. But New York is particularly rigged up to do that particular business and it is a big part of New York's banking, and a synchronization of New York banks with the outlying district banks is a part of that, and a little part of that is the stock exchange rules and regulations, and the places in which they have to be printed. For instance, the stock exchange have to conform to a certain regulation that the printers in New York can understand, and so the general trend of reorganizations, which are concentrated in New York, is to accept all the facilities in New York. Does not that, in itself, tend to bring this business to New York, as a center?

Mr. ANDERSON. We do more of it than anybody else. However, we do not originate all of the things. Many times things originate in Chicago and are offered to us and we are invited to come in.

Mr. SEIBERLING. Under the branch banking system, St. Louis and Chicago would become greater financial centers, and you would get less of that than you do now?

Mr. ANDERSON. I do not see that. At present the St. Louis banks have a great deal of distribution. They have the local things, and we sell to them things for distribution.

Mr. SEIBERLING. I have just one more question that arises out of a newspaper article I read last night. The Postmaster General is recommending, according to the paper I read, an increase in the limit of deposits in the postal savings from $2,500 to $25,000. In view of that, I ask you, as an economist and speaking as an expert, in view of the fact you have no scheme or plan by which banking facilities can be extended to the remote parts of the country if you will not agree that all people are entitled to some banking facilities, according to their necessities?

Mr. ANDERSON. It is desirable to have them.

Mr. SEIBERLING. In view of that fact, do you think it would be advisable to expand the powers of the postal savings system slightly so as to give limited banking facilities in these remote rural districts?

Mr. ANDERSON. You have addressed to me a complex question. You say "In view of the fact that I have no plan." I venture to suggest I have a plan that I have offered in my section on "Remedies."

In reference to the Postal Savings System, I do not know enough of its actual workings to express an opinion. I do not know, for example, what the present limit is. I would say, in general, I would prefer to have the thing worked out by private enterprise rather than have the Government do any more than imperatively necessary.

The CHAIRMAN. You referred to the statement of the Comptroller of the Currency here a few moments ago in which you analyzed his suggestion as more favorable to the national system than to State banks. I am referring to his recommendation of the extension of branch banking to trade areas which might, if carried out, place State banks at a disadvantage in competition with national banks. You recall the statement?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. And you indicated that the State system is probably as good and should be given at least an equal chance.

Mr. ANDERSON. I admit the superiority of the national system as a whole. In some of the States, I think the State system is euqally good.

The CHAIRMAN. In that connection, I should like to call your attention to some evidence presented the other day. These figures are approximately correct. Since the 1st of January, 394 banks have failed in the United States, of which 36 were national banks and 358 were State banks.

There might be reasons for that, but on the face of it, it would seem to indicate that more State banks were failing than national banks. I recognize the fact, however, that there are fewer national banks than State banks.

Mr. ANDERSON. The deposits of the national banks average much larger.

The CHAIRMAN. Whether that is an indication that national banks are better operated or better supervised or more to be entrusted with the people's money I do not know.

Mr. ANDERSON. I think it means that national banks are larger than the banks that have been failing. The bulk of the banks that have been failing have been very small banks, not large enough in capital to get a national charter. The States that have been hit hardest are the States with the very small banks.

The CHAIRMAN. Inasmuch as the banks that are failing are largely State banks, would you think that that was a dangerous situation in the country, or perfectly normal?

Mr. ANDERSON. I am afraid it is a situation that is water under the mill.

The CHAIRMAN. In other words, you think it is a cleaning-up process of the conditions after the war?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. And that it will result in a good condition?

Mr. ANDERSON. Yes, sir; but it is terribly painful while it is going on. One thing again: The disappearance of the village—and I think the figures of the census so far available show the small village is going at an alarming rate——

The CHAIRMAN. I think the full census reports when they are available will give us a clearer understanding of that. There is a general indication from the figures thus far available, that that is the case.

Mr. ANDERSON. I think the microscopic bank—perhaps I should not use that expression—the very small bank, which is always a State bank not large enough to get a national charter, will experience some further trouble.

The CHAIRMAN. Judge Brand referred yesterday to the conditions in Georgia where whole counties were without banking facilities, producing a distressed condition, where banks have either gone out of business or failed, and the people in that immediate community are not in possession of banking facilities.

You recited this morning, quite in some detail, the situation as regards branch banking in England, indicating that in towns of several thousand population, these branch banks are only open from one to three days a week. I wonder whether it indicates in this country, which is a newer country than England, that because of the fact that small communities are being eliminated due to good highways, mass production, consolidation of energy, etc., we are getting to that point in the United States where those districts may have to be served in the same manner as in England. Would you think that would be the condition we are approaching here?

Mr. ANDERSON. There might be localities where that would be the best that could be done. Certainly the unit bank in a very small and dwindling village is a needlessly expensive thing. If they could get something more economical and give the people some banking facilities that would be safe; it would be better. However, I think it has got to be worked out not by a general rule, but locally by the local interests.

Mr. BRAND. When did you leave Missouri and go to New York?

Mr. ANDERSON. I first went to New York from Missouri in 1910 to go to Columbia University, where I was first a fellow and then a teacher, and then I spent five years as a teacher in Harvard University, and came back to New York in 1918.

Mr. BRAND. Were you connected with the banking business in Missouri?

Mr. ANDERSON. No, sir; I was a teacher until 1918.

Mr. LUCE. Mr. Anderson, you are the economist of the Chase National Bank?

Mr. ANDERSON. Yes, sir.

Mr. LUCE. And are the author of the material that appears in the Chase Economic Bulletin?

Mr. ANDERSON. Yes.

Mr. LUCE. The bank is good enough to keep my address on its mailing list, and I may show the value I place upon this bulletin by saying that it is one of the few publications of which I keep a file for the purposes of reference. You have a high standing in the economic world and your words carry weight. May I ask you how many copies are circulated of the Chase Economic Bulletin?

Mr. ANDERSON. I think of that edition between fifty and sixty thousand.

Mr. LUCE. And what is the general nature of the mailing list?

Mr. ANDERSON. It goes to stockholders and depositors and to others who are interested who ask to be put upon the list, and some others we pick out that we want to have on the list.

Mr. LUCE. It goes also, I imagine, to editors of financial publications?

Mr. ANDERSON. Advance copies; yes, sir.

Mr. LUCE. And to financial writers generally?

Mr. ANDERSON. When they ask for it.

Mr. LUCE. But it has a considerable circulation, I have no doubt, among financial writers?

Mr. ANDERSON. Yes, sir.

Mr. LUCE. Therefore it may fairly be said to have an important influence upon the financial thought of the country?

Mr. ANDERSON. I hope so.

Mr. LUCE. I think you will admit it. At least I shall admit it for you. In those circumstances, if by chance you have misunderstood any features of the situation and upon mature reflection should see fit to modify any of the views expressed in the copy I have before me of the issue of May 8, of which you have furnished copies to each member of the committee, is there a possible way in which a subsequent modification could be laid before these readers?

Mr. ANDERSON. Well, I could consider that.

Mr. LUCE. I ask that question because, frankly, it seems to me the repetition of certain language here muddies the water to some extent. You this morning, withdrew the headline, "A Revolutionary Proposal," but I find on page 4, "We do not need to make a revolution in the general banking system of the United States"; on page 6 you say "Certainly there is nothing in the experience of the past nine years, as revealed in the foregoing figures to justify a legislative resolution in our banking situation;"

On page 11 you say:

"At the same time it would avoid the grave evils that would come from the sudden revolution in our general banking system."

To one who has been present at most of these hearings during the last few months, these phrases are not in harmony with what has actually gone on in this room or with what has been said, and possibly before I have finished the inquiry, I may be able to sustain that contention.

Mr. ANDERSON. May I say that I wished to offer a substitute expression because that phrase seemed to offend one member of the committee, but that I did not mean to withdraw the expression? I used the word "revolutionary" there in its literal and technical

sense, and, in that sense, it does not mean a revolution in the popular sense.

Mr. LUCE. We will consider, as we go along, whether there is warrant for my view of the matter. As the things I have marked make it difficult to take these up except in consecutive order, possibly I shall repeat somewhat.

I observe you say, on page 4:

> The proponents of this widespread extension of branch banking outside the city of the head office apparently intend to make use of the recent rapid development of group and chain banking, by adopting legislation to permit the groups and chains to transform themselves into branch systems.

This is not in accordance with the impression I have received from the various witnesses who have been before us. I do not recall in any instance anybody connected with a group or chain system who has intimated any desire to substitute therefor the branch system. My memory may be incorrect, but certainly the great bulk of the testimony before us has not furnished warrant for thinking that the proponents of branch banking have this in mind. On the contrary, they have distinctly given me the impression that they preferred to be let alone and to continue as they are.

Mr. ANDERSON. My statement related not to testimony of the group and chain bankers. My statement was based on impressions I received from reading the first five parts of volume 1 of the testimony which did not include any testimony of any of the group or chain bankers.

Mr. LUCE. While it is possible, of course, that some ulterior motive has been at work behind the public utterances of the proponents of branch banking, nothing has appeared here to indicate that such is the case.

Mr. ANDERSON. The disposition was not to ascribe ulterior motives. It was simply that those advocating the system seemed to have in mind especially the group developments that have taken place as something that would fit into the picture and would naturally lend itself to trade area branch banking.

Mr. LUCE. I thought it fair to witnesses who have appeared, and to the committee itself, to bring out as distinctly as I can, the fact that we have had before us the picutre of two competing systems with no inter-relation of purpose, thought, or hope, and the testimony we have received has indicated to me that if we take action, it is to be expected that we shall face the question of which of these two systems is the better system and not the question of whether one would lead to the other if left alone.

Mr. ANDERSON. I had no reason to ascribe ulterior motives to anybody.

Mr. LUCE. When I use the word "ulterior" I mean in its cold sense.

Mr. ANDERSON. Hidden motives?

Mr. LUCE. Undisclosed motives.

Mr. ANDERSON. I do not mean that. I got the impression from the testimony of the comptroller and of Governor Young that they thought these groups are naturally in line with the next step in the development and I said "apparently" because I was not absolutely sure I could put my finger upon a passage in their testimony that would justify the statement in full and it was not——

Mr. LUCE. I did not receive from either of them, on my own part, any impression that they desired to intimate approval of either group or chain banking.

Mr. ANDERSON. No.

Mr. LUCE. The next passage to which I would call attention is this:

> I should not know how to draw a constitutional legislative proposal which would compel good bankers to absorb weak and failing banks.

Therein, sir, your view is undoubtedly that of all of us, but may it not beg the question? It was clearly brought out by the testimony of those representing group and chain banks that they had no intention of taking over weak and failing banks. Clearly it would be inconsistent with the business motives that prompted them to organize their groups and chains. I speak of it as begging the question because that is not the issue before us. What we want to find out is whether it is wise, by the branch-banking system, to secure routine banking facilities for small communities where a unit bank does not now exist, and if it ever did exist where it failed, and while the tenor of the bulletin before me at the start seems hostile to such a purpose, I find that later on you actually commend that purpose.

Mr. ANDERSON. I commend it from the beginning. I am in sympathy with the purpose from the beginning, but I understood the initial purpose was to arrest the failure of these banks. I think it might even precipitate the failure of small banks if you started rival banks in the communities.

Mr. LUCE. I should differ with you as to the emphasis to be placed upon the purposes of this legislation. While the failure of these banks gives a dramatic color to the problem, yet the heart of the problem is how to serve all the people of the United States. That is our primary function, and that is emphasized or rather supported by the fact that these failures are, for the most part, State banks, over which we, here, have no direct control and which we could, with difficulty, reach.

While the failures of these State banks, of course, greatly concern us as citizens of a country where we would lessen suffering as much as we can, our basic duty, as a committee of the National House, is to shape legislation of a national character, the prime purpose of which is to serve all of the people.

I think there must have been a misprint of possibly there was, in the last two or three lines of the paragraph which I am quoting, where you say that the managers of a great group-bank system "would very properly shrink from the task of taking over sixty millions of banking resources scattered among 200 banks in very small towns."

Mr. ANDERSON. I was dividing $60,000,000 by $300,000. Does not that give 200? Three hundred thousand dollars was the average size of the failed banks.

Mr. LUCE. You mean to confine our attention, then, to the smallest?

Mr. ANDERSON. To the average bank that is failing. You have your 5,000 banks fail with a billion and a half deposits, the average of the deposits being $300,000. That is the typical bank that has failed, and I say this group-banking plan is irrelevant to that. It is like threading a needle without letting the thread meet the eye.

Mr. LUCE. As a matter of fact, 5,000 banks have failed in the last 10 years?

Mr. ANDERSON. Yes, sir, and the average deposits were $300,000.

Mr. LUCE. I do not see why, if 5,000 banks have failed, with an average of $300,000 deposits, you should restrict our attention to 200 banks.

Mr. ANDERSON. It is an illustration of the problem the group banks are undertaking, and the problem they would have to undertake if they were going to stop the failures of the small banks. They are not taking in $300,000 banks. This was merely an illustration. I could make it 10 times as big or half as big.

Mr. LUCE. Well, it sufficies for my purpose to point out it is not the 200 that have agitated us but the 5,000.

Mr. ANDERSON. I will reply, to meet your figure, it would be a very difficult undertaking to try to administer 5,000 banking offices averaging $300,000 deposits each, and that any group would properly shrink from doing it.

Mr. LUCE. Let us go to the sixth page, where you say, after using the word "Revolution," as I referred to a while ago—you go on to aver there is nothing in the experience of the past nine years "to justify the creation of giant branch-banking systems, with enormous capital, ranging over 'trade areas' which may equal or even exceed Federal reserve districts in size."

It seems to me, sir, that throughout this bulletin you have given the impression that there are a considerable number of persons, some of them in official position, possibly, who have been urging nation-wide branch banking. The only witness that I recall who has come out squarely for that was Mr. Gianinni. Possibly there were one or two others who have approved it. But the nearly unanimous sentiment of the witnesses before us, and certainly the declarations of the comptroller, have not led us to believe that there is any considerable body of opinion anywhere in the land favoring legislation to-day which would permit nation-wide branch banking.

Mr. ANDERSON. There is nothing——

Mr. LUCE. Let me finish the basis for your comment by saying that to one who has been confronted with the discussion of this subject now for several years the problem presents itself as wholly one of degree. I may have been the first member of this committee, nearly 10 years ago, to point out what I thought was the inequity of the situation in a town like the one from which I come, where a State bank—we call them trust companies—was allowed to have a branch bank on the other side of the river which splits the town, while the national bank was not. I was several years ahead of my time in suggesting that this situation ought to be remedied. Possibly it was five or six years ago——

Mr. ANDERSON. May I correct one point here?

Mr. LUCE. Yes.

Mr. ANDERSON. There is nothing in my paragraph that you quoted that says anything about nation-wide branch banking.

Mr. LUCE. No. I am showing you, as it often happens, that the atmosphere of a document is sometimes conceived by the reader differently from that which the writer intended. My reading of this document gave me the idea that you thought some one was trying to institute nation-wide branch banking. On more careful study, I discovered further on that you were hedging.

Mr. ANDERSON. I used language that corresponded to the language of the testimony in the hearings. I refer to page 6, volume 1, part 1, of the comptroller's own testimony as to what a trade area should be.

Mr. LUCE. I shall not go further than to say that I think you have misunderstood the atmosphere of these hearings.

Mr. ANDERSON. That is possible; yes, sir.

Mr. LUCE. But to go on with the point I wanted to bring out, for it is fitting, in connection with your testimony, that the many readers of the reports of these hearings should understand just where we stand in this matter, I would say it was five or six years ago when the committee and the public began to take seriously the proposal that there should be some opportunity for branch banking, and we had here long discussions of how far it should extend, and we made serious attempts from time to time to lay down a proper limitation. It was made difficult by the fact that a considerable number of large cities are located on the boundary between the State in which they are located and another State. Noticeable cases were those of Cincinnati, across from Covington; St. Louis, across from East St. Louis; Kansas City, Mo., and Kansas City, Kans.—and these were not the only ones that puzzled us.

I doubt if we ever did reach a satisfactory conclusion or whether, if an attempt to put a universal rule into words were made, it would be practicable. Yesterday, the witness told us he saw no reason why a New York City bank should not have a branch in Jersey City. I think it was the day before a witness said just the opposite thing. He said he did not see any reason why New York banks should have branches in Jersey City.

As a matter of fact, one wholly free from any prejudices in the matter, would say that there is no logic in a downtown New York bank having a branch in Harlem being refused one in Jersey City or Newark.

However, I speak of that merely to finish my picture, to show you where we stand in this matter.

There came along the McFadden bill which, in spite of strong opposition, made it possible for national banks to have branches in the cities where they were located, if State banks could. This has not proved a conclusion of the argument. You suggest in here, in one place, the use of counties. Now, you are confronted there by the fact that counties differ greatly in different parts of the country. Middlesex County, in my own State, at one end, could be reached by a fairly good rifle, from the city hall in Suffolk County, while, on the other hand it extends up to the border of New Hampshire and has in it, at that end, the city of Lowell of 100,000 people.

Our own counties in New England are of different sizes and different population and do not correspond in any way with the natural divisions of commerce and industry. The western counties were apparently laid off on the map with a foot rule, regardless of the county seats or other considerations. You will find a whole State with nearly every county of the same number of square miles. In every State counties have no commercial or industrial significance. If you attempt to make it counties, you would be confronted with serious obstacles.

Mr. ANDERSON. I therefore propose no general Federal legislation.

Mr. LUCE. But in your statement you go further and suggest States. Here again are ludicrous differences. Here, for instance, is the State of Delaware that an automobile can traverse perhaps between noon and sunset, while Mr. Garner, of Texas, has just proposed that we divide Texas into five States, each one of which would be larger in population and greatly larger in size than many of the States now existing. To run from one end of California to the other is a great deal more than a Sabbath day's journey. So, State lines have really no banking logic whatever.

Mr. ANDERSON. State lines have this tremendous significance: The States are the constitutional units. They are not subject to change, whereas your county lines could be changed within the State at its own pleasure. If you are going to have local autonomy the State is the unit that must have it. The question comes up whether the mere question of banking expediency shall upset the Federal system. I believe, as a citizen, in preserving the Federal system and the State is the line where the lines must be drawn, because there is no other line that means anything.

Mr. LUCE. There is no other political line, but the lines of politics and government and the lines of business ignore each other.

Mr. ANDERSON. Yes, but legislation can not ignore political lines. Probably also very often we can make accommodations. New York and New Jersey divide the harbor of New York and they have worked out an arrangement. The Port Authority of New York Harbor has been worked out by the two States. We have other things by which New York and New Jersey cooperate by treaty in local problems. In this matter of banking arrangements, it is perfectly possible, under the general remedies I offer, for a State to pass legislation which would admit the banks of another State and permit them to have branches. There is no objection to concurrent Federal legislation to allow national banks to do the same thing.

Mr. LUCE. If your experience in State legislatures and Congress had been equal to that of yours in banking, you would probably accept the word of one whose experience has been more largely in legislative bodies and in Congress, who would tell you that such a possibility can not, within the limits of possibility, even become a possibility. The thing can not and will not be done.

Mr. ANDERSON. But the thing has happened. A bank in California has branches in Seattle and Portland. A national bank in California has branches in Seattle and Portland.

Mr. LUCE. I am unfamiliar with the circumstances by which that came about, but when I watched a State, like the State of Maine, for example, by a popular vote, refuse even to sell its water power beyond its boundaries, I should not expect the State of Maine to accept the intrusion within its boundaries of the branches of any Boston bank.

However, let us return to the subject of the examination. You pictured these trade areas as such as might equal or even exceed Federal reserve districts in size. Now, the smallest number of areas that has been importantly suggested to this committee, is 35, which would give an average population of 3,500,000.

Now, what is the size of the population of New York—9,000,000?

Mr. ANDERSON. We have a very big State and a very big population.

Mr. LUCE. I mean New York City.

Mr. ANDERSON. My recollection is the 1920 census shows 9,000,000 for the State.

Mr. LUCE. Well, we will call it 7,000,000.

Mr. ANDERSON. Yes.

Mr. LUCE. Then, New York City has a population twice as large as would be the average population in one of these districts, if they were 35 in number.

Mr. ANDERSON. Not in size.

Mr. LUCE. I am talking about size measured by population. Yet you find nothing unwise in permitting branch banking in the city of New York with its 7,000,000 people.

Mr. ANDERSON. It is all compact. The branch and head office can be in daily communication. The officers of the branch and the officers of the head office can know one another personally and sit at luncheons together and serve on the same committees once or twice a week. They are right there and accessible.

Mr. LUCE. That, of course, is an advantage not to be ignored, but in these days of the telephone, I suppose there is no thirty-fifth of the population of the United States where there is no possibility of practically instantaneous consultation.

Mr. ANDERSON. Telephone consultation is easy when you know the man. To work over a telephone with a man you do not know is a different situation. After all, you have to have documents before you. The head office man has to have the documents and see the whole picture.

Mr. LUCE. This of course involves that part of the bank which concerns itself with the giving of credit.

Mr. ANDERSON. There are many other things besides that.

Mr. LUCE. Where important consultations are necessary we may assume that credit is the important thing. We have been told that in other localities where branch or even group banking prevails the managers of the branch banks have only limited powers; that they can make only loans about which no question would arise, and that all important loans have to be referred to the head office; in fact, that is one of the criticisms made of the system. But what particular injury do you conceive that would work?

Mr. ANDERSON. One of the most important things is that a customer who wants the loan very often wants to see the man who passes upon it or the head office official who passes on it wants to see the customer and size up the man. We can do it in the city where you can not do it when he is off at another place. The question of personal knowledge of the borrower remains very important.

Mr. LUCE. But we have been given to understand that the errors in judgment of comparatively inexperienced men in smaller communities have been largely responsible for the failures of those banks. Is there not something to be said for the wider experience and the more trained capacity of the men who would be handling the credit department of a branch banking system?

Mr. ANDERSON. The personnel in the branch is not likely to be superior. On the average I think it would not be superior to the personnel of the independent unit that is displaced.

Mr. LUCE. That is true. I am talking about sizable loans. I am taking, for instance, the question raised by a stock raiser who might want a loan of, say, $30,000. Is it clear that the judgment of the

small—and I do not use the word invidiously—banker in a small community would, in those circumstances, be better than that of a banker in a large center like Denver?

Mr. ANDERSON. His judgment would be better in regard to the character of the borrower because he knows him and his judgment would be better as to the quality of the cattle and whether they are there.

As to the cattle market and the future of the prices of cattle, if he uses his own judgment, it would not be as good, perhaps, as that of the correspondent banker in Chicago, but if this banker is a good banker, he is getting opinions from Chicago all the time about the cattle market in Chicago.

Mr. LUCE. Does it stand to reason that the individual you would characterize as a good banker will stay very long in a small town running a bank with less than $300,000 deposits?

Mr. ANDERSON. He will stay longer if he is the president of the bank than he will stay if he is an employee of an outside institution. He will, in the first case, be interested in staying. He is proud of his institution and wants it to grow and, in the second case, he will be anxious to get away to a bigger office of the bigger bank.

My judgment with reference to the European banker is that there is no question of the superiority of the American local banker over the brach officer in the European town of the same size. On the other hand, when it comes to the head offices, there is immense banking ability in Europe. But it is in the head offices.

Mr. LUCE. I would not demur, but would qualify that by saying that no branch system contemplates giving the local manager that degree of authority which is exercised by the unit banker.

Mr. ANDERSON. That is very true.

Mr. LUCE. At page 7 you refer to:

> Concurrent legislation on the part of the Federal Government * * * such as would permit national banks to have the same branch-banking rights that State institutions have in these States.

In addition to the doubt I have raised as to the business expediency of adopting political lines for business regulations, I would ask you what is the logic of restricting the judgment of Congress to expression in only those parts of the country which chance to agree with us?

Mr. ANDERSON. I had thought of it the other way. I had thought of it as being desirable that Congress should hold back rather than push forward in this matter of branch banking outside of the city in which the head office is located, and it was my idea that national banks should have no branches outside of the city in which they were located, but I was agreeable to going along with the wish of the comptroller to prevent national banks surrendering their national charters and thus maintaining parity with the State systems.

Mr. LUCE. Perhaps more than most members of Congress, I am in hearty sympathy with what you have said in favor of noninterference with local affairs by the Federal Government. My votes, I think, have been invariably cast against avoidable extension of national powers. Perhaps I should modify that "invariably" by confining it to matters like contributions to schools, roads, etc. But are we not confronted with the fact that, through the exigencies of war indeed, but nevertheless with what on the whole have been thought

admirable results, we did create a national banking system which you, yourself, hope may prove a model for the States?

Mr. ANDERSON. I would say has proved a model for the States.

Mr. LUCE. This national banking system has developed, in the direction of securing adequate banking facilities with adequate protection all over the land. If we, in our wisdom—and of course we are falliable, but once in a while we have spasms of wisdom—if in one of those spasms of wisdom, we decide it is a useful thing to put banking facilities within the reach of small communities of the country, what logic is there in saying we will do it only with the permission an approval and blessing of the State that happens to look at it in the same way?

Mr. ANDERSON. Well, sir, I should think that the experience of recent years with Federal institutions that have been created to give additional credit facilities to agriculture would tend to make you go very slow about creating new banking institutions. It is much better to let them grow out of private enterprise and it is better to let private enterprise themselves take the initiative. Some of the institutions were, it is true, left to private enterprise, but encouraged by the Government.

The result has been a tremendous increase in the debt of agriculture, without any increase in the production of agriculture and the condition of the country banks has been due in part to just that thing, that the equity left in the farmer's hands was so small after he paid interest on this easily incurred debt, the institution found itself in difficulties, and I hope you will not feel you have to supply additional banking facilities.

Mr. LUCE. We people who come from States where agriculture does not predominate inevitably think rather about our own conditions. Let me illustrate.

I live in the city of Waltham, Massachusetts. It has 35,000 people or more. Adjoining this is the town of Weston, with a few thousand people, and a trust company in my city has deemed it profitable to open a banking office in that town. Next is the town of Wayland, with about the same population. What is the logic in saying we shall stop at the boundary between Weston and Wayland?

Mr. ANDERSON. Your State law stops you there?

Mr. LUCE. As I recollect, all extensions of State banks have to be with the approval of the State Banking Commissioner, but suppose a condition where the present national law would prevent it.

Mr. ANDERSON. Let me say, as far as I can gather, your banking situation in New England, under State regulation, is excellent. Your failures have been few and I do not think that New England has to come to Washington to get help on banking matters.

Mr. LUCE. I will anticipate another part of the interrogatory and express my wish that we might, in these hearings, pay more attention to the convenience and benefit of depositors in banks.

The tendency is to think of nobody but the borrower. There are a great many persons who use banks who do not borrow. I am one of them, and when you put in that list of English banks that were open only one day in the week, do you know what my reaction was?

Mr. ANDERSON. What was it?

Mr. LUCE. I wished we had the same thing here.

Mr. ANDERSON. And only deposit once a week?

Mr. LUCE. I have occasion for three or four months a year to keep a deposit in a country bank in another town a dozen miles away. Every week or two I must go over there to get cash, whether I want to or not, to get the money for current needs. If there was, as we talk about here, a teller's window that was open once a week in the central part of the town of perhaps a thousand persons, in which I have occasion to stay, it would be a real convenience. So instead of your array of English banks that are open part of the time discouraging me, it encouraged my hope that we might some time have the same thing here. To carry it further, it seems to me that if, out of more than 5,000 banks that have failed, there were, at a guess, 3,000 of them in communities without other banking facilities, it would be justifiable and admirable to replace those facilities that have been lost, by what would come from a banking office open only once or twice a week. I want to get that in the record to show there is another side of the picture.

Mr. ANDERSON. I tried to get the other side into the record by saying there are some places in England that would not have any banking facilities at all if those did not exist.

Mr. LUCE. On page 9 you state:

> The very small bank has had a difficult time in recent years, and the marvelous thing is not that so many have gone under, but rather, that such an enormous number have stood, and have even prospered, despite these adverse tendencies.

Reference to the census figures, as well as our common knowledge of what is going on all over the land, indicates that many of these towns which still have sound banking institutions, are likely to meet the same fate as the towns that have already dwindled. It looks as if the automobile had sounded the death-knell of the small American town.

That being the case, if what we have seen is only a precursor of what will follow, and there is nothing to indicate to the contrary, why should we not anticipate that danger and avoid the failure of 5,000 more bank by permitting them at once to become branches if they so desire?

Mr. ANDERSON. I think that in many States state legislation to permit that, and state legislation to compel consolidation among the tiny banks would be desirable.

Mr. LUCE. Why should we wait for the States to act to prevent a calamity to hundreds of communities?

Mr. ANDERSON. The legislation proposed here—this trade area branch banking for national banks—would not touch this situation. You do not compel the banks to consolidate, nor do you compel banks that may establish branches to go into these States after those banks that may desire to become branches. You even permit branch banks to come in competition with banks already established and, by that, you may precipitate the failure of the little ones by permitting this competition. If you provided branch banking and limited it to towns of five or ten thousand population, you would concentrate the interests of the bankers and branch bankers upon this problem.

Mr. LUCE. If the nation should take some precautions through its comptroller, that possibility of injury would be removed?

Mr. ANDERSON. I think it would be better than opening the whole field, and making States that did not want it have to submit to it. There are any number of excellently organized State systems that do

not need it at all. I am sure New Jersey does not need it, and I am sure that New England does not.

Mr. LUCE. I am still loathe to concede that it is not the business of the Federal Government to——

Mr. ANDERSON. I will not argue the matter with you further because you are a constitutional lawyer and a lifelong student of political science and my opinion is not as good as yours.

Mr. LUCE. I thank you for your unduly generous comment. I should be more ready to accept your view were it not for the fact that we find ourselves with the national system on our hands and we are confronted with the problem of what we shall do. For one I am inclined to let the States handle their affairs without here paying much attention to what they do.

I think my questions have covered the important points I wanted to bring out. From the answers I should conclude, that our difference is a matter of degree. Be assured, sir, that there is no wish on the part of at least one member of the committee to start a revolution, or accomplish anything radical. He is simply interested in trying to see if a moderate extension of a practice already established and justified by results may not help in averting what he feels are the dangers of group and chain banking.

I thank you.

Mr. ANDERSON. I thank you and through you, the committee, for the courtesy you have shown me.

(Whereupon, at 4.20 o'clock p. m., the committee adjourned.)

Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

AUTHORIZING THE BANKING AND CURRENCY COMMITTEE TO STUDY AND INVESTIGATE GROUP, CHAIN, AND BRANCH BANKING

JUNE 10 AND 11, 1930

VOLUME 2

Part 15

UNITED STATES
GOVERNMENT PRINTING OFFICE
100136 WASHINGTON: 1931

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, JUNE 10, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10.30 o'clock a. m. in the committee room, Capitol, Hon. Louis T. McFadden (chairman), presiding.

The CHAIRMAN. The committee will come to order. We have before the committee this morning Mr. Elmer E. Adams, president of the First National Bank of Fergus Falls, Minn. I understand Mr. Adams has a statement to make and I am going to suggest to the committee that he be permitted to make the statement without interruption, after which he will be glad to answer questions.

STATEMENT OF ELMER E. ADAMS, PRESIDENT OF THE FIRST NATIONAL BANK OF FERGUS FALLS, MINN.

Mr. ADAMS. I have been asked to speak for those bankers who still control their own banks and hope to be able to do so. We are opposed to the establishment of branch banks outside of the metropolitan districts. Group banks have probably become established to such an extent that it is impossible to undo what has been done. However, the individual banks which are on their feet have no fear of being unable to compete successfully with group banks unless unfavorable legislation is passed.

We do not want to have new group banks established in communities which are already amply supplied with banking facilities but we are not opposed to group banks acquiring banks now established. We do not like to see the propaganda put out which has been put out so generally, that the individual or unit banking system has broken down and has failed to meet the responsibilities and obligations which the public could expect from it.

Many statements have been made which are detrimental to the unit banking system which are partially or wholly untrue and which leave an erroneous impression among the public and patrons of banks. A difficult situation has been made worse for a good many banks which were not in proper condition by advertising the vast resources which the group banks make available to the communities which they were anxious to serve. The unthinking depositor does not realize when he reads of the tremendous resources that the liabilities increase correspondingly and that the smaller bank is just as safe as a larger one if the same ratio of capital, assets, and liabilities is maintained and it has the same efficiency of management.

The unfortunate situation which has developed in the Northwest and in some other parts of the country is not in our opinion due to the failure of the present system of banking but because Congress and

legislatures have permitted the establishment of banks with too small capital and in communities which were unable to support them.

It seems to have been the custom of those who have appeared before this committee to give the history and development of the institutions which they have represented and if I may be permitted to give a brief sketch of the situation with which I am connected I think it will afford a good illustration of what many country banks throughout the entire Northwest, have done and are now doing.

The First National Bank of Fergus Falls, Minn., is the oldest national bank between the Twin Cities and the Pacific coast. It has been in operation 58 years. During that time more than 50 banks have been established in the territory which it used to serve. Some of these banks have failed, others have been consolidated, but there are now about 35 banks in the territory which it once occupied alone.

In some of the small villages in this territory there have been three banks operating at the same time and there are several villages with less than 500 people which have two banks. We feel that a serious error was committed when the National Government reduced the necessary capital from fifty to twenty-five thousand dollars for a national bank. Until recently State banks have been permitted with a capital of $10,000 which has hardly been enough to provide a building, a safe, and an adequate sign. An attempt was made in the Minnesota Legislature to reduce the necessary capital to $5,000, but this legislation did not pass.

This great expansion in banking institutions in the Northwest occurred from 1900 to 1910 and followed what is sometimes known as the "Iowa invasion," which refers to that period when the land boom which has resulted so disastrously was in its period of inflation.

It has been stated before this committee that the breakdown in agriculture was due to the lack of adequate banking facilities. I do not think this is any more true than it would be to say that the recent collapse in the stock market was due to the unwillingness of the metropolitan banks to advance the necessary funds to put up the margins. The inflation in land values and the widespread speculation in land resulted in the establishment of many banks which were in the nature of land offices and an important part of their business and a large part of their income while it lasted was a result of the active dealings in farm lands.

It is difficult for one who has not examined the assets to know why a bank failed but there is not the slightest doubt but many of the banks which failed, failed because they were used to carry the undesirable securities which grew out of the land deals of those who operated the banks and if the supervising banking departments, State and National, had aggressively taken the situation in hand when these banks were found to contain such securities the failures in many, many cases would have been averted.

After these banks had become involved and should have been closed they were permitted to continue in the hope that there would be a recovery in land values and that they would be able to work out of the position in which they found themselves. Some may have succeeded in working out, but the majority did not, and depositors, not knowing the conditions, were permitted to put their money into such banks and lost it, thus bringing discredit on the system and on the banks which were being operated in a safe and successful manner.

There is not the slightest doubt that if banks had not been permitted in locations where it was impossible for them to succeed and had not been undercapitalized many failures would have been averted. Notwithstanding the large number of failures which have occurred there are more than sufficient banks now to meet the requirements of the territory and there are sufficient sound institutions to properly handle all of the business.

There is a large amount of surplus money in banks in our section. By this I mean banks which are not only able to take care of all the legitimate borrowings but are in the market for outside investments such as commercial paper, Government and corporations bonds.

During the 58 years that our bank has been in existence I have been unable to find that it has ever borrowed or rediscounted either with the Federal reserve bank or any of its correspondent banks and there are doubtless many other institutions which have had the same record.

It is conceded that when the group-banking idea was taken up with so much vigor about 18 months ago that many banks were deeply concerned as to what it might do to them. The intense rivalry of the groups to secure the best banks in the various "key points" and the aggressive work of their outfielders in proclaiming that there was nothing for individual banks to do but to become a member of a group while there was an opportunity naturally caused some consternation among bankers. This feeling, however, has gradually passed away and they are confident that if the legislation which is enacted by the State legislatures and by Congress gives them an equal opportunity they will survive and serve their communities.

It has been claimed that a large number of villages which have enjoyed banking facilities are now without them and that it is desirable to have branches established in such places. We do not believe that such is the case and under present conditions of travel farmers and business men who were accustomed only a few years ago to drive with their teams to trade or to a bank, now cover a distance of 50 miles as easily as they did 10 or 12 under former conditions. I venture the opinion that these branch offices would never justify the expense. People like to come to the larger towns when the roads are good.

There have been two classes of bankers who have appreciated the establishment of the group systems. The first is those bankers who have entertained some doubt as to their success in the future and who have suffered somewhat from the fear that on account of the weaker institutions in near-by communities they might be involved in trouble. The second is a class of very good bankers who were glad to be relieved of the responsbility and to place their institutions in safe hands as has been done by turning their banks into the group systems.

If overbanking and undercapitalization is the cause of the banking troubles, and it is generally conceded the banks in the large cities are responsible for their full share of the trouble.

When the period of bank expansion began, 20 or 25 years ago, every large bank in the terminal cities was anxious to get the business of the country banks. They sought their accounts. Frequently they enabled them to raise the capital by taking the notes of stockholders who did not have the money to pay for the stock for which they subscribed. These banks, starting out weak, and in territory oftentimes still undeveloped, soon needed additional funds and they naturally went to the correspondent bank which had their account

for that assistance. The starting of these hundreds of banks in a short period resulted in their being placed in the hands of young, inexperienced, and untried men. Their idea was to get all the business possible and to make their bank grow and to boast of its growth in comparison with rival institutions. They seemed to have the idea that the more they could borrow and the more they could draw deposits from outside their territory, the more successful they were. This kind of growth was all right just as along as values were being inflated.

I recall an interview with a young banker who came to see me just as the trouble was beginning to break in hundreds of little banks throughout the Northwest. This young man said that he had not scalded his stockholders worse than he had, as he had gone into the banking business when times were good and values were tending upward rapidly. He said that he had never heard of rust and hail and hog cholera and drought and the various weed pests which quickly destroyed values and left the borrower unable to pay.

Practically every one of these little banks was in the farm-land game. They were either the outpost of a bank in Iowa or Illinois or else they made such a connection, the plan being that after the Iowa banker had lent an Iowa farmer money with which to buy cheap land in the Northwest, he was steered into the hands of a Minnesota or Dakota banker who sold him the land and took his profit in a second or third mortgage. These second and third mortgages soon drifted into the bank and when they once had this proposition on their hands it was necessary for them to continue to make advances to help the occupant of the land carry on. Sometimes he needed more money to pay his interest, at other times to buy additional machinery or perhaps the twine with which to bind the grain when it ripened. One crop failure or an improper diversion of the proceeds of the crop put loans of this character into the frozen class.

For a while relief was available through the Federal farm loan bank and through the joint-stock land banks and through the Minnesota or North Dakota rural credit associations.

The local banks loaded these overmortgaged farms onto these governmental agencies by the hundreds, in some instances relieving themselves temporarily and helping out insurance companies, trust companies, and others who were alert and on the ground looking for their money. These small banks not only borrowed when it ought not to have been done, but they had no reserve of any kind which could be cashed when people wanted their deposits, and the result was that they became frozen to such an extent that it was impossible to thaw them out.

If their stockholders had been substantial men of the community who had any funds with which to engage in the banking business, there would have been some chance of relief, but about the first intimation that the directors and stockholders had of the conditions of their banks was when they were called upon to mortgage their own property and raise funds in the hopes that the bank might be saved. I do not believe it is an exaggeration to say that in 90 per cent of the country banks the directors had no knowledge of the condition of their institutions. Recently there have been many law suits in which directors have been sued, not only for receiving funds in their institutions after they were insolvent, but for their failure to use

proper diligence in guarding the funds which were attracted to the institutions through their good names.

One of the most important problems now affecting the banking situation is the liquidation of many banks which are not able to extricate themselves from their distressed situation. In many cases their capital, their surplus, and undivided profits are tied up in assets which they can not sell for what they are carried on their books, and under present earning conditions are unable to earn sufficient to charge off these losses.

The banking departments are doubtless in hopes that conditions will so change that banks thus involved may be saved, but it is a grave question whether they ought to be allowed to continue to take the money of innocent and unwary depositors.

The chain or group bank idea is not new, although it has had a fresh start on a larger scale in the last year or two, with a slightly modified plan. These chain systems have almost always been controlled and operated from the large cities. Sometimes an interest in a local bank was acquired, but in most cases new banks were established as new towns sprang up with the building of railroads. Some of these chains have been quite successful, but many met with disaster. The plan of operation from the large city included the selling of farm mortgages which the frontier bank was expected to obtain and send in to headquarters. The commissions were so good that there was intense rivalry in securing these loans, and they constantly grew larger, faster than the land increased in value. These loans were disposed of through the head office, and so long as values went up and the farmers were able to pay, business was good; but instead of using the profits to build up a surplus and undivided profits to put the bank in a position to take care of the set backs which were sure to come and which have come, the profits were drawn out by the controlling head, used to establish other banks, or diverted into other channels, with the inevitable result that there was nothing on hand to take care of losses when they came.

In conversing with young men who have been operating these chain banks and trying to ascertain why they failed, I find that the split loan which was fed into the banks from the head office was one of the major factors. These young men operating the banks had to take the loans which were sent to them if they desired to hold their positions, and frequently funds in a community, which was fairly prosperous, under this plan were diverted into other regions where rates were higher and the certainty of pay not as great.

It is a matter of regret that in the Northwest, when a bank has failed, a post-mortem could not have been held, so that the public, or at least the bankers, might know what had brought about the disaster; but when a bank fails, the depositors take what they can get. They never learn what became of their money.

Some of those who have lived here in the Northwest have known all these years what chain systems have been doing to the country districts and the country villages. The first chains to be established were the country elevators. It was possibly the result of necessity. When the St. Paul, Minneapolis & Manitoba Railroad, later known as the Great Northern, was being extended from the Twin Cities north into the wheat fields of Minnesota and Dakota, it was necessary to have elevators to take care of the grain; and so Mr. James J. Hill

gave to Pillsbury and Hulburt the exclusive right to build and operate elevators on his railroad. In those days farmers and local dealers were not allowed to build an elevator on the right of way, to get a spur track to elevators on private property, to have a loading platform, or to obtain cars in which to ship their grain. This was the cause of the organization of the Farmers' Alliance between 1880 and 1890, which later developed into the People's or Populist Party. That was in the days of bleeding Kansas, when Senator Peffer, Sockless Simpson, and Mary Allen Lease were in their prime. At that time the chain elevator fixed the price to be paid for wheat, graded it, weighed it, docked it, and there was nothing for the farmer to do but sell his grain under those conditions or take it home again. As a result of the Farmers' Alliance, that marketing situation was remedied and cooperative elevators were built and cars could be obtained in rotation, but as a result of these chain elevators the profits from handling the grain, which was the great business of the country, did not remain in the local communities but went to the terminal cities just as the profits of the chain banks will go there in the future.

The chain elevators were followed by the chain lumber yards and in the saloon days by chain saloons operated from the big brewery by an irresponsible bartender who was moved whenever he got into trouble and another equally good man put in his place. There are four banks in the city in which I live: Two national and two State. One is owned by one of the newly formed bank groups. Nine hundred and two shares of the stock of that bank are owned in the Twin Cities and the balance of the capital stock is either owned here or is perhaps lent to qualify directors. The stock of the other banks is owned in the community and if there are any profits, they are kept at home for home purposes. There is no doubt which system is the most desirable for the local community.

The success of the banking business in the agricultural community is so interwoven with the success of agriculture that possibly I may be pardoned if I digress briefly to give a little picture of the agricultural development as I have seen it.

Otter Tail County, of which, Fergus Falls, where I live, is the county seat, is perhaps one of the most highly diversified counties in Minnesota. It is in a lake region, and a very large portion of the land was covered with timber. The pioneers came there because there were two essential necessities—wood and water. This country was opened up before the prairies on this account. The timber not only furnished them fuel but logs with which to build their buildings even before the sawmill had arrived. The soil is excellent, and those fields which the pioneer grubbed and put under cultivation have never failed to yield a good return. As a result there are some of the finest little banks in this county that are to be found anywhere in the United States. I am a stockholder in four banks in this county: One National, three State.

In the 58 years in which the First National of Fergus Falls has been operating it has increased its capital from $50,000 to $100,000 and built up a surplus of $150,000; during that time it has distributed $538,000 in dividends to its stockholders, and at no recent examination have the examiners asked to have anything charged off or charged down. We have the First State Bank at Underwood which started with $10,000 capital and $2,000 surplus. It now has a capital of

$10,000, a surplus of $20,000, undivided profits of about $10,000, and a depreciation fund of $6,000 set up to take care of bonds which are not worth as much as they were when we bought them, but none of which have as yet defaulted their interest.

We have a bank at Dalton, a near-by village, with $10,000 capital, $10,000 surplus, and $4,000 undivided profits and at the last examination of these banks the examiners did not ask to have anything charged off or charged down. We have another State bank at Erhard which started with a capital of $10,000 and $2,000 surplus and has built up a surplus of $7,000 and we believe is clean.

During this period when these surpluses have been built up, these banks have paid a good rate on the capital. None of these three villages have over 300 inhabitants, yet charters were granted to start so-called farmers' banks in two of these villages, which naturally have interfered somewhat with the success of the bank already started; but this is evidence to my mind that if banks are only fairly decently managed, independent banks are able to survive and serve the community. The banks have been operated at low cost, but their earnings have practically all come from interest and not from the side lines which have injured so many banks. It is true that in the territory which can possibly be called the treat area of Fergus Falls, eight State banks have failed. They were all banks with small capital, and out of these eight banks, nine men went to the penitentiary, some for forgery, some for arson, and some for embezzlement. Those banks were in equally good territory as those in which I have been a stockholder, and if the authorities had checked them early, some of those failures could undoubtedly have been avoided.

At the beginning of my statement I said that the individual banks which were on their feet felt that they were able to cope with chain banks under remote control. One of the groups has a splendid bank in my own city, but the other banks owned at home are not conscious of having lost anything to it on account of its being in a group, and we are unable to discover that we have gained anything on account of our banks being owned at home and controlled at home.

Mr. STRONG. Just a moment. You say there has been no gain in your business.

Mr. ADAMS. I mean there has been no change in the banking business in the community. There has been practically no new business in the community and those who were in the chain bank stayed there and those in our bank remained with us.

We stand an equal show in getting local business. The chain banks have a better chance to get business which is controlled elsewhere. There are something like 20 chain institutions in our city, which has a population of 9,370 according to the recent census, but of which more than 1,500 are in a State institution. The county seat with good roads and rapid transportation has absorbed the outlying villages, and our local business has been absorbed largely by the chain institutions which have crowded into it and which are now in each other's way. The banking business of these chain stores and institutions is controlled from the headquarters' office and the chain banks through their head office have a better opportunity to get it. It is not considered very valuable, however, as the funds are transferred almost as soon as they are deposited. We are confident that banks locally owned can be operated at much less expense than those

which are owned elsewhere and have to carry the overhead charge of the parent company. Those who operate locally owned institutions are touching elbows with the people of modest means, and are influenced in their expenses accordingly, while those who own or are employed by the large chain institutions are surrounded by vast capital and resources, and expenditures of every line are correspondingly increased.

We all concede that as a result of the purchase of local banks by the groups or chains, banking conditions are improved. They must of necessity tighten up and require their links to comply with certain fixed standards and rules in which the local bankers have doubtless been remiss and careless. This is particularly true in the requiring of finanancial statements, in the insistence that a note be paid or attended to when due, and the maintaining of a proper deposit or paying a fee for failure to do so. Competition is vigorous between the group banks and those locally owned. The group banks must make dividends or the management will be changed and the local banks are eager to make money as the stockholders need the dividends.

I do not think that the group banks are entitled to too much credit for being engaged in an unselfish game. Some of the groups went into it reluctantly but felt that it was necessary in order to protect the business which they had built up, as the country banks which carried good accounts with them were being purchased by rival institutions. When this group movement started, they did not seek out communities which needed additional banking facilities, but they picked the strong institutions at the key points so as to control the good business in the outlying districts and while they have availed themselves of the opportunity to get into some communities which have lost their banks, I know of no place where they have gone into a community to clean up a situation unless it was with the expectation of profit which is entirely proper and which policy I heartily indorse.

The crying need, however, is for banks which will take care of the poor borrowers. By the poor borrowers I mean the men who never want to pay a note when it is due and who too often want to add the interest to the principal. These men need help and must be helped if they are going to function. They have to have seed when spring comes. They have to have feed for their stock if there is a shortage, and they are quite liable to need machinery and twine when it is time to harvest. They mean to pay their notes but every now and then some disaster comes and they are unable to do what they agreed to do; and so these banks, which have been carrying this class of business, have been involved in situations from which it was impossible to extricate themselves. Neither a group bank nor a branch bank will ever take care of this class of trade. The local banks have done their share of it. In former days the general merchant and the implement dealer aided. They not only gave them credit for goods, but it was not an uncommon thing for the farmer who was trading at a store to borrow small sums until he could harvest, sell an animal, or raise the funds in some other way. The old-time storekeepers were generous in this way and the banks carried them, but you can imagine a farmer who suddenly needs a little money going to Mr. Woolworth's manager, or Mr. Montgomery Ward's manager, or Mr. Sears-Roebuck's manager and getting the accommodation which he used to get from the old-time merchant. This situation of the poor borrower is constantly

getting worse as the number of farms acquired by mortgages increases. The tenants on these farms are very seldom in financial condition so that they can provide an equipment of machinery, their one-half of the stock, and get along from harvest to harvest.

There is a crying need for institutions to take care of this class of business, but I am unable to determine how it can be done, and I have lived among them for many years. We do what we can along these lines and while the losses have not been very large, it is because we have been very discriminating in accepting them.

The installment buying has increased the difficulties of the local banks very much. Ten years ago chattel mortgages were not 10 per cent as many as there are at the present time, and these mortgages are almost always given to pay for the automobile which has become a necessity and which every farmer and every citizen must have in order to carry on and enjoy any of the pleasures of modern life. The banks have taken very little of this installment paper. It has gone into hands sometimes local but very generally foreign; and they have insisted on the prompt payments of the installments when due. This has resulted in those who have borrowed at the banks taking care of these installments instead of paying the banks. The family will give up everything before it will let go of the automobile.

Some of the heads of group banks who have appeared before this committee have dwelt upon the marketability of the stocks of the holding companies, and the lack of it so far as home-owned banks are concerned. I have always maintained that the stock of a bank should be owned locally by the substantial men of the community whose money was in it and whose wealth was behind it. I have believed that it was the most desirable that there should be a permanency of ownership, and have protested against the splitting up of shares with a view of democratizing an institution. There was a time when the advertising of bank stocks for sale aroused suspicion, and banks did not like to have their capital floating about, for if the bank was good it was closely held. The quoting of group stocks on the local stock exchange in my opinion has had a detrimental effect. Many without capital bought small quantities of the stock, not for the purpose of furnishing banking capital, but for the increase in the value of the stock as reflected by the figures on the board. The wide fluctuations in the market quotations of these group holdings have seriously affected them, and the fact that the market prices of the stocks have dropped far below the prices at which they were passed on to the public has made it much easier for the individual banks to meet their competition in the banking business.

I have never observed a shortage of funds in our territory to take care of good loans. A very large proportion of the banks which have been taken into the groups and a goodly portion of those which are now individually owned are excess money banks and have always been looking for commercial paper and other outside investments, because there was not an opportunity to loan it at home under conditions which would insure its repayment. This surplus money has resulted in many of the banks buying bonds. We have not used as good judgment as we ought. We were inexperienced in the bond purchasing business, as we had never carried bonds in our banks until the Liberty loans were made. In purchasing of these bonds we have relied very largely upon the good names of the banks which had

bond departments selling us bonds which were of a proper character. Some errors have been made. It is claimed that one of the services of the group banks will be to advise their members as to what kind of securities to purchase, but unless they are more infallible than they have been in the past, they are liable to make some errors. If there are any impending losses, in the country banks at the present time, they will come from the bonds and not from the local loans.

Country banking is so closely related to agriculture and farm development that I want to refer to certain developments which I have seen during the 50 years which I have lived in the Northwest.

There have been three distinct periods in the development of the Northwest—the ox age, the horse age, and the gas age. If the building up of the farm and the liquidation of debts was the test, the ox age was the most successful of the three. When the settlers came into the country they brought oxen for motive power. They were cheap to buy, easy to keep, and valuable for food when no longer able to work. For years I saw long trains of ox teams coming in from the country bringing in wood, the results of the clearing of the land, or bringing the grain to the elevator. It was tedious work, but when they returned home they remained there until it was necessary to come to town for similar purposes.

Then the horse traders arrived and the debts began to increase and the first hard times began. The horse traders generally cooperated with the local bank which took the paper and got part of the profits on the sale of the horses. When the farmers swapped their oxen for the horses, it was necessary to purchase harnesses, wagons, and buggies, with the result that both debts and interest increased. It also resulted in more frequent visits to town and consequently increases in expenditures.

When the gas age arrived with good roads the situation was entirely changed. The tendency to leave the farm at every excuse was greatly increased and efficiency lessened. In passing through one of the neighboring villages a short time ago, I saw coal sheds where the wood yards for shipping out the wood used to be, and on the site of the grain elevators there were the gas tanks. This change tells why banking conditions have changed. No one should stand in the way of progress, but the results of this change have been to increase the nonliquidated obligations in the banks which have been easy in granting credit.

In previous sessions of this committee the question of a monopoly of credit has been under discussion. We do not think a monopoly could easily be created and do not suppose that any of the heads of the banking groups would try to attempt it. The unit bankers, however, are naturally concerned about their city correspondents and when one of the groups which not only had a mother bank proceeded to gather into its fold the next two largest banks in the Twin Cities there was some wondering when the movement would cease. These fears are being alleviated by the assurance on the part of the mother banks of the groups that they are going to give unit banks the same attention that they do the links in their own chains.

There has also been a discussion as to whether the building up of great groups or the establishment of branch banks would not do away with the value of the Federal reserve bank. The relations of the small country bankers with the Federal reserve bank are not intimate.

When they need to borrow it is generally easier to go to their correspondent banks.

One of the chief services rendered to some of the member banks is the storage of their securities without a fee which would have to be paid to a correspondent bank.

It would doubtless be difficult for the group banks through their vote to obtain control of the Federal reserve bank if the unit bankers were interested. The unit banks, however, have been very neglectful of their voting privileges and many of them have not even cast their vote. The control of the Federal reserve bank is self-perpetuating. Those in command know whose terms will expire and before any interest is taken they have secured enough nominating votes to control the election.

There has been some discussion as to whether a majority of the directors in the Federal reserve bank should be directors in the group holding companies but I have never heard of any complaint of the treatment which the unit banks have received. Of course, the information which the group bankers receive through being in charge of the Federal Reserve is useful but it would doubtless be available to any one else who asked for it. Member banks would like very much to share more of the profits instead of seeing so much of them used for expenses which seem lavish to an impoverished country banker when he seeks a loan.

The independent banks are organizing for mutual protection. They are trying not to admit any which are not sound and which might close, for if an independent bank closes now, it can be used as a reason why a group bank would take its place. Some of the independent banks have been somewhat concerned over their connection with correspondent banks in the city which are the head of the group. There have been suggestions that they ought to try and form a clearing-house bank which should handle their business at the terminal point, but the most intelligent bankers realize that this proposition is futile, and that they will undoubtedly receive proper service from the banks which have served as their correspondents even though they are now members of groups and are in competition with them.

(The financial statement of the First National Bank of Fergus Falls is printed in full as follows:)

Statement of Condition of the First National Bank of Fergus Falls, June 29, 1929

RESOURCES

Loans and discounts	$1, 112, 995. 82
Overdrafts	72. 79
United States Government bonds	592, 299. 17
Other bonds and securities	934, 425. 28
Federal reserve bank stock	6, 750. 00
Banking house, furniture and fixtures	57, 187. 44
Due from United States Treasurer	5, 000. 00
Cash in vault	16, 447. 46
Due from banks	279, 293. 01
	3, 004, 470. 97

LIABILITIES

Capital stock	$100,000.00
Surplus	125,000.00
Undivided profits	14,035.08
Circulation	98,350.00
Certificates of deposit	987,693.16
Savings deposits	335,638.45
Certified and cashier's checks	7,116.26
Deposits of banks	126,473.01
Deposits subject to check	1,210,165.01
	3,004,470.97

Mr. ADAMS. I made a statement when the big groups were first started in the Northwest which outlined our policy and ideal. It had a very wide circulation, and did much to hearten the bankers who did not want to give up their banks. It was as follows:

The merging, consolidating, affiliating, and purchasing of banks throughout the mid-west has aroused widespread interest and no little concern among people who wonder what this great concentration of banking capital and control of the people's deposits means.

Under these circumstances it is not surprising that patrons and the public in general are inquiring what is going to happen to the First National Bank of Fergus Falls.

Fifty-seven years ago the men who founded Fergus Falls, founded this bank—George B. Wright, Henry C. Page, and James Compton. Their purpose was to provide banking facilities which were owned, controlled, and operated in Fergus Falls. It was the first national bank organized between the Twin Cities and the Pacific coast. For more than half a century it has been controlled and operated by men living in Fergus Falls and to-day all but four shares of its stock are owned by residents of Fergus Falls.

During this long period it has enjoyed the confidence and patronage of the people of Otter Tail County whether times were hard or money was plentiful.

To turn the control of these funds over to some great aggregation of capital, remote from Fergus Falls and Otter Tail County would seem disloyal.

We, therefore, wish to state that so long as the First National Bank of Fergus Falls continues to enjoy the confidence and patronage of the people in its territory and it is able to give satisfactory service, its ownership and management will remain in Fergus Falls. This statement is made with authority. Its capital is owned by men whose interests are interwoven in the business affairs of Fergus Falls and Otter Tail County and every share of stock is in the safety deposit box of its owner.

We belive that the interests of the community can be better served if the bank is managed by those who are a part of the community rather than by foreign interests.

A vest amount of propaganda has been set afloat about the value of a nation-wide hookup of banks but we are unable to see why banks owned and controlled in the community which enjoy the confidence of depositors and have ample funds for their borrowers, which understand and sympathize with local conditions, can not give as good service as those under remote control.

We are confident that the people of Otter Tail County will show their appreciation of our stand by continuing to give this bank their patronage so long as it is worthy of it.

The CHAIRMAN. Mr. Adams, I was particularly interested in your reference to your investment in bonds, and I was further impressed by your reference later on, where you referred to the fact that you sought and received, as do other banks, the advice of correspondent banks in regard to the purchase of bonds and investments.

Banks, for the last five or six years, have been losers, to quite some extent, in their bond accounts?

Mr. ADAMS. Yes, sir; we have had to charge off a few. They have not been serious yet.

The CHAIRMAN. What class of bonds, in your section, do you buy?

Mr. ADAMS. The bonds, up to this time, have been too frequently sold by salesmen who come around representing one of the large banks with which we are familiar in Chicago, and particularly the Twin Cities banks. In our banks we have foreign bonds which are above the price we paid for them. We have quite a number of industrials and some railroads, but not so many municipals, because the rates they pay are somewhat lower than we can afford to buy them at, and so we have bought Governments.

The CHAIRMAN. But you have some municipals?

Mr. ADAMS. Some, but not many.

The CHAIRMAN. What do your records show in the past few years—an appreciation or depreciation?

Mr. ADAMS. In May, 1929, we had, I think, $23,000 appreciation. In the October examination—after the New York trouble— we had dropped so that we are either $3,000 below or just above. I have not the figures here. In the meantime, I think we charged off $2,000 of coal bonds and we have lost $2,000 in timber bonds.

The CHAIRMAN. It seems to me, as I analyze the situation now of the money market, the bond market, and the stock market, there is some reason why bonds have not reacted favorably. Have you analyzed the situation to know why, with the very cheap money we apparently have, bonds have not appreciated more than they have?

Mr. ADAMS. I live in the country and we have not very much information about that. We are not buying many bonds now. We were one of the early buying banks and we got stocked up. Of course the country is still stock-minded and while we do not have any loans on stock, there are always a great many men whom we know who buy stocks instead of bonds.

The CHAIRMAN. You rely very largely in the purchase of bonds, on the advice of correspondent banks?

Mr. ADAMS. We rely very largely on the good name of the banks. I recall that I went to see Mr. Traylor, of the First National Bank of Chicago, whom I know very well, and with whom we have carried an account for over 40 years, and I asked him to put me in touch with somebody who had some good bonds to sell that would be worthy of being in our bank. He referred me as requested and they helped me to select some $75,000 worth of bonds and none of them have defaulted. We rely on the good name of the institution.

If the First National Bank of Minneapolis or of Chicago puts out an issue, we generally buy them. We have to rely on the large institutions, and we have found it a wise policy.

The CHAIRMAN. What class of foreign bonds do you buy?

Mr. ADAMS. We have a very diversified list. We have some Belgian bonds, some few in Germany, some very few in Italy, and quite a few French bonds.

The CHAIRMAN. I suppose you buy those because of the large interest returns you get?

Mr. ADAMS. I suppose we bought those bonds because they were sold to us. [Laughter.] We think that is our weakness now.

The CHAIRMAN. You are about to have another opportunity to buy some German reparation bonds. Mr. Traylor has had more or less to do with the issuance of those, but I do not know whether he is recommending them or not.

Mr. STRONG. Mr. Adams, you spoke about having stock in three other banks. Do you own control?

Mr. ADAMS. No, sir; we are simply a stockholder.

Mr. STRONG. It is not in the nature of a chain bank, then?

Mr. ADAMS. Absolutely not.

Mr. STRONG. You also spoke of a general selling of stocks by banks—that is, trying to sell stocks generally to the public. I should like to have your opinion as to whether or not that is indulged in from the standpoint of creating friends in a community or as a money-making proposition.

Mr. ADAMS. Selling listed stocks?

Mr. STRONG. The stocks of banks, generally. You spoke of the fact that bank stocks are being more generally sold than they used to.

Mr. ADAMS. The groups have been selling their stocks. The local banks never sell their stocks.

Mr. STRONG. I am not concerned what bank it is. Are they selling for the purpose of making friends, or for the purpose of raising money?

Mr. ADAMS. They wanted to raise capital and they naturally want to get a wide distribution on the theory that the more customers they have the more they are democratizing their banks.

Mr. STRONG. Is there anything in this thought, that it would be easier to sell stocks in a bank that is diversified than to ask some good investor to take the entire output?

Mr. ADAMS. At the time the stocks were underwritten in the Northwest by one of the banks there, their idea was that it was going over big and so they made arrangements to have it underwritten. I think Mr. Pillsbury is the one who insisted that the issue be underwritten, and the way it turned out it was very desirable to have it done. Our bank has never sold any bonds or stocks to anyone.

Mr. STRONG. What I wanted to develop was whether or not, in that combination of these banks, whether they are group or chain, there is not an amount of stock sold beyond the regular book value of the banks. Is there not a little stock watering in the proposition?

Mr. ADAMS. The testimony here shows that they paid for going business; but the distribution which some of them made by selling those stocks to their depositors and some bond buyers, was unfortunate, because they put it out at a price very much higher than the market is now.

Mr. STRONG. Well, it is not a process that if it was done in connection with some stock in a gold mine it would be called watered stock?

Mr. ADAMS. I do not know that it is watered.

Mr. STRONG. I know you hesitate to say so.

Mr. ADAMS. No; I do not hesitate to say so. I know the stock of the group holding company is very much larger than the assets they own, but they claim that that is for going business.

Mr. STRONG. Well, water in the stock?

Mr. ADAMS. Well, I would not want to concede that.

Mr. STRONG. I know you hate to do that, but if you issue stock in any institution—I do not care whether it is a bank or what it is—beyond the value of the business, claiming it is good will, that is, in a sense, watering the stock, is it not?

Mr. ADAMS. I should say so. Up to the time this new movement started, stocks in the Twin Cities banks were selling at less than their

assets, but the Bank of Italy came in there and started things moving up by buying 400 shares of the First National Bank of Minneapolis at a higher price than that at which they were previously sold, and at that time, with the inflation over the country and groups coming into the situation, the stocks rose rapidly.

Mr. STRONG. The argument has been made to me by gentlemen along the line that these group banks were wholly organized for the purpose of stability and the development of the community, but some of them, it seems to me, have been organized as a money-making proposition.

Mr. ADAMS. I do not think there is any doubt that those groups were organized with a view of increasing their business and increasing their power, the same as any other merger is made.

Mr. STRONG. The Bank of Italy came in and bought some of the stock?

Mr. ADAMS. The Bank of Italy came in and bought 400 shares of the First National Bank of Minneapolis. Up to that time the stock was selling at from $280 up to $300. The officers and directors wanted to keep it there, but the Bank of Italy came in and bought 400 shares at $400 a share and quite a lot of publicity was given to it and it aroused quite an amount of interest, and from that time on the stock began to go up.

Mr. STRONG. Has the Bank of Italy still an interest in that bank?

Mr. ADAMS. I could not say.

Mr. STRONG. Did they buy any other stock that you have heard of?

Mr. ADAMS. I do not know.

Mr. STRONG. Did they secure any representation on the board of directors?

Mr. ADAMS. I think not.

Mr. STRONG. You do not know the purpose of their buying that stock?

Mr. ADAMS. If you are familiar with the Bank of Italy Corporation, which, to my mind, was the first investment trust to be organized, it was organized about 15 years ago with a capital of $50,000,000. You may recall Mr. Giannini proceeded to buy large blocks of stock in the finest banks in this country. He also bought large blocks of stock in General Motors, General Electric, and United States Steel. The result was, inasmuch as he bought that stock before the inflation, the Bank of Italy Corporation made a tremendous profit. I do not know whether he still holds their holding in the First National, the National City of New York, the Shawmut of Boston, the First of St. Louis and the First of New Orleans, or not.

Mr. STRONG. I will ask you for your opinion on this proposition: Do you think, as a general proposition, the organization of group banks is for the purpose permanently of maintaining the groups or of eventually selling them out to branch banking groups?

Mr. ADAMS. I think they are organizing with the view to centralizing the power there in the Twin Cities. There was a difference of opinion about going into the group when the Northwestern started. The First National first announced they were not going in and so advised me, but later on, as they found the Northwestern gathering up the fine banks around the country, they found it advisable to follow their example.

Mr. STRONG. Now, to your knowledge, has there ever been any pressure or strong influence used to get these good banks to sell out to the groups?

Mr. ADAMS. No; I do not think they have been coerced. There has been persuasion. As I have stated—men from the cities visited the banks and asked if the banks were for sale, and would tell them the group banks were here to stay and the only thing to do was to get in while salvation was available.

Mr. STRONG. Would they offer stock in the parent bank or holding company in excess of what their stock was worth from a book value standpoint or from what its marketable value was worth?

Mr. ADAMS. I think they have paid very good prices in exchange, but that information is not available. Some of the banks have gotten a very good price and some not so good.

Of course at the time they were exchanging their bank stocks, group holdings were very much higher than now, so they thought they were getting more.

Mr. STRONG. The stock is not as valuable now as when it started?

Mr. ADAMS. There has been quite a depreciation. The Northwestern group started at $50.35 and went to $100 but is now back to $50.

The First National group stock started at $47.50 and went to $64 and is now at $28.

Mr. STRONG. So the investment in those bank stocks has not been so good? You do not need to answer that.

Mr. ADAMS. It has been like some other things that have gone down. I think, however, those stocks will come back. Of course, 1929 was a very good banking year and there were not so many losses and there were good rates of interest and a great many banks picked up profits in the increase in bonds. The situation will not be so good this year.

Mr. STRONG. A great deal has been said about the future of the individual bank from a depreciation of its assets, but from your statement it is very evident that the group bank stocks depreciated in value.

Mr. ADAMS. That stock has gone down because it is on the board. The stocks in the local banks have not gone down because there are no quotations of their stock.

Mr. STRONG. Let me ask you in regard to very small banks that are not accepted and taken in by these group banks. Gentlemen representing one of the group banks before this committee, said they expected to serve, such community, if permitted to do so, through branches. What is becoming of those small banks?

Mr. ADAMS. They are gradually being absorbed. Within 90 days three banks in an adjoining county were moved into county-seat banks. At Fargo I noticed the other day the Merchants National Bank had moved in three skimming stations, as we call them.

Mr. STRONG. And there are no banks left in those places?

Mr. ADAMS. No, sir; they do not need them and they would not succeed if they remained.

Mr. STRONG. It is simply where small banks were placed where there was no demand?

Mr. ADAMS. They were put out during the period of expansion and their earnings have been cut down because there are no profitable side lines now.

Mr. STRONG. If the large banks in the money centers continue to send out men to sell bonds to banks throughout the country as you described, what will be the result if those large banks in the money centers have teller windows all over the country?

Mr. ADAMS. They can not maintain them unless they maintain them at a loss. They are not worth maintaining under present conditions.

Mr. STRONG. What will be the result with respect to the selling of bonds?

Mr. ADAMS. Those small banks, of course, do not buy so many bonds.

Mr. STRONG. I mean with respect to using them as distributing agencies for the big banks that underwrite the bonds and get a good commission and sell them to individuals through their branches. Would not these branches be used as a kind of distributing agency?

Mr. ADAMS. I think the business would be so thin especially in the Northwestern States, it would not pay them.

Mr. STRONG. If there was any money to invest up there, they would be used for that purpose?

Mr. ADAMS. There is a great deal of money in our section that has gone into local utilities. We have, in our town, a local utility that lights about 15 towns. A very large proportion of its $15,000,000 capital was raised in our territory. For a long time it was financed at home. Their bonds have been popular and that is one of the reasons why the deposits have not increased in the banks.

Mr. STRONG. Is that locally controlled, still?

Mr. ADAMS. Yes, sir.

Mr. STRONG. What I was trying to get at was the argument that is being made here that, through branch banking, either trade-area branch banking or branch banking within the States or within Federal reserve districts, they will be able to take care of the local communities where, at present, no banking can be successful.

Mr. ADAMS. They will not be able to take care of them, I believe, because, first of all, there is a type of borrowers they will not take and the good borrowers will, naturally, go into the centers.

Mr. STRONG. This teller window proposition will be practically what you call skimming stations?

Mr. ADAMS. Yes, sir. In our county there are probably seven towns that can maintain banks, and in those seven towns they will probably survive. If those seven communities in Otter Tail County are given good banking facilities, I think they can maintain them.

Mr. STRONG. In your opinion those banks could maintain and carry on without fear of loss?

Mr. ADAMS. Yes, sir; and make a fair return.

Mr. STRONG. Did you put the statement of your bank into the record?

Mr. FENN. Here it is, right here.

Mr. STRONG. In view of the very fine statement that has been made here this morning, I think that the statement of the bank with which this gentleman is connected ought to go into the record.

The CHAIRMAN. Without objection, the reporter will place in the record the statement referred to following the statement of the witness.

(The bank statement referred to is printed in full at the conclusion of Mr. Adams's opening statement.)

Mr. STRONG. The argument has been made here that the independent bank has been demonstrated to be a failure because of the fact so many banks have failed in the last 10 years. However, the bank commissioner of Oklahoma has made the statement that, as the result of his investigation, he finds that a very small percentage of the banks organized since 1920 have failed; that the failures have been due to the carrying over of frozen loans which are the aftermath of the war.

Mr. ADAMS. I think there is no doubt but that is correct.

Mr. STRONG. You agree with that statement?

Mr. ADAMS. Yes, sir. There is one point I should like to make at this time. Mr. Lord testified that he did not think it was possible for a unit bank to exist successfully in towns of less than 10,000 population Now, it seems to me that the history of the banks in which I am interested—and there are many others that have survived and are doing well and are carrying on—demonstrates that that statement of Mr. Lord is not correct.

Mr. STRONG. You can have my testimony that I am sure it is not correct.

The CHAIRMAN. I might say for the information of the gentleman that practically all the heads of groups who have appeared before the committee have contended they could not succeed with a population of less than 5,000 or 6,000.

Mr. ADAMS. The history of our banks and some others has shown that it is not correct.

Mr. STRONG. I do not think, in my district, there is more than one city with over 10,000 and in the nine county seats with towns of less than 10,000, there are some very substantial and sound banks serving their communities and in no danger of failing.

Mr. ADAMS. There is another interesting situation, and that is there has been no lack of confidence in our community as the result of bank failures. A bank might fail on one side of the street, and the bank on the other side of the street has kept right on functioning. It may have closed later, but the trouble was that it died of malnutrition or something else.

The CHAIRMAN. Mr. Adams, this committee is proceeding with this study in the midst of an important evolution or revolution or change in banking in the United States. We are trying to ascertain whether the unit banking system is a thing of the past and whether it is right and proper that banking shall continue along the lines of the modern innovation of the chain, group, or branch banking. It is a practical situation that confronts this committee.

You are at the head, and have been for a number of years, of a country unit bank which has demonstrated its ability to exist and prosper, which seems to contradict the views of the heads of these new developments, that have appeared before the committee. You have made a very interesting statement here showing that you are keeping pace with the trend of the times in regard to banking development.

I am wondering whether you have any suggestion to make to this committee as to what we should do. The committee would very much appreciate your reaction on that as to whether the National Congress should act, and, if so, in what manner.

Mr. ADAMS. I can really see no good reason why we should have State and national banks. State banks have generally been started because they could be started with lower capital and it has been claimed they have been allowed to do certain things which they could not do under a national charter. The supervision of State banks has not been as thorough and as exacting as it has been in the national banking system.

Mr. DUNBAR. Could I ask a few questions right there?

The CHAIRMAN. Yes.

Mr. DUNBAR. I understood the gentleman to say there should not be both national banks and State banks. How are we to prevent that?

Mr. ADAMS. I did not say that, Mr. Dunbar.

Mr. DUNBAR. What did you say?

Mr. ADAMS. I said I could see no reason why we should keep the two systems. I was going to say that you people who maintain State rights are loathe to give up that power, but I can see no reason for having the two systems.

Mr. DUNBAR. There is no way to prevent it in the world, is there?

Mr. ADAMS. I understand your contention, but I do not know about that.

There is no doubt but that the unit banks will continue and can function and do their work and serve the communities and give the public a safe place to put their funds and give ample borrowing facilities, but I do think that they ought to stop licensing banks in places where they can not survive, and if they do, they should have adequate capital. It is perfectly apparent that a bank can not start with $10,000 capital, build a building, get its equipment, and have anything with which to do business. They go into the red ink the very first year. If they will stop granting permits, it will help the situation. Generally the banks have not been started on account of the necessity for them. Some one wants to get into the banking business and he goes around and gets people to take stock and takes a note for it and the bank starts without adequate capital and can not possibly survive.

The CHAIRMAN. Take your own instance: Can you continue to meet the competition of chains or groups?

Mr. ADAMS. I have no doubt of it.

The CHAIRMAN. You feel in your own city that if the Northwest Banking Corporation or the First Bancorporation operates a bank in your city, you can continue to prosper and it will not interfere with your operations in the least?

Mr. ADAMS. We will have to keep on our toes all the time. They could possibly, if they were so minded, come in and make conditions hard by cutting rates and doing things of that kind, but I do not believe that that is probable.

The CHAIRMAN. Has it been your observation they are doing that anywhere?

Mr. ADAMS. No, sir.

Mr. GOLDSBOROUGH. Could I ask the witness just one or two questions?

The CHAIRMAN. Yes.

Mr. GOLDSBOROUGH. Mr. Adams, in the community in which I live in Maryland, the county of Caroline, on the eastern side of the bay, there are nine very prosperous banks in the county, with a population of 18,000. I am a director in several of them and in two of them the capital stock is $12,000 each. They were both organized in 1909 and the stock in one is worth now about 7 to 1 and the other is worth about 5 to 1. We did not build a building to start with, but rented an office in an office building and waited until they get the money with which to building a building.

I notice in your written statement and in your oral statement that you seem to think it is necessary to build a building and put up a sign and that it is necessary to spend a lot of money before you go into the business.

Mr. ADAMS. It is not necessary, but it seems to me it is generally done. You have to have a vault and a safe in which to place your funds.

Mr. GOLDSBOROUGH. One of these banks, the Hillsboro-Queen Anne Bank—I give the name because I want to substantiate my statement—is located in a town of just a few hundred inhabitants, and the Goldsborough bank is located in a town of 150 inhabitants. I said the stock in one was worth about 7 to 1 and in the other 5 to 1. They have both been paying dividends of 20 per cent since 1915. Do you think it is fair to the smaller communities to take the position that you must have a capital of $100,000?

Mr. ADAMS. It all depends on the management. If you get off on the right foot, and if you have men such as I have described, men of wealth in the community, whose money is in it and whose brains are available to the bank, they can succeed under those circumstances, and your banks over in Maryland have undoubtedly succeeded and made the large earnings which they have, because there was somebody with brains and conservatism running them.

May I ask how you made those large earnings? Was it by distributing bonds as a side line?

Mr. GOLDSBOROUGH. No, indeed. Those earnings have been made from strictly banking business and both banks have been exceedingly liberal in providing for the needs of their communities. But they have watched their loans very closely.

Mr. ADAMS. But you have not answered my question. Have your large profits been obtained from interest?

Mr. GOLDSBOROUGH. Almost entirely. In the last two or three years each one of them may have made five or six thousand dollars out of stocks.

Mr. ADAMS. Well, that would be 40 per cent made out of the one item.

Mr. GOLDSBOROUGH. But that is in only one instance.

Mr. BRAND. Are these banks located in agricultural communities?

Mr. GOLDSBOROUGH. Yes, sir.

Mr. BRAND. Off of whom have you made your interest—off of farmers?

Mr. GOLSBOROUGH. Yes, sir; and some minor business.

Mr. ADAMS. What rate do you pay on savings?

Mr. GOLDSBOROUGH. Four per cent.

Mr. ADAMS. What rate do you charge over there?

Mr. GOLDSBOROUGH. Six per cent.

Mr. ADAMS. You mean to say on your deposits with a 2 per cent spread, you can make those earnings?

Mr. GOLDSBOROUGH. I certainly do mean it. It has been done.

Mr. ADAMS. But you say you made 40 per cent in one bank off of the sale of stock.

Mr. GOLDSBOROUGH. I said $5,000. I said that was one instance since 1909.

Mr. ADAMS. How much are the resources of the banks—how much are the deposits?

Mr. GOLDSBOROUGH. The resources and deposits of the Hillsboro Bank are nearly $800,000. The deposits in the Goldsborough Bank are $550,000.

Mr. ADAMS. Those are very large deposits for a community as small as that. In the little bank I have mentioned here, we have had $500,000 deposits.

Mr. GOLSDBOROUGH. Practically all the witnesses who have testified from the standpoint of the independent banks, have accented the necessity of increased capital stock—you among the number. It has always seemed to me, Mr. Adams, that the management of the institution had a great deal to do with it—more than the capital stock.

Mr. ADAMS. There is no question about that.

Mr. GOLDSBOROUGH. Let me finish my statement—it seems to me that the capital stock should be kept small enough to permit large enough earnings to keep the people happy.

Mr. ADAMS. You have described the situation accurately as fits the three little banks I have spoken about. But if you have a careless management, you must have capital to take care of it, and that occurs everywhere except possibly in Maryland. I dare say you have not paid all you have earned, but have put some in reserve to take care of those conditions.

Mr. GOLDSBOROUGH. Well, in one bank the capital is $12,000, the surplus is $75,000, and the undivided profits seven or eight thousand.

Mr. ADAMS. When you make large dividends, you are not making the dividends on the capital alone, but on the surplus. We can all build up a good bank if we start out on the right foot.

Mr. GOLDSBOROUGH. I think if you are going to have good banking service on the unit system, you must have a small capital. It does not make any difference what kind of business you start, whether a hotel or what not, you must keep the capital down, because if they do not earn fairly large dividends, the people will lose enthusiasm for it and it will go to pieces.

That is all, Mr. Chairman.

Mr. DUNBAR. The first paragraph in your very admirable statement of your ideas concerning banks states that a local bank well managed has no fear of being unable to compete successfully with the group banks unless unfavorable legislation is passed. Now, suppose a group bank was to hold the stock of a bank in your city, what unfavorable legislation do you have in mind that could be passed that would be detrimental to your bank?

Mr. ADAMS. I have not anything special in mind.

Mr. DUNBAR. Nothing special?

Mr. ADAMS. No, sir.

Mr. DUNBAR. I thought you had, or you would not mention it. That is all.

(At this point the committee went into executive session, at the conclusion of which the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS

Upon the expiration of the recess, the hearing was resumed.

The CHAIRMAN. The committee will come to order. Mr. Seiberling, you will now question the witness.

Mr. SEIBERLING. I only have a few questions.

In the first place, I enjoyed your statement very much; I think it was a very admirable statement.

Assuming that something would have to be done with reference to the banking situation on account of the organization of the chain and group banks threatening the existence of unit banks, would you prefer to let that condition continue, or to go to branch banking within trade areas?

Mr. ADAMS. I think it would be better to have group banking, but if the groups are going to continue to buy the best banks, I think they ought to have the permission of the State banking supervisor or the Comptroller of the Currency before they can obtain control of the banks and take the ownership out of the community.

In Minnesota now we have a commission which grants the applications to start banks, and they can prevent wrong people from starting a bank, but when that bank has once started and has received the deposits of the public, then an outsider can come in and buy that bank and take it out of the original hands regardless of that outsider's character.

Mr. SEIBERLING. Coming back to my question, I understand you to say, then, that you favor group and chain banking in preference to branch banking in limited areas?

Mr. ADAMS. I think group banking is fairer to the community, because the institution is localized to some extent, and it would also pay taxes in the community, which the branch bank would not do.

Mr. SEIBERLING. If branch banking were permitted by Congress, would you make branches out of your affiliated banks, or would you leave them as they are?

Mr. ADAMS. It would be cheaper and more profitable for the bank at the county seat to put in a branch office than to maintain a bank with capital, and within a small area the bank at the county seat has ample capital to give it stability and, as I said, it would be more economical for us to operate those little banks as branches, but you take the taxation out of the community.

Mr. SEIBERLING. Then I understand that if you to-day had the right to make branches out of the affiliated banks you own, you would make them branches of your parent bank there in Fergus Falls?

Mr. ADAMS. No; I do not think I would. I think they have been successful in their careers, and the right thing would be to allow them to continue. But banking in the small places is not going to be sufficiently profitable in the future so that in instances it might be better

to establish branches which can be operated more economically if the community is to be served.

Mr. SEIBERLING. I suppose you will agree that you can operate a branch bank much more economically than you can a unit bank?

Mr. ADAMS. Yes; that is true.

Mr. SEIBERLING. Therefore, if we want to extend banking facilities to the smaller communities, branch banking would be much more feasible than unit or chain or group banking?

Mr. ADAMS. I would not want to concede that.

Mr. SEIBERLING. I am asking you which would be more feasible than the other.

Mr. ADAMS. A branch can get along without capital and it might be able to handle the business, but if there is enough business there they can operate a small unit bank.

Mr. SEIBERLING. You might have a community that is too small for a unit bank and yet you could maintain a branch bank there, as they do in England, for instance, and operate maybe for two days a week.

Mr. ADAMS. That is a new proposition to me, although in Vermont, where I was raised, there were certain banks that would go down to little villages and pay out money on cream days, and take in their deposits. Of course in these modern days, when everybody comes into the larger towns two or three times a week, conditions are different.

Mr. SEIBERLING. Do you think that the remote districts in your territory have all the banking facilities that they need?

Mr. ADAMS. I think they are more than ample at the present time. In the ninth congressional district—and that is where I live—115 banks have closed.

Mr. SEIBERLING. Do you still have enough left?

Mr. ADAMS. I have not the slightest doubt about that.

Mr. SEIBERLING. Are they so distributed that the people in your district can have adequate banking facilities?

Mr. ADAMS. I think that with the exception of one county that is the case. In Kittson County they had 17 banks, and I understand that there are only two left. It might be that they could stand one or two more there, but if you will notice this table which has been put into the record on page 354, you will notice that in some little villages three banks have closed, and there is no doubt that it was absolutely unwise to have ever permitted those banks to start there.

Mr. SEIBERLING. As I understand you statement, you think that if we let economic laws take their course, in due time things will so adjust themselves that these communities that we are worrying about will have such banking facilities as the necessities require?

Mr. ADAMS. That is my opinion.

Mr. SEIBERLING. That is all.

Mr. ADAMS. There are one or two things more I would like to bring up here, if I may.

The CHAIRMAN. I wish you would.

Mr. ADAMS. One of the reasons why closed banks have not paid more to the depositors has been that they have been kept open, or have been allowed to remain open, long after they should have been closed, and one of the ways of keeping them open has been for the superintendent of banks to take the funds which belong to a closed

bank and put them into a weak bank. Under the law which is on the statute books there, that makes a preferred claim for the State, and that has permitted banks to pay out funds longer than it should. Then, when the bank has closed, that preferred claim takes the bulk of the assets.

The CHAIRMAN. Do you think the same thing applies to national banks?

Mr. ADAMS. I am not familiar with that. No national bank has failed in our immediate neighborhood, and I do not know.

The CHAIRMAN. Of course, all that you said there could not apply to a national bank.

Mr. ADAMS. No.

The CHAIRMAN. But I meant more particularly the question of easing a bank along after it had become insolvent, in the hope that it would recoup itself.

Mr. ADAMS. I have never heard of the comptroller puting funds into such a bank.

The CHAIRMAN. I am not referring to that, but to the policy of closing a bank long after it had really failed, and I am asking you whether under your observation the comptroller of the currency has pursued that policy to the detriment of the bank.

Mr. ADAMS. Not very generally. There are only one or two instances in our territory where I thought a bank should have been closed before it was. Sometimes a bank will borrow, and the wise ones will draw the money out before the rest of the depositors.

The CHAIRMAN. My statement was prompted by reason of the fact that the statement has been frequently made here, as it was this morning, that these banks that are failing so rapidly now, really failed several years ago because of the conditions immediately following the war, and the question naturally came to my mind as to whether or not it might have been wiser to have closed those banks when the real failure occurred, 5, 6, or 10 years ago, than to have strung them along during this period?

Mr. ADAMS. That would have been much fairer, because it has allowed certain people to draw out 100 cents on the dollar, while those whose money was remaining got very much less.

The CHAIRMAN. It has tended practically to give a preference to certain people who withdraw their money.

Mr. ADAMS. It has given a preference. One bank which closed in our territory, was being supported to some extent by borrowed money from the corresponding banks. The correspondent banks finally took the position that they were willing to help keep the bank open, but not willing to lend any more money to enable the bank to make preferences.

The CHAIRMAN. What is your analysis of the reasons for the failure of these country banks? I would be glad if you could enumerate the major reasons for those failures?

Mr. ADAMS. In the first place, they were established when there was no occasion for their establishment. In the second place, they had insufficient capital, and the capital was never paid into the bank which was supposed to be paid in. The banks were put into the hands of young, inexperienced and untried men, and their idea was to make the bank grow as fast as possible, as a result they gathered into those banks a lot of money which did not normally belong in the com-

munity. They offered high rates of interest, and they advertised in national papers, especially in religious papers, and they drew a large amount of money from the East, which went to those banks because they would pay 6 per cent interest on deposits.

The CHAIRMAN. You are speaking of banks in your particular territory?

Mr. ADAMS. Yes; all of my remarks apply to the territory where I live, because that is the only place with which I am familiar. But, after a while, money became tighter in the East; it was not because they had begun to lose faith in the western banks, but they needed the money at home, and when they started to draw out that money, the banks out there did not have any cashable paper so that they could collect at the time when their deposits were being pulled out.

The CHAIRMAN. What period are you speaking of?

Mr. ADAMS. From 1918 to 1925—that is the time when they began to lose money and the trouble began to occur.

I wish Mr. Goldsborough were here, because he made a point in favor of little banks of $10,000 or $12,000 capital, but in looking at the directory I find that those banks have a surplus of $75,000, so that they have ample capital to take care of ordinary losses. More than that, if a bank is going to be established, the owners of the bank ought to furnish some of the capital and not expect the depositors to furnish it all. Where we have had those weak banks, if a person wanted to use his money to buy a bond or property, they disliked to give up those deposits and they urged depositors to let the money remain and they would perhaps give them an extra per cent.

The CHAIRMAN. What rate of interest have the banks been paying in your section on deposits?

Mr. ADAMS. Four per cent is the general rate.

The CHAIRMAN. On these eastern deposits?

Mr. ADAMS. I think they paid as high as 6 per cent. One year we had surplus money and we sent it out to Dakota and a little into Montana. I picked out about 40 banks and sent $1,000 apiece to those banks on certificates of deposit running about four months, and made them due just about when they began threshing. Many banks came right back and wanted to know if we did not have more to send them, which made me more or less suspicious. There was always a disposition with those little banks to get funds any way they could to increase their loans, not realizing that the funds would have to go back.

The CHAIRMAN. Has it been a general practice in the East and through your section for the larger banks to send money to those small banks during flush seasons?

Mr. ADAMS. There has been some. One of the reasons for some banks failing has been that the funds were taken out of prosperous communities and sent to Dakota and Montana in order to get the higher rates. A good many of those banks were in charge of young men who went out from our territory and they drew from the home country a lot of money which was lost when their banks closed.

Mr. SEIBERLING. I would be very much interested, Mr. Chairman, if you would ask him what the average rate is that they charge on loans.

The CHAIRMAN. What is the rate of interest charged on loans?

Mr. ADAMS. In Minnesota the legal rate is 6 per cent; the maximum rate is 8 per cent. I notice that the record here states it is 10 per cent, but it is 8 per cent, and the law of usury is that if you charge a usurious rate, you lose the principal and interest. In our territory a great deal of money is loaned at 6 per cent to the good concerns that carry an account. We do not require a compensating balance as they do in a good many places. Seven per cent is as much as any one is willing to pay, and we charge 8 per cent only on the small $50 and $100 loans. There ought to be a provision allowing a higher rate on those small loans, for you can not loan $50 and put it on the books and send two or three notices and make any profit at 8 per cent. On those small loans, there should be a provision permitting the charging of a higher rate.

The CHAIRMAN. Some banks do make a minimum charge of 25 cents or 50 cents——

Mr. ADAMS. It is usurious; we have always had to take 19 cents when we should have had 25 cents. At a recent meeting at Fergus Falls, a district bank meeting, one of the bankers said that he charged 50 cents for making out the note, and then he charged interest in addition to that. I think that would be usurious.

The CHAIRMAN. Do you make a service charge to your depositors keeping small accounts?

Mr. ADAMS. We charge 50 cents a month if they do not carry a balance of $50. The result of that was to eliminate some small accounts which should not be in the bank, and it induces the others to carry an adequate balance.

The CHAIRMAN. Is your bank making a collection charge on either checks or drafts or bills sent in for collection by other banks or individuals?

Mr. ADAMS. We have to clear all checks under the Federal reserve law without exchange, and we sell very few drafts.

The CHAIRMAN. But, on the collection of drafts sent to your bank, you are permitted to make a charge.

Mr. ADAMS. Yes; we charge 10 cents a hundred for making remittance. The chain stores get a 5-cent rate from a good many banks.

The CHAIRMAN. You were referring this morning to the loanable funds of your bank. Is it the general practice of the banks in your territory to buy bonds?

Mr. ADAMS. They have been buying some bonds lately, for they have realized the necessity of having something——

The CHAIRMAN. As a secondary reserve?

Mr. ADAMS. As a secondary reserve. Of course, they slipped somewhat, and they have not bought sufficient high-class bonds.

The CHAIRMAN. What percentage of the assets of the banks in your section of the State would you say is in bonds?

Mr. ADAMS. I do not believe there is 10 per cent of the deposits in bonds.

The CHAIRMAN. Do the banks buy commercial paper through the large city markets?

Mr. ADAMS. We used to buy it, but the rate has been so low since the refinancing by those large concerns which put out preferred stocks and bonds, that we switched over to bonds, instead of buying commercial paper.

The CHAIRMAN. Do your banks make collateral loans on listed stocks?

Mr. ADAMS. The examiner has told me that we have more collateral loans in our bank than there are in any of the other banks that he examined, but that is due to the fact that a good many people in our town have bought securities in the local utility companies and we have educated them to bringing in some security when they want to borrow.

The CHAIRMAN. What are the principal reasons for the success of the management of your bank in your locality when so many other banks have failed in that same locality?

I hope you will not be modest in answering it.

Mr. ADAMS. The bank has been owned by the directors and controlled by the directors, and the directors are always around; they always come in and visit and gossip every day. We have been lending their money, and we tried to be careful about it, and we have kept down the operating expense and have had a pretty good class of business. As the new banks came into the country, they were eager to get business, and if we were a little bit stiff in trying to do what was right, the customers would drift into those new banks and they took punishment.

The CHAIRMAN. It is largely management?

Mr. ADAMS. I feel it is entirely management.

The CHAIRMAN. And with good management, of course, comes diversification of loans and assets, and not putting all of your loans in one class of paper. Would you say that that was a factor?

Mr. ADAMS. Yes; we try to diversify, and in buying bonds we always buy in small amounts and diversify them.

The CHAIRMAN. Approximately, what is your average amount of reserve carried against deposits?

Mr. ADAMS. We have some large customers who hit us very hard, and we always try to have $200,000 or $300,000 above the necessary reserve to take care of those heavy drafts.

The CHAIRMAN. Do you ever borrow from the Federal reserve system?

Mr. ADAMS. We never borrowed in the 58 years from either the Federal reserve bank or a correspondent. I have never been in the Federal reserve bank but twice. The main advantage that we get from the Federal reserve bank is that they bought our Government bonds for us and they stored them without compensation, whereas the correspondent banks charge $1 a thousand for storage and clipping the coupons.

The CHAIRMAN. Of course, you realize that we have a very active market, not only in the industrial and railroad stocks but in recent years in bank stocks. Are bank stocks in your locality dealt with pretty generously now?

Mr. ADAMS. None at all except in the group banks.

The CHAIRMAN. Do the rank and file of the people buy and sell those stocks?

Mr. ADAMS. No; they took those stocks when they were offered. I think a large amount of stock which has come out from the group holding companies was the stock which the country bankers got in exchange for stock of their own banks. It was stated here that they would not sell out for money, but that they wanted to get into the

group holding company. That might have been the case in the beginning, but later on a good many of the bankers perhaps were in debt and when they exchanged their bank stock for the stock in the group banks they needed to raise money and they offered some of their stock for sale. It seems to be the practice now where a group takes over an individual bank to have an agreement not to put that stock on the market for six months.

The CHAIRMAN. There has been a pretty wide circulation of bank stocks coming from the large centers throughout the country. I know that in my section of the country, farmers and individuals of small means have recently been buying New York City bank stock. Does that same practice prevail in your section of the country?

Mr. ADAMS. To a very limited extent. The National City has got some stockholders in our locality, and we have one loan in our bank secured by National City. We took that when it was about 400——

The CHAIRMAN. That is, the price of the stock was $400?

Mr. ADAMS. Yes.

The CHAIRMAN. On what basis did you make the loan?

Mr. ADAMS. About $300, and yesterday the stock was at 157. So the loan is below the margin, but we hope the party is going to pay it.

The CHAIRMAN. How does National City stock happen to be held in Minnesota? Is there a campaign out there through salesmen to sell that stock, or did the individual who, for instance, sought the loan that you refer to, buy it of his own volition, or was he persuaded to buy it?

Mr. ADAMS. All of the large banks have security companies and their agents are traveling through the country selling their securities, and, of course, those securities which are put out by these subsidiary companies really travel on the good name of the banks, so that the average person, in buying a stock from a subsidiary of a New York bank thinks he is really buying it of the bank—that is, they do not separate the subsidiary from the bank.

The CHAIRMAN. Take this particular case that you referred to: Was that stock sold by the National City Co. to your customer, as far as you know?

Mr. ADAMS. It was probably sold by one of their representatives.

The CHAIRMAN. A representative of the National City Co.?

Mr. ADAMS. Yes.

The CHAIRMAN. Which is an affiliated company of the National City Bank.

Mr. ADAMS. Yes.

Mr. GOODWIN. The National City Co. has an office in Minneapolis, have they not?

Mr. ADAMS. Yes. I was tipped a while ago to buy Chase. Their representative called on me a while ago and said they were going to take on a big company, and suggested that I ought to have some stock in the Chase National.

The CHAIRMAN. That is, the representative of the Chase Securities Co. suggested that to you?

Mr. ADAMS. Yes; the representative of the Chase Securities Co., that I ought to have some of the stock of the Chase National.

The CHAIRMAN. But under this plan that is developing in the country of building up banks in trade areas under the group or chain plan, for instance, like the First Bank Stock Corporation and the Northwest Bancorporation, and similar organizations in Buffalo and other points, their representatives have indicated to us that they were preempting their territory, that they reserved the right to do all kinds of banking business, and it has been suggested that the building up of those concentrated units would deprive New York of the opportunity to sell its securities within that territory. The other day, when Mr. Wiggin was here, the chairman of the board of governors of the Chase Bank, he rather was of the opinion that it would not interfere with their opportunity to sell securities. It has been argued here to the committee that the reason that these groups have paid what looked like excessive prices for the stock has been due to the value they saw of an opportunity of preempting territory in which to sell for all time investment securities, on the theory that there would be more money for these groups in the distribution of securities and the profits derived from them, than there was in the legitimate banking business of those localities.

Being located in one of those districts, what would be your observation in regard to that? In other words, would you be more inclined to buy your securities, through Minneapolis and St. Paul, from one of those groups or would you continue to do business with your correspondent banks in Chicago or New York?

Mr. ADAMS. We have always bought through the Twin City banks whenever we could, but we would not buy a bond of them if we could buy a better bond from an eastern bank. We would naturally give the banks in our own section the preference, but there are a good many issues that they might not have.

The CHAIRMAN. So you do not think that the building up of these big groups in any given area would preempt exclusively to them the right to sell the bulk of the securities in their particular area?

Mr. ADAMS. I do not believe the New York banks are going to abandon the territory.

The CHAIRMAN. Is it the practice of the country banks like yours, for instance, in that territory, to make loans with these chain or group bank stocks as collateral?

Mr. ADAMS. I do not think we have a loan of that kind in our bank. There may be one or two employees who got an allotment of that stock and are paying for it on the installment plan. When these stocks came out, there was quite a wide distribution and a good many employees in banks throughout the State wanted to get a few shares, and it may be that in one or two cases we are carrying some of that in our bank, but very little.

The CHAIRMAN. As I understood your testimony this morning, and I was out part of the time, you believe that the unit banking system can, when properly managed, continue to exist in competition with these other institutions?

Mr. ADAMS. I have no doubt about it.

The CHAIRMAN. Do you care to express yourself on the question of extending branch banking to trade areas, as suggested by the Comptroller of the Currency?

Mr. ADAMS. The independent banks of Minnesota are very much opposed to it and are very much opposed to having branches come into a territory which is already filled. If they were permitted to come in, they would perhaps skim the better business; they might pick up some of the larger borrowers of the highest type, and we feel now that we have all the banking institutions there that the community needs, and that if we are let alone we can take care of all the needs of the country.

The CHAIRMAN. That raises a very pertinent question—if let alone. What do you mean by that?

Mr. ADAMS. Well, we have wondered whether there was legislation here which would give the group bank a preference. We have not supposed that would be the case.

The CHAIRMAN. You mean legislation in Washington?

Mr. ADAMS. Yes.

The CHAIRMAN. But this group plan is already proceeding under State authority.

Mr. ADAMS. Of course, but they are looking for national legislation.

The CHAIRMAN. What kind of national legislation?

Mr. ADAMS. I mean legislation governing the national banks. Perhaps I do not make myself clear. They apparently have the purpose of getting legislation which will legitimatize the group idea or the branch idea.

The CHAIRMAN. Pretty nearly all of these men have suggested to us that the group or chain idea was just a step and that if branch banking were permitted, either nation-wide or under Federal reserve districts, or state-wide or trade areas, that they would overnight convert their chains or groups into branches.

Is that the kind of legislation you think that they are looking for, the extension of the radius in which they can do branch banking?

Mr. ADAMS. I do not think the holders of group banking want that. I think they feel sure of their territory under the present system, because if branch banking became general, the New York banks, Chicago banks, and other banks, including St. Louis banks, would naturally come into the territory if there was a good opening.

The CHAIRMAN. Do you not think that there is danger of New York or Chicago groups coming in and seizing control of these existing groups? Do you not think it is just as easy to do that as it would be to get control through branch banking?

Mr. ADAMS. There is a general belief that there is danger that eventually the large banks in New York will pick up the groups; I think the groups are afraid of that, to some extent.

The CHAIRMAN. When Mr. Wiggin was asked what a trade area is, he could not tell the committee, but he indicated that the trade area of the Chase National Bank was the United States, and perhaps the world.

Mr. ADAMS. The trade area of the First National Bank of Fergus Falls is Otter Tail County, and we can not operate branches outside of that to advantage.

The CHAIRMAN. One peculiar thing about this question of limitations is that we limit where the banks can do business, but we do not limit the customer as to where he shall do his banking business.

Mr. ADAMS. A trade area is very difficult to define. Fergus Falls is undoubtedly in the trade area of Minneapolis. Chicago and Minne-

apolis are undoubtedly in the trade are of New York, so I do not see how you are going to define that term.

The CHAIRMAN. Do you think that if we should leave it to the Comptroller of the Currency, the Federal Reserve Board and the Secretary of the Treasury to define the term "trade area", that they could define the areas in which these banks should operate?

Mr. ADAMS. That might be a fair proposition, but, of course, we would not want the Federal reserve bank of our district to do that, when the majority of its board of directors are members of holding companies.

The CHAIRMAN. Then there is danger of the control of the Federal reserve system by these groups?

Mr. ADAMS. They have practically all the members now.

The CHAIRMAN. That is pretty conclusive evidence, I would think, that there is danger.

Mr. ADAMS. Of course, the unit banks have never paid any attention to who were members of the Federal reserve bank, and a good many of them never voted.

The CHAIRMAN. Do you have any affiliated institutions?

Mr. ADAMS. The First National Bank of Fergus Falls?

The CHAIRMAN. Yes.

Mr. ADAMS. No, sir.

The CHAIRMAN. You have no securities companies?

Mr. ADAMS. We have the First National Investment Co., which we organized to take assets out of the bank which were not permissible. At one time we purchased certain preferred stocks, and when the examiners came around they called our attention to the fact that they were not permissible, so we took them out and put them into this investment company and we acquired some assets of a character which could not be carried in the bank and we found it advisable to carry them in the First National Investment Co.

The CHAIRMAN. Do you buy and sell securities through that company now?

Mr. ADAMS. No, sir.

The CHAIRMAN. It is strictly a holding company for those securities that you can not legally hold in your bank, is it?

Mr. ADAMS. Yes. Sometimes when some of the local power stock comes in, we buy it and carry it for investment, but we have never distributed any stocks and we have never sold anything and if anyone comes into the bank and wants to buy a bond, we have no recommendations. We show them our list and if they want anything we have, we will order it.

The CHAIRMAN. The stock of your investment company is owned by the same stockholders and in the same proportion as the shares of your bank?

Mr. ADAMS. Yes, sir.

The CHAIRMAN. So that every stockholder that has stock in your bank has a corresponding interest in your securities company?

Mr. ADAMS. Yes.

The CHAIRMAN. What is the capital of your securities company?

Mr. ADAMS. $12,500.

The CHAIRMAN. We have pending here before the committee a bill proposing that where a national bank has affiliated companies, the examining supervisor, which in the case of the national banks

would be the Comptroller of the Currency, should have access to the records of that affiliated company. Do you see any objection to such a plan as that?

Mr. ADAMS. If the stock is owned by the bank, I think it should be examined, but if it is owned by the stockholders, I do not see any reason why they should have that supervision.

The CHAIRMAN. Take, for instance, a national bank that has a securities company; it might become so involved in speculative transactions that it might affect the solidity of the bank. Would you not think that it is rather to the advantage of the bank to have that examination?

Mr. ADAMS. My statement is that if the bank has a securities company which the bank owns, there is no reason why that should not be examined just the same as the collateral which the bank has for its loans.

The CHAIRMAN. No matter under what law that securities company may be organized, whether it is organized under the banking laws or the corporation laws, or the laws of some other State?

Mr. ADAMS. If it is a part of the banking capital, it should be supervised.

The CHAIRMAN. Do you think that an affiliated company like that should have the right to buy the stock of a national bank, whereas the national bank is prohibited from owning its stock or dealing in its stock?

Mr. ADAMS. I have always believed that the stock of a bank ought to be owned by the men of the community whose money is in it, and whose wealth is behind the bank, and should not be held by subsidiary companies, where there is not any double liability or where there is not any power or capital to back up the bank when it is in trouble.

The CHAIRMAN. Do you think we should prohibit the ownership of national bank stocks by corporations and investment trusts and confine that ownership to individuals?

Mr. ADAMS. I think that would be preferable. I do not believe that this investment-trust proposition with respect to bank stocks has worked to the good of the banks.

The CHAIRMAN. It indicates a spirit of speculation.

Mr. ADAMS. There would not be if that stock were held by the men who are running the bank and looking after it.

The CHAIRMAN. Do you think that a bank would be more secure, then, if the majority of its stock or 100 per cent were owned by the management?

Mr. ADAMS. I think that would be very much better.

The CHAIRMAN. In other words, you are suggesting that the management of a bank takes more seriously its job if it owns the bank?

Mr. ADAMS. Yes; and their very good names are behind it. Of course, there has been an awakening now, for our Supreme Court has recently made a decision which held that the directors must know what is going on in a bank, and I think in one case there was a decision to the effect that if they did not know of their own knowledge, they should hire an auditor to ascertain it for them.

The CHAIRMAN. Your statement in regard to the ownership of the stock by the management is most interesting. I may have difficulty in finding the reference to it in these hearings, but I would say that it has been indicated that the ownership of most of our large banks is

not lodged in the management but that as a general thing probably less than 10 per cent of the stock of any one of our large institutions is held by the management.

Mr. ADAMS. I think it would be much better if the greater part of the stock was held by the management. I know that years ago the First National Bank of Minneapolis was in trouble, and Governor Pillsbury, one of the very large owners of the stock, and John Martin, were behind the bank and put it on its feet, but if that stock at that time had been widely scattered, nobody would have put it back on its feet as those two men did.

The CHAIRMAN. Mr. Goodwin, have you any questions?

Mr. GOODWIN. There is only one question that I have in mind.

It has been testified before this committee that there is no danger that the New York banks or financial interests will ever get control of the ownership of the stock of the group banks, partly for the reason that there is local pride in the ownership and operation of group banks in the different localities. Would it not be an easier matter for the New York interests to purchase the control of the stock of the holding company of the group companies than it would be if they had to go out and buy these different banks?

Mr. ADAMS. I think it would be very much easier to gather in the stock of the holding company than it would be to go out and buy the individual banks.

You raised that question of local pride. I think it was a serious error for Duluth, and possibly for St. Paul to permit their banks to go into a group, because Minneapolis is recognized as the head and those other towns have become way stations, so to speak, in finance.

Mr. GOODWIN. In those instances the matter of local pride did not protect the local ownership of the bank.

Mr. ADAMS. It did not prevent them from going in the group, and I think it was a mistake for them to do it.

Mr. GOODWIN. From your testimony I gather that you have felt that the independent unit banks in this country, whether in the agricultural sections or other sections, with adequate capital and proper and prudent management, can succeed in competition with either branch or group banks?

Mr. ADAMS. I think so. Of course, branch banks would make it harder, and if group banks started out to destroy the individual banks, they might possibly make it hard for them. I do not know of any way of preventing the holding companies from buying more banks. It has been suggested that you might have a law that would prevent them from acquiring more than a certain amount of the stock, but I do not think that would be workable.

Mr. GOODWIN. At any rate, we have no law that in any way interferes with any group buying all the banks they want to and are able to purchase?

Mr. ADAMS. No.

Mr. GOODWIN. Would there be in your opinion any opportunity in a group system of banks to restrict credit to those who might be in competition with the officers or directors of the group banks?

Mr. ADAMS. There might be, but at present they are all high-minded men, and I do not believe that that would be done.

Mr. GOODWIN. That is a remote possibility, but it is possible?

Mr. ADAMS. It is possible, of course. A bank can always deny credit to anybody that it wants to on perfectly valid grounds, but I do not think it is generally done. If a loan is good, they are generally glad to get it, especially for a customer of the bank.

May I ask a question?

The CHAIRMAN. Certainly.

Mr. ADAMS. It is contended that if a person goes into a bank and buys a draft, and is not a depositor of the bank, that that draft should be paid where there is the money in the bank on which the draft is drawn, notwithstanding that the bank closes before the draft reaches destination. Is there any legislation along that line?

The CHAIRMAN. No; we have pending before the committee now a proposal to give a preference to shippers of grain, for instance, who draw a draft on a customer at some distant point and who sends that draft to the bank in the town where the consignee is located and where after the draft has been paid by the consignee and before the money is remitted to the shipper the bank fails. It is proposed that in liquidation that shipper should be given the preference, that he should have a preferred claim and it should be paid in full.

Mr. ADAMS. It is contended that if banks are going to sell drafts in competition with express companies and in competition with the post office, that the draft ought to be paid if the money is in the bank at the time it is drawn.

The CHAIRMAN. In other words, the bank in that capacity is simply acting as a trustee. What is your own thought in regard to that?

Mr. ADAMS. I think if a person goes into a bank and buys a draft and the money is in the bank on which the draft is drawn, that that draft ought to be paid if the bank fails before the draft gets to its destination. If that is not the policy, then the public ought to buy express orders, or money orders.

The CHAIRMAN. That is a form of segregation of bank assets. Would you favor the segregation of banking assets so as, for instance, to give the savings bank deposits, or money that might be termed as "belonging to the widows and orphans," a preference in case of a bank failure as they do in some States? For instance, California has a segregation law, a preferential form of securing certain depositors.

Mr. ADAMS. I am glad you brought that question up, because the bulk of our savings deposits are in the form of certificates of deposit. That is the usual form in the West, and that is the main supply of money in the banks.

The CHAIRMAN. As to this suggestion with respect to the segregation of the assets, it would not matter whether you had a savings book or a certificate of deposit; it would apply to the setting aside from the total volume of assets of your savings accounts.

Mr. ADAMS. That would force those savings to be put into certain types of investment, and it would remove from the use of the community a very large amount of the assets of the bank.

The CHAIRMAN. Then you would not favor that?

Mr. ADAMS. It would not be workable in our country at the present time, where there is a different condition than there is in New England. In New England the people put their money in the savings bank, and it has not been their habit to invest their funds, but to let the bank invest them. In the West we have never been able to build up savings

for the reason that the public is investing its own funds; they are constantly drawing the funds out in order to buy a bond or a mortgage or something of that kind.

The CHAIRMAN. Do you think then, that it is all right to subject the life savings of a widow who might have invested them in a national bank to the same risks and hazards that the other depositors have? In other words, do you not think that there should be an additional safeguard thrown around what are sacred trust funds, and not subject them to the hazard and risk that the commercial business is subjected to?

Mr. ADAMS. I think that would be entirely proper, but I have always taken the ground that when a widow or a child or an individual puts money into a bank, it is our duty to return it to them, and we owe the same obligation to one as to another, although I would hate to see an elderly person or a child lose his money. If a child once loses his savings account he becomes afraid of banks.

The CHAIRMAN. Your remark reminds me of a letter that came to me yesterday morning from a citizen in the State of Illinois who has been unfortunate in having had deposits in three national banks which have recently failed, and he raises the point that any depositor who puts his money in a national bank ought to have assurance from the Government of the safe return of his money, that the term "national bank" implies to the innocent, the ignorant depositor that the Government is back of it and that therefore we should, through an appropriation, reimburse all of the depositors who have lost money through the failure of national banks.

Mr. ADAMS. I do not believe that the Government should guarantee the funds of national banks, but I do believe that the Government should use every effort to make those deposits safe.

The CHAIRMAN. Through the enactment of proper laws and seeing to it that those laws are strictly adhered to, through supervision?

Mr. ADAMS. If the supervision is vigorous enough, I do not see how a bank can fail. It is hardly possible that enough damage can be done between examinations to permit a bank to fail.

The CHAIRMAN. Have you any suggestions to make to this committee as to how that examination could be improved?

Mr. ADAMS. It may not be practicable, but I have always believed that if they had an advisory board in a district, they would get onto a great many things that the examiners do not learn, and I have always thought that if the State banking department had a secret service, or, rather, a service outside of the bank examiners just going into a town and listening, that they would hear a great many things which would be of interest to the department. The department seems to be the last to learn of certain conditions which exist in banks and which everybody else in the community knows, and if somebody followed up the examiners when they came to the town and checked up on what was going on, I think that many times they would be in a position to notify a bank that it has got to cease doing those things, or close.

The CHAIRMAN. The suggestion has been made by some of the people who are opposed to chains and groups and to the extension of branch banking that, however, branch banking should be extended state-wide in those States that now permit branch banking or else

many of the national banks will leave the system. Would you think we could safely consider that proposition?

Mr. ADAMS. I do not get the question.

The CHAIRMAN. In other words, would you favor the extension of branch banking in those States where branch banking is permitted by State banks, the extension of branch banking in such cases to be only state-wide?

Mr. ADAMS. If you are going to have it in one system, I do not see why you should not have both.

The CHAIRMAN. In certain States, they now permit state-wide branch banking, whereas the national banks in those States are now prohibited from engaging in branch banking beyond certain limitations, that limitation being that they may not extend beyond the confines of the city in which the parent bank is located.

Would you not think it advisable to extend branch banking in those States that now permit it to a state-wide basis?

Mr. ADAMS. I think that that is the case in California now. I think the Bank of Italy has branches everywhere.

The CHAIRMAN. They have, but, of course, we have limited them now to the city in which the parent bank is located. They can no longer have state-wide branches, but the State banks can have, but they are denied membership in the Federal reserve system when they do.

Mr. ADAMS. I do not see why the national banks should not have the same privilege as State banks.

The CHAIRMAN. You would see no harm in extending that right?

Mr. ADAMS. It is going to make it harder for unit banks, probably. I think possibly in California the unit banks have taken care of themselves. I have spent a great deal of time studying the situation out there, and there are a good many unit banks that are taking care of themselves.

The CHAIRMAN. Have you any more questions, Mr. Goodwin?

Mr. GOODWIN. Just one.

It has been suggested to this committee that to make national banks more attractive to the depositors, the franchise tax now paid by the Federal reserve banks to the Government be used as a fund to pay the depositors in closed banks. Have you ever given thought to that subject?

Mr. ADAMS. I do not see any reason for guaranteeing bank deposits in any form. I can not see any more reason for guaranteeing a deposit in a bank, as I suggested in one of our town meetings, than that the people of that town should guarantee all the accounts in that town. We cured them of the idea that a good bank should take care of bad banks. I believe that if we have proper capitalization, proper management, some restriction on speculation, and a thorough examination, that conditions will rectify themselves. These failures have been most prevalent where speculation has been the strongest.

The CHAIRMAN. Would you favor the larger distribution of the earnings of the Federal reserve banks to member banks?

Mr. ADAMS. I do not see any reason why that money should not be returned to us. We are obliged to keep our deposits there without getting adequate return, and, when the Federal reserve banks make those profits, I do not see why they should not be paid to the member banks.

The CHAIRMAN. You do not think that there is danger or the possibility that if that course is pursued it would put the Federal reserve banks into competition with the member banks?

Mr. ADAMS. I do not know enough about the Federal reserve system to pass on that question; I have never come in contact with it.

The CHAIRMAN. It takes arbitrarily the investment of a little over a billion dollars of the assets of the Federal reserve system now to pay its operating expenses and dividends, and if the banks were depending on the Federal reserve banks for the distribution of large earnings, the Federal reserve banks would have to take those reserves and invest them in securities, buying commercial paper or securities which were legal and thus put them into competition with the member banks.

Mr. ADAMS. If the Federal reserve banks were distributing some of those funds, they would have to operate more closely than they now do with their expenses.

The CHAIRMAN. Of course, the Federal reserve management can make money or not to suit themselves. Arbitrarily we will say that about two billion dollars is sufficient reserve, but no one knows whether that is too much or too little, and, of course, if you invest all of that reserve into the kind of securities that are authorized, such as acceptances, bankers' bills and that class of paper, might it not tend to tie up the liquid assets of the Federal reserve system?

Mr. ADAMS. I do not see why those funds could not be carried in Government bonds.

The CHAIRMAN. Do you think Government bonds are liquid in an emergency?

Mr. ADAMS. The most liquid things I have ever had in my bank.

The CHAIRMAN. When we passed the Federal reserve act, we were led to believe that we had to get away from Government bonds as security for circulating media. Of course, we have not done it, and by the use of Government bonds in the Federal reserve system we have continued to have outstanding from a billion and a half to two billion of Federal reserve notes, and it would seem to me that perhaps instead of following out what was intended under the Federal reserve act, we may have continued it and even enlarged upon it, because we still have out $700,000,000 of national bank currency which has not been retired and we have an average of $1,750,000,000 of Federal reserve notes and we note from year to year a constantly increasing amount of Government bonds held by the Federal reserve system.

Now, back in 1920 to 1922, we discovered that the buying and selling of Government bonds by the Federal reserve system had a very material effect on the price of money; it completely upset the money market to purchase $480,000,000 of Government bonds by the Federal reserve system, and it had something to do with the price levels.

Mr. ADAMS. I have never studied carefully the Federal reserve system, and, as I say, I have only been in the building twice. I do not know anything about it.

The CHAIRMAN. That is true practically of every officer of a national bank, is it not, that they know very little about Federal reserve operations, and notwithstanding the fact that you are, of course, stockholders of the system, you do not have much to say about its management?

Mr. ADAMS. We do not come in contact with it. The first time I went there, I went to see whether or not we could rediscount some farmers' paper in case we had to; I wanted to find out what the chances would be, and the proposition was that if this farmer had grain in his granary and ready for the market, they could loan on that. I asked them if the farmer who had plowed his field, put in his seed, and was almost ready to harvest was not entitled to have credit on what he had done. At first they took the ground that he was not, but later they assented to it. Although we did not borrow the money. But they were right in their first contention, that it was not security, because a hailstorm came along and spoiled that grain.

That is the only time I have talked to them about borrowing money.

The CHAIRMAN. I think that is about all that I care to ask you, Mr. Adams, unless there is something you can add to the very intelligent statement which you have made.

Mr. ADAMS. There are one or two things that perhaps I should add.

It is shown in the record here that 71 per cent of the banks which failed had a capital under $50,000. I was going to answer the point made by Mr. Goldsborough when he talked about having a bank of $12,000 capital by saying that it had $75,000 surplus. He was talking about small capital, whereas they built up very large surpluses in those banks in Maryland which he referred to.

The CHAIRMAN. And a surplus is the same as capital.

Mr. ADAMS. It is there to take care of a loss.

There is one other thing, and that is that for a long time in our State these banks which failed kept declaring dividends when they were not in shape to do that.

The CHAIRMAN. And that indicates lack of proper supervision.

Mr. ADAMS. Yes, and I was about to make the suggestion that a bank, before it declares a dividend, ought to get a clearance either from the comptroller or the superintendent of banks that it is proper to pay that dividend; but they paid dividends on December 31 and then go into the red for operating funds until the next fall when they made collections and, of course, after paying dividends there was nothing left on hand when grief came.

I think that is all.

The CHAIRMAN. I will say, Mr. Adams, that the committee are very grateful for your presence here, and I am sure that you have added very materially to the data before us in connection with this subject.

Mr. ADAMS. I am glad the committee feels I have done some good, and I thank them for the courtesy and patience which they have shown in allowing me to put it over in a sort of a country style.

The CHAIRMAN. The committee will adjourn until to-morrow morning at 10.30, when we will hear Mr. Charles E. Mitchell, of the National City Bank.

(Thereupon, at 3.40 p. m., an adjournment was taken until Wednesday morning, June 11, 1930, at 10.30 o'clock.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, JUNE 11, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10.30 o'clock a. m., in the committee room, Capitol, Hon. Louis T. McFadden (chairman) presiding.

The CHAIRMAN. The committee will come to order. There is present this morning, Mr. Charles E. Mitchell, head of The National City Bank of New York, who will make a statement to the committee on the subject of branch, chain, and group banking, after which I understand you will be willing to answer questions of the committee, Mr. Mitchell?

Mr. MITCHELL. Certainly.

STATEMENT OF CHARLES E. MITCHELL, CHAIRMAN THE NATIONAL CITY BANK OF NEW YORK

Mr. MITCHELL. You have invited a statement from me in regard to the operations of The National City Bank of New York and its affiliated companies, as well as the bank's or my own views on the subject of branch, chain, and group banking.

Let me say at the outset that while The National City Bank of New York is extensively engaged in branch banking, both at home and abroad, under the provisions of existing laws, it has no interest, direct or through affiliated companies, or in any other manner, in any group or chain of banks.

Our form of corporate organization comprises three separate institutions—The National City Bank of New York, which is a national banking association operating under the laws of the United States; The National City Co., which is a business corporation organized under the laws of the State of New York; and The City Bank Farmers Trust Co., formerly the Farmers' Loan & Trust Co., which is a trust company operating under its special charter and the banking laws of New York State.

These three institutions operate independently of each other in their respective fields, but all three are affiliated by the manner in which their stock is held, so that, in effect, one body of shareholders owns them all. To be more explicit, all of the stock of The National City Co. and all, except directors' shares of the stock of the City Bank Farmers Trust Co., is held by trustees for the equal and proportionate benefit of all holders of shares of stock in the bank. Each shareholder in the bank has a stock certificate which carries indorsements evidencing his proportionate beneficial interests in the capital stocks of The National City Co. and the City Bank Farmers Trust Co., respectively, and he receives from time to time checks for his

proportionate part of the combined dividends paid by all three. The 5,500,000 shares of stock of the bank outstanding are held by more than 65,000 shareholders.

The bank is now operating 42 branches in the city of New York. At each of these a full banking service is rendered to the community served. It is our policy to open additional branches in the city from time to time, as the extension of our business or the growth of this or that district seems to require. Urban conditions of life and business seem to us to call for this continuous development of our branch facilities throughout the city. We find them profitable and easy to manage.

As permitted by the laws of the United States, the bank also operates abroad, directly or indirectly, 98 branches in 23 countries. These branches are established at natural centers or crossroads of commerce throughout the world and, in the main, serve American trade and commerce in the countries in which they are situated. In the scope of their banking business they are careful to preserve the amenities and avoid friction with the local banks, it being our policy to consider ourselves as a guest in the foreign countries which we enter.

The National City Co. is the investment banking affiliate engaged in the analysis of corporate and Government finance, underwriting, and the purchase and sale of investment securities. It conducts its business through its head office in New York and 69 offices located in the United States and abroad.

The City Bank Farmers Trust Co. is the fiduciary affiliate and is engaged in the handling of trusts and the performance of trust functions of all kinds. When its affiliation with The National City Bank of New York was effected in 1929, its commercial banking business was taken over by the bank, while, on the other hand, the bank turned over and is continuing to turn over to it, so far as the necessary consents of interested parties can be obtained, the trusts and trust business in which The National City Bank had been previously named.

Prior to affiliation with The National City Bank of New York the Farmers' Loan & Trust Co. had acquired jointly with the Central Union Trust Co., now the Central Hanover Bank & Trust Co., the ownership of the First National Bank of Palm Beach and the Central Farmers Trust Co. of West Palm Beach, Fla., both of which are small but sound and successful local institutions. The purpose was the development and extension of trust business.

Our form of operating organization is generally as follows:

The chairman, according to the by-laws, is an operating official and the chief executive officer of the bank and of each of its affiliates. The National City Bank of New York, The National City Co., and The City Bank Farmers Trust Co. each has its president. The chairman and these presidents are permanent members of the executive committee of the bank, on which committee members of the board of directors of the bank rotate in office. While there are officers of the bank that perform general duties, there are also vice presidents whose responsibilities relate directly to a given territory, this applying to the United States, to divisions of the greater City of New York, and to the foreign fields. In branch operation the vice president in charge of a given territory has under him certain officers with executive titles, and a group of managers, each handling a separate office.

The control of foreign and domestic branches is generally similar. In New York City, however, a single vice president is constantly in touch with the managers of branches within his group, while abroad a double control exists, one managerial group under a vice president at head office cooperating with and interchanging personnel with the managerial group operating under the vice president in the foreign field.

Nowhere in our institution have we been as free in incurring expense as in our inspection departments, which are administered by the comptroller. Every department at head office is inspected two to four times a year, and credit inspection world-wide is constant. Inspection of trusts is constant. All domestic branches are thoroughly inspected at least twice each year, and "spot surveys" and "security counts" are taken by surprise at shorter intervals. These inspections are augmented by frequent visits by the executive forces attached to the vice president in charge of specific groups. In addition to all this, the Comptroller of the Currency makes an inspection of head office and domestic branches twice a year and of foreign branches at irregular intervals, and the examiner of the New York Clearing House makes his inspection at least once yearly.

Institutionally we take no firm position as favoring unit, branch, group or chain banking. We can not, however, be blind to the fact that while unit banking as a sole system has played a prominent part in the development of our country, and still has its ardent adherents, there is a very definite trend away from it, a trend that is fostered not by individual authorities but by public interest. It is to be expected that, as time goes on and the public has tested these varied types of banking, the right kind of banking for this country will develop from popular demand. The National City Bank of New York will adapt itself to the developments.

It is our observation that while national feeling in the United States is second to none existing anywhere else in the world, local civic and neighborhood pride and desire for autonomy is prevalent throughout the United States to an outstanding and exceptional degree. We feel that this must be taken into consideration as the trend in banking develops and that, while in the ultimate whatever system best serves the public interest will doubtless be adopted, it is important that no banking trend should be forced by precipitate legislation, either permissive or restrictive. The development should be more rapid in any direction than is sanctioned by the gradual change of public feeling.

Frankly, it would seem clear that the small unit banks for outlying and rural districts have as a system outrun their exclusive position of popularity. Such banks must be operated cheaply but manifestly can not be operated as cheaply and at the same time as safely as a system of them which is supervised by experienced and capable bankers. Age, experience, training, a wider view and contact with larger affairs, are of value in supervision but of less importance in the routine of a small bank. It always has been claimed for the locally owned unit institution that it was more responsive to the wants of the community than a branch of a larger institution, with headquarters elsewhere, would be. Doubtless, there is something in the argument, but it works both ways. The most important of all considerations in valuing the services of a bank to a community is

that it shall care for the funds intrusted to its custody in such manner that they shall always be safe and ready for return to the depositors on demand. There is such a thing as a banker being too responsive to local applications and too much under the influence of local and personal appeals.

The fact that a local banker is under greater pressure from local borrowers than a branch manager, supervised by an outside authority, may cause the interests of depositors to be imperiled for the accommodation of borrowers; indeed, the record of failures proves this to be frequently the case. Every period of boom times has had many bank failures in its wake, because the local bankers were under the same influences and affected by the same psychology as their customers.

Branch banking where permitted by law, and group banking in part as a substitute where branch banking is not permitted, and a combination of these developments sometimes working hand in hand, is gradually but assuredly taking hold alongside of the old unit system. The development has come about not by the establishment of new banks to compete with the old nor by aggressive action from large financial centers. It has been largely due to local conditions where the opportunity existed for constructive reorganization. It is well that this movement is gradual, as it is educational to a public that is primarily interested in banking service. It is not a movement to be feared. Banking is not a business which can be monopolized. The idea that local money or capital will be drawn away from the small towns to the large cities and that local needs will go uncared for is unwarranted. It is not at all likely that money will be drawn from a higher to a lower market, and since money is usually cheaper in large centers than in the outlying districts, closer relations between the two are more likely to result. There will be no monopoly. The local fields will always be free and open for the establishment of locally owned banking institutions, and if they are capably managed and worthy of confidence they will be able to maintain themselves in the competition for local business. They will always have the best of the argument, certainly if the institution of outside ownership does not afford satisfactory safety or accommodation to deserving customers. That broad banking accommodation can be satisfactorily extended to outlying districts with comparatively small operating costs and with expert supervision provided by an overhead organization which covers numerous offices would seem to be assured by experience.

It should be borne in mind, however, and the importance of it is so vital as to justify repetition, that the normal banking development which has occurred in a natural and orderly way in most other countries has been discouraged and restricted in this country, and this fact creates a danger of a hasty, competitive development and one that will be publicly resented in case all restrictions are taken off at once. It is undoubtedly best that we gain experience gradually, with legislation keeping pace therewith. No reasonable objection, however, from the standpoint of public interest can be offered to the extension of the branch banking privilege for State and national banks alike beyond the present restricted areas. If such a development gives to the public a safer and better banking service, the demand for a further extension of power will come from a convinced public and the development will be a normal and accepted one.

How far immediate legislation should go in advantageously extending permissive powers for branch banking is a difficult problem. The trade area suggestion appears to me at present too broad in its scope. The suggestion of extension to county or to State lines seems artificial. The expansion to Federal reserve districts extends the territory to an unwarranted degree under existing circumstances and furthermore is filled with impracticabilities owing to the fact that the districts themselves do not represent either trade areas or spheres of natural banking relationships. My one suggestion would be that legislation should be such that under the carefully given permits of the comptroller's office the limitations of branch banking be extended to a somewhat larger field in the immediate vicinity of our cities, allowing the experience of this extension to be the guide in future legislation.

I feel that group banking is playing a most important role in what may be a real trend from unit banking at the one pole to widely practiced branch banking at the other. Where well managed, the groups seem to be satisfying the needs of the public which they serve. That they lack the flexibility, the effectiveness, and the economies of the branch system is obvious. As a measure of prudence, I feel that the holding companies should be under the inspection powers of the office of the Comptroller of the Currency.

In every country of the world that has attained financial maturity there is, so far as I know, a unified banking system operating under one set of national laws. The situation must necessarily be very different in the United States with our separate national and State jurisdictions. But wherever possible, through uniform State laws and wise development of Federal reserve legislation, the benefits of uniformity in the laws governing banking should be secured to the people.

The CHAIRMAN. Mr. Mitchell, what is your official position with The National City Bank?

Mr. MITCHELL. I am chairman of The National City Bank of New York and its affiliates.

The CHAIRMAN. The other witnesses who have appeared before the committee have furnished the committee either at the time of the hearing or subsequently have placed in the record a statement of the companies and affiliated companies. Will you furnish the committee with that data from your published statement?

Mr. MITCHELL. I will give you our last published statements.

The CHAIRMAN. Without objection, they will be placed in the record at this point.

(The statements referred to are printed in full as follows:)

The National City Bank of New York, including domestic and foreign offices—Condensed statement of condition as of March 27, 1930

ASSETS

Cash in vault and in Federal reserve bank	$174, 667, 509. 29	
Due from banks, bankers, and United States Treasurer	162, 872, 862. 71	
		$337, 540, 372. 00
Loans, discounts, and acceptances of other banks		1, 197, 209, 705. 73

United States Government bonds and certificates	$160, 777, 500. 00	
State and municipal bonds	22, 411, 790. 00	
Stock in Federal reserve bank	6, 600, 000. 00	
Other bonds and securities	57, 104, 102. 82	
		$246, 893, 392. 82
Ownership of:		
International Banking Corporation (including Bank of Haiti, Inc.)		8, 000, 000. 00
Bank buildings		37, 605, 378. 79
Items in transit with branches		11, 344, 334. 90
Customers' liability account of acceptances		150, 116, 686. 23
Other assets		7, 128, 743. 95
Total		1, 995, 838, 614. 42

LIABILITIES

Capital	$110, 000, 000. 00	
Surplus	110, 000, 000. 00	
Undivided profits	22, 409, 425. 19	
		242, 409, 425. 19
Reserves for:		
Contingencies	6, 981, 752. 66	
Accrued interest, discount and other unearned income	7, 787, 670. 45	
Taxes, dividends, and accrued expenses, et cetera	9, 450, 410. 11	
		24, 219, 833. 22
Liability as acceptor, indorser, or maker on acceptances and foreign bills		257, 602, 289. 22
Circulation		99, 365. 00
Deposits		1, 471, 507, 701. 79
		1, 995, 838, 614. 42

Figures of foreign offices which are included herein are as of March 25, 1930.

The capital stock of the City Bank Farmers Trust Company (capital $10,000,000, surplus and undivided profits $13,014,630.44) and The National City Co. (capital $55,000,000, surplus $55,000,000) are beneficially owned by the stock holders of The National City Bank of New York. The figures of these companies are not included in the above statement.

City Bank Farmers Trust Co.—Condensed statement of condition as of March 27, 1930

ASSETS

Due from banks and bankers	$35, 269, 005. 61
Loans and other secured advances	1, 401, 515. 02
United States Government bonds	8, 319, 000. 00
Other bonds, mortgages, and securities	12, 534, 066. 17
Other assets	3, 673, 363. 73
Total	61, 196, 950. 53

LIABILITIES

Capital	10, 000, 000. 00
Surplus	10, 000, 000. 00
Undivided profits	3, 014, 630. 44
Deposits	36, 543, 658. 73
Reserved for dividends, interest, taxes, and expenses	1, 638, 661. 36
Total	61, 196, 950. 53

Mr. FENN. There is only one question I have to ask in regard to the excellent presentation which Mr. Mitchell has made. Just in passing I notice that you say that the Comptroller of the Currency inspects your foreign branches. How can he do that?

Mr. MITCHELL. It is not a regular inspection.

Mr. FENN. I wish that he could make them, but I wondered how he could do it.

Mr. MITCHELL. He does. He sends a small group of men to one country and then to another, very often while our larger groups of inspectors are making their examinations, so that he saves the traveling of a large body and get the same results. He follows our own inspectors' reports very carefully; in other words—

Mr. FENN. He checks up on them?

Mr. MITCHELL. He checks up on those reports; yes. The inspection reports of our own inspectors are always given to his office and are having very constant and very careful attention from him.

Mr. FENN. Of course, that is an extraterritorial duty, if I can so term it, which he performs, and it is done under the authority of his office?

Mr. MITCHELL. It is.

Mr. FENN. And by inspectors appointed by his staff?

Mr. MITCHELL. Yes.

Mr. FENN. So that the inspection of your foreign branches or departments is identical with that within the borders of the country?

Mr. MITCHELL. I would hardly say identical.

Mr. FENN. Well, similar, perhaps I should say.

Mr. MITCHELL. It is similar but not identical.

Mr. FENN. That is all.

Mr. MITCHELL. Similar in that he sends his key men who work jointly with our own inspectors.

Mr. FENN. Are the results of those inspections ascertainable by the public, or do you publish them in your statements?

Mr. MITCHELL. No; the comptroller's reports are never given to the public.

Mr. FENN. I understand that, but I did not understand whether you published them in your own reports or not.

Mr. MITCHELL. No; they are very voluminous. Our own inspectors' reports are fully as voluminous as those of the comptroller.

Mr. FENN. Are they published in your reports to the stockholders?

Mr. MITCHELL. No, sir; they would constitute, in a year, a record far greater than the record of this committee in its hearings. We would have to have a very friendly public to spend the time necessary to read a fraction of the reports.

Mr. GOLDSBOROUGH. Mr. Mitchell, you used the phrase, a few minutes ago, "carefully granted permits by the comptroller."

Now, I have heard it said—and I use this illustration to make my question clear—very often that a first-class judge, who is absolutely wise, absolutely impartial, and absolutely fearless would be preferable to a jury in all cases. The answer to that is that "there ain't no such animal."

Now, then, the difficulty that any Comptroller of the Currency is under, it seems to me, is the difficulty of pressure which he, being human, can not possibly avoid. Do you believe that any comptroller is in a position to control, actually control, the granting of permits?

Mr. MITCHELL. Experience would lead me to answer that in the affirmative. Our experience with several comptrollers has been that their studies with respect to applications for the opening of branches

have been quite thorough. They have not been granted without a fair knowledge of the desirability to the public interests of such branches being opened, and I think that those words used in my statement fairly represent what I mean.

Mr. GOLDSBOROUGH. I am sure they represent what you mean, and I think you are right. The practical question is whether or not any one individual is in a position to control great pressure. You take a large institution, such as yours or the Chase National Bank, or in my own State, the Baltimore Trust Co. or the Union Trust Co. Now, they want to establish a branch. Their executive officers and directors have political affiliations of one kind and another. Pressure is brought upon probably the President and the Secretary of the Treasury, and that gets around to the comptroller. Now, you can not expect him, you know, to be absolutely impervious to a situation of that kind.

Mr. MITCHELL. I think you are quite right in that. He has the same difficulties that he has in the granting of the permits for the opening of national banks.

Mr. GOLDSBOROUGH. Yes.

Mr. MITCHELL. And of course, under pressure, under argument which he perhaps can not refute, although he may feel is soundly against the granting of such power, he has and he does grant permits for the opening of new national banks. We have seen it in our own territory and we have seen it throughout the country, especially when there is excessive enthusiasm regarding the value of bank stocks. Where there is a strong movement toward consolidation and merger, there is always a flood of applications for new national banks, formed in many cases for the sole purpose of getting a small development and disposing of the bank to somebody else.

Those are problems which he now has and which I assume would not be different from the problems that he would have in connection with the issuance of permits for more widely extended branches. Yet I do not know how the difficulties of the situation can be avoided. I recognize them as being there, but they are inherent in the situation. They have existed, and I doubt if they will exist to any greater degree under such a suggestion as I have made, than under the unit system of banking.

Mr. GOLDSBOROUGH. Mr. Mitchell, we have had before the committee several classes of argument favoring an extension of branch banking. One has been the number of failures of State and national banks which have taken place in the last nine years. Another has been that chain banks are bad things, that they ought not to be permitted to exist, but that the only way to get rid of them is to make it possible for these chain banks to be transformed into branch banks, and even though the witness does not favor branch banks, he says it is preferable to chain banking and, therefore, advocates branch banking to get rid of chains. The same thing obtains in the argument for branch banking to get rid of groups. We have never heard an argument in favor of getting rid of chain and group banking by affirmative action, nothing except that we could get rid of these greater evils by adopting branch banking.

Now, have you any opinion as to the justification for chain banks?

Mr. MITCHELL. The one argument against chain banks is that under a lax or improper control there may be introduced a weakness,

with perhaps one bad situation in the chain, bringing a collapse like a house of cards. I have always doubted whether chain banking added anything to the strength of the general banking situation.

Mr. GOLDSBOROUGH. Mr. Mitchell, the comptroller's view is this: He thought that chain banking was an unmixed evil; that they ought to be abolished; that in certain instances group banking was preferable to unit banking, but branch banking was preferable to either one of the three systems.

Now, have you any definite feeling about this group banking which is developing, particularly in the Northwest? What is your reaction to that economic development?

Mr. MITCHELL. I think it well has its place; that it is unquestionably in the public interest; and as to what the outcome of it is to be, where it is to lead us, I feel content to await developments.

Mr. GOLDSBOROUGH. You do not feel that it is necessary and proper to take such action as can be taken to stop group and chain banking where it is?

Mr. MITCHELL. No; I do not.

Mr. GOLDSBOROUGH. Until we can find out just what they are going to develop into? You think it is all right to let nature take its course, as I might say?

Mr. MITCHELL. That is my feeling.

Mr. GOLDSBOROUGH. I have this sort of reaction: If we are going through an economic cycle, where mergers of all kinds are inevitable as far as I am concerned the sooner the cycle works itself out the better and the less restraint placed upon it, in my judgment, the better, but if it is a casual thing; if, as a matter of fact, the spirit of the American people is still in favor of local self-government in banking as well as in everything else, then it seems to me that Congress should adopt a position of restraint, rather than to allow a condition which is not really a condition of cycle to go on.

Now, have you any opinion as to whether this is a situation that has got to run its course; whether, as a matter of fact, the country has permanently adopted, as a part of its psychology, great concentrations in business and, of course, in banking, as well as in everything else?

Mr. MITCHELL. I think I can say that that is the trend.

Mr. GOLDSBOROUGH. You think it has permeated the spirit of the people—of the public?

Mr. MITCHELL. I think it has probably created a demand for some different type of banking than the sole system of unit banking.

Mr. GOLDSBOROUGH. I am from the eastern shore of Maryland, which is that part of Maryland east of the Chesapeake Bay. Down there we have almost entirely unit banking with the exception of a State organization known as the Eastern Shore Trust Co. and a few smaller branch systems. There has been, in the last 40 years, one temporary suspension. No depositor has lost a cent in 40 years of banking in the nine counties of the Eastern Shore.

I think I have made the statement heretofore I know of several banks with capital stocks as low as $12,000 that have been prosperous and have served their communities very well and have declared sufficient dividends to keep everybody happy.

Does it not seem, as long as a community can be served by an organization of that kind and maintain its autonomy and its feeling of

personal interest, and its bank officers can absorb, by attending various meetings of banking associations and by contact with its city correspondents, up-to-date banking technique—does not that seem to you to be a better situation than to have branch banks of, say, Baltimore or New York, dominating the credit situation, which in turn would dominate the business situation and, in turn, the political situation, and get virtual control by the great metropolitan centers of the rural districts?

Mr. MITCHELL. I would say if your district is receiving service that is entirely satisfactory to itself at the present time, that it would be difficult to supplant it with anything else unless that which was presented gives to the public a finer service, greater safety, and greater accommodation, and broader banking service than they are now receiving and, as I have suggested in my earlier remarks, your local institutions will always have the best of it.

Mr. GOLDSBOROUGH. I was talking to one of our bank presidents the other day, one of our leading bankers and a man of good sense, and I said: "Look. Suppose some Baltimore bank was to come down here and offer your stockholders one and a half of the market value of your stock." I said, "What would you do?" He said, "We would sell."

Now, suppose they sold to that bank and became the branch of some bank in Baltimore or New York, as the case might be: It would be in a position, as long as competition continued in that community, to offer probably better service than the local banks could offer, but when it eliminated competition, what would be the situation—after, by its improved service, it had eliminated competition, would it continue to be interested primarily in the community or in using the community as a feeder for the home bank?

Mr. MITCHELL. In the banking business, I doubt if there is any such thing as the elimination of competition for more than a moment of time.

Mr. GOLDSBOROUGH. That is what several witnesses have said, but it seems it has been done in England, in Canada, in Germany, in France, in South Africa, and in Australia. The practical fact is that competition has been eliminated in those countries—all great countries.

Mr. MITCHELL. But bear in mind that any system of banking—any bank—can live only as it serves the public interests in a real and continuing way. If there were a failure to serve the public interests by an existing system in any one of the countries which you named, there certainly would be something to take its place.

Mr. GOLDSBOROUGH. But it would take a long while.

Mr. MITCHELL. Local pride, local insistence upon service, will assert itself almost overnight to supplant anything as important as the banking service, where the banking service rendered is unsatisfactory or bad.

Mr. GOLDSBOROUGH. Is not that true among a people who are used to the unit system and used to local self-government? Would it not take a very, very long time among a people who had become habituated to a centralized government and a centralized banking system? Does it not take them a long, long while to awaken to their own interests? Is not that the case?

Mr. MITCHELL. Personally, my view would be to the contrary.

Mr. HOOPER. I have just one question. On page 7, at the bottom of the page, you say:

> No reasonable objection, however, from the standpoint of public interest can be offered to the extension of the branch banking privilege for State and national banks alike beyond the present restricted areas.

That raises the question discussed by some of the gentlemen who have testified, as to what your idea is—or have you one—as to the trade area. Have you one that you care to express?

Mr. MITCHELL. You will notice that I say at the outset that the problem is a very difficult one. I think that the trade-area suggestion is undoubtedly too broad for the moment. I think that we must be gradual in this development.

Mr. HOOPER. You would limit it to State lines, certainly?

Mr. MITCHELL. I do not think that that is altogether logical. I can not believe, in the ultimate, that that restriction will exist.

Let me amplify that. Take our situation in New York, where we are extending branches through the Greater City of New York. We have a large suburban area with 75 or 80 per cent of the people in that area doing business constantly in New York and having their contracts in New York. Let us say that we extend branch banking farther down Long Island, to go beyond the city limits and to take in such places as Glen Cove, Oyster Bay, and possibly running down to Patchogue. That serves those people who have interests in New York City.

Now, suppose we go down through Westchester. We are permitted, let us say, to go to Rye and Port Chester. There are certainly just as many people living just over the line in Greenwich, Conn., who have their interests in New York, as there are in Port Chester—perhaps more.

Why, if the public interest is truly served by this expansion, should it be stopped at a State line and the people whose interests are identical just over that line, fail to get that service?

Mr. HOOPER. I am not maintaining that that should be the case, but would not there be complications arise merely from the different jurisdictions, even under the national banking laws, or would there incline to be complications by reason of State lines, in your opinion?

Mr. MITCHELL. If the extension of the privilege were made under the national act, I do not see just why there need be complications.

Mr. HOOPER. That is all, Mr. Chairman.

Mr. GOODWIN. Does the National City Bank of New York now operate branches outside of the metropolitan area of the city of New York?

Mr. MITCHELL. We operate in the boroughs of Manhattan, Bronx, Brooklyn, and Queens.

Mr. GOODWIN. And they come within the provisions of the McFadden Act?

Mr. MITCHELL. Yes; that is, the Greater City of New York.

Mr. GOODWIN. Are they both National and State banks—these branches?

Mr. MITCHELL. They are branches of our national bank.

Mr. SEIBERLING. Do you think it would be possibly better to have one system of banking rather than two—Federal and State?

Mr. MITCHELL. Until we know a lot more about the situation than we know now, I should say most decidedly we ought to have two.

Any one of our 48 States may make mistakes in their banking laws, permissive or restrictive, and any State bank has the power to retire and to enter into the national system, and vice versa. We have, through this double system, at the moment a counteractant against any unwise legislation and, during this formative period certainly there is, and possibly for all time there will be, a distinct advantage in the dual system.

Mr. SEIBERLING. Of course, you can not get the uniformity of restriction that you recommend and the uniformity of laws governing banking with the dual system, where you have no control of State banks.

Mr. MITCHELL. In connection with group banking?

Mr. SEIBERLING. You recommend, near the end of your statement here, a uniformity of banking restrictions.

Mr. MITCHELL. Uniformity of banking laws. I have in mind there, particularly, laws relating to negotiable instruments, usury rates, and matters affecting bank operations. There should be very definitely an urge upon all men to get uniformity in laws of that kind.

Mr. SEIBERLING. As I understand it, your theory is that if you had branch banking and you could get more for your money in the rural districts or in the branches than you could get in your main bank, you naturally would lend your money where you could get good security and get the highest rates and therefore the community would not suffer by reason of having branches?

Mr. MITCHELL. Generally speaking, that is my argument; yes.

Mr. SEIBERLING. You think branch banking should be extended?

Mr. MITCHELL. I think it would be wise to extend branch banking beyond its present limits, in order that we might gain some more experience.

Mr. SEIBERLING. Now, since Maryland does not want branch banking——

Mr. GOLDSBOROUGH. Maryland has state-wide branch banking now.

Mr. SEIBERLING. But I understand you are not for an extension of it?

Mr. GOLDSBOROUGH. I am not, but the State, as far as the State banking laws are concerned, has state-wide branch banking.

Mr. SEIBERLING. Then I will amend my question. As long as some States do not want an extension of branch banking, because their banking experience has been nearly 100 per cent, and other sections of the country need it very badly, I take it that is the reason why you have suggested that the matter of extension of branch banks should be left largely in the hands of the comptroller?

Mr. MITCHELL. No; I have not had that particularly in mind. I feel that with respect to branch banking, it is worthy of being tried out by some further extension than we are permitted at the moment, allowing the public interest to determine, as time goes on, whether further extensions are desirable.

Mr. SEIBERLING. Well, to get back to the other point, since it is difficult to determine the area in which branch banking should be permitted, if the comptroller had authority to permit branch banking, it would naturally follow he would permit it only in areas where it was desired and would not permit it in areas where it was not wanted, and that would meet the public demand, would it not?

Mr. MITCHELL. I doubt if the powers of the comptroller would be quite as broad as that. I think that the areas must be stated in some legislation.

Mr. SEIBERLING. Now, that is what I am getting at. Your idea, then, is that the area should be stated in some manner; that the comptroller should be given authority within those areas to permit branch banking?

Mr. MITCHELL. Quite so.

Mr. SEIBERLING. You think branch banking should always be permitted to the same extent that States permit it?

Mr. MITCHELL. Yes; I feel that very strongly.

Mr. SEIBERLING. I think that is all.

Mr. DUNBAR. Mr. Mitchell, you start out by saying "You have invited a statement from me in regard to the operations of the National City Bank of New York and its affiliated companies," which justifies this question: You are the man who, 6 or 8 or 10 weeks before the panic in Wall Street last October loaned $25,000,000 over night, in order to furnish means to prevent a panic on the stock market? Are you the man?

Mr. MITCHELL. I am the man there has been so much talk about in respect to——

Mr. DUNBAR. That is all right. You are the man who loaned the money?

Mr. MITCHELL. The National City Bank of New York did so.

Mr. DUNBAR. Now, I have always been very much interested in reading your monthly statements. Following your lending that $25,000,000 you had an editorial in your monthly newspaper or weekly newspaper in which you gave advice to the public which I thought was wonderful and wise and good. That advice was this, that if frenzied speculation was discontinued by the public, and if those who were speculating would gradually reduce the amount of their loans, we could expect an era of prosperity which had never been exceeded in the United States, and then your newspaper went on to say that if this speculative frenzy which had taken possession of the whole people of the land had not occurred, there was nothing that we could expect but permanent prosperity and that the results which would follow its continuance would be attended by evil consequences.

Mr. MITCHELL. Yes, I remember that statement in general. I think I wrote it largely myself.

Mr. DUNBAR. That is just what occurred in Wall Street?

Mr. MITCHELL. Yes, sir.

Mr. DUNBAR. If your advice was followed that trouble would not have occurred. The Federal Reserve Bank was blamed for not lending money to help keep up the speculation, and when you loaned the $25,000,000 you were advertised almost as the savior of the United States and yet, at the same time, you knew the course being pursued by the speculators would bring about ruin unless it was stopped. Now, that is the situation.

Mr. MITCHELL. You ask me for an explanation of that?

Mr. DUNBAR. No, I do not care for an explanation, because your statement is complete. However, I would be glad if you would give an explanation of it.

Mr. MITCHELL. I feel that no banking system, however it may be established, is a right and proper system that fails to provide money

to a legitimte borrower under any and all conditions at a rate of some sort. We never can close the door to a legitimate borrower.

In my own opinion, when we discuss credit, we must view it solely as one global thing. If there has been speculation in wheat, let us say, shall any banking authority say that banks can not loan to the dealer in wheat or to the wheat farmer; that there is over production and the banks must stop lending? That is attempting to control the direction of the flow of credit. It may be that bankers will make up their minds that there is danger in such a situation and the rate will indicate it, but if that wheat farmer or dealer in wheat has a legitimate demand for money, it must be satisfied by banking authorities.

Mr. DUNBAR. Now, then, I just want to commend you——

Mr. GOLDSBOROUGH. He has not finished his statement.

Mr. DUNBAR. Then, proceed and finish your statement.

Mr. MITCHELL. I would say that the same thing applies to the demand for money on collateral loans. If an industrial concern borrows for its needs, that is industrial borrowing of a legitimate character. If an industrial company issues securities and gets money to satisfy those needs, then, on some basis or another, there is a justifiable ground for a loan on the securities issued by that industrial company. The borrower who brings those securities in and asks a a loan is a legitimate borrower, just as legitimate as though the industrial company itself came in and asked for a loan, and I can not conceive of greater economic wrong than for a banking system to refuse credit on such collateral on some terms.

The two questions, sir, that you raise strike me as not being altogether related. That is why I make this explanation. Speculation that demands a use of credit which makes the total volume of credit outstanding unjustifiably large, is to be deplored, but the lending of money on collaterals is quite a different question and there should be a banking power to do it.

Mr. DUNBAR. I think the two questions I asked you are related, but ever since I heard of your lending that $25,000,000 and ever since I read your article I thought that you had more wisdom in your brain in lending that money and then giving that note of warning, than I have read from any source, and I have thought that if all the bankers of our land had viewed the situation as youd did, first coming to the relief of the situation and then giving a note of warning, perhaps the panic in October might have been avoided.

Mr. GOLDSBOROUGH. You and Mr. Mitchell will agree on that, undoubtedly.

Mr. DUNBAR. What I want to bring up is this: We read yesterday of a bank in Cincinnati failing—an average bank, I suppose—but the losses through one individual are a million dollars, upon which I think he had borrowed money and had about $100,000 of his own securities. He had been kiting checks. He lost over a million dollars last October and since then, in Wall Street, due to speculation entirely.

We agree so far?

Mr. MITCHELL. Quite so.

Mr. DUNBAR. I want to commend you, sir, because you have given a piece of advice at a time when everybody should have taken it, and if they had taken it we would have been all right. Do you

not believe that the hard times of to-day are caused primarily by the panic we had in Wall Street?

Mr. MITCHELL. No.

Mr. DUNBAR. You do not believe that had anything to do with it?

Mr. MITCHELL. Yes.

Mr. DUNBAR. How much did it have to do with it? I am not a lawyer, now, you understand?

Mr. MITCHELL. You are opening up a very broad question, but to answer it very, very briefly, I would say that the present difficulty that the country finds itself in resulted from a very broad overproduction that started with the war and has been going on apace since then. I think that the culmination of the speculative movement last fall accentuated a depression in business that was approaching anyway.

Mr. DUNBAR. But in that article you wrote you said that if the frenzied speculation should be curbed, we could expect a continuation of reasonably good times never excelled in the United States.

Mr. MITCHELL. And I believe that to-day, sir.

Mr. DUNBAR. Well, then——

Mr. MITCHELL. I believe that we are bound to hesitate, in our prosperity in the United States, with comparatively brief breathing spells, but at times our bad habits and overproduction and oversalesmanship, all resulting in a great overenthusiasm—those were bad habits for the country——

Mr. DUNBAR. That is true.

Mr. MITCHELL. Those were bad habits and temporarily—for how long a period I would not say—we are bound to have a let down in which those bad habits are going to be corrected.

I think one of our bad habits, as I have indicated just now, was an overenthusiasm. That overenthusiasm showed itself and demonstrated itself in the markets. That was the situation that was corrected in part by the collapse of the markets last fall, and we are now going through a period of more complete correction—a correction of that bad habit along with some others. How long it will take I do not know. My feeling, however, is that the fundamentals of this country and the character of the people make a state of prosperity the natural state for our country, and we are now on our way toward conditions that will be favorable to business and to business men.

Mr. DUNBAR. You believe that there is any prospect of slight or immediate revival of business now? What are the signs of the time?

Mr. MITCHELL. Mr. Chairman, has this definitely to do with branch, chain, and group banking?

Mr. DUNBAR. Pardon me, but you stated, "You have invited a statement from me in regard to the operations of the National City Bank of New York and its affiliated companies." What I am asking you is in reference to the operation of your bank. However, I will withdraw the question.

Now, you said that you did not believe that the losses in Wall Street last October were responsible for the present hard times only so far as our bad habits had caused a great many people to lose money and that overproduction was a cause. Do you not think that the great tremendous losses experienced in Wall Street last October did have a

whole lot to do with the bad times—perhaps precipitated the hard times?

Mr. MITCHELL. Yes—the same effect as overenthusiasm in agricultural land values during the period, let us say, from 1900 to 1920 had upon the rural districts and the condition of their banks.

Mr. DUNBAR. That is a satisfactory answer.

Mr. MITCHELL. From 1900 to 1910, generally speaking, land values in the rural districts doubled, and doubled again from 1910 to 1920. That was an excess of enthusiasm that brought in its trail a great deal of misery and, by and large, perhaps, more bank failures in the country than any other single cause.

So I say the excesses and overenthusiasm in the stock market are a directly parallel case.

Mr. DUNBAR. Now, I just want to ask one or two other questions. In speaking of banks in foreign countries, you say they have attained a degree of excellence or unanimity as to what should be the factors in the operation of those banks. I think somewhere, although I can not find it now, you mention that they are superior to those in our own country. Did you?

Mr. MITCHELL. I did not. I think you are referring to what I said in the last part of my statement. I said in every country of the world that has attained financial maturity——

Mr. DUNBAR. What page is that on?

Mr. MITCHELL. On page 8. "In every country of the world that has attained financial maturity, there is, so far as I know, a unified banking system operating under one set of national laws."

Mr. DUNBAR. How many large banks in Europe have failed in comparison with large banks in the United States? I do not mean a bank of less than $250,000 capital stock. How many banks have failed in Europe as compared with failures in the United States?

Mr. BEEDY. Within what time?

Mr. DUNBAR. During the last 10 years. Are there any more failures in the United States among large banking institutions, proportionately, than there are in Europe?

Mr. MITCHELL. Among large banking institutions?

Mr. DUNBAR. Yes.

Mr. MITCHELL. No. In the United States we have not had many failures among what can be called large banking institutions, over many decades.

Mr. DUNBAR. Then the unified banking system in Europe does not make for safety, eliminating the small banks, any more than we have safety in the United States?

Mr. MITCHELL. I am not attempting to make a point in that sentence of my statement; I am merely stating a fact. Perhaps conditions in our country are very different than they are in any other country in the world. Remember that Germany is the size of Texas in area. Now, I think it would not be wise for us to leap to the conclusion that because a certain banking system is satisfactory and successful in Germany, it is adaptable to the needs of the United States, with our breadth and scope of interests. This is a problem. I am not arguing that we should have this unified system. I cite it as a fact that in every other country of financial maturity there is a unified system, a fact which will perhaps lead us, in our gropings, to the ques-

tion whether some day we will not reach the same goal—a unified system.

That is one of the problems that I think you gentlemen, who are making such a fine study at the moment, should definitely have before you, and it is the only reason I mention it.

Mr. DUNBAR. The great difficulty in that is that each State can have a banking system different from the United States which, a while ago, you did not deplore or did not believe detrimental.

Mr. MITCHELL. Certainly during the time when we are working up to a possible answer, I consider it advantageous that we have this dual system. I do not say that in the end that is what we should have or will have, but during this period when we are finding out something—and it will take us a great many years to find it out—I think it is well we have this dual system.

Mr. DUNBAR. I want to say that you are a man who impresses me as a man in search of light and knowledge and to that extent I am very much gratified at your statement. I have only one other question. You say that, for the present, branch banking should be extended to a somewhat larger field in the immediate vicinity of our cities.

Now, you answered that in an inquiry propounded to you by Mr. Hooper, that New York City—Greater New York—and its environs and suburbs, and some of them go right over to Connecticut—you see no reason why you should not be permitted to extend over there. But, that is the limit of your demand for extension of branch banking at this time because you say you would allow the experience gained in this extension to be the guide in future legislation. So you believe, in any proposed extension of branch banking, we should go very slowly and deliverately and find out what a limited extension might suggest for the future?

Mr. MITCHELL. That is my view.

Mr. DUNBAR. That is your view?

Mr. MITCHELL. Yes, sir.

Mr. DUNBAR. Now, you have 42 branch banks in the city of New York, within the corporate limits?

Mr. MITCHELL. That is right.

Mr. DUNBAR. And other national banks are permitted to have the same thing?

Mr. MITCHELL. Yes.

Mr. DUNBAR. That is all, except I want to observe this, that I was always very much impressed by what you did to relieve the money situation in New York and by the advice you gave us afterwards, and which, if followed, I believe, to-day we would be enjoying reasonable prosperity, and I attach more importance to the losses sustained by gambling in Wall Street last October as being the cause of our present distress, than you do. That is all.

Mr. BEEDY. Mr. Chairman, I am sorry to say that I missed the statement of Mr. Mitchell, but I have been scanning it since I came in, and I would like to ask one or two questions.

I notice you say that the National City Co. is the investment banking affiliate and the City Bank Farmers Trust Co. is your fiduciary affiliate, and then you go on to show how the organization is linked up, the set-up of the management.

Do you think it is sound banking policy for one organization to have on the one hand trust funds and on the other securities which it is interested in putting on the market?

Mr. MITCHELL. Let me answer that by two arguments.

I think it is unfortunate for one demanding the solution of a banking problem if he has to bring his problem to either an investment banker, a trust banker, or a commercial banker alone.

I mean this, that if a corporation brings a problem in corporate finance to a purely commercial banker, it is likely that it will be solved through a commercial banking transaction while it may be that that problem should more properly be solved through investment banking action. In the public interest, therefore, I think it is well to have a linking of the various types of banking under one general management, and that they should be more or less separated and, in certain respects, definitely separated.

To go on with the second argument in answer to your question, I should say that we make it a rule in our trust company that they shall not buy from our investment affiliate, the National City Co., except where in some specific trust it is set forth as the desire of the maker of that trust that they may buy from the National City Co. In other words, we hold the two absolutely separate, the National City Co. and the City Bank Farmers Trust Co.——

Mr. BEEDY. Why do you hold them separate, distinctly separate? You emphasized that.

Mr. MITCHELL. Yes, we hold them distinctly separate because we believe that there are different types of minds in banking which should be segregated and specialized. So, for the general safety, unless some customer making a trust specifically grants the power of direct dealing, we eliminate it. When we set up the City Bank Farmers Trust Co. as the oganization of our institution having to do with trusts, we did it believing firmly that trusts should be administered by trust-minded men. The trust-minded man, in my experience, is very different from the investment-banking-minded man, and the investment-banking-minded man is usually very differently minded than the commercial-banking-minded man.

We set it up as a general rule that these compartments in which these various types shall be operated without direct contact one with the other. However, I may add that if you were making a trust with the City Bank Farmers Trust Co., I think I might convince you of specific advantages in putting in that trust agreement a provision that so far as the purchase of securities is concerned, the City Bank Farmers Trust Co. should be permitted to deal with the National City Co., the investment affiliate. I think I could show anyone that argument to a point where he would likely say that it was to his advantage to put it in. Unless there be specific consent, the public and ourselves are safer in working under the general plan of having no direct contact so far as purchases and sales are concerned.

Mr. BEEDY. It would be your policy, would it not, when a man comes into your bank to make a trust, to have him see that by its terms you should be authorized to buy of your investment affiliate?

Mr. MITCHELL. We give him the argument; we show him the advantages, and if he chooses to make that provision, it is made.

Mr. BEEDY. He is free to make his choice, of course——

Mr. MITCHELL. He is free to make his choice.

Mr. BEEDY. But, believing as you do in your own company, it would be your duty to show him the advantages of authorizing purchase from your investment affiliate?

Mr. MITCHELL. Quite so.

Mr. BEEDY. I do not question but what this is an age of specialization and the trained trust man should run the trust business and the trained commercial banker should run the commercial bank.

My question is, does the holder of stock in the National City Bank participate in the profits of the three organizations put together?

Mr. MITCHELL. The stockholder?

Mr. BEEDY. Yes.

Mr. MITCHELL. Oh, yes; he participates in it all.

Mr. BEEDY. It is undoubtedly wise to have these separated, and the trained trust man in his proper department, but is it wise to link these two kinds of banking businesses together? We are all more or less human, and even if a man is trained as a trust banker, where he acts for a company that has an affiliate and where he owns stock in both companies and it is to his advantage to make a profit out of his own stock rather than the stock of somebody else, there is that human temptation perhaps to deal in securities through his own organization and not by purchasing it outside. There is a danger there.

Mr. MITCHELL. It seems to me that if your argument were carried very much further the fallacy of it would be apparent. In our business we endeavor to make very broad contacts. We do a very large business in what is the equivalent of the savings-bank business, or similar to it; again, we make a big business of small loans, unsecured loans, of $250 and $300 on the average to a vast number of people. Those are specialized businesses in themselves but are all a part of the banking business. If you segregate these and if you say that the letter-of-credit business, for instance, should be a separate phase of banking, and if you say that the foreign-banking business is a type of business extraneous from the domestic business and all of these units should be set up separately and that we should not be working as I think we are in a very definite way toward the department-store type in our large financial units, then the argument that I could give with respect to the particular question of the trust business and the investment-banking business as to segregation would fall down, but I argue for a complete banking service to be rendered to a public that seeks a comprehensive banking service from the institution to which they come.

Mr. BEEDY. Of course, there is a reductio ad absurdum to every argument. I should not attempt to go to the extreme to which you have gone in advocating the separation of the banking business of a banking institution for the purposes of your argument, but I did want to bring out the point that I think the linking of these two branches of the banking business places a very great necessity for wise management upon the management of the combined institution.

Mr. MITCHELL. You are quite right in that deduction. Of course, we direct our trust company with a separate board of directors. We insist upon it being operated by so-called trust-minded men and, as far as we can do so, we do segregate its activities.

Mr. BEEDY. May I ask another question, Mr. Chairman?

I notice in the morning papers, or yesterday's papers, that the third of the reparations loans which were to be floated in this country is now being offered to the extent of about $113,000,000.

Is your bank participating in the marketing of any of that loan?

Mr. MITCHELL. You evidently have later information than I.

Mr. BEEDY. I noticed it in this morning's paper.

Mr. MITCHELL. It may well be. Up to the time I left the office yesterday, I understood——

Mr. BEEDY. I think that came out in this morning's paper.

Mr. MITCHELL. Yes, we are participating in the distribution of the loan.

Mr. BEEDY. Since the war, the latest figures that I have been able to get hold of is that this country has floated both in foreign government loans and foreign corporation loans about $18,000,000,000, so that, added to the 12,000,000,000 of indebtedness owed it by foreign governments as the direct result of the war, it makes about 30,000,000,000 owed us by Europe and South America to-day.

Did you view it as a wise policy that this Government should not have gone into the League of Nations because of the danger of foreign entanglements—and, if that seems a bit irrelevant——

Mr. MITCHELL. I think it is pretty far afield.

The CHAIRMAN. I might ask what bearing that has on this question of branch, group, and chain banking?

Mr. BEEDY. It does not have any bearing, and he does not have to answer it unless he wants to.

Do you look upon these foreign loans as safe investments for trust estates?

Mr. MITCHELL. I do not think you can generalize on foreign loans any more than you can generalize on railroad bonds or corporate bonds of any kind.

Mr. BEEDY. Let us take the reparations loan. Does your trust affiliate handle any of these reparations loans? Do you underwrite them for sale purposes?

Mr. MITCHELL. Our trust affiliate does not do any underwriting. Our trust affiliate buys only for investment in its trusts.

Mr. BEEDY. Then this statement of yours is a little misleading, and I can see how it may be made to conform to the facts. Let me read it:

> The National City Co. is the investment banking affiliate engaged in the analysis of corporate and Government finance, underwriting, and the purchase and sale of investment securities.

Mr. MITCHELL. Yes; but I understood you question to refer to the trust affiliate. Did I misunderstand you?

Mr. BEEDY. My question did refer to the trust affiliate.

Mr. MITCHELL. But if you will go on, you will see that I differentiate. The trust affiliate has to do with the fiduciary business only.

Mr. BEEDY. That is interesting and informative; that is, the National City Co. has two functions—it underwrites certain securities from time to time?

Mr. MITCHELL. Yes.

Mr. BEEDY. But it never underwrites any securities which it later might sell to the City Bank Farmers Trust Co. in conjunction with its trust business?

Mr. MITCHELL. Quite so.

Mr. BEEDY. Never?

Mr. MITCHELL. No, sir. The National City Co. does not sell anything to the City Bank Farmers' Trust Co. except where under some specific trust the maker of the trust has provided that the City Bank Farmers' Trust Co., the trustee, may purchase directly from the National City Co.

Mr. BEEDY. Exactly. So that, it being your policy to set forth the advantages of such a purpose whenever a trust is made with your City Bank Farmers Trust Co., if perchance any of the people who come in there to make a trust see those advantages as you think they should if they are wise, then that company does buy securities which the National City Co. underwrites and makes them a part of the trust estates?

Mr. MITCHELL. Where that consent is given in specific cases, yes; but in the general trust business, no.

Mr. BEEDY. Now, here is a reparations loan on the market. The National City Co., engaged in the investment banking business, has already analyzed those loans and decided whether it will sell those bonds, and if the City Bank Farmers Trust Co. has some trusts which authorized the purchase of securities from the National City Co., your trust-minded men, if they are so minded, may buy reparations loan bonds and put them into those trust estates.

Mr. MITCHELL. Yes.

Mr. BEEDY. I would like to ask you if you think it is wise to set up in one organization an institution with authority in the management of trust estates to purchase of another separate department in the same organization a foreign issue of bonds, such as the reparations loan bonds will be?

Mr. MITCHELL. As I see it, you are getting down to this specific question: Will a group of trust-minded executives and members of the executive committee or board of directors determine that the German reparation bonds are fit for trusts?

Mr. BEEDY. Yes.

Mr. MITCHELL. That is a problem that has not anything to do with any investment banking policy or operation of the investment affiliate. That is a question for the trust-minded man to determine. Now, let us assume that he did determine that those bonds were a right and proper investment for certain trusts, and the National City Co. had no interest in that issue at all. Then the trust company would go out and buy those bonds where it could. I do not get the strength of the argument that it is wrong if in that particular instance the City Bank Farmers Trust Co. buys its securities directly through the National City Co.

Mr. BEEDY. Let us assume that the National City Co. does not have any interest in the reparations loan, and you put your trust-minded man on the problem whether those bonds are a proper buy. Then let us assume again that the National City Co. is interested in the sale of a certain number of those bonds. Do you think it would have any tendency to affect the judgment of your own trust-minded man as to whether or not those bonds were a good purchase for the trust estate?

Mr. MITCHELL. Absolutely not.

Mr. BEEDY. That is, your organization is so perfect that the human element does not enter into it at all?

Mr. MITCHELL. It does not with respect to matters of that sort. My experience over a long period of years makes me answer that in a very positive way.

Mr. BEEDY. You know that there is some discussion as to the advisability of setting up under one organization the trust affiliate and the commercial bank.

Mr. MITCHELL. I know that; yes.

Mr. BEEDY. But you do not see any danger in it if the management is proper, and these departments are kept separate and run separately in so far as it is possible to do so?

Mr. MITCHELL. Absolutely not.

Mr. BEEDY. That is all.

The CHAIRMAN. Judge Brand.

Mr. BRAND. Are you willing when you go home or while you are still in the city to send in for the record a clear definition of chain banking, branch banking, and group banking?

Mr. MITCHELL. It would seem to me that your committee has been a greater contributor to those definitions than I could possibly be. I take my own definitions from what I got out of the reports of your hearings, and I have no other views.

Mr. BRAND. Have you been able to find that any two witnesses have given the same opinion about it?

Mr. MITCHELL. I have gathered the definitions from my readings of the reports of these hearings, and while I may be wrong, if you wish me to give you the definitions as I understand them——

Mr. BRAND. Yes; I would like to have you define chain banking, branch banking, and group banking at this time, and also state the distinct differences between the three systems of banking.

Mr. MITCHELL. Branch banking I understand to be where a parent bank establishes offices, assuming full and complete responsibility for the acts of those offices and pledging for the fulfillment of any obligations made by those offices the full resources of the parent company.

Chain banking I understand to be where two or more banks are owned completely or as to the majority of their stock by an individual who has a general supervision of the banks so owned.

Group banking differs from chain banking in that there is a holding company supplanting the individual, which holding company makes it its business to develop for the benefit of the group, experts on one or another phase of the banking business and to give inspection and control to the banks in its group.

Now, those definitions as to chain and group banking I have drawn very largely from what I have read of the hearings before your committee, and maybe I have misunderstood them.

Mr. BRAND. As I understood you, and I will ask you if it is not a fact, in both branch banking and group banking systems, the parent bank controls the directorate of the unit banks belonging to the two different systems?

Mr. MITCHELL. They must control the election of the directors.

Mr. BRAND. That is what I mean, that in both systems they have a right to say who shall be the directors.

Mr. MITCHELL. As a majority of the stockholders, yes.

Mr. BRAND. Is that true of chain banking?

Mr. MITCHELL. It seems to me is must be equally true of chain banking.

Mr. BRAND. I suppose so.

Now, one other question. What protection is given to the depositors in the case of the insolvency or failure of a bank in a group system and a branch system?

Mr. MITCHELL. As I pointed out, in the branch system the entire resources of the parent are pledged to fulfill the obligations of the branch in every case.

Mr. BRAND. In other words, the parent bank is made liable to give full satisfaction to all creditors of that particular bank?

Mr. MITCHELL. They must.

Mr. BRAND. Including depositors?

Mr. MITCHELL. They must.

Mr. BRAND. Is that also true of the group banking system?

Mr. MITCHELL. Not necessarily, but from a practical standpoint it seems to me it would probably work out very much the same way.

Mr. BRAND. You have set out in your statement that you have 98 branches in 23 different countries. Would it be objectionable to you or to your institutions to furnish the committee with the names of the countries where these banks are located?

Mr. MITCHELL. No; I can give that to you now if you wish it.

Mr. BRAND. And also the lawful rates of interest to be charged in those countries and the rates of interest you charge.

Mr. MITCHELL. I hardly think I could do that, because interest rates are a fluctuating thing. We can not be in any country and charge more than a competitive rate.

Mr. BRAND. Would you mind, then, confining your statement to the rates of interest fixed by law in the 23 countries, omitting what rates you charge in those countries?

Mr. MITCHELL. I would be very glad to, indeed. I fail to recall at the moment any country where the lending rate is established by law, but I will be very glad to investigate and advise you.

The CHAIRMAN. Without objection, that will be inserted in the record at this point.

(The information referred to is reproduced below.)

THE NATIONAL CITY BANK OF NEW YORK

Maximum contractural legal rate of interest fixed or permitted by law in the respective countries as indicated.

Argentine, none; Belgium, none; Brazil, none; Cuba, none; Colombia, none; England, none; France, none; Haiti, none; India, none; Japan, none; Mexico, none; Panama, none; Peru, 12 per cent; Philippines, 14 per cent; Porto Rico, none; Santo Domingo, none; Straits Settlements, none; Uruguay, none; Venezuela, none; Chile, present rate as tabulated, rate is revised each six months, 13.41 per cent; China, probably none, but can not be set forth definitely due to present governmental conditions prevailing except at Hong Kong (British Crown Colony), none; Italy, legal rate is subject to determination by court after review; Spain, legal rate is subject to determination by court after review, 8 per cent accepted in general, 12 per cent has been permitted in unusual cases.

The CHAIRMAN. Mr. Mitchell, you will put in, if you have not already done it, a list of your foreign branches and your domestic branches?

Mr. MITCHELL. You have not asked me for it, but I would be very glad to put that in.

(The information referred to is reproduced below.)

THE NATIONAL CITY BANK OF NEW YORK

FOREIGN BRANCHES

Argentina: Buenos Aires, Rosario, Plaza Once.
Belgium: Antwerp, Brussels.
Brazil: Pernambuco, Rio de Janeiro, Santos (agency), Sao Paulo.
Chile: Santiago, Valparaiso.
China: Canton, Dairen, Hankow, Harbin, Hong Kong, Peping, Moukden, Shanghai, Tientsin.
Colombia: Bogota, Cali, Medellin.
Cuba: Caibarien, Camaguey, Cardenas, Ciego de Avila, Cienfuegos, Florida, Guantanamo, Holguin. Habana—Belascoain, Cuatro Caminos, Galiano, La Lonja, Manzanillo, Matanzas, Moron, Nuevitas, Palma Soriano, Pinar del Rio, Plaza de la Fraternidad, Remedios Sagua la Grande, Sancti Spiritus, Santa Clara, Santiago de Cuba.
Dominican Republic: Barahona, La Vega, Puerto Plata, San Pedro de Macoris, Santiago de los Caballeros, Santo Domingo City.
England: London (west end), London (city).
India: Bombay, Calcutta, Rangoon.
Italy: Genoa, Milan.
Japan: Kobe, Osaka, Tokyo, Yokohama.
Mexico: Mexico City.
Panama: Colon, Panama.
Peru: Lima.
Porto Rico: San Juan, Caguas, Arecibo, Bayamon, Mayaguez, Ponce, Santurce.
Straits Settlements: Singapore.
Uruguay: Montevideo.
Venezuela: Caracas.
Philippine Islands: Manila, Cebu.
International Banking Corporation: Spain—Barcelona, Madrid. England—London.
Banque Nationale de la Republique d'Haiti: Aquin (agents), Aux Cayes, Cap Haitien, Fort Liberte (agents), Gonaives, Jacmel, Jeremie, Miragoane (agents), Petit Goave, Port de Paix, Saint Marc, Port-au-Prince.
The National City Bank of New York (France) S. A.: Paris, Champs-Elysees, Nice.

DOMESTIC BRANCHES

Manhattan:
Forty-second Street, Forty-second Street at Madison Avenue
Fifth Avenue, Fifth Avenue at Twenty-eighth Street.
Public Library, Fifth Avenue at Forty-first Street.
City Bank Farmers, 43 Exchange Place.
Bowery, Bowery at Bond Street.
Canal, Canal Street at Broadway.
Lenox Hill, 167 East Seventy-second Street.
Madison Avenue, Madison Avenue at Seventy-second Street.
Park Avenue, Park Avenue at Fifty-seventh Street.
Upper Park, Ninety-sixth Street at Park Avenue.
Varick Street, Varick Street at Vandam Street.
Washington Heights, 4255 Broadway.
Washington Square, Thirteenth Street at Fifth Avenue.
Yorkville, 123 East Eighty-sixth Street.
Fourteenth Street, 135 East Fourteenth Street.
Thirty-second Street, 1 Park Avenue.
Thirty-fourth Street, Thirty-fourth Street at Seventh Avenue.
Fifty-seventh Street, Fifty-seventh Street at Seventh Avenue.
Seventy-second Street, Seventy-second Street at Broadway.
Seventh-ninth Street, Seventh-ninth Street at Amsterdam Avenue.
Eighty-sixth Street, Eighty-sixth Street at Broadway.
Ninety-sixth Street, Ninety-sixth Street at Broadway.
East Midtown, 220 East Forty-second Street.

Brooklyn:
Peoples Trust, 181 Montague Street.
Bay Ridge, Fifth Avenue at Fifty-fourth Street.
Bedford, Nostrand Avenue at Herkimer Street.
Bush Terminal, Thirty-sixth Street at Third Avenue.
Flatbush, Flatbush Avenue at Church Avenue.
Homestead, Pennsylvania Avenue at Liberty Avenue.
Kings Highway, Kings Highway at East Fifteenth Street.
Livingston Street, Flatbush Avenue at Livingston Street.
Prospect, Flatbush Avenue at Bergen Street.
Ridgewood, Myrtle Avenue at Bleecker Street.
Wallabout, Clinton Avenue at Myrtle Avenue.
Fourth Avenue, Fourth Avenue at Eighty-fifth Street.
Eighteenth Avenue, Eighteenth at Sixty-fourth Street.
Queens:
Flushing, 85 Main Street.
Jamaica, 92–11 Union Hall Street.
Long Island City, Bridge Plaza East.
Queens Village, Jamaica Avenue at Two hundred and eighteenth Street.
Fresh Pond Road, 1030 Fresh Pond Road, Ridgewood.
Bronx:
Bronx, One hundred and forty-ninth Street at Courtlandt Avenue.
Fordham, Creston Avenue at Fordham Road.

The CHAIRMAN. If you will, I should also like to have you state whether your branches are established under the laws of the countries in which the branches are located.

Mr. MITCHELL. Certainly.

The CHAIRMAN. Do you set aside a capital stock for those branches in foreign countries?

Mr. MITCHELL. In certain countries we do, and in certain countries we do not. The laws in certain countries provide that we shall and in others do not, and from our standpoint it makes no difference whether we establish special capital for them or not since our entire resources are behind each of our branches.

The CHAIRMAN. If you do establish special capital, do you carry it as an asset of the National City Bank or one of its affiliates?

Mr. MITCHELL. It is not done quite that way, Mr. Chairman. There is set aside for that branch so much capital in the currency of the country where that branch is located, but it is not necessarily a separate corporation. It is merely a given amount of capital allocated to that branch.

The CHAIRMAN. Do you receive deposits and pay checks in those foreign branches the same as you do in the parent bank?

Mr. MITCHELL. Yes.

The CHAIRMAN. Do you make deposits by the National City Bank or any of its affiliates in those branches?

Mr. MITCHELL. Occasionally, but only occasionally.

The CHAIRMAN. If the demand for money in a locality should exceed the resources of the branch, I suppose that would be an occasion where you would send additional funds?

Mr. MITCHELL. Yes.

The CHAIRMAN. Your balances abroad are not kept entirely in those branches?

Mr. MITCHELL. The balances of head office of the National City Bank?

The CHAIRMAN. Yes.

Mr. MITCHELL. Oh, no.

The CHAIRMAN. Do you keep open accounts with other banks in London and Paris?

Mr. MITCHELL. A great number of accounts with foreign banks.

The CHAIRMAN. And foreign banks keep balances with the National City Bank in New York?

Mr. MITCHELL. Yes, and also with the foreign branches.

The CHAIRMAN. And you buy and sell bills and carry on transactions with those foreign banks as you would with any local bank in the United States?

Mr. MITCHELL. Quite so.

The CHAIRMAN. Take, for instance, your branch in Cuba. Is that incorporated under the laws of Cuba?

Mr. MITCHELL. No, that is a full-fledged branch.

The CHAIRMAN. You are a director of the Federal Reserve Bank of New York, are you not?

Mr. MITCHELL. I am.

The CHAIRMAN. Are you a member of the clearing house committee?

Mr. MITCHELL. I am.

The CHAIRMAN. There has been much discussion about the scarcity of eligible paper for rediscount in the Federal reserve system. Do you consider that there is a scarcity of eligible paper for the proper conduct of the business of the Federal reserve system and its member banks?

Mr. MITCHELL. I think at the moment there is some scarcity of such paper, but I think that the condition is temporary.

The CHAIRMAN. There have been suggestions made to this committee that we make eligible for discount at the Federal reserve bank certain additional classes of paper, representing partial payments in some form or another on notes of dealers, secured by municipal bonds in certain cases, and others have suggested that we make available for rediscount notes secured by railroad bonds and real estate loans. Would you think it advisable to increase the eligible list to the extent of including any one or all of those classes?

Mr. BEEDY. Mr. Chairman, has that anything to do with branch, group, or chain banking?

The CHAIRMAN. It has very much to do with it, because it deals with the assets of these banks.

Mr. BEEDY. I do not see what difference it makes what the assets are. The question is whether it is better to have those banks operate as unit banks or in a chain, group, or branch banking system, and I do not see how that figures.

The CHAIRMAN. If the gentleman objects, I will withdraw the question.

Mr. SEIBERLING. We have gone into that with practically all the witnesses we have had here. There is a wide interest in the subject.

Mr. BEEDY. Not with my permission.

Mr. MITCHELL. I would be glad to answer it, Mr. Chairman.

Mr. BEEDY. I object to it.

The CHAIRMAN. You are operating a number of branches, and I am presuming that in your case, where I know you analyze the districts very carefully, all of these branches are on a paying basis?

Mr. MITCHELL. In New York, all except branches recently established. Of course, it takes time for any branch to run from the red to the black. By and large, our branches run into the profit column

within an average, I should say, of about eight months from the time of opening. New branches that were opened within that eight months period I would not say are universally profitable at the moment, although one branch that we have opened within this period has been in the black from the time it opened.

By and large, our branches in New York are profitable.

The CHAIRMAN. If after a reasonable test you find, however, that they are not profitable, what would be your policy?

Mr. MITCHELL. To close them, because we do not believe in conducting anything in banking that does not pay its board.

The CHAIRMAN. Would you not say that in many of the cities—say, for instance, your own city of New York—there are probably many branches now that are not on a paying basis?

Mr. MITCHELL. I would not want to answer that, because I have not facts upon which to base an answer.

The CHAIRMAN. But is it not a fact that in certain districts in New York City they have too many branch facilities?

Mr. MITCHELL. That they are overbanked?

The CHAIRMAN. Yes.

Mr. MITCHELL. I think there is a tendency that way just at the moment, but our districts grow up to the facilities so rapidly in the city of New York that I think the inclination of the bankers' mind would be to let the branches stay there and let the territory grow up to them.

The CHAIRMAN. Do you see any danger, Mr. Mitchell, in the possible concentration through mergers and consolidations of banking assets in New York? In other words, do you see any danger in the control of credit and banking resources in the organization, for instance, of a bank of five billions or ten billions in New York?

Mr. MITCHELL. Absolutely not.

The CHAIRMAN. Do you think that competition will always be maintained even though we should ultimately get down to four or six banks in New York City?

Mr. MITCHELL. Quite so.

The CHAIRMAN. Do you feel perfectly sure that the average man would find that he could have his wants properly taken care of and do a banking business with those large units as well as he could if he were served by smaller banks?

Mr. MITCHELL. I feel certain of it.

The CHAIRMAN. You do not think that rules and regulations would be promulgated which might limit his ability to get banking accommodations?

Mr. MITCHELL. I would have no fear of it.

The CHAIRMAN. In connection with the questions that Mr. Beedy asked you in regard to the affiliated companies and your trust department, which is the City Bank Farmers Trust Co., do you think the fact that you are chairman of each one of your three units would influence the attitude of the board, for instance, of the trust company to take on certain securities in which one of your other companies would be interested?

Mr. MITCHELL. I do not think I would long hold my position if that influence were apparent.

Directly answering your question, no.

The CHAIRMAN. The National City Co. originates and distributes securities, does it not?

Mr. MITCHELL. Yes.

The CHAIRMAN. And as I understood you to say, one certificate of stock represents ownership in the National City Bank, the National City Co., and the City Bank Farmers Trust Co.?

Mr. MITCHELL. Direct ownership in the National City Bank and a beneficial interest in the City Bank Farmers Trust Co. and the National City Co.

The CHAIRMAN. Does the National City Co. buy and sell National City Bank stock?

Mr. MITCHELL. It does, as a trading post.

The CHAIRMAN. But the City Bank Farmers Trust Co. does not do so?

Mr. MITCHELL. No.

The CHAIRMAN. Inasmuch as the national banking act prohibits a national bank from buying, owning, or selling its stock, do you see any possibility of the affiliated company, which has the same stockholders, being in violation indirectly of that law?

Mr. MITCHELL. I think it could only be considered an indirect violation if they bought and continued to hold. Buying and selling as a trading post and never continuing for any period to hold the shares seems to me to completely strip that problem of any danger whatsoever.

The CHAIRMAN. The National City Co., as you say, originates and markets securities. Does it maintain the market for its securities—in other words, does it enter into any pools for the maintenance of the market in connection with the securities in which you are particularly interested?

Mr. MITCHELL. The National City Co. attempts to find buyers where securities are to be sold by investors, and where those securities have National City sponsorship.

So far as entering into pools, no; if I understand your question correctly we have never had a case of that sort.

The CHAIRMAN. As I understood your statement, the National City Bank, of course, is a national bank, chartered under the national banking act, and the National City Co. is organized under the corporate laws of the State of New York?

Mr. MITCHELL. Yes.

The CHAIRMAN. And the City Bank Farmers Trust Co. is organized under what law?

Mr. MITCHELL. Under the laws of the State of New York.

The CHAIRMAN. Not under the corporation laws?

Mr. MITCHELL. No; under the banking laws of the State of New York.

The CHAIRMAN. Is that examined by the State banking department?

Mr. MITCHELL. It is.

The CHAIRMAN. Is the National City Co. examined by the banking department of the State of New York?

Mr. MITCHELL. No; it is not. The Comptroller has always had the statement of the National City Co.—I say always; he has had it in recent years, and in addition he is invited to examine every cross transaction between the bank and the company.

The CHAIRMAN. That opportunity is voluntarily offered by the National City Bank?

Mr. MITCHELL. Yes.

The CHAIRMAN. Has he, as a matter of fact, examined the National City Co. simultaneously with the National City Bank?

Mr. MITCHELL. No complete examination.

The CHAIRMAN. Is there a simultaneous examination of the three companies at all?

Mr. MITCHELL. No, there is not.

The CHAIRMAN. In connection with the trust business, you spoke of the different angles of the banking business being conducted under one roof, so to speak, and I want to ask you if you would be in favor of the segregation of the assets of banks? For instance, where national banks are doing the different classes of banking business, would you favor the segregation of assets to give a preference to certain depositors over other depositors?

Mr. MITCHELL. No; I would not.

The CHAIRMAN. You do not see any danger in subjecting the saving deposits to the risks of commercial transactions?

Mr. MITCHELL. No; I do not.

The CHAIRMAN. You do not feel that they should have a preference in the assets in case of the failure of a bank?

Mr. MITCHELL. No; I do not.

The CHAIRMAN. I am referring particularly now to the operation of banks under such law in California, which apparently has worked successfully.

Mr. MITCHELL. Yes; I realized that. My answer would be no.

The CHAIRMAN. Do any of your affiliated companies own a seat on the Stock Exchange?

Mr. MITCHELL. No.

The CHAIRMAN. Your stock and bond dealing is all done through independent houses?

Mr. MITCHELL. They have to be. You know that the New York Stock Exchange does not permit any corporate membership whatsoever. We, with other New York institutions, are seeking the establishment of a new form of special membership in the exchange so that we may deal directly in bonds on the exchange.

The CHAIRMAN. Some houses have officers or members of the firm hold the seats on the exchange. Do you cover it in that manner?

Mr. MITCHELL. No; we do not.

The CHAIRMAN. There has been some discussion here, and while it perhaps does not have particularly to do with branch, chain, and group banking, it does indirectly affect it, in connection with the fixing of rates on the New York money market. The committee has not yet got hold of a man who has been able to tell us just the process in which the daily rates for money in the New York money market is fixed.

Mr. MITCHELL. Are you speaking of the call rate?

The CHAIRMAN. Yes.

Mr. MITCHELL. The call rate is fixed by the Stock Clearing Corporation, which is a corporation attached to and owned by the members of the New York Stock Exchange. That committee, a committee of the Stock Clearing Corporation, review every morning the loans made to Stock Exchange members the day before and the rates, and they establish a rate which in their opinion is a fair rate in the light of the pre-

vious day's lendings and in the light of what is known of the money market that morning.

By and large, I believe that their work has been well done, and it is done as accurately as it could be by anybody. The establishment of that rate does not make it incumbent on any bank to accept it, and certain of our banks refuse to accept the rate so established whenever they deem it to be unfair. But, by and large, in the great majority of instances that rate is accepted, but if it ever failed in fairness over a period, it would not be an accepted rate.

Mr. BEEDY. That is a committee of about three men?

Mr. MITCHELL. I think three men are on it. It is a committee that is under the supervision of Mr. Streit.

The CHAIRMAN. Does the management of the Federal Reserve Bank of New York have any influence over those rates?

Mr. MITCHELL. They have no influence on that rate at all.

The CHAIRMAN. The Federal reserve people have no influence over that committee?

Mr. MITCHELL. No, sir.

The CHAIRMAN. It is a free committee?

Mr. MITCHELL. Absolutely free.

The CHAIRMAN. And the independence of that committee is made secure by the check referred to, that any bank can disagree with that rate?

Mr. MITCHELL. Yes, sir.

The CHAIRMAN. That is a check, is it not?

Mr. MITCHELL. That is a check; oh, yes. It is more or less of a rebuff that that committee does not relish, to have any bank in New York refuse to accept the rate, because it indicates that they have either missed something in their calculation or that they have not been fair.

The CHAIRMAN. How is that committe designated?

Mr. MITCHELL. I can not answer that, Mr. Chairman. It is a committee that has to do with the Stock Clearing Corporation, and is really under New York Stock Exchange control. It is a committee of members of the exchange.

The CHAIRMAN. And the men on that committee are of long service in that particular line, as I understand it?

Mr. MITCHELL. Yes; they are.

The CHAIRMAN. They are experienced in that class of work, and and continue from year to year to act in that capacity?

Mr. MITCHELL. Yes; that is true.

The CHAIRMAN. Can you tell us also, in regard to the short and long time money market, how that rate is arrived at?

Mr. MITCHELL. That is not fixed at all; it is established purely by the conditions prevailing from day to day. For instance, we are having in New York at the moment a 3 per cent call rate. You may have noticed that 30-day time collateral loans have gone to a 2¾ per cent rate, indicating that certain bankers feel that during the next thirty days the call rate will be lower than the average of 2¾ per cent. That is a matter purely of the individual banker's view, and if some banker is unable to put out 30-day money at 3 per cent and elects to offer it at 2¾ in order to get takers, then 2¾ per cent becomes the rate you see announced in the paper as the 30-day rate. But there is nothing that binds any bank with respect to it.

The CHAIRMAN. Mr. Dunbar, in his questioning of you a little while ago, referred to a period a little over a year ago when your bank made a loan of $25,000,000 to the market. As I recall it, about that time the call rate ran up to about 20 per cent, and I think perhaps a little higher than that?

Mr. MITCHELL. Yes.

The CHAIRMAN. And now the rate is 2¾ per cent, you say, or around 3 per cent?

Mr. MITCHELL. Three per cent.

The CHAIRMAN. Have you any comment to make as regards our banking system that permits such a wide spread in rates over apparently such a short time? Do you think it is the fault of our banking system that causes that, or, what in your judgment, causes rates to vary, and should they be permitted to vary that way? In other words, is it a sad commentary on our bankers or our banking system that those things exist?

Mr. MITCHELL. It is an absolutely necessary thing that they do exist. Rates are like the pharmaceutical thermometer or register; they show the condition of the patient from time to time. If you tried to stultify the movement of rates and make them artificial, you would be unable to get a gauge of the situation existing at any particular time. There should be freedom of rates. When credit is plentiful, the interest rate is going to show it, and when the use of credit is being overdone, the interest rate is going to show it—it becomes a red flag.

The CHAIRMAN. You recognize, do you not, that it is within the power of the Federal reserve system to check that?

Mr. MITCHELL. Not altogether. The high rates that existed a year ago did not exist in so-called commercial loans at all. As you know, the commercial rate was from 4½ to 6 per cent, while at the same time loans on call were jumping from 10 to 20 per cent. Bankers like to keep their own portfolios balanced; no banker is going to lend all of his funds in the call market regardless of the rate existing in the call market. He must take care of his commercial customers if he is going to continue to do businses.

Now, if the bankers are aiming to maintain a balanced portfolio for themselves and have enough of collateral loans and enough of call money in their portfolios, and there comes a demand for additional call money, those bankers are not going to the Federal reserve and rediscount to get it unless there is some incentive given them through the interest rate to get it, and then only to a limited extent. So that rates with respect to this class of loan or that class of loan are going to vary from time to time, and you have got to expect collateral loans to carry very different rates than commercial paper and, perhaps, from time to time one will be higher and again lower.

The CHAIRMAN. During the particular time I have just referred to, there was being applied by the Federal reserve system a restrictive policy against the release of credit for speculative purposes, was there not?

Mr. MITCHELL. Quite so.

The CHAIRMAN. To get back to this suggestion that was pending here before the committee as to the possible extension of branch banking or legislation affecting this whole general development, as I understand your position you feel that in certain cities or centers

perhaps branch banking should be extended to what might be termed "contiguous territory"? For instance, take New York City; you have mentioned outlying districts on Long Island.

Mr. MITCHELL. Yes.

The CHAIRMAN. Would you also include within your scope there Jersey City, for instance, and Newark, and other cities lying in close proximity to New York City but in another State?

Mr. MITCHELL. Well, frankly I do not know, Mr. Chairman. That is a very difficult problem. Purely from the economics of the situation, and from an operating banking problem, I should say yes—extend it to include the environs of New York regardless of what state they may be in. I realize, however, that there are other problems that enter into the situation that make it very difficult. It may be that I myself would find those objections, so strong as to outweight what I feel is a proper economic development and a perfectly feasible development from a bank operating standpoint.

The CHAIRMAN. It has been urged upon the committee that branch banking be permitted within trade areas, but we are all impressed with the uncertainty as to what a trade area is. The other day when Mr. Wiggin was before the committee, he defined a trade area to include the United States and perhaps the world, so far as the Chase Bank was concerned; he would not want to restrict the term "trade area" to any small unit, but he did not know what a trade area was.

Mr. MITCHELL. I can not but believe that even if we could define it, it would be too broad a movement, too great a step to take at one time.

The CHAIRMAN. Mr. Wiggin did recommend, however, as I recall his testimony, that branch banking be extended state-wide in those States where branch banking was permitted under the State law—he felt that national banks should be given that right. Mr. Davison, who appeared before the committee here in opposition to branch, chain, or group banking, distinguished, however, between the two forms of branch banking, that which is now permitted within city limits and all other branch banking.

Do you care to be any more definite than you have been as regards these several plans that have been suggested?

Mr. MITCHELL. No; I do not know that I do, and yet city-wide branch banking and, let us say, suburban-wide branch banking, seem to me to be so nearly alike that we have got to set up some really false lines to separate them.

Mr. Chairman, my view is that branch banking has distinct advantages to the public, but that its development should be fostered with such care that we may know as we go along that the public supports its extension. I urge that we move very slowly. To go out into the suburban territory of a great city seems to me to be a logical step perhaps at this time. Take that step and let us see what the public reaction will be in the course of the next year or two.

The CHAIRMAN. You have stated that you experienced no difficulty in managing your several branches in and around New York.

Mr. MITCHELL. Quite so.

The CHAIRMAN. Would you say that if you were permitted to have branches state-wide, or Federal-reserve district-wide, or nation-wide, you would feel so sure about that? In other words, statements have

been made here that absentee management of a bank or branches and the long distances from a parent bank present problems which are in opposition to the theory of the development of branch banking.

Mr. MITCHELL. I doubt if you are going to have at any time strictly nation-wide branch banking with banks operated, let us say, the country over, from New York or Chicago.

The CHAIRMAN. I will say to you that Mr. Giannini and Mr. Bacigalupi, representing the Transamerica Corporation, indicated to us that they were ready to establish banks generally throughout the United States, when the law is changed to permit nation-wide branch banking.

Mr. MITCHELL. Yes, their view is that. My own personal view is that the sectional feeling and differences throughout the United States are so great that that would be unwise, even if it would be practical in operation. I could conceive of an extension of branch banking within given sections of the United States where it would not in any sense offend the public desires and where branches could be conducted with great safety and in the public interest, but it is hard for me to conceive of a New York bank operating a branch in Peoria, Ill., with great satisfaction, or in some city in Minnesota with great satisfaction except as the administration came from some center of that particular district that thoroughly understood the district, and where the directors and operating men were known and accepted in that district.

It seems to me that if the public sanctions an extension of branch banking, it is really going to come in regions and it may be that parent banks in various regions of the country will find some method by which they can contact one another and find a common interest. In other words, it may be that we are moving to a regional system, with branch banking within regions; I do not know, but I say let us not try to find the answer to the problem faster than experience points the way.

The CHAIRMAN. The comptroller, when he was asked the question whether there was not the possibility of the control of these various groups by, for instance, New York, when they would eventually develop throughout the country, it having been suggested that perhaps we would have 30 of these great areas with branches of other banks serving those areas, and then when that was finally consummated New York would reach out by force of necessity and take over control of those groups and operate them.

Mr. Wiggin suggested, as I recall it, that if the mad rush continued and the territory was taken over by these groups, it might force, for instance, the Chase Bank to get into the rush and preempt certain sections in order to hold the business.

Mr. MITCHELL. There is great danger of that.

The CHAIRMAN. Of course, we are facing a very practical situation.

Mr. MITCHELL. Yes.

The CHAIRMAN. Apparently, from the information that comes to us, there is a mad rush to take in all of the solvent country banks and control them, sometimes by responsible parties, and sometimes by what appear to be rather irresponsible parties. For instance, there is information coming to us from various sections of the United States that some groups are accumulating options on banks and others are

going out and feeling their way looking towards concentration of the development of this chain or group plan.

Have you any practical suggestions to offer to this committee as to how we are going to meet a situation of that kind? Should we just sit by and let this thing continue to develop naturally as it is and then, if trouble develops, meet the situation when it comes? You know, we have had experience in the past with the development of chains like the Manly chains in Georgia and Florida, where the banks were in weak hands and it spelled disaster.

The committee here are groping and trying to study this situation, and they would greatly appreciate suggestions from men like you who are at the head of our large institutions, because we want to deal intelligently with the situation, and at the same time we do not want to sit idly by and permit a situation to develop in this country that will spell disaster.

Mr. MITCHELL. As I tried to point out in the statement which I made at the outset, I do believe in some logical but not too drastic extension of the branch banking powers. I think that the development of group banking is inevitable, and if we feel that it is inevitable we should find some way at least to keep a check on it, to have a control of it, and that is why I suggest that in some manner or other these parent companies and groups come under the inspection at least—which to a certain degree means control—of the Comptroller of the Currency, and that they be considered national. I think that when these groups are formed under the laws of Delaware and have to do with the States of Texas and Oklahoma, it is a little far-fetched. It seems to me that there must be some national control introduced, and I think that that would avoid much of the difficulty that you fear.

The CHAIRMAN. Of course, we as a national legislative body can only deal with national institutions.

Mr. MITCHELL. Yes.

The CHAIRMAN. In that particular sense, with national banks and with the State member banks of the Federal reserve system. We can deprive banks of membership in the Federal reserve system, we could deny them the use of the mails, we could deny them the privilege of the collection of checks, and forbid interstate transactions by them. Those are all very drastic things.

Mr. MITCHELL. Could it not perhaps be done through the Federal reserve banks?

The CHAIRMAN. I introduced a bill mainly to bring about discussion, to the effect that before any of these banks were taken over by any of these groups the consent of the Comptroller of the Currency or of the Federal Reserve Board should be had. That suggestion, however, has met with opposition on all sides, but it does seem to me, as you suggest, that there ought to be some check on this or somebody to whom these proposals should be submitted, that there might be some safeguard put around them.

Mr. MITCHELL. I think there should.

The CHAIRMAN. For instance, I am told that there are two New York groups that are now attempting to organize the banks in Pennsylvania; one group in western Pennsylvania, and the other group in eastern Pennsylvania, picking out key institutions and proposing to control 25 to 50 banks in each of the two groups. That means much to the State of Pennsylvania for those old and the best institu-

tions, conveniently located throughout the State, to be taken over by some group in New York that is unknown to that particular territory and to be controlled for some purpose—we do not know what.

But that same thing is apparently taking place in many other places. I was told recently that a group in New York and Chicago were considering taking over 200 banks in Texas. It seems to me that this is a development over which there should be some check.

Mr. MITCHELL. I think there should, Mr. Chairman. I agree with you.

The CHAIRMAN. Mr. Stevenson, have you any questions?

Mr. STEVENSON. I have not been attending these meetings; I have been providentially detained.

I would like to ask this, and I guess the answer would be that I ought to know it as well as Mr. Mitchell.

When an institution organizes in Delaware and takes over banks in Pennsylvania, New Jersey, Texas, the Carolinas, and so on, is not that institution embarking in interstate commerce? Would it not come within that provision of the Constitution and, if so, the answer would be that we could control it, provided that it went out of its own State.

Mr. MITCHELL. I think that that is very largely a legal question, and I am not a lawyer, but as a layman I should doubt the ability to control it through that channel.

Mr. STEVENSON. This is the question: Is banking, which is so ramified that it is dealing in finances in the different States and as between each other, commerce? It seems to me that that would be the only way we could control the situation, except with respect to our own institutions, the national banks. But, with respect to State institutions, are they engaged in interstate commerce when their transactions go across State lines? It has not usually been so determined, but we know that the commerce clause of the Constitution has been very widely extended.

Mr. BEEDY. If the transmission of a message on the telephone, a conversation over telephone wires, is commerce, why is not the exchange of credits and the transmission of securities?

Mr. STEVENSON. That is the question: Why is that not commerce?

This development with respect to branch banking and group banking has been illustrated in my own State, South Carolina. There is a national bank in the State that has acquired a small State bank, a $200,000 bank, and it is placing branches of that bank all over the State under the State law. Of course, the national bank is not responsible legally for the liabilities of those small institutions. Now, which is preferable, for the national bank to have the authority to establish its own branches, branches where you can point to the head that is responsible for everything, or to have those groups for which the head is not responsible? In other words, as between group banking as it is developing there and national banks with the right to establish branches, which would you say was preferable as a banking proposition?

Mr. MITCHELL. I have always contended that if a banking institution desires to do business in some part of the country or the world, where it is permitted by law, that it is better to go in under its own name and its own flag and pledge its resources to the maintenance

and to the fulfillment of contracts made by its organization, than to go in through a subsidiary or an affiliate.

This is a broad question. I have been often asked why in the various countries where we place our branches we do not separately incorporate in order to limit liability. My own personal view is that we might just as well go there ourselves and take full responsibility for our own acts, that that is really the proper way and what the public should expect us to do.

Mr. STEVENSON. And the public knows then who is responsible.

Mr. MITCHELL. Absolutely.

Mr. STEVENSON. I agree with that proposition very thoroughly. I am rather dissatisfied with the situation that is developing, on that account.

Now, in the other instance, the oldest known bank in South Carolina has lately converted into a State bank and it is placing branches in its own name all over the State, and the two of those Charleston institutions are about covering the State and I think the latter method is preferable, but they could not follow it as a national bank and they had to convert into a State bank. Mr. Rhett's bank has thirty-odd branches in the State, and all this presents one of the questions that we are going to have to deal with here, whether we have any control over these groups organized under State charters, whether we can ever control them or not, unless we can under the interstate commerce clause, and I doubt if we can.

Mr. MITCHELL. Or through Federal reserve banks.

Mr. STEVENSON. Well, they can stay out of the Federal reserve system. The fact is that this very institution that I spoke of that Mr. Rhett has organized and which is establishing these branches has to stay out of the Federal reserve system under the McFadden Act, because they have branches all over the State now, established since the passage of that act.

Mr. LUCE (presiding). Is that all, Mr. Stevenson?

Mr. STEVENSON. That is all.

Mr. LUCE. Mr. Mitchell, you happily and tersely expressed one of your opinions here by saying that you did not believe any banking operation should fail to pay its own board. The idea embodied therein has an important bearing on our problem. Our attention here is chiefly called to the big men, particularly the big borrowers. Now, where there is one big man, there are a thousand little men, and especially when primaries and elections are approaching, a Member of Congress remembers the little man.

I have been a little man in business all my active life, and I would like to lay before you an experience and get your judgment.

If this widespread apprehension that the growth of group banking and of holding companies of every sort is a menace to the country is well founded, that situation ought to be met. A correspondent in the West who has had wide opportunity to observe public affairs recently wrote me a long letter in which he predicted that the one live issue in the next presidential campaign would be this question of the amalgamation of wealth, with danger and injury to the little man.

Many years ago, as a young man, while still in newspaper work, I shared in starting a magazine. The subscriptions were a dollar a year. After a few months the bank in which the dollar checks were

deposited asked me to withdraw the account. Ever since then that bank has nestled in the center of a very sore spot in my heart—in other words, that bank cultivated ill will by refusing to do business at a loss.

Not long afterward I shared in starting another business, which in the course of time found its main office located in New York, where it established banking connections. It does not borrow any money—we do not believe that is the way to prosper and be happy—but it does deposit. Some years ago we found that our bank balance had become substantial and we asked that bank to allow us interest thereon. After considerable hesitation, reluctance and demurring, the officers in the bank finally consented, and we are getting, I believe, 2 per cent interest on our balances. When that balance gets down below $15,000, the bank begins to grumble, and if it approaches $12,000 it intimates that it will cut off the interest.

I have watched in Boston and New York the steady development of big banking, and what has seemed to me the steady progress of a tendency to pay less regard to the little fellow. We are here getting from every direction expressions of fear that these amalgamations all through the business world are an injury to the 115,000,000 little people in this country, to the benefit of the 5,000,000 big people.

To give you another illustration from my personal experience. Last winter an ice storm damaged the telephone line to by summer home so greatly that it must be rebuilt. The manager informs me that he will stand half of the cost. His half will amount to several hundred dollars and what I shall pay for service in 10 years will just about offset his share of the cost of rebuilding the line. He is doing that because it is to his advantage to have me as a subscriber, that his system may be larger by one. It is a benefit to the whole system, even if it seems to lose money in this particular transaction.

We are appropriating here every year large sums for rural free delivery of the mail, conducted at a loss. That is true in many directions. Municipalities will lay water mains to reach remote points where the charges do not nearly represent the cost of the outlay; build schoolhouses where children are few; furnish fire and police protection in outlying districts.

The word "national" is in the name of your institution; you have received a charter from the Federal Government, a very valuable possession upon which in your own case you would place a valuation of many millions of dollars, and you are furnished inspection by the National Government, and you are furnished the Federal Reserve Board with all of its advantages. Yours is thus recognized to be a quasi-public institution.

Under all these circumstances, I wonder if you want to qualify your statement that you do not believe in doing anything at a loss?

Mr. MITCHELL. Mr. Luce, will you let me take the time for my answer that will match that taken by your question, because I would like to give you a little of my own background of experience, to show you what a great bank is doing for the small capitalist; for if there is any one class which interests me, it is the little-fellow class.

Mr. BEEDY. You would make a good Congressman. [Laughter.]

Mr. MITCHELL. I go back to the time when we started in operation the National City Co., and before I had anything to do with the National City Bank. We started out to develop the investment

banking business to a point where the small capitalist could have the advantage of some knowledge, at least, of investments, and an opportunity to make investments himself. Our work was materially aided by the Liberty Loan campaigns; we realized that if a man held a Government bond, he was safe from becoming an anarchist, because a man, and especially an American, sees through his pocketbook; and following the Liberty Loan campaigns we made it our great endeavor to put railroad bonds, public utility bonds, and then industrial bonds into the hands of this same small capitalist, tending to save him from socialistic bent.

I think that a great deal has been done in this country by the investment houses in educating the small capitalist. The National City Co. to-day does a business, in the distribution of securities, of something over two billions of dollars a year, but with respect to the issues going to the public, and I mean issues suitable for the public, our sales have run about $3,000 to an individual. Therefore, in the National City Co., we have brought about contact with a public of smaller people.

When I was a young man, to go back, Mr. Luce, I came to New York and my family was developing and it became my desire to open some savings accounts. There was a certain savings bank in Wall Street, where I attempted three different times to open a savings account, and lost the time allotted to me for lunch because the line extended out to the street and I never did get to a window. Subsequently I went to the savings banks and found queues of people who wanted to withdraw their money, and I saw how hard it was to get it out, and, being interested in thrift through my own experience, I said that if I were ever in position to do it I was going to find the way to make it easy for people to save and easy to get their money out of their savings accounts.

When I came to the National City Bank, one of the first papers that was laid upon my desk was a lease for a basement in the old Manhattan Hotel at Forty-second Street and Madison Avenue, which you all remember. Our bank had taken over that hotel building and it was remodeling it into a bank and office building and this lease was about to be made of the basement to a gents' furnishing house of repute in New York. That lease I tore up for there I saw the opportunity for setting up the equivalent of a savings bank. To make a long story short, we did it, and that business was built up on a stop-watch basis—how long does it take a man to get his money in, and how long does it take to get his money out? No queues, no lines; it must be perfection of service.

Then, as it developed, ways and means for taking care of that little fellow were studied. One question was what we were going to advise him to do with his money when it got to a sizeable amount, when he should be doing something more constructive with it. How could we take him into our commercial bank and give him a checking account, and by what machinery could we take care of him with loans at the time he might want them?

We have consistently paid less than the mutual savings bank rates of interest in that department, that "compound interest department" which I so named at that time because "compound interest" had a lure for every youth and would induce savings—and we have gone on with that development to ever-increasing volume and success.

It is only about eight years since that department was established, and we have to obey the clearing house regulations—3 per cent interest as a maximum, although we are in competition all of the time with savings banks that pay from 4 to 4½ per cent—yet in New York City to-day we have 346,000 accounts running to a total of $73,130,000. Where we have put this same system in some of our foreign branches and preached the benefits of thrift to people, we have gathered 163,000 additional accounts, amounting to a total of $47,000,000. That department of our business to-day therefore carries 509,000 accounts and deposits of over $120,000,000.

Mr. BEEDY. Those are all compound interest accounts?

Mr. MITCHELL. Yes. We have also gone after the little fellow who is forced to make a small loan, largely on personal credit, and who has previously had little opportunity to do so except through the so-called loan sharks or the high rate industrial loan banks.

Two years ago last month, we set about to make such loans to needy people at what might be a fair interest rate, a rate that would pay its board, and we have given loans from that day at an effective rate 8 per cent lower than any known agency across this country has offered heretofore and we have made in this 2-year period 145,000 such loans, running in the aggregate well in excess of $50,000,000. We have at the moment on our books approximately 77,000 loans of that character, running to a total of $26,000,000.

Now, Mr. Luce, we do not yield our position to any one in the way we have beneficially affected the smaller fellow. Our bank years ago was looked upon solely as a bank for the larger interests, a bank where no one who had anything short of a pretty good sized fortune might have any contact at all, but to-day our bank is a bank of the people, and it gives me great pleasure to feel that we are really serving this class of the community. Over 30 per cent of all that money loaned on those small loans has gone to pay doctors' bills and dentists' bills and hospital bills. Doesn't that give you a thrill? It gives me one.

Mr. LUCE. It certainly does.

Mr. MITCHELL. When I realize how many people we are keeping off of the charities and who are made self-respecting, that gives me a thrill. At the same time this service pays its board—it is profitable. In our compound-interest department, which is the equivalent of savings, any man can get 3 per cent interest, compounded monthly, and if he ever wants to make a withdrawal, he can step up to a window and get a cashier's check. He does not have to have a checking account unless he has real need of a checking account. Now, if he wants a checking account, he can go to our commercial department and if he has a small account, with a lot of checks on it, we make a service charge. If it is a small account, that really should not be a checking account, but ought to be where it is getting this higher interest offered to savings, we do transfer it if the depositor insists and we make a service charge. We watch the individual, and if a person wants a checking account and has apparently little use for it, but it gives him some self-respect to have it, and if it promises to be a good thing for that man, we make no charge. We have no standard rules for it, but we try to analyze every small account in our bank to the

end that we can give to the small fellow all the advantages that the larger capitalist has and always extend a helping hand.

Now, Mr. Luce, one more thing. No one can handle that business of compound interest or that business of personal loans—and I can point to several other phases of banking of which the same thing is true—unless they do it on a mass-production basis. A little unit bank can not do it. I do not know whether it can be done through the group system or not, but I know that handled as we are handling it, it is possible to give to the public something that they can not possibly get out of the existing unit system.

I hope I have not taken too much of your time.

Mr. LUCE. No, sir. I think we are all very grateful to have this information, and, for one, I congratulate you. Also I think it is fair to contrast it with other information, coming to us, in addition to that resulting from our personal experience. Apparently all over the country there is an ever-spreading belief on the part of bankers that small checking accounts ought to be discouraged. There has grown up in this country in the last 30 or 40 years a very general and, what seems to me, a very useful system under which the householder, the woman who has charge of the shopping and the cooking, the boy at college, the small retailer, have been convenienced by the development of this system of checking accounts, but until you testified we had not had a glimmer of hope, for everything has been to the purport that small checking accounts are a nuisance, are costly, and ought to be discouraged, and that groups of banks have agreed, under the leadership of the larger banks, to put an end to it or to eliminate it as much as possible.

I have had a feeling that this is an unwise policy, and I have thought that it was poor business judgment on the part of the banks themselves. It has seemed to me they ought to remember that it is the little fellow who becomes the big fellow and that the public convenience and necessity call for some instances where that little fellow shall not have to pay his whole board.

That is why I asked you if you wanted to reconsider your rather broad statement.

Mr. MITCHELL. I think this, Mr. Luce, that the public must be served. I see no reason why banks should persist in methods of serving the public that mean loss to themselves. If they have an operation that is a loss to themselves, they should substitute something else where the customer will get what he wants and where the business can be done without loss to the banks. In our bank we constantly close small accounts, checking accounts which really there is no necessity for.

We put service charges, yes, on accounts where the depositors issue great quantities of checks every month and where there is no way to compensate the bank for the incidental work. Ordinarily such a man is very glad indeed to pay a small sum to his bank to take care of his business for him in that way. We do not turn these people out, for in any case where we contact a capitalist, no matter how small, we have a very keen interest in serving him, but we see no reason for serving him at a loss to ourselves, because we can always find the way to meet that man's requirements without a loss to our-

selves, and if we do not find it, it is our own fault in which we will be the sufferer.

If I may go one step further—and I feel I should apologize for the time I am taking at this late hour—I conceive that the small public need fiduciary service perhaps more than any other stratum of the public. You and I know that the trust companies are not able to handle small trust business under the methods that have been employed, and make a dollar out of it. The result is that trust companies have not urged the appointment of corporate executors and trustees in cases where the estates are very small. Now, I have contended that we must find a way, if we are going to serve the public, of giving to the small fellow all the advantage we can possibly give to the large personal trust or the large estate. We are trying to solve that problem through what we call the uniform trust. I do not know that we are going to do it, but I think we are.

The trust business in this country is just where the insurance business was 25 years ago. We are building a very large building for the trust company in New York, and I am of the firm belief that inside of the next 20 years the business of our trust departments in the lower part of New York is going to fill that entire building, and it is going to come through properly serving the moderately wealthy and the rather poorer classes of the public.

Mr. BRAND. May I ask one question there?

Mr. LUCE. Go ahead.

Mr. BRAND. You have dealt very sympathetically with "the little man," and the gentleman from South Carolina and the gentleman from Mississippi and all the other members of the minority of this committee come in contact with "the little man."

I want to ask you if you have the same feeling about the little bank relative to what benefit he is getting out of the Federal reserve system? In other words, do you not believe there ought to be something more done for the member banks, particularly the smaller member banks, than is being done now under existing law, either by paying them something out of the net earnings of the Federal reserve banks or out of the franchise tax which they are now paying to the United States?

Mr. MITCHELL. It is hard for me to see why there should be a differentiation between a bank of $25,000 or $10,000 or $250,000 or $2,000,000 when you come to a question of that sort. The particular question that you asked me does not seem to be one that applies definitely to any particular size of bank.

Mr. BRAND. I will make it more concrete and specific. The Federal reserve system was not established for the purpose of making money, was it?

Mr. MITCHELL. No.

Mr. BRAND. Woodrow Wilson never had that sort of an idea about it, did he, when he first brought his banking views to the attention of Congress?

Mr. MITCHELL. I do not know what he had in mind.

Mr. BRAND. Did Congress have in mind, when the Federal reserve act was being considered that the system should become a money-making machine?

Mr. MITCHELL. I do not know what Congress had in mind.

Mr. BRAND. What did you have in mind—that it should be a money-making institution?

Mr. MITCHELL. I say that there can be no Federal reserve bank that will properly function if it is fundamentally a money-making organization.

Mr. BRAND. There has been over $146,000,000 paid by the 12 Federal reserve banks since their formation in 1914 as a franchise tax to the United States. There is not a single member bank in the Federal reserve system—and it does not make any difference whether it is a $25,000 bank or a $25,000,000 bank—that gets anything on its reserve funds, and all of the member banks of the country in the Federal reserve system have lost their right to charge for collecting checks and that kind of service.

Mr. MITCHELL. Yes.

Mr. BRAND. I want to ask you the direct question, in view of what you have said here to-day, if you do not think that out of the net earings of the 12 Federal reserve banks it would be a wise thing and a fair thing to pay to the member banks, large and small, something over and above the 6 per cent on the paid-in capital stock?

Mr. MITCHELL. Let me put it this way. I think it would be a great mistake to impose any requirement as to the payment of dividends on the Federal reserve bank stock to the holders of that stock who are the member banks that would in any way cause a Federal reserve bank to feel under the necessity of making money. I can not believe that a central bank that feels the necessity upon it for money making is going to properly administer the problems that come to it. Money making must never be in the picture at all, but if money is made, and, of course, Federal reserve banks certainly should be able to make money with assets based upon other fellows' money for which they pay nothing, then I am inclined to believe there should be a more generous distribution of such profits as do occur among the members as against the National Treasury.

Mr. BRAND. That is an answer to the question, and a satisfactory one.

Mr. BUSBY. I have just a couple questions.

In your statement you call attention to the fact that group banking is playing a most important part, is steering the banking system away from the unit bank. Would it be possible to have group banking if we did not have the holding company that takes over the stock of the several banks and brings the group together?

Mr. MITCHELL. If I get the proper meaning of your question, I should say that there had to be a common tie.

Mr. BUSBY. And that common tie is through a holding company, under the practice that has grown up during the last 18 months or 2 years, is it not?

Mr. MITCHELL. It is; yes.

Mr. BUSBY. Without that common tie, or without the holding company and operating free and uncontrolled under the national legislation, it is impossible to bring together what is known at the present time as group banking?

Mr. MITCHELL. Yes.

Mr. BUSBY. And that usually consists of a number of very strong banks, and they often operate with branches and otherwise to form a system—am I stating the situation?

Mr. MITCHELL. Yes; if I gather your question, it is, can you have group banking without a holding company and have it on a cooperative basis, something of that sort—is that your thought?

Mr. BUSBY. That is the central thought; yes.

Mr. MITCHELL. Personally I do not think so.

Mr. BUSBY. I am asking that question to direct attention to this idea: Is it not at the present time largely a question of developing some means by legislation to deal with the holding companies if we are going to deal with group banking?

Mr. MITCHELL. I think you have got to find some way to control or to contact these holding companies. If it can not be done effectively by the States it must be done by the Nation, and if it is to be done by the Nation, it must be done either through the Federal reserve banks or through the comptroller's office.

Mr. BUSBY. For legislation to reach the ends we are trying to reach here, is not the pivotal proposition one of dealing with holding companies, and in doing so are we not incidentally dealing with the group banking situation to a large extent?

Mr. MITCHELL. I do not think I could quite answer that without further study of just what is in your mind.

Mr. BUSBY. But you do feel that holding companies are out in the open, free from any control by the National Government, and that that is a vital question we are confronted with at this time?

Mr. MITCHELL. I do.

Mr. BUSBY. Do you believe it is necessary to have the deflation both of property values and of credit that has grown up or that has been extended?

Mr. MITCHELL. We are having it; whether it is necessary to have it, or not, we are having it.

Mr. BUSBY. We had a deflation of credits in 1921, did we not?

Mr. MITCHELL. Yes.

Mr. BUSBY. Do you feel that that was helpful to the business interests of the country?

Mr. MITCHELL. I think that in economics, banking, and everything else, the laws of compensation and balance, of action and reaction, all hold. When you get an inflation, it immediately spells the word "deflation" as the reaction and you have got to have it.

Mr. BUSBY. Recently we had more inflation of credit than we did of values, if I understand the situation.

Mr. MITCHELL. Oh, yes; no doubt about that.

Mr. BUSBY. That inflation of credit was far beyond the industrial and commercial needs of the year 1928 or 1929, was it not?

Mr. MITCHELL. Yes.

Mr. BUSBY. That being the case, did it not tend to cause people to use that credit to deal in stocks, and participate in the market with a view to securing a bigger price for the stocks they purchased than that which they gave for them, rather than with a view to securing dividends?

Mr. MITCHELL. I assume so. At the same time, it seems that you are getting me a long way from branch banking, group banking, and chain banking.

Mr. BUSBY. I thought you had dealt with this situation, and knowing where you come form, I am coming to this point in connection with your bank's operation: When call money rates were good,

your bank stood in opposition to the attitude of the Federal reserve bank at that time, did it not?

Mr. MITCHELL. No. It did not matter and it does not matter what the rate is. The volume of call loans that we have on our books never depends upon the rate at all. The rate can be 3 per cent, or the rate can be 30 per cent, and I will guarantee that because of the rate there will not be any more call loans at the higher rate than there was at the lower. As a matter of fact, we are now operating under a 3 per cent call renewal rate, and we have, I think I am safe in saying, three times as much in the call money market to-day as we had a year ago to-day. Why? Because commerce is not taking our money. Our first obligation is always to our customer. The call-money market is not our customer, and we do not gain any lasting advantage by dealing with Mr. Call Money Market, but we do with Mr. Industry and Mr. Corporation and Mr. Farmer and Mr. Shipper.

Mr. BUSBY. Getting to the thought that your bank and a number of New York banks opposed the policy of the Federal reserve bank in fixing rediscount rates, did not your attitude tend to continue the spirit of inflation rather than to put a check on it and in that way bring to an end the orgy of speculation that everybody knew was on hand?

Mr. MITCHELL. I have been through two or three different kinds of panics; I do not know whether you have or not.

Mr. BUSBY. I have watched them pass.

Mr. MITCHELL. People who went through the panic, if you want to call it that, of last fall, thought that they had seen a panic, but the men that have seen a real panic are those that have seen money and credit panics. Now, the thing that was threatened last spring was a credit panic—do you realize that?—a panic because the legitimate borrower would find himself unable to borrow at any rate for his requirements.

Mr. BUSBY. I am not going to pursue this matter further, but it is all interesting to me.

Mr. GOLDSBOROUGH. Mr. Mitchell, I personally felt that the rediscount rates in the Federal reserve system ought to have been raised in the fall of 1927. It seemed to me that anybody could see as early as the fall of 1927 that this thing was coming. Of course, Mr. Young undertook to esplain why the rates were not raised earlier last year, but I do not really remember what his explanation was at this time, as to why it was not done.

Mr. BEEDY. Failure to act with promptness, due to lack of courage.

Mr. GOLDSBOROUGH. I did not understand him to say that.

Mr. BEEDY. I do not know that he said that, but that was the general testimony.

Mr. GOLDSBOROUGH. I gather that the reason you felt it was proper to put that $25,000,000 into the market when you did was in an effort to stimulate the courage of the people as a whole and make the liquidation more orderly than it would have been if everybody had simply gotten scared to death at the same time—is not that about what you had in mind?

Mr. MITCHELL. No. That particular incident has been overemphasized.

Mr. GOLDSBOROUGH. I am sure of that.

Mr. MITCHELL. As a matter of fact, we loaned to the call-money market at that time, as previously and quite generally during that whole season, not from any desire to put out our money on call, but in order to stabilize and steady the situation. At that particular time we were not borrowing and had not been borrowing from the Federal reserve bank. There suddenly developed in New York a situation where there was no call money on the board, and absolutely insistent borrowers had to borrow money to fulfill their contracts of that day or fail and take the consequences.

Mr. GOLDSBOROUGH. And you mean that the consequences if they had failed would have been that somebody else would have failed and then somebody else, with an accumulation of failures?

Mr. MITCHELL. The only other way they could have met their contracts would have been to throw their securities on the market. Now, we did then what we had done before, but it has not come into public notice. We said:

> We will not loan money at the going rate, but if there are honest borrowers—that is, borrowers who honestly must have it and are willing to pay an increasing rate—here is the money that we will put in to aid the situation over the day.

What money we put in that day caused us, I think, to borrow from the Federal reserve bank something like $32,000,000, most of which was paid by the next day and all of which was paid by the second day.

To say that we used Federal reserve credit to maintain a great speculative market is incorrect. All we were after was to stabilize credit as far as we could, and also to see to it that the legitimate borrower could get his money at some rate or another.

To say that that stimulated speculation is also incorrect. I do not believe that any agency of the United States Government would have wanted to take on the responsibility of having brought about a panic through insisting that the ordinary recourse to the Government agency, the Federal reserve bank, be refused at that particular time for a comparatively small amount of money.

A newspaper man happened to come in to see me in my office as I was leaving that night and asked:

> What about this? Are you not violating the Federal reserve dictum when you do this?

I said:

> Why, see here; to my notion the Federal reserve bank was organized for the very purpose of seeing to it that the legitimate borrower could always get his money at some rate under proper circumstances, and if they do not accept that full responsibility, it remains with the banks, where it rested long before the Federal reserve system came in.

That is all that was said. It was not a formal statement, but it drifted into the papers, and there were headlines that we had loaned $25,000,000 and great hullabaloo about it, and editorials and talk in Congress and whatnot.

Mr. BRAND. Was that loan made to your own customers?

Mr. MITCHELL. No. We put it right on the board.

Mr. BRAND. And let anybody have it who wanted to borrow the money?

Mr. MITCHELL. Anybody. Of course, that was on the loan board of the New York Stock Exchange.

Mr. LUCE. I would like to insert right at this point the fact that Mr. Mitchell is not the only man who suffers from headlines.

Mr. BEEDY. The papers must have headlines always.

Mr. MITCHELL. Yes; I have learned that.

Mr. BEEDY. I move that we extend a vote of thanks to Mr. Mitchell for his very interesting and instructive talk.

Mr. BUSBY. Is that usual?

Mr. BEEDY. And that we now adjourn. Whether it is usual or not, I move it.

Mr. LUCE. The chairman has requested me to ask you to furnish the committee with a list of stockholders owning over 500 shares.

Mr. MITCHELL. All right. Of course, you realize that that will be very voluminous, as our stock is a $20 par stock, so that 500 shares are the equivalent of 100 shares ordinarily.

Mr. LUCE. I will ask Mr. Thompson to get in touch with the chairman and then communicate with you further on this matter.

The committee stands adjourned.

(Thereupon, at 2 o'clock, p. m., the committee adjourned.)

(In pursuance with an agreement reached by the committee that written statements be invited from persons unable to attend, and incorporated in these hearings, letters and statements have been received and are printed in full as follows:)

CHERAW, S. C., *May 8, 1930.*

Hon. L. T. MCFADDEN, *Chairman,*
Washington, D. C.

MY DEAR MAC: In reference to one of the gentlemen that I asked you to call in the bank hearings, I enclose letter and pamphlet from him which might be spread on the minutes of the hearings as a statement from Mr. Rhett who is one of the most prominent financiers in the South having been president of the United States Chamber of Commerce, and with a very wide experience in every kind of financial transaction.

Most sincerely yours,

W. F. STEVENSON.

PEOPLES STATE BANK OF SOUTH CAROLINA,
Charleston, S. C., April 29, 1930.

Hon. W. F. STEVENSON,
Fifth District of South Carolina, Cheraw, S. C.

MY DEAR STEVENSON: Yours of the 25th instance received.

I was on my back in a hospital in Baltimore for five months last summer and fall and I have not yet quite recovered from the very serious operation I then underwent. My physician has not been willing for me to attend the annual meeting of the Chamber of Commerce of the United States held in Washington this week, and I hardly feel equal to the task of appearing before a congressional committee at this time.

The bank which myself and my associates have been endeavoring to develop in South Carolina is based upon the principle of having a large capital, surplus and stockholders liability behind the deposits, not only of the main office but of every one of its branches, just as the Canadian banks have, but we have also provided for local self-government for these branches by the stockholders of the bank residing in their respective communities.

We have been endeavoring to work out this system so as to throw the proper safeguards around it but it is growing so rapidly and so much of our time has been taken up with purchasing existing banks many of them the most conservative national banks in the State and the opening of new branches, that we have not perfected the details of the safeguards to be thrown around their operations to such an extent as would enable me to give in detail the precise plan under which we propose to continue these operations.

I am inclosing you herewith, however, a set of by-laws which sets forth the constitution under which we are working.

I do not know that there is anything that I can add to this that can be of any value at the present time. I can only say that the idea has taken such a hold upon the people of the State that the Peoples State Bank which started with a capital and surplus of $600,000 and a deposit of $3,500,000 and 10 branches on May 15, 1929, has grown in one year to a bank with a paid-up capital and surplus of $2,400,000, with a deposit of approximately $30,000,000, and some 35 branches.

I would much prefer waiting until the next session of Congress, when I can give you a more detailed account of the safeguards provided for the operation of such a system as I have outlined. It seems to be in line with the spirit of the American people and its Government.

My main objection to a branch bank system has been that it takes away the power of the local authorities to invest the funds of the community accumulated in deposits in the community itself and under the direction of its local government. We are endeavoring to cure what I consider to be that defect, but we realize that extraordinary safeguards must be provided to insure that investments shall be sound and sufficiently liquid.

The by-laws inclosed will reveal our plans to you as fully as I could state them before a committee at this time, and I hope that you will excuse me until I feel a little stronger and we have advanced a little further in the development of our plans.

Sincerely yours,

R. G. RHETT.

BY-LAWS OF THE PEOPLES STATE BANK OF SOUTH CAROLINA

[Main office, Charleston, S. C.]

It is proposed that the by-laws of the Peoples State Bank of South Carolina be amended at the annual meeting of stockholders, January 21, 1930, so that when amended they will read as follows:

ARTICLE I. STOCKHOLDERS

1. The annual meeting of the stockholders shall be held in the city of Columbia on the third Tuesday in January of each year, at the office of the corporation, unless a different place be designated by the board of directors and notice thereof mailed to each stockholder at least three days in advance.

2. Special meetings of stockholders may be called at any time by the chairman of the board of directors, by the president, by a majority of the board of directors, or by a majority of the stockholders. A written notice, stating the purpose of such special meetings, and the time and place they are to be held, shall be mailed each stockholder at the stockholder's last recorded address at least 10 days in advance of the meetings.

3. There shall be issued to each stockholder a certificate or certificates of stock in the corporation for shares owned. The certificates shall be signed by two officers of the corporation, one of whom shall be the president or a vice president, and the other the cashier or secretary. The seal of the corporation shall be impressed upon each certificate.

ARTICLE II. BOARD OF TRUSTEES

1. There shall be elected by the stockholders at each annual meeting an advisory board, which shall be known as the board of trustees.

2. The duties of the board of trustees shall be to receive reports from the board of directors, the executive committee, and the officers of the corporation, and to make to the board of directors or the executive committee, or the stockholders, as it may see fit, such recommendation with reference to the general policies or operations of the corporation as it may deem desirable. The board of trustees shall elect its chairman and secretary who shall perform the duties usually incident to such offices.

3. The board of trustees shall consist of 1 member from each district and not more than 10 members at large. The district members shall be nominated by the boards of managers of the banks of their respective districts. The members at large shall be nominated by the stockholders at the annual meeting. In the event of a new district being added between annual meetings, the board of trustees shall have the right to elect a member upon nomination by the district board of managers of such new districts.

4. Vacancies on the board of trustees occurring during the year shall be filled by the board of trustees; but in filling such vacancies district representation as hereinabove provided shall be observed.

5. Each member of the board of trustees in order to qualify must hold shares of the capital stock of the bank totaling a par value of $1,000, of which shares totaling a par value of $500 shall be and remain unpledged.

6. The board of trustees shall meet twice a year at the office of the corporation in the city of Columbia, on the second Tuesday in July and the third Tuesday in January, at 11 o'clock in the morning.

ARTICLE III. BOARD OF DIRECTORS

1. The board of directors of the corporation shall consist of not less than 11 nor more than 15 members. The stockholders at each annual meeting shall elect at least 11. In the event the stockholders shall elect less than 15 the duly elected directors may elect such additional members as may not make the total number exceed 15, and in the event of a vacancy occurring the board itself shall fill same. Members of the board of directors shall serve until the annual meeting succeeding their election and until their successors have been elected and shall qualify.

2. The board of directors shall hold regular meetings on the second Tuesday of each month at the office of the corporation in the city of Columbia at 11.30 o'clock in the morning, unless some other place is designated by the board itself of which due notice shall be given.

3. Special meetings of the board may be called by the chairman, by the president, or by a majority of the board at any time, and to meet at any place, provided three days' notice thereof be first given to each member of the board.

4. The board of directors shall be responsible for conducting the business of the corporation as provided by law.

5. The board of directors shall elect the officers of the corporation and fix their salaries.

6. The board of directors shall consider nominations by the resident stockholders for their boards of managers, the nominations of the board of managers for the offices and employees of the main bank and several district banks and confirm same where it deems proper to do so, except that the chairman of the board of directors and the president of the corporation shall be the chairman of the board of managers and president of the main bank.

7. The board of directors shall fix limits within which the management of the main and each district bank shall be permitted to make loans and it shall appoint a finance committee or finance committees to consider and act upon loans proposed by the main and district banks in excess of the amounts thus fixed for each.

8. The board of directors shall prescribe the districts within which the stockholders of the main and each district bank shall act as hereinafter prescribed.

9. In general, the board of directors shall make such rules and regulations for the operation of the main and district banks not inconsistent with these by-laws as it may see proper.

10. The board of directors are hereby vested with power to discharge or change in its discretion, any officer or employee of the corporation or of any of the main and district banks, provided such action be authorized by a two-thirds vote of those present at any regular or special meeting of the board of directors. And all officers and employees of the corporation and of the main and district banks accepting positions or employment shall be deemed to have done so under this provision which shall be a condition of their positions and employments. And when and if any such action be taken by the board of directors such officers and employees shall have no recourse against the corporation or any of the banks or officers thereof by reason of any such action.

11. Each member of the board of directors must qualify by holding shares of the capital stock of the bank totaling in par value $1,000, of which shares totaling in par value $500 shall be and remain unpledged.

12. The secretary of the corporation shall be the secretary of the board and shall keep its minutes and send out it notices.

13. The board shall have power to declare such dividends out of the earnings of the corporation as in its discretion it may deem proper.

ARTICLE IV. EXECUTIVE COMMITTEE

1. The board of directors shall elect an executive committee to consist of 5, 2 of whom shall be the chairman of the board of directors and the president of the corporation and the remaining 3 to be selected from the vice presidents resident in Charleston.

2. The main bank, each district bank, and each office shall make daily reports to the office of the executive committee on forms furnished by the executive committee.

3. The executive commmittee shall see that examinations of the main bank, the district banks, and offices are made as frequently as practicable, by a competent examining force which shall make reports of these examinations in duplicate, one copy going to the office of the executive committee and one copy to the bank examined.

4. The executive committee shall submit these reports to the board of directors together with such action as it may have taken, or such recommendation as it may make with respect thereto.

5. The expenses of officers of the corporation, of the executive office, and of the board of directors incurred in operating the corporation, together with the salaries of the general officers and the employees of the executive office shall be apportioned by the executive committee amongst the main and district banks, taking into consideration the allotted capital and deposits of each.

Expenses not connected with operation, but incident to looking into the advisability of opening or closing of branches or purchasing banks and all expenses incident to the organization or to enlargement of the capital shall be charged by the executive committee directly to the undivided profit account of the corporation.

6. Meetings of the executive committee shall be held at its offices in Charleston each day at 10.30 o'clock in the morning. The secretary of the corporation shall be the secretary of the executive committee and also its fiscal agent, charged with keeping the accounts and vouchers of expenses incurred; with the payment of these expenses, and with the collection of the funds with which to pay them from the various banks, or from the main bank where the charge is to be made against the undivided profit account.

7. The executive committee shall exercise the powers of the board of directors in the intervals between its meetings, subject to such limitations and restrictions as the board may impose.

ARTICLE V. GENERAL OFFICERS

1. The officers of the corporation shall be a chariman of the board of directors, a president, cashier, a secretary, and such vice chairmen of the board, vice presidents, and assistant cashiers or other officers as the board of directors may determine, all of whom shall be elected by the said board.

2. The chairman of the board shall be the general executive head of the corporation and is charged with such duties as are necessarily incident to such office

3. The president shall be charged with the duty of assisting the chairman and also with the duty of taking up and reporting on expansion of the activities of the bank, opening branches or purchasing other banks for the corporation. In the absence of either the other shall discharge his duties.

4. The cashier shall be charged with such duties and responsibilities in connection with the corporation as may be designated in the by-laws and such as may from time to time be assigned him by the board of directors; and he also shall be charged with the duties and responsibilities of the cashier of the main bank which shall be assigned him by the board of managers of said main bank.

5. The secretary shall be charged with the duty of keeping the minutes of the meetings of the stockholders, board of directors, executive committee, and of sending out such notices as may be required by them. He shall also be the fiscal agent of the executive committee.

ARTICLE VI. BRANCHES

1. There shall be established branches of the corporation to be known as "district banks" located wherever deemed advisable by the board of directors. There shall also be "offices" for the taking in and paying out of deposits, located in like manner, and each attached to some district bank. Branches or offices may be discontinued or converted one into the other by the board of directors at its pleasure.

2. The board of directors shall each year allot, to each bank a certain portion of the capital and surplus of the corporation, in accordance with the law and also taking into consideration the average deposits of each bank. The board of directors shall have the power at any time to make changes in such allotments (not contrary to law) as the circumstances and interests of the corporation may require.

The foregoing provisions as to allotments, however, shall not in any manner limit or affect the obligation of the entire capital and surplus of the corporation to the depositors and creditors of the several banks and offices comprising the system of the Peoples State Bank of South Carolina.

The working capital thus allotted, together with the deposits, shall be used in the manner and to the extent such funds are customarily used in a well managed bank and as nearly as practicable, under this system as though the banks were separate banking institutions, subject, however, to the provisions of these by-laws and such rules and regulations as may be prescribed by the board of directors or the executive committee and to the law in such cases made and provided.

3. The board of directors shall prescribe the district in which a branch is to operate. Each district shall conform generally to the city or town in which it is located and such surrounding territory as the board of directors may see fit to designate.

ARTICLE VII. MANAGEMENT OF MAIN AND DISTRICT BANKS

1. Prior to each annual meeting of the stockholders of the corporation such stockholders of record as are resident in the district in which the main bank or any of the district banks are located shall meet upon reasonable notice given by the president of the corporation in the district where the main bank is located and by the executive vice presidents in charge of the districts in which are located the district banks and shall nominate by stock vote a board of managers for the ensuing year for their respective district banks. A majority in amount of the stock resident in the district shall be necessary to constitute a quorum, but any stockholder may be represented in such meeting by a written proxy. These nominations shall be sent to the board of directors of the corporation, who shall thereupon select from said nominations all or so many of the persons so nominated as it shall see fit. Those selected shall constitute the board of managers for the main bank and the district banks, respectively, of the current year.

2. Members of the board of managers of each bank must qualify in like manner as members of the board of directors of the corporation.

3. The board of managers of each bank shall nominate to the board of directors of the corporation and executive vice president, a district cashier, and such other officers and employees as they may respectively deem advisable for the bank in their respective districts, together with salaries recommended for each. All such nominations and salaries must be approved by the board of directors of the corporation, subject to the provisions of Article III, section 10.

4. The qualification of each executive vice president shall be the same as is required of the members of the board of directors.

5. No member of the board of managers shall be allowed to borrow over $500 unless the loan is secured by actively marketable securities, or unless it is approved by the executive committee of the corporation.

ARTICLE VIII. MANAGERS' CONFERENCES

There shall be held at least once each year upon call of the executive committee (and at such other times as the managers conference or the executive committee shall determine) what shall be known as the managers' conference. At this conference there shall be invited to be present one representative from the main bank, and one from each district bank who shall be delegated by the board of managers of such bank, respectively, together with at least one or more members of the executive committee. The duty of this conference shall be the formulation of rules and regulations to be recommended to the board of directors for the internal management of the system. This conference shall also make any other suggestions with respect to operations that it may deem advisable. All such proposed rules and regulations and such suggestions shall be reported to the board of directors at its next regular meeting for such action thereon as that board may deem advisable. Such of said rules and regulations as may be approved, and adopted by the board of directors, shall be those under which the banks and offices shall be operated (unless otherwise provided in these by-laws) until further order of the board of directors.

ARTICLE IX. ADVISORY BOARD

1. All stockholders of the corporation, who are of age, not suffering from any disability making it impossible for them to render service, and expressing a willingness to serve, residing in the district where the main bank or any of the district banks are located and holding at least five shares of the capital stock of the corporation shall constitute what shall be known as an advisory board for the

main bank or district bank for that district, with the executive vice president in charge of such bank as its chairman. This advisory board shall meet at the call of the executive vice president of such bank at least twice during the year and shall take such steps, not contrary to law and the rules and regulations of this corporation, as it may think advisable, for the upbuilding of the business of the bank. The advisory board shall receive such compensation for this service as is hereinafter prescribed.

2. In order to stimulate local business and interest in the banks in the various districts there shall be paid to the said advisory board of the bank in each district, as compensation for their services (to be distributed amongst themselves as they may by majority vote determine), such portion of the profits as may be earned by the bank, in such district, under the rules herein prescribed, not exceeding, however, in any one year, 2½ per cent on the average par value holdings of the bona fide stockholders of record resident in such district for the current year; said average to be determined by multiplying such face holdings of each resident stockholder by the number of days during the year in which the stock has been held and then dividing the product by 365.

3. The rule determining what part, if any, of the net earnings is available as compensation for said advisory board shall be as follows: Deduct from the gross earnings the operating expenses, including the proportionate part of the expenses of the executive office; then deduct for estimated losses a reserve fund of three-fourths of 1 per cent of the average "receivables" of the bank for the year; then deduct 8 per cent on the allotted capital and surplus, and one-third of the remainder, not to exceed the 2½ per cent limitation above described, shall be paid to the advisory board. The board of directors shall determine the rules for the appraisal of the bonds and investment securities held by the banks to be utilized in calculating their net earnings. All profit or loss on actual sales of bonds or investment securities during the current year shall go into the operations of the year. All losses incurred on "receivables" shall be first charged against the assumed "reserve fund" above referred to, until that is exhausted, and then against the profits for the current year.

ARTICLE X. LOANS

1. All loans out of the funds or resources of the main bank and of each district bank shall be initiated by the managements of the said main bank or of each district bank, respectively, and may be made outright by said managements, within such limitations as shall be prescribed by the board of directors of the corporation. All loans in excess of amounts so fixed by the board of directors must be sent for authorization to the finance committee designated by the board of directors.

Zones may be established by the board of directors with finance committees for each zone, but no finance committee shall consist of less than five nor more than seven and all finance committees shall be appointed by the board of directors and be charged with the duty of passing upon all loans transmitted to them under rules established by said board.

2. All applications for loans in excess of the limitation fixed for local managements shall be made over the signatures of the applicants and shall state the amount desired, the time the loan is to run, and shall describe the security offered. They shall also be accompanied in each instance by a recent statement, signed by the applicant, or in case of a corporation by its duly authorized officer, showing the assets and liabilities of the applicant. It shall also be accompanied by a certificate of approval of the local board of the bank where the application or the loan originates.

3. All such applications shall be in duplicate. One copy shall be sent to the executive office; and simultaneously the other shall be sent to the finance committee; and the executive committee shall have the power of requiring the application sent to it for confirmation in the event it shall determine such course to be advisable.

ARTICLE XI. INVESTMENTS

1. All investments outside of loans shall be initiated by the managements of the local bank.

2. If the proposed investment is real estate it must first receive the approval of the board of directors of the corporation. If a proposed investment shall consist of investment securities it shall be submitted to the department of investments and securities of the corporation and handled by that department. The

department of investments and securities shall be established in accordance with such rules and regulations as the board of directors shall prescribe.

ARTICLE XII. TRUST DEPARTMENT

There shall be established a department of the corporation which shall be known as the trust department which shall be in each bank of the system of the corporation, under the supervision of a vice president of the corporation who shall also be known as the trust officer. The duties and responsibilities of the trust officer shall be those prescribed by law and such rules and requirements as shall be prescribed by the board of directors of the corporation not inconsistent with law and the by-laws of the corporation.

All assets held by the corporation in a fiduciary capacity shall be under the supervision and control of the trust department and shall be segregated from the general assets of the corporation. A separate set of books and records shall be kept of all of such assets which shall show in proper detail all transactions engaged in by the corporation in its capacity as trustee.

All sums of money deposited or held in trust by the corporation awaiting investment or other disposition, shall be carried in a separate account upon the aforesaid records and shall not be used by the corporation in the conduct of its business, unless the corporation shall first set aside in the trust department as security therefor United States bonds, Federal land bank bonds, municipal bonds, or notes or other safe investment bonds having an active market. The owners of all such funds held in trust for investment or other disposition are hereby given and shall have a lien on such securities so set apart for the protection of such funds, which lien shall be an additional security to that which the beneficiaries may have under their claim against the corporation.

The trust officer and/or the assistant trust officer shall have the custody of all securities held by this department, but in no case shall the trust officer or the assistant trust officer enter the trust compartment, where such securities are held, without being accompanied by one or more of the officers of the bank in which the trust compartments are located, who shall be designated by name for that purpose by the board of managers of said bank. No investment of funds of any trust estate shall be made by the trust officer, except by the authority of the executive committee, over their signatures, and with the approval of the board of directors.

ARTICLE XIII. TRANSFERS AND CONVEYANCES OF REAL ESTATE

All transfers and conveyances of real estate shall be made by the corporation under its seal, in accordance with the orders of the board of directors, and shall be signed by the president, or a vice president, and the cashier or secretary. Mortgages of real estate, however, may be assigned or satisfied by the joint signatures of the executive vice president and the district cashier of the bank to which any such mortgage shall have been given as security.

ARTICLE XIV. AMENDMENTS

These by-laws may be altered or amended—

First. By a majority vote of the stockholders at any regular or special meeting where notice of the proposed alteration or change is mailed to each stockholder at the last address known to the corporation not less than 10 days in advance of the meeting.

Second. By the board of directors, as prescribed by the laws of the State; provided, however, that 10 days' notice of any proposed change shall be mailed each director and that at least two-thirds of the entire board shall concur in the amendment.

ARTICLE XV. SEAL

The seal of the corporation shall be the impression upon wax or paper of the words "Peoples State Bank of South Carolina," in a circle, with the word "seal" in the center.

FEDERAL RESERVE BOARD,
Washington, June 27, 1930.

Hon. L. T. MCFADDEN,
Chairman Committee on Banking and Currency,
House of Representatives, Washington, D. C.

DEAR MR. MCFADDEN: I am inclosing statement for incorporation in the series of hearings which you have been so ably conducting, in accordance with the sug-

gestion in your letter of June 14. I have rewritten the first part of the address that I delivered at Poland Spring, Me., and have shortened the whole thing so that it now makes only 11 pages instead of 16.

Yours very truly,

EDMUND PLATT.

BRANCH BANKING BY CONSOLIDATIONS OF COUNTRY BANKS

(Statement by Edmund Platt, Vice Governor Federal Reserve Board)

For a number of years I have been collecting information with relation to branch banking—its history, particularly in our own country; its safety by comparison with so-called unit banking; and its success in the rendering of service to the people. I found at once that there was very strong opposition to branch banking among bankers, though business men who had transacted business with branch banks only occasionally had any complaints to make. Some of the opponents of branch banking went so far as to declare it un-American, unpatriotic, and a breeder of every kind of monopoly—but a little delving into the early history in our own country brought out the fact that branch banking was formerly generally recognized as the most natural way of extending banking accommodation to small communities, and to newly established and growing communities. I found, in fact, that some of the early State charters, in the days when banks were chartered by special legislative acts, required the banks to establish branches. I found also that branch banking was abandoned first in the East, in the financial districts, and continued in many sections of the West and South until the establishment of the national banking system after the Civil War. In fact I found that a few State banks continued their branches long after the Civil War, some of them being still in existence.

The so-called unit banking system originated in the State of New York with the passage of the "free banking act" of 1838, and this act with its amendments was in large measure copied into the Federal Statute books and became the national banking act of 1863–64. Without doing very much violence to a much abused expression it might be said that unit banking, involving correspondence banking, is of Wall Street origin, and it certainly has served the financial centers well, and has resulted in the concentration of stupendous sums of money in the great banks of these centers, particularly in New York.

An interesting study of Money Rates and Money Markets in the United States has recently been published by Winfield W. Riefler (Harper Bros.). On page 107 I find the statement: "The industrial and banking structure is such, therefore, as to divert from smaller banking communities to larger ones a certain portion of the loanable funds, and these are returned only through indirect processes such as out-of-town deposits and interbank loans at high money rates." Interest rates are lowest where the loaning funds are concentrated and banking profits are also greatest in the financial centers chiefly because of the greater volume of business. Mr. Riefler in the sentence quoted above is referring particularly to the diversion of loanable funds through correspondence banking—every small bank finding it necessary to carry balances in large banks in the large cities. But that isn't by any means all of the diversion of loanable funds from the small to the great cities. In almost every small city and in many of the rather large cities there are large industries and people of wealth who find the local banking facilities too small for their purposes, and therefore carry accounts in New York or Chicago. It would be easy in many of these smaller communities to create larger banks capable of taking care of much of this business if mergers of country banks were permitted. A curious feature of the present Federal law is that you can merge two or more banks within the limits of the same county—but if you do you must close all the banking offices but one. It seems odd that our devotion to "unit" banking should be carried quite that far. A bank might still be called a "unit," one would think—and would in fact be a unit bank essentially—even though it extended its services to the people of the county or a group of near-by counties through several localities.

Although unit banking was the product of the East, and has been sedulously fostered by the big banks seeking correspondence accounts in the big cities, the craze for "units" was carried much further in the West than in the East. In the 1880's certain Middle Western States decided that every little hamlet should have a banklet of its own, and began to charter banks with a capital as small as $10,000 and even $5,000. Some of them were located in growing towns and grew into larger and successful institutions, but a great many of them

went down in the panic of 1893—after which we find two comptrollers in succession recommending branch banking, Mr. Eckles, and Mr. Charles G. Dawes. The latter recommended specifically that branches be authorized in places of 2,000 inhabitants or less. If this recommendation had been heeded it would have strengthened country banking very materially. Instead of heeding it Congress decided to compete with the States by chartering smaller national banks, and in 1900 lowered the limit of capital from $50,000 to $25,000—thus making things worse instead of better.

It does not seem to be clearly understood that the unit banking system, carried to such an extreme as we have carried it in this country, forces banking business into the big cities and particularly into New York that could and should be done elsewhere, and also fosters speculation by forcing money into Wall Street to be loaned to brokers that might frequently be loaned, if not at home, at least to industries in the same State or in the same general neighborhood. Some economists have recognized this fact, but I think it was never forcefully presented until Comptroller Pole's recent report and addresses, in which he brought out the fact that to permit branch banking within "trade areas" would "decentralize credit" by creating banking institutions large enough to handle much of the larger business at home. Ample proof of these statements is at hand. First, there is the testimony of the witnesses who have appeared before this committee. Every one of the men representing the group banking corporations stated that they were able through their larger organizations to keep business at home that had previously gone to New York or Chicago, and some of them cited specific instances. I can add some convincing testimony from a Southern State.

Early in 1926 there was formed in South Carolina a combination of three banks under the auspices of the Bank of Charleston, which after the necessary consolidations became the South Carolina National Bank. Interests connected with the Bank of Charleston, of which Mr. R. S. Small was the president, acquired control of the Norwood National Bank of Greenville in the Piedmont section and the Carolina National Bank in Columbia, in the center of the State. These three banks became State banks for a brief period and were consolidated under State laws, the Greenville bank and the Columbia bank becoming branches of the bank in Charleston. They were then converted into a national bank with branches under the provisions of the act of 1865 (a wise provision of law unhappily repealed by the McFadden Act in 1927). In a circular letter issued to the shareholders of the Bank of Charleston, N. B. A., in January, 1926, Mr. Small stated that it was planned to consolidate these three banks into one corporation, in order, first, to be able to compete with the larger institutions in the North and East for the best class of business in the State, and, secondly, he said:

"The demand for money in one locality, such as this, is seasonal, which means that we have a big demand at one season and a small demand at another, resulting in our having to borrow at one season and to lend on call in New York at another, both of which processes are expensive. Through operating in Greenville we diversify our loans by having a number of them dependent upon an entirely different set of conditions, which insures a diversity, not otherwise obtainable, and in addition, the seasonal demand in Greenville for funds is exactly the opposite from Charleston, with a result that it will avoid, to a large extent, the necessity of borrowing at one season and lending on call in New York at another, thus giving us greater diversity and a more uniform demand."

Here is a distinct recognition of the fact that money was loaned on call in New York either from Greenville or from Charleston which could have been loaned in the State if the institutions in both sections of the State could work together. Greenville is a manufacturing town and the peak of demands in that section would naturally come at a different time from the peak of demands at Charleston on the seacoast. I understand that the expectations outlined in this circular letter in 1926 have since been realized and that the institution is successful. That similar conditions obtain in many other States and sections and particularly in the Middle West can not be doubted. Almost all the witnesses, including some who came to oppose branch banking, admitted under questioning that there were some places where branches would serve better than small separate corporations. Mr. A. J. Viegel, banking superintendent of the State of Minnesota, in a recent statement, mentioned 154 places in that State which previously had supported banks where there are now no banking accommodations whatever, principally because of failures. About one-half of them he said should have some kind of banking service, but he said he could see no way of safely serving them except through branches.

The system of group banking resulting from an exchange of bank stock for holding company stock is new and is certainly different from what has been known for many years as "chain banking" where one man or a group of men have purchased for cash the control of a number of banks. As conducted in the Minneapolis-St. Paul district, in the Detroit district and by the Marine Midland group of Buffalo, the groups bear a very strong resemblance to branch banking. The men representing them all declared that no single bank in the system could or would be allowed to fail. They declared also that whenever any individual or industry in any community had need for loans larger than the loaning limit of the local group bank of the community such loans were taken care of within the group. I agree with Comptroller Pole that this development of group banking should not be checked by law unless something better can be substituted for it. We pass too many restrictive laws. What we want now is something constructive.

This kind of group banking not only resembles branch banking, but probably would have been called branch banking in the days of the old State banks before the Civil War. One of the model branch banking organizations of that period was the Bank of Indiana, of which Hugh McCulloch who became the first Comptroller of the Currency was the president. If you look into the history and structure of the old Bank of Indiana you will find that its branches were pretty nearly independent. There was a central board of directors, with certain supervisory and directory powers, while the branches were independently organized banks with separate stock. The Bank of Ohio was also a group of pretty nearly independent banks bound together under a modification of the New York safety fund principle. In those days, the emphasis was on giving security to note issues, but the principles are the same when applied to security for deposits. Deposit banking was something which grew up in the cities and was not much understood for a long time outside of the cities. The notion that depositors did not need any special protection persisted for many years after the national banking act was passed.

The resemblance of the group banks of to-day to the branch banks of the days before the Civil War suggests that with proper legal recognition and direction they might be developed into branch banking institutions somewhat of the old type—the branches retaining a considerable amount of independence, but being jointly responsible for the debts of every branch in the group as was the case in the old Bank of Indiana, and each group supervised and in a measure controlled by a central board of directors, under governmental supervision. Possibly such a system of branch banking—a sort of compromise between group and branch banking—would meet the chief objection of many of the ardent opponents of branch banking. I mention this merely as a possibility, and without much confidence that such systems would take care of the very small towns where most of the banking failures occur.

It should serve to bring to mind that branch banking need not necessarily be of one pattern. Branch banking can be organized so as to give the branches a certain amount of independence, and can be organized without any "parent bank"—simply a group of banks in different places operating under one corporation. The head office, where the directors meet and where the corporation books are kept, need not be a bank. I am not quite sure that there must be a "head office." At any rate, one of the institutions in the South operating two banking offices—banks recently consolidated—maintained in recent letters to the Federal Reserve Board that there was no "parent bank" involved, and no "head office." Therefore, they thought they should be allowed to remain in the Federal reserve system. I thought so myself, but our counsel could not be convinced.

"Whether you like it or not," said Mr. Decker, of Minneapolis, in his recent statement to the committee, "size is fundamental in many lines of business. It certainly is in the banking business." Now, keeping always in mind the main purpose of making our country banks large enough to take care of a larger share of the local business, the best of which now goes to New York, and large enough and with diversification enough to be able to stand up in adverse times, what limits should be set, with relation to capital and to extent or number of branches? Mr. Henry Dawes, former comptroller, represented the extreme position of opposition to branches, but admits the necessity of larger banks. He cites the fact that 88 per cent of the failures of the last nine years have been banks with a capital less than $100,000, and recommends that no banks be chartered in the future with a capital less than $100,000.

He would not permit smaller country banks to consolidate so as to obtain the requisite capital, if consolidation involved the maintenance of banking offices

in different places. His idea seemed to be that unless a town or community is large enough to maintain an independent bank with a capital of $100,000 it should depend on the nearest large town—i. e., it should be deprived of convenient banking service. Mr. Dawes took the ground apparently that we must either have nation-wide branch banking or none at all outside of cities. "It seems to me," he said, "there is no room for compromise on this subject and that a determination should be reached as to whether the United States wishes to embrace a national system of branch banking or to preserve its coordinated independent units. It can not do both."

I disagree wholly with this dogmatic position. There was more branch banking in the United States 100 years ago, in proportion to population and banking resources, than there is to-day, and there always has been some branch banking in the United States. In fact there always has been some branch banking in the national banking system, and it can be shown that not quite all of it came in through conversion of State banks. There is no clear evidence that the Congresses of Civil War days in enacting the national banking act had any intention of prohibiting branch banking, and the comptroller's office did not finally pass upon the question until 1902. In 1911 Attorney General Wickersham delivered an opinion adverse to branches in the case of the Lowry National Bank of Atlanta, an opinion later much modified by Attorney General Daugherty, who October 3, 1923, found in favor of additional offices within city limits. The matter was never definitely decided by the Supreme Court, the St. Louis case in 1924 having turned on enforcement of a State law. Now and then national banks opened outside offices and sometimes they withstood the comptroller's criticisms for a considerable period.

The Citizens National Bank of Newport, N. H., was given a certificate by the Comptroller on March 27 last for the operation of a branch at Warner, in an adjoining county, on the ground that the branch had been operated for the past 25 years. They are today (April 8 figures) 273 banks in the United States maintaining 570 branches outside so-called city limits without counting California. Twelve of them are national banks maintaining 28 branches. North Carolina heads the list with 34 banks maintaining 66 outside branches. California has two less banks (32) with outside branches, but the number of branches is much greater, 547, of which 313 are branches of national banks, Of the banks maintaining outside branches 52 are in New England, 22 of them in Maine, the Maine banks maintaining 57 branches. The Maine law, permitting branches in the county of the parent bank and any adjoining county seems to me excellent, and the limit it provides would be sufficient, I think in any Eastern State. In Western States where there is much less diversification of industries the limit should doubtless be much wider, perhaps in some districts comprising more than one state.

Branch banking can be limited in any way desired—by territory to be covered, by number of branches to be allowed each bank, or by the size of the places in which branches may be organized. As four-fifths of all bank failures have occurred in places of less than 2,500 inhabitants the law might provide that no more unit banks should be incorporated in places of less size, branches to be authorized instead. There is no reason why we should decide now with relation to what kind of banking may seem desirable to the people 50 or 100 years from now, and no reason why we should not apply a desirable and well proven remedy within limits now because of fear that some future generation may decide to enlarge the limits.

Banks have a common-law right to establish branches. This was generally recognized in the early days of our Nation's history. In many States they have lost this right through restrictive legislation, some of it not originally intended to prohibit branches. The obvious thing to do is to repeal some of the restrictions and allow some freedom of natural development. I do not believe that there would be any rapid or dangerous development if the establishment of branches were permitted within trade areas as the comptroller suggests. I do not believe that any comptroller would permit a dangerous or a very rapid development, and the history of branch banking where long authorized by State laws seems to indicate (with the single exception of California) that development would proceed slowly anyway. Branch banking is really a country-bank proposition. New York and Chicago bankers are generally opposed to it (witness the testimony of Mr. George W. Davison of the Central-Hanover), having learned many years ago that correspondent banking serves them best. As long as the banking units out in the States can be kept comparatively small the biggest and best business must come to the big cities, and the country banks themselves through their correspondent accounts must furnish a large part of the funds with which this

business is taken care of. The present system suits Wall Street bankers exactly. They do business throughout the United States without the expense of maintaining branches.

I suggest as the first amendments necessary to remedy the present disgraceful situation with relation to bank failures that National banks be given the same privileges with relation to branches that State banks have, and second that in all States national banks should be permitted to establish branches through consolidations in trade areas, which might well start with the limits of the present Maine law, with discretion to the comptroller for extension where necessary in order to secure the diversification essential to safety.

THE NEW AMERICAN BANK OF OSHKOSH,
Oshkosh, Wis., July 3, 1930.

L. T. MCFADDEN,
Chairman, Washington, D. C.

HONORABLE SIR: I am inclosing my brief of unit versus branch, chain, group banking. I thank you for the opportunity you so kindly gave me to state in my poor way, what truths there are on the side of unit banking, and I hope you will bear with me and in patience read my earnest defense of the best banking system ever devised under the sun.

Respectfully,

T. R. FRENTZ, *Cashier.*

INDEPENDENT OR BRANCH BANKS

I am only a humble country banker from the little city of Oshkosh, of 40,000 inhabitants, in the great State of Wisconsin, and I appear before your great body of men with trepidation, and fully conscious of my lack of oratorical abilities, and only the spirit of placing the much abused unit banks in a more favorable light amongst you fair-minded men, urges me onward to do my little all to fairly and squarely lay their case before you.

I had not the slightest intention of boring you gentlemen with my urban point of view, but as I carefully read the testimony and arguments made by man after man and learned that the great national-banking system had broken down and that State banks were far inferior to national banks, I wondered how far down in the scale of financial houses the baser State banks really were and the spirit moved me to arise and in my lowly way try to unpaint the somber hues that have been daubed upon the canvas. I was amazed to learn that branch banks never failed in Canada, and the losses under branch banking were practically nil! And when the statement was made that the Canadian branch-banking system was far superior to our independent banks, I wondered by what authority such an assertion was backed up by. And then I read once more the article published in the Toronto Star in 1912, Monster Banking Monoply a Leech at Canada's Throat, Killing Local Industry, Depopulating Rural Districts, Centralization of Almost Entire Financial Power of Dominion in the Hands of a Few Capitalists, Has Resulted From Our Much-Vaunted Banking System—Almost Total Extermination of Local Banks.

Under these startling headlines the article continues—"while large capital insures slow, steady transmission of deposits to 'branches' for control, and use of head offices in smart, alien centers, local credit based on local savings is trans-transferred to parasites on whom rests neither responsibility, object, nor desire to exercise banking functions in support of local enterprises. With such credit basis lost, not only does the collapse or absorption of local bank institutions become inevitable, but local aspirations and confidence which had sustained local industry, are wiped out or made dependent on the will and nod of competitive enterprises. So secretely, so gradually, does this sequestration of savings proceed, so insidiously are local enterprises undermined, that planting of a 'branch' to suck out local earnings, to extirpation of even the last local industry or institution is embraced by 'slow-going' people with the same artless innocence as a 3-year child fondles a viper. To this accursed system of concentration of credit and destruction of local industry, the Dominion of Canada stands indebted for a contracted population of 7,000,000 in place of 25,000,000 rightfully due it under decentralized systems of banks designed to sustain, to breathe the breath of economic life through the remotest, as well as the most insulated of its parts."

And yet we are told that branch banking in Canada is far superior to our unit banks! It is to laugh!

We are further informed that branch banks will not drive out the independent banks, yet not one statistic is quoted from any country under the sun to support this assertion. Let us take England for example. In that country there are five banks with nearly eight thousand branches, and they have put out of business practically every unit bank in the Kindgom.

In Germany and France 10 banks dominate the whole banking power of those two countries.

In Canada there are less than 15 "parent banks" with over 4,000 branches that rule the finances of the Dominion.

As we read further we are startled to learn that branch-banking is much safer than unit banking. Again one is lead to marvel why no stastistics are quoted to support this rather daring assertion. There are many statistics extant that might have been incorporated, but, I fear me, not to support this bare statement. Inasmuch as these tables will throw the spot-light on "greater safety" let me quote you a few.

A. J. Frame has compiled some extremely interesting tables on this subject. Listen carefully.

"Statistics clearly show that failures and losses to depositors in Canada, compared with our national-banking system, exceed ours several times over, and her banking power is less than little Massachusetts alone.

"In 1866, when Overend, Gurney & Co. failed for $50,000,000, the bank failures in Great Britian aggregated the stupendous sum of $250,000,000.

"In 1878, 3 banks in Scotland with some 200 branches failed for $100,000,000, with a deficit in assets about equal to the total losses to all the depositors of all the national banks of the United States since 1863. Our banking power averaged one hundred times these three banks.

"In 1893, out of 28 banks in Australia with 1,700 branches, 13 of them, with 800 or 900 branches, failed in six months for $450,000,000. Her banking power approximated one-sixth of ours."

Besides, there were many branch-banking failures in Japan, India, Denmark, and Germany.

Now compare these stupendous losses with all the losses in all the national banks in the United States from 1863 to 1901. For this period of 38 years, the total losses were less than $100,000,000. Also remember that the population of our country averged nearly 100,000,000 people, and that meant a loss of $1 per inhabitant for 38 years. Take the $450,000,000 losses in Australia in six months, and remember that Australia's population was less than 7,000,000 and tell me again that branch banking is safer than unit banking.

Touching upon the assertion that "an independent unit system such as ours is less able to care for a general situation than a branch-banking system," I will again quote from the highly touted Canadian branch-banking world.

The American Banker's Association Journal, under date of November, 1929, published several letters from the Weyburn Security of Canada to their branch managers, and I will quote from only three of them. The first is dated January, 1918, and reads as follows: "It has been decided that it is to the advantage of the institution, and also it will be a great assistance to the managers, if, until further notice, all applications for loans exceeding $300 be submitted to the directors through the head office for their approval."

Compare this with the statement made to your committee that "$2,500 is minimum limit that they have ever placed on a manager."

The letter dated July 5, 1918, says: "After taking everything into consideration, it has been decided that the wisest thing to do is to ask the managers not to make any more loans, except very small ones, say from $50 to $75, without first sending the application to the head office."

The last letter I quote from says under date of July 10, 1918: "I realize that a great many of the farmers do need $50 to $75 to buy what coal they would stock at this time of the year, and it is not expected that you loan even this amount unless they are entitled to it without question. Unless we get more rains, the condition as to crop situation in not bright, and although it is disagreeable to refuse people credit, which ordinarily we should be glad to grant, still the good of the community is best served by keeping people from borrowing money under such conditions. It is surprising how little money a man can get along with when he has to."

In the light of these letters would you lend much credence to the statement that branch-banks are more able to care for a general situation than unit banks? Can you imagine an independent bank saying to a farmer that he could not have $50 to buy coal with to keep him from freezing?

Now as to taxes branch banks would pay in such localities in which they have a branch, I would respectfully call your attention to the fact that branches have no capital and consequently would pay no taxes at all except on their furniture and fixtures—a mere noting. If there were not other banks in my city than branches, the city of Oshkosh would lose over $50,000 in taxes. The city of Denver, over a million dollars. Figure for yourselves how much that would amount to in 50 years. Who would have to pay these taxes in lieu of the banks? Why, God's patient poor of course!

And who wants branch banking? Has a single one of you gentlemen ever received a single request for branch banking from a single one of your constituents? I venture to answer "no" for each and every one of you. Am I wrong?

Then who is behind this clamorous call for branch banking? Oh, a few greedy bankers who would reap where they have never sown. A mere handful of ambitious men who would grab and absolutely control all the money in our country. They tried it 35 years ago, and are attempting to do it now. They use that fact that nearly 6,000 banks have failed in the last 10 years, and with patriotic fervor cry the poor depositors must be protected. They tearfully admit that this can only be done through that entirely new plan of banking—branch banking.

What the actual losses were in these all too many bank failures during the last 10 years, no one seems to know, for the experts themselves seem to disagree by a very wide margin as to the total. At any rate, they were not very staggering for even the most ardent advocates of branch-banking have to admit that they were not over 20 cents on the dollar.

And what was the cause of the numerous failures? Different minds have different ideas, and many are firmly convinced it was entirely due to the deflation operations of the Federal reserve banks. Personally, I can not agree to this viewpoint. I do contend that the Federal reserve banks were one of the very main causes of these failures, but not because they furnished these unfortunate banks with too little money, but entirely too much. I further maintain that entirely too many banks were organized, and that it was nothing short of riduculous for a little village of 300 inhabitants having three and four banks. It is almost impossible for one bank to exist in such a small hamlet, and it was out of the question for three or four to live on a legitimate banking business. Then how did they subsist even the short time they did?

Listen. I will give you the history of a bank in Montana and that is the whole story of, practically, all of these failed banks. The capital of this bank was $15,000, no surplus, less than $2,000 undivided profits, and $80,000 in deposits. Naturally you will all say that they could hardly exist under these conditions, yet twice they paid dividends of 50 per cent. Sounds absolutely preposterous, does it not? Still it was done. How, do you ask? Oh, it was all extremely easy. They charged all borrowers 12 per cent interest, and rediscounted the paper at 5 per cent, thus making 7 per cent net on all loans, and that too without having a dollar invested in such loans over night. Of course, the more rediscounts they had, the more money they made. And how many rediscounts did this Montana bank with its $15,000 of capital have? Oh, a mere $232,000. You can hardly believe that? Neither could I, yet the president of the bank told me so with his own lips. Any wonder they failed? Anything marvelous about the fact that when a farmer came into one of these banks to borrow $200 to buy a horse, that the president should urge him to buy a tractor instead, for $1,200? On $200 he only made $14, while on $1,200 he profited $84.

Now, what happened when these loans came due? Practically none of these farmers could pay, and as note after note matured, the farmer, like the historical Arab, folded his tent, and quietly stole away. And the bank? How could they meet $232,000 of rediscounts? They could not, and that is why they failed.

It is a matter of history that many of the farmers that abandoned their farms, left behind them from $2,000 to $12,000 of power machinery. Had there not been such an unlimited amount of easy money forced upon them, and had they, perchance, plowed with a horse and a cow, they might still own their farms.

In my own State there have also been entirely too many bank failures, and too much money was also here, the main contributing cause. Not, however, too many rediscounts, but too many deposits. How, perhaps you may ask in deep perplexity, can too much money on deposit wreck a bank? It is quite easy if you will only give it a little sober thought.

A little country bank is started, and for years the deposits are just about enough so that all local demands for loans are nicely taken care of. Soon the deposits grow larger and larger, and there are not enough home demands to any longer absorb these funds, and an outlet somewhere must be found. Now, along

comes a silver-tongued bond salesman, who has an array of wonderful gold bonds as safe as the Rock of Ages, and which will net the handsome returns of 7 per cent. Just exactly the outlet the bank was looking for. What chance had the feeble objections of the country banker, whose knowledge of bonds was extremely limited, against the persuasive eloquence of this city chap? Of course, he fell, and the downfall of the bank was on its first stages. It needs no Solomon to continue the sad story to its inevitable ending.

And that is the story of practically all the bank failures in my Wisconsin. What can be done to put an end to these failures that cause such widespread ruin in their wakes? Not very much. The weak sisters that are yet hanging hopefully on, must, in my humble opinion, go the way of all human flesh, and when the deplorable, but absolutely inevitable, weeding out has run its course, the solid, safe, strong unit banks will once more fulfill their destinies.

Would branch banking be a better system? You have already heard of the tremendous losses sustained under that antiquated system, and one more delve into the world's history of banking will not be amiss, considering the supreme necessity of a stable banking system.

Five hundred years before America was discovered England, France, Spain, Holland, Denmark, Persia, and Egypt were powerful, rich, and wonderful countries. In all of them branch-banking had full sway.

The history of the independent national banking system starts in the United States of America in 1863, and in its 67 years of existence it has carried our country so far ahead of all lands under the sun that none can compare with it in greatness or riches, and that system, the greatest, the best, the safest that ever was devised by the ingenuity of man is now being decried as having broken down.

In closing, I wish to say a word or two about the abuse now being heaped upon the poor country banker. Many years ago the greatest comic paper ever published in the world, Puck, had a cartoon about the American soldier during the Spanish-American War in Cuba. He was depicted as wading through the swamps of Cuba, knee-deep in water, mud, and slime, a million gnats swarmed around his head, a broiling sun mercilessly beat down upon his crown, great drops of sweat were dropping from his overheated head, a 90-pound pack was strapped to his aching back, a rifle was gripped in his arms, bullets from the foe in front zipped, and zoomed, and whistled all around him, and behind his stooped back, the sensational papers of his beloved country were pouring an unending blast of vituperation at the efforts of the American soldier. Beneath this striking cartoon were printed the words "How would you like to be an American soldier?"

Now, I ask you, how would you like to be a country banker? Years ago Mr. Mueller started his little country bank at Mueller's Corner. Slowly but surely his little bank grew, and in course of time by indefatigable efforts, and untiring devotion, his bank did show very fair earnings, was a credit to its village, and Mr. Mueller was respected, honored, and esteemed. Now one sad day for Mr. Mueller, the Federal reserve bank was grafted unto the financial world, and the first thing they did to this little bank that all the villagers were so proud of, was to arbitrarily take away his exchange. Then along comes the Federal land bank, and they take away his farm mortgages. Scarcely has he recovered a part of his wind, when the city insurance men, in fleet automobiles rolling along the cement roads the farmers built with money out of their pockets and they grab most of his insurance. Then the chain store drives out of business his best customer, the country general store. As if these locusts were not enough to make life scarcely bearable, it began to be rumored all over the village that Mueller's bank was loosing its grip, and deposits began to fade away. Result? Mueller's bank failed, Mueller lost his money, his job, and all of his friends. To make his life still more burdensome, self-appointed critics cried out to the world at large that all country bankers were unscientific, unfit, incapable, and should never have been allowed to start a bank. I will propound this query to all fair minded men: Could Alexander Hamilton, George Reynolds, Charles E. Mitchell, A. W. Wiggins, or William Woodward with all their science, with all their skill, with all their ability have done any better than poor Mueller? Is it not ridiculous to say that the best banker in the largest city in all the world would have succeeded at Mueller's Corner any better than Mueller did?

Beware the branch-banks. May it never be said of you that your vote helped to fasten this merciless octopus upon the land of your fathers. With a branch in ever city of the Union, they will absorb the money of the entire country into their greedy paws, and can you faintly picture to yourselves the tremendous

power this Frankenstein will have? It will make or unmake all Presidents, all Congressmen, all Senators, all judges, all governors, all mayors. It will dictate all tariffs, all taxes, all laws. None can become great without its sanction, and it will chain to its golden chariots all men, all women, all children, just as did the Romans in days of old. Men will no longer be free, for he who holds in his claws all the money in the world, enslaves the nations of all the world.

THE FIRST-MECHANICS NATIONAL BANK OF TRENTON,
Trenton, N. J., July 7, 1930.

Hon. L. T. MCFADDEN,
Chairman Committee on Banking and Currency,
Washington, D. C.

MY DEAR MR. CHAIRMAN: In accordance with our conversation and due to the difficulty of appearing before your committee in accordance with your invitation, I take the liberty of writing you upon the subject of unit banking as opposed to the system of branch and chain banking. This subject is far-reaching and has collateral connections involving a movement that tends toward the extinction of the middle class just as chain stores are driving out the local merchants and reducing our small cities and towns to mere tributaries of a metropolitan center, and destroying the individualism of our local community life. So far-reaching is its relation to this subject that one can only touch the high spots in a letter.

If, in addition to the general trend of centralization of industrial, commercial, and business life, we had a chain or branch banking system, the last vestige of local independence would be gone and the individual independence that has made America great would gradually be lost in the domination of centralized power. It is the individual and not the thing that we are most interested in in America, and the development of the individual is a far greater asset to our country than the bigness of enterprises. When you take from a community its independent merchants and manufacturers and business men and make them the mere agents for metropolitan centers, you have robbed that community of its self-thinking, self-acting, and self-progressive asset. When you have put the independent banker in the same class and torn from him his shoulder straps, you have deprived the community of one of its inalienable rights.

A definition of terms sometimes conduces to a better understanding. When I speak of branch banks, I distinctly eliminate what I regard as bank offices. A bank in a city finds its location perhaps somewhat removed from its depositors, due to the shift of business just as in Philadelphia, business has moved up around Broad Street from Second. Such a situation demands that a bank in order to accommodate its patrons must establish offices in different parts of the city. That decidedly is not branch banking. It is simply the extension of the parent bank for the accomomdation of its own customers, and is unit banking with service extended necessary to take care of the bank's business. The law that grants the privilege to banks to expand their business area and have an office outside of the four walls of the parent institution for the convenience of their customers is not a law for branch banks at all. It is simply permission granted to our unit banking system to meet the requirements of the changes of the location of business activities in our various municipalities. A branch bank is an adjunct operation outside of the home city of the parent bank.

The experience of years is usually a wise guide in business affairs. After over 65 years of experience, dating from the inauguration of the national banking system, no American Bankers Association, at any of its sessions, has declared for branch banking and its only recorded action is in opposition to that system.

The laws of our States on this subject are equally conclusive. In six States the law is silent. Twenty States do not permit branches or even branch offices. Twelve States permit branch offices only in the home city and county of the parent banks. This makes 32 States of legal inhibition of branches and only 10 States permit the system.

Before we depart from a banking policy that has been voiced in legal statutes as the deliberate conclusion of our people after years of trial, we should pause for a moment at least before a "Stop, Look, and Listen" signal.

The United States Constitution has been the one charter under which free government has permanently survived. It sufficed for the needs of 3,000,000 people on a seaboard line. It sufficed for the growth of a great nation over a continent's expanse. It suffices to-day for over 100,000,000 people, with arms stretching out over two seas. It survived the vicissitudes and changes, needs and wants of over 130 years of progress of the greatest Nation on earth, with only four fundamental changes up to the adoption of the eighteenth amendment.

This Constitution that has served so well, under which has been written the greatest story of progress, educational, industrial, religious, and agricultural is entitled to the greatest reverence and should not be lightly thrown aside for a new form of government.

Parallel this illustration with the banking system of America, a system of unit banks under which this country has reached a prosperity greater than any nation on earth, until our pay roll exceeds the pay roll of the rest of the world combined, a system under which we have taken more individuals without means and without capital and, by our local banking credit, developed more successful men of every kind of avocation, not only than any other nation on earth, but of the whole world combined. With this splendid picture of happiness and improvement before me, I hesitate before I take a leap in the dark and adopt the European system of either chain banking or branch banks.

Certainly, judged by results, our unit banking system has been more of its brother's keeper than that of any other nation, and makes the student ask, "What is the complaint against the unit bank that has done so well and why change?" Restlessness is not always progress, and copying the systems of the bankrupt nations of Europe is not necessarily a forward step. We have won our place as the creditor nation of the world. Let Europe copy our system.

I once heard a speech on individualism as the source of progress; government ownership the beginning of decay. I delivered it, so of course I heard it. It is the individual who does things, not the masses. You may have looked upon some beautiful painting, like that of the Sistine Madonna. An individual painted that picture, the masses never painted a picture. You may have seen a magnificent statue, harmonious in all its proportions. An individual carved that statue; the government never carved a statue. The masses never made an oration, penned a poem, shaped a cathedral, invented a machine, nor discovered a law of gravitation. It is individuals who take these steps of progress alone, and in so far as we curb individual effort and individual initiative, we retard progress. The reason why America has given us the sewing machine and the electric light, the harvester and reaper, telephone and telegraph, flying machine, and radio and the electrical marvels of the world, is because our individuals have been the captains of their own souls and have not become mere routine automatons of gigantic enterprises. The man who is head of a small institution develops better than the man who is a mere departmental tool of a gigantic corporation. Not that these great enterprises are not necessary. They are profoundly necessary in America today as the leading nation of the world and the hope of civilization. I, for one, most strongly advocate them, but I call attention to the fact that the big corporations, especially the large banks of our great cities, are drawing on the country institutions of the Middle States and the South and the West and New England, for their Presidents and their Vice Presidents, men who have developed not in branches, but in smaller independent institutions. Numerous instances could be cited, but they might make odious comparisons.

The distinguishing feature of America's financial system has been its numerous independent, individual banks. This fact has stood out in a marked contrast to the European system. America has over 24,000 practically independent banks, each locally owned and managed by a local board of directors and officers who use the funds of the bank legitimately for the development of the community. Contrast this with Great Britain that has 23 main banks and 9,476 branches, and with France with 19 main banks and 1,351 branches.

This local banking system of ours has been one of our greatest resources and has contributed to America's development and prosperity. The credit of these institutions has been extended to the needs of worthy and enterprising individuals whom the officers and directors of the various localities personally knew and in whom they had confidence. Many a poor boy through credit extended by his local bank has become a successful merchant, manufacturer, or professional man. On the contrary, in the countries across the sea where the bank is a mere cold-blooded proposition, individuals do not find it so easy to receive accommodations as they do here, where personal character, abilities, and ambition are regarded as assets. There is scarcely a community in the country where an illustration can not be found of some worthy individual with ability and without capital who has been able, through the help extended him by his local country bank, to make a success in life and add to the development of his country. It has been this personal, humane feature of America's banking system that has made it a motive power for progress such as the world never before saw. The reason for this is fundamental. It is founded upon the law of wealth as certain as the law of gravitation.

It is a somewhat antiquated political economy that imputes value to anything per se. Aside from a few of the fundamental metals and minerals, like gold and silver, diamonds and coal, there is no value in any material thing. There is no value in the hotels, lands, homes, public buildings, docks, wharves, and street-car lines of any municipality—say, for instance, Atlantic City. They are not worth a farthing. Their value and their wealth lie solely in the brains of Atlantic City's citizens, and if all the people in Atlantic City should leave that city and none ever return to take their places, Atlantic City as a deserted village would not be worth the attention of the tax gatherer. Its wealth would depart with the brains of its departing citizens. It is the brains of the individual, therefore, that are the asset of any nation, and just as you develop the individual, you add to wealth and prosperity.

The independent banking system of our country has fitted in admirably and practically with this philosophy. It has worked with the individual and helped him to grow industrially, educationally, inventively, and commercially. It has worked with him because he was a neighbor and an acquaintance and the bankers knew and trusted him and he in turn cooperated therewith. He rose to success through the help of his local independent bank, and rarely would have had that opportunity had he depended upon a bank in some large center, because he would not have known the bank and the bank would not have known him, and credit extension would have been well-nigh impossible. In the little town of Roebling, N. J., on the Delaware, Carl Roebling, then the head of the great John A. Roebling's Sons Co., organized a little bank that has deposits to-day of a million dollars. It admirably serves that community. It helps to build its homes, and to finance its merchants and public improvements. The bank takes a pride in this work, a work of service because it is a part of the life of the community, and it touches elbows with its needs and its wants, with its aspirations and its prosperity. If that bank was owned by a Chicago corporation and was one of a great chain system, this personal touch with the little village of Roebling would be lost and its entire relation to the community would be changed. The Roebling bank would no longer be the Roebling Bank but the bank of a foreign landlord and its interest in individual local enterprises would diminish and the plants of purely local and community pride and development would deal with a foreign instead of local credit. The chain stores—I do not criticize them nor claim they do not serve a useful purpose—have almost entirely eliminated the local merchant who dealt in the same commodities they do but they are like exotics among the native flowers of the garden. The branch banks would eliminate the local banks as surely as the chains are eliminating the local merchants.

The system of chain or branch banking is contrary to the spirit of American independence which prompted us to throw off the vassalage to a foreign government and our local communities would resent becoming vassal and tributary to a metropolitan banking institution, however fine. We, country bankers, and we are largely in the majority, do not object to selecting metropolitan banks as our correspondents. We seek their advice, we trust them with our deposits and if the Federal reserve system would pass away so that we could give them all of our deposits we would, but we do not propose to become tributary to their imperial will or become a branch of their great institution so that our community can be drained of the idle balances of our people to feed some other section of the country. Do not misunderstand. The resources of the local banks are always available for all in time of need but not as a branch under some one else's command, but as an independent sovereign, contributing of its own free will. Metropolitan banks as correspondents make a system that has all of the advantages and none of the disadvantages of the branch-banking policy. On the board of the bank with which I am associated are the leading cirizens of that community. They take a pride in that institution. They give it their advice and deposits and term it their bank. They serve it faithfully and well but not for one moment would those men serve as the vassals in a branch bank or in a chain bank. Under the branch-banking system, the country would lose the service of such men as I speak of in its financial affairs, a most valuable asset, and the loss of the services of thousands of local directors throughout this country would be a nation-wide catastrophe.

Divison of the Central Hanover Bank & Trust Co. well said: "In banking nothing can take the place of the man on the ground who knows local conditions and the man with whom he is dealing and has the power to make his own decisions under a responsibility only to resident ownership control."

The branch-banking system is European not American. The unit system is American not alien or foreign. In England everything is tributary to London,

in France to Paris, in Germany partially to Berlin but with a wholly different picture, where the bank becomes a partner in an industrial enterprise.

None of those systems could serve our needs so well as our present unit system. In none of those countries are their farmers like our farmers or their small merchants like our merchants or their small manufacturers like ours. It has been well said that the feudalistic overlord system has no place in American banking where the people want to deal with bankers of their own community in an institution whose stock is owned by their own neighbors and friends. May God long postpone the day when this splendid asset of Americanism ceases to dwell in the American heart. The American is not willing to forget his banking independence any more than his forefathers were willing to forget their political independence.

Two recommendations have recently been advanced for branch banking, one is that it would improve the mechanics of banking, creating a highly specialized body of experts who could give the branches the benefit of advice from the parent institution.

The answer to that is most manifest. It fails to consider the human side of the banking function. A bank is a personal institution. It does not sell goods or manufacture material products, it deals exclusively with persons and their possessions and thus it can only be wisely administered by people on the ground, familiar with local conditions. Moreover, the correspondent banks willingly and gladly give advice on the mechanics and operations of successful banking but more than that the A. B. A. furnishes to every institution a wonderful set of pamphlets upon all phases of banking formula and operations that can not be surpassed by the experts in the parent institution, wide-awake, perhaps, but a long distance away.

The second argument, which grows out of the too many failures of banks, is advanced in a most constructive and judicial way by a distinguished public official. This phase of the situation is presented with the suggestion that if these institutions which have failed had been tied to a stronger parent that unfortunate banking story might not have been written. The banks in question, however, upon analysis of their failure are found to largely small institutions in localities where perhaps no parent bank would want a branch, and the failures largely were due to a deflation of values in agricultural centers for which bank management was not responsible and over which it had no control. The best banking in the world could not fail to be affected in a period of industrial or agricultural depression or in a stock market crash that drags down and makes bankrupts out of those formerly prosperous. In any country, under any system and under any management, banks would suffer under this condition of affairs. The remedy for hard times and general economic depression is not to be found in branch banking any more than the purity of a stream is improved by the storage of its waters by dams and reservoirs.

When the Federal reserve system was inaugurated, its advocates said, and sincerely said, that it was panic proof, that cheap credit hereafter would always be available, that it would stabilize conditions and that money rates would always be reasonable, but under that system, we recently had average higher interest rates than in a long period in our history, credit was scarce and dear, we had a stock market panic utterly unnecessary and to-day we have industrial business depression and non-employment. This boasted banking system did not fulfill the prophecy of its sincere proponents and no banking system can escape the consequences of the laws of trade and commerce.

Allied to the branch banking policy, there had developed a system of holding companies for the ownership of bank stock and the control of the banking institutions. I trust I am not unfair when I say that this system of chain banking through holding companies is conceived in a spirit of illegality. It clearly violates the laws, both national and state, as they now exist against branch banking. A holding company of Chicago, as an illustration, might own banks in New Jersey, in Pennsylvania, and in other states where the law forbids branch banking. These corporation owned banks would be linked together and would really become the branches of a parent company and the anti-branch-banking laws will thus be nullified and the holding companies would not be under the jurisdiction of the Comptroller of the Currency or Banking and Insurance Commissioners.

Tremendous publicity and propaganda have been utilized to favor this new system. It changes the whole character of our banking policy, creates a foreign owner in the form of a corporation that is impersonal and resident in some metropolitan center controlling the functions of some far distant community bank, destroying their credit humanity and ability to serve their community. The

bank ceases to be owned by the people among whom it is located and is no longer their possession. One of these holding companies through its ownership of bank stock controls one of the largest banks in the world. This bank had at one time 289 branches in one state alone. A local bank, owned by such a corporation becomes a stranger in the community and that psychological asset called confidence which binds the bank and the community together is destroyed. The Financial Chronicle of October, 1927, well said:

"Credit is a commodity more important to the people than ordinary commercial products. Tying strings to 30,000 banks and putting them in the control of a half dozen companies certainly would not be in the public interest. The independent bank is of immense value to the country and should be preserved at all hazards. Every local merchant and manufacturer is entitled to credit according to his deposits. The creating and maintenance of locally owned and operated banks should be held sacred. The organization of local credit being free business outside of the bank will contract or expand in accordance with the average profits that business can earn. Thus the community and local banks go up or down together. To sacrifice this freedom to initiate new business not only by so-called controlled credit but by means of retaining at home the earnings of its own organized credit, must prove a detriment to a natural progress and prosperity * * * Ownership by a holding corporation * * * pumps the profits from the (local) reservoir and adds nothing in return. Depositors in these local banks now about to be coralled by holding companies are not asking for this change and are loath to see the stock of their local banks go into foreign and unknown and impersonal hands. Local bank stock should be kept at home."

In New Jersey we held up our hands and said to these holding corporations, "Thou shalt not enter" and we passed an act, still upon the statute books, that no corporation should own the stock of a bank or trust company of more than 10 per cent and we have teeth in that law that makes it effective.

When the Federal reserve system was created, in order that it should not become centralized, it was divided into 12 districts. The act went further and provided that directors should be voted for by classes so that a Federal reserve bank is always beyond the control of a majority or combination of the banks of the district, but the holding company policy threatens this safeguard against centralized monopoly. It could own enough of the member banks in a Federal reserve district to absolutely control the directorships thereof and control rediscount rates subject, of course, to the reserve board at Washington, and use the powers of the Federal Reserve Bank for its own corporate advantage. The possibilities of such a gigantic corporation are terrifying.

But aside from the uneconomic, un-American, feudalistic spirit of branch or chain banking, it is amateurish in its daring. Under it would arise the greatest of all trusts, a money trust, utterly abhorrent to the American people who are our masters. This is a case where angels fear to tread.

The chain system boasts of its progress. The other day I received a pamphlet declaring that this movement could not be stopped any more than old King Canute could stop the rising tides of the sea. I wonder if this pamphletier ever read American history? He seems to forget that whether wisely or unwisely America will not permit concentrated power in any enterprise or in any vocation and when the American people take the bit in their teeth and attack a monopoly or trust, they always go to extremes and endanger the welfare of the country and do injustice to the object of their wrath. We have seen our railroads attacked, I think unjustly, until the hysteria of the hour 40 per cent of them were driven into receiverships or bankruptcies. We have seen our industrial combinations, manufacturing and public utilities, attacked with a vehemence that sent some of their officials to jail and injured their progress. I am sure in many cases it was unfair and unjust, indeed, in most cases. To-day Congress is investigating and threatening holding corporations of railroad stocks and the Interstate Commerce Commission is raising a red flag to frighten the people about a danger that to me does not really exist. To-day Congress is investigating the mergers of public utilities and the holding companies of their stocks and spreading a propaganda of socialistic opposition that will end either in Government ownership or in drastic laws that will injure the prosperity of these great and useful enterprises. The man who fails to learn the lesson taught by the resentment and anger of the American voter against concentration of wealth or power is indeed an amateur and whether he is right or whether he is wrong in advocating branch or chain banking he invites a deluge which will overwhelm him to his sorrow if not to his ruin. These men are like the blind traveler who walks over the precipice. Branch banking may become our policy,

chain banking may become our policy (I do not think it will), but when it does the American people will rise up in their wrath as surely as the rising of the sun and in their unreasoning and unjust indignation will visit a vengeance upon our banking system and that will hamper constructive progress and seriously injure our banking institutions and percipitate a financial panic such as will make the advocates of this policy rue their folly and their blind obliviousness to American resentment of centralized power.

At this point, allow me to say that I am not arguing as to the wisdom of this policy, but like Elijah, to whom nobody would listen, I am pointing out to you from the history of this country what we should all foresee and what we should hesitate to invite—the disastrous consequences that will follow a concentration of money power in defiance of the independent spirit of the American voter.

Let us not try to make our banks too big by reaching out into territories where we do not belong, nor try to stretch our holding company chains even if we have the power. The sword of Damocles hangs over our heads and it will surely fall. I would rather be a small bank with the love of my community than a too large institution with the resentment of my fellowmen.

I have written strongly on this subject, perhaps too strongly, because I feel strongly. Ours is a nation of depositors. The bank, like the church, is a community enterprise, its stock a community investment, its success a community pride. It is a community temple where the saver and the borrower meet in a home they call their own, whose vestal fires must be kept alive by the trusted financial priests of their own hearthstones.

Very sincerely yours,

E. C. STOKES.

The following chapter from the Laws of New Jersey are printed herewith:

[Laws of 1928, ch. 273]

AN ACT To regulate the purchase and owning by certain corporations of capital stock of banks, trust companies, and national banks doing business in this State and in certain cases to limit and prohibit the purchase and ownership of such stock and to provide punishment for violation thereof

1. Any corporation, other than corporations specifically exempted from the provisions of this act, which now owns any of the shares of the capital stock of any bank or trust company or national bank, doing business in this State, and which shares of stock are not registered in the name of such corporation on the books of the bank or trust company or national bank issuing or which issued the same, shall within 60 days after the taking effect of this act cause the said shares of capital stock to be transferred on the books of such bank or trust company or national bank so that the same will be issued to and be registered in the name of such corporation, and shall keep the same so registered in the name of such corporation while it continues to be the owner of such stock.

2. Any corporation, other than corporations specifically exempted from the provisions of this act, which now or hereafter owns any shares of the capital stock of any bank or trust company or national bank doing business in this State, shall not cause or permit any such shares of capital stock to be issued to or to be registered on the books of the bank or trust company or national bank issuing the same, in any name or names other than the name of the corporation so owning such shares of stock.

3. Any corporation, other than corporations specifically exempted from the provisions of this act, which now or hereafter owns more than 10 per cent of the number of shares of the capital stock now or hereafter at any time issued and outstanding of any bank or trust company or national bank, now or hereafter doing business in this State, shall not purchase more than 10 per cent of the number of shares of capital stock at any time issued and outstanding of any other bank or trust company or national bank, now or hereafter doing business in this State.

4. Every bank and trust company doing business in this State, as to any of its shares of capital stock now or hereafter registered on its books in the name of any corporation and as a condition precedent to permitting such stock to be voted upon at any stockholders meeting, shall take and require from such corporation a statement in writing, dated and made on a date not more than seven days, including Sundays and holidays, prior to the date of such meeting or any adjournment thereof, stating (*a*) the number of shares of the capital stock of any and every bank, trust company, and national bank doing business in this State, owned by it on the date of taking effect of this act, and the names and addresses of the same; (*b*) the number of shares of the capital stock of any and every such bank,

trust company, and national bank purchased by such corporation after the taking effect of this act and the names and addresses of the same; (*c*) the number of shares of the capital stock of any and every such bank, trust company, and national bank owned by such corporation on the date of such statement and the names and addresses of the same; (*d*) the date or dates of purchase of all such shares of stock specified in (*b*) and (*c*) above; (*e*) the total number of shares of capital stock of any and every such bank, trust company, and national bank issued and outstanding on the date or dates of such purchase or purchases and on the date of such statement; (*f*) that such corporation has not after the taking effect of this act purchased any of the shares of the capital stock of any bank, trust company, or national bank in violation of provisions of section 3 of this act. If such statement is not furnished, such stock shall not be voted. If it appears from any such statement that such corporation on the date of such statement owned shares of the capital stock of any such bank, trust company, or national bank, purchased in violation of the provisions of section 3 of this act, the said shares of stock shall not be voted at such stockholders meeting. If it appears from any such statement that such corporation has violated the provisions of section 3 of this act, such bank or trust company shall inform the attorney general and the prosecutor of the pleas of the county in which its principal office is located of the contents of such statement.

5. Every bank and trust company doing business in this State, as a condition precedent to transferring any of its shares of capital stock into the name of any corporation, shall take and require from such corporation and such corporation shall make and deliver to it, a statement in writing, dated and made on a date not more than seven days, including Sundays and holidays, prior to the date of offering the certificates of stock for transfer, stating the particulars required by subsections (*a*) to (*f*), inclusive, of section 4 of this act. Until such statement is furnished such shares of stock shall not be transferred. If it appears from any such statement that such corporation on the date of such statement owns shares of the capital stock of any bank, trust company, or national bank doing business in this State, purchased in violation of the provisions of section 3 of this act or that the shares, transfer of which is requested, were purchased in violation of section 3 of this act, such stock shall not be transferred. If it appears from any such statement that such corporation has violated the provisions of section 3 of this act, such bank or trust company shall inform the attorney general and the prosecutor of the pleas of the county in which its principal office is located of the contents of such statement.

6. Every bank and trust company doing business in this State, as a condition precedent to paying dividends upon any of its shares of capital stock registered on its books in the name of any corporation, shall, on or after the date of each and every declaration of dividends upon such stock, take and require from such corporation and such corporation shall make and deliver to it a statement in writing, stating (*a*) the information required by subsection (*a*) of section 4 of this act; (*b*) the information required by subsection (*b*) of section 4 of this act; (*c*) the number of shares of the capital stock of any and every bank, trust company, or national bank doing business in this State, owned by such corporation on the date of declaration of such dividends; (*d*) the date or dates of purchase of all such shares of stock specified in (*b*) and (*c*) above; (*e*) the total number of shares of capital stock of any and every such bank, trust company, and national bank issued and outstanding on the date or dates of such purchase or purchases and on the date of declaration of such dividends; (*f*) the information required by subsection (*f*) of section 4 of this act. If any such statement is not furnished within six months after the date of declaration of such dividends, they shall be forfeited to and become the property of the corporation declaring the same. If it appears from any such statement that such corporation on the date of declaration of such dividends owned shares of the capital stock of any such bank, trust company, or national bank purchased in violation of the provisions of section 3 of this act, the dividends which would have been payable with respect to any such stock shall be forfeited to and become the property of the bank or trust company declaring the same. If it appears from any such statement that such corporation has violated the provisions of section 3 of this act, such bank or trust company shall inform the attorney general and the prosecutor of the pleas of the county in which its principal office is located of the contents of such statement.

7. Any corporation which purchases shares of stock of any national bank doing business in this State, in violation of the provisions of section 3 of this act shall not vote such shares of stock, now shall it cause or permit the same to be

transferred to it on the books of said national bank nor shall it take or receive any dividends declared on such shares of stock.

8. Whenever the attorney general of this State has reason or information to suspect or believe, or whenever it appears to the attorney general by complaint or otherwise that any stock of any bank or trust company doing business in this State has been purchased in violation of the provisions of this act, he shall, by proceeding in the court of chancery of this State, procure determination as to such purchase. Such proceeding shall be by petition in the name of the State of New Jersey, and in which the bank or trust company whose stock is involved and the registered holder of such stock and any other person or corporation having any interest therein to the knowledge or information or belief of the attorney general shall be parties defendant, and of which they shall receive such notice as the court shall prescribe. Notice to any absent defendant shall be given according to the statute and rules of said court in such case made and provided.

In any hearing thereon the burden of proof that such stock has not been purchased in violation of the provisions of this act shall be upon the registered owner of such stock or upon any other party thereto claiming to own the same.

If it is determined that such stock has not been purchased in violation of the provisions of this act, it shall be so decreed.

If it is determined that such stock has been purchased in violation of the provisions of this act, it shall be so decreed, and it shall also be decreed that any and all dividends thereafter declared with respect to such stock while such stock is so owned shall be forfeited to and become the property of such bank or trust company, and that while such stock continues to be owned in violation of the provisions of this act it shall not be voted at any stockholders' meeting. Upon any such determination the costs of such proceedings and any counsel fees allowed by the court may be decreed to be paid by the registered owner of such stock or by any other party claiming to own the same.

If after such determination such stock ceases to be owned in violation of the provisions of this act, its status with respect to this act may be determined and its right to dividends and voting may be restored upon petition in said court by the registered holder of such stock or other person or corporation interested therein, of which such notice as may be prescribed by the court shall be given to the attorney general and to the bank or trust company whose stock is involved. If it is determined that such stock has ceased to be owned in violation of the provisions of this act, it shall be so decreed and also that all dividends declared after cessation of such ownership shall be paid without interest, and that such stock may thereafter be voted. Upon any such determination the costs of such proceedings and any counsel fees allowed by the court shall be decreed to be paid by the petitioner.

9. The stock ownership permitted or prohibited by this act shall be construed to mean and include any ownership, owning, holding, having, or controlling directly in any way whatsoever, or indirectly in any way whatsoever, through any agent or other representative.

10. The words "purchase," and "purchased," as used in this act shall be construed to mean and include any purchase or other acquisition of ownership, or of any right, title, or interest, directly or indirectly, in any way whatsoever, or indirectly in any way whatsoever, through any agent or other representative.

11. Whenever in this act any statement in writing is required to be made by any corporation, such statement shall be made in the corporation's name, shall be under its corporate seal, and shall be signed for the corporation by its president, vice-president, treasurer, or secretary.

12. Any corporation guilty of making in whole or in part any false statement required by the provisions of this act shall be guilty of a misdemeanor and upon conviction thereof shall be punished accordingly.

Any corporation guilty of violating any of the other provisions of this act shall be guilty of a misdemeanor and upon conviction thereof shall be punished accordingly.

The making by any corporation of any false statement required by this act shall be deemed to be also a false statement by the individual officer or officers of such corporation making the same, and of the individual director or directors and officer or officers of such corporation ordering, or doing, or permitting the same, and he or they shall be guilty of a misdemeanor and upon conviction thereof shall be punished accordingly.

Any violation by any corporation of any of the other provisions of this act other than the making of such false statement, shall be deemed to be also the violation of the individual officer or officers, director or directors, ordering or

doing, or permitting such violation, and he or they shall be guilty of a misdemeanor and upon conviction thereof shall be punished accordingly.

In addition to the penalties otherwise provided in this act for such violation or violations, the charter of any corporation making any false statement required by this act, or violating any of the other provisions of this act, shall be revoked in appropriate proceedings by the attorney general of this State; and in case of a foreign corporation authorized to do business in this State its permission granted to do business in this State shall be revoked in appropriate proceedings by the attorney general of this State.

13. Any person or persons who for the purpose of enabling any corporation to evade or attempt to evade the provisions of this act shall permit any shares of the capital stock of any bank, trust company, or national bank, doing business in this State, owned by any corporation to be held or registered in his or their names, shall be guilty of a misdemeanor and upon conviction thereof shall be punished accordingly.

14. The provisions of this act and the penalties thereof shall not apply to the following corporations, viz.: Banks and trust companies organized under the laws of this State and national banks doing business in this State, nor to such banks, trust companies, and national banks while acting in a fiduciary capacity representing any individual or individuals or the estate of any individual; nor to any other corporation the entire capital stock of which is owned by or held in trust for the shareholders of any bank or trust company organized under the laws of this State or any national bank doing business in this State, in the same relative proportion as the stock held in said bank, trust company, or national bank.

15. If any part or parts of this act shall be held to be invalid or unconstitutional, the validity of the other parts hereof shall not thereby be affected or impaired.

Winona, Minn., October 22, 1930.

Hon. LOUIS T. MACFADDEN,
Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D. C.

DEAR SIR: It occurred to us that you might be interested in receiving a copy of a letter which we are sending to the American Bankers Association with respect to the recent branch bank resolution passed at their Cleveland convention.

The letter appears self-explanatory. It is the feeling of the committee that the resolution does not represent the wishes of anything like the majority of the members of the American Banking Association, and we are simply challenging them on their standing.

It is not my purpose in this letter to assign any argument for or against branch or unit banking; however, it does appear that the demand for branch banking is coming entirely from the bankers themselves and not from the public, since the present institutions certainly are receiving satisfactory patronage, and since it is a demand from the bankers it appears to us that their wishes in the matter should be known.

Very truly yours,

J. R. CHAPPELL,
Vice President.

MINNESOTA BANKERS ASSOCIATION,
Minneapolis, Minn.

The AMERICAN BANKERS ASSOCIATION,
New York, N. Y.

GENTLEMEN: The action taken by those in attendance at the recent annual meeting of the American Bankers Association with respect to branch banking has come to the attention of this committee, which, for your information, was created at the last annual meeting of the Minnesota Bankers Association to preserve the interests of the independent banks.

The purpose of the resolution on branch banking as adopted appears quite evident. It apparently will be an authoritative expression to legislative bodies, particularly to Congress in an attempt to secure the enactment of laws beneficial to those wishing branch banking in its broadest scope.

It is not our purpose to advance any arguments for or against the resolution, however, we feel that an issue not only associated with the welfare of the majority of your members but probably affecting their very existence should not be

decided by the few representatives who happened to be in attendance at the annual meeting.

Many complaints are heard relative to the action taken. It seems certain that it is not the representative expression of the bankers of this country nor of your members, and we believe in fairness to those who have supported your association for so many years that a question of such importance should be decided by the entire membership.

We should like to suggest therefore that you mail a questionnaire to every member requesting an expression on the resolution passed, advancing no arguments for or against, and we are certain the decision will be acceptable.

Knowing that considerable expense is involved and thinking your budget might not permit the expenditure, if the plan is accepted and funds are not available for the purpose, this committee will gladly undertake the raising of the necessary amount upon your request.

We believe this letter suggests fair and impartial action, and we sincerely trust that it may receive favorable consideration and support. A copy of this request is being mailed to some of your officers and committee members, certain interested Members of Congress, and to certain publications.

Assuring you of our appreciation of its consideration, we are

Very truly yours,

COMMITTEE ON UNIT OR INDEPENDENT BANKING,
MINNESOTA BANKERS ASSOCIATION,
J. R. CHAPPELL, *Winona, Chairman.*
N. J. PETERSON, *Little Falls.*
EDWIN BRICKSON, *Adrian.*
J. J. RACHAC, *Faribault.*
OLUF GANDRUD, *Benson.*

OCTOBER 30, 1930.

Mr. J. R. CHAPPELL,
Chairman Committee on Unit or Independent Banking,
Minnesota Bankers Association, Winona, Minn.

DEAR MR. CHAPPELL: Your letter of October 17, addressed to the American Bankers Association, was received at the general office and has been forwarded to me as president of the association. Your suggestion is that the association, "advancing no arguments for or against," mail a questionnaire to every member, requesting an expression of their views upon the resolution with respect to unit and branch banking adopted at the recent general convention at Cleveland.

I doubt very much the propriety of such action. Although myself a unit banker and in sympathy with the maintenance of that system of banking, I feel that any action toward ascertaining and determining the policy of the association upon such an economic subject must be in accordance with and not in defiance of its established law and methods of procedure.

Under the consitution of the American Bankers Association—and in what follows, I am quoting our general counsel, Thomas B. Paton—"the supreme authority of the association is vested in the general convention" and the constitution provides (Art. IX, Sec. 1.) that "Decisions and authorization of appropriate action upon matters of economic, financial, or legislative policy or upon any other subject, shall be made by vote of a majority of the delegates present and voting at any session of the general convention."

The above is the sole method provided by our constitution by which the general convention, which is the supreme authority, makes its decisions upon matters of economic policy. True, section 2 of Article IX of the constitution provides that "in the interim between sessions of the general convention decisions upon matters of policy and action not inconsistent with any previous decision of the general convention shall be made in the manner provided by the by-laws" and By-Law XI in section 3 provides, among other methods of ascertaining the policy of the association between sessions of the general convention, that "it shall also be within the power of the president of the association when in his judgment occasion warrants, and if authorized by four-fifths of the administrative committee, to submit or authorize the submission of any question of policy by mail to the entire membership of the association, and if replies are received from the majority of the members and if three-fourths of the replying members concur, the policy and action of the association shall be determined accordingly, subject only to review and revision by the general convention."

Section 3 further provides that "All questions of policy submitted to referendum vote of the entire membership * * * shall be accompanied by a brief statement of facts and reasons on both sides of the question." Furthermore, section 4 of this by-law provides that "all questions within the jurisdiction or scope of investigation of the economic policy commission shall, when practicable, be submitted to the commission for it investigation, findings, and recommendations before being presented to the * * * entire membership for referendum vote. The presentation of such questions * * * for referendum vote shall be accompanied in each case by the conclusions and recommendations of the commission." But this authority for referendum, in addition to being entirely different in form to what you suggest, does not in any event apply in this case because it is limited to questions of policy which arise between sessions of the general convention and which are not inconsistent with any previous decision of the general convention.

The subject of unit, chain and branch banking was advertised well in advance through announcement of the president mailed direct to every member as one of three major subjects which would be debated and acted upon at the Cleveland convention and, further, all delegates had notice through the columns of the American Bankers Association Journal that this important subject was to be on the program for discussion and decision. On the convention floor the resolution was in fact debated at considerable length prior to the voting of the delegates.

The American Bankers Association having at its Cleveland convention attended by a large representative of delegates from all sections and after full discussion, adopted a resolution on the subject of unit and branch banking, such policy becomes the established policy of the association, legally and constitutionally declared, and our organic law provides no method by which such policy can be changed other than by vote of the delegates at a subsequent general convention.

What you are asking, in effect, is that the association, through its responsible officials and without authority of the general convention, which was just delcared its policy upon this subject, initiate an inquiry of all the members whether or not they are in accord with such policy and having for its purpose the discrediting if possible of the validity of such declared policy.

You will see from the foregoing statement of facts, therefore, that a compliance with your request would not only be unauthorized but would be improper as in violation of our organic law.

Very truly yours,

ROME C. STEPHENSON,
President American Bankers Association, South Bend, Ind.

MINNESOTA BANKERS ASSOCIATION,
Minneapolis, Minn., November 28, 1930.

Mr. ROME C. STEPHENSON,
President American Bankers Association, South Bend, Ind.

DEAR MR. STEPHENSON: Acknowledgment of your letter of October 30 rejecting our suggestion that a referendum be submitted to the members of our association in connection with branch bank resolution adopted at Cleveland has been delayed until it could be presented to our committee for consideration.

The delay, however, has given you an opportunity to appraise the comments and expressions from various members and financial magazines. It must have come to your attention that there is an overwhelming demand for such a referendum, a concurrence for which has prevailed among all financial editors who indicated sufficient interest for expression.

The interest displayed and the requests received make it mandatory that our committee arrange for some sort of a referendum, and we believe there is an opportunity for the American Bankers Association to remove some of the criticism directed on account of its action by undertaking this task.

You desire that the membership, due to some technical objection, accept as final, official, and conclusive the resolution as adopted at the Cleveland convention. May we inquire if the past association officials and committees have so acted in accepting resolutions adopted at the preceding conventions as final and conclusive. If so, permit a few facts. With several resolutions opposing branch banking appearing on the official record, your most important and active committee, the economic policy commission, appointed in 1929, submitted an exhaustive report at the Cleveland convention indicating a favorable position toward group

and branch banking. All of this was in spirit contrary to the previous distinct expressed wish of the membership and against the official records of the association. This report without a doubt led to the adoption of the branch-bank resolution.

Has the result accomplished some selfish interest or will the committee continue study and investigation of the subject? If the latter is true, and we hope it is, might you not suggest to this committee that in the continuation of their work and in order to be fully informed as to the wishes of the members that they submit an unofficial questionnaire on this all important question. The results thus obtained will be accepted as entirely satisfactory to our committee and other interested parties and should serve as a basis for future association action.

Knowing that you have a sincere interest in the welfare of the association, we hope that you will not endeavor to find some technical or organic objection to the suggestion herein contained and on the contrary will gladly and willingly do your fair share to eventually purge the record of an act adopted by a vote of approximately 150 members from a twenty thousand membership, and an act that may affect the future welfare and success of your association.

A copy of this letter is being forwarded to Mr. R. E. Heck, chairman of the economic policy commission.

We shall await an early reply.

Very truly yours,

J. R. CHAPPELL,
Chairman Committee on Unit or Independent Banking,
Minnesota Bankers Association.

SECURITY-FIRST NATIONAL BANK OF LOS ANGELES,
Los Angeles, November 29, 1930.

Hon. LEWIS T. MCFADDEN,
Chairman Committee on Banking and Currency,
Washington, D. C.

MY DEAR MR. MCFADDEN: In compliance with your suggestion made when you were in Los Angeles a few days ago, I beg to submit herewith some suggestions with respect to the amendment of the national bank act:

1. *Capital Stock.*—At present it is not possible for a national bank to have an authorized capital stock in excess of the paid-in and issued capital stock. Under the state law in California a bank may have an authorized capital, only a part of which may be issued. In actual operations, in connection with the merger or consolidation of banks, we found it very advantageous in the old Security Trust & Savings Bank to have an authorized capital stock larger than the issued and paid-in capital stock so that the directors were in a position to authorize additional stock either for a stock dividend or for the exchange of stock in the case of a merger. If the authorized stock is large than the issued stock, the directors can from time to time sell stock pro rata to the old stockholders when it is desired to increase the paid-in capital stock. It may well happen that a bank may desire to increase its capital stock and add to its surplus account by selling the stock at an advance over the face value of the shares, giving to the capital stock the share value and to the surplus the difference between the share value and the sale price.

Authorization for the stock would, of course, be subject to the approval by the Comptroller of the Currency, as would the issue of additional paid-in stock out of the already authorized stock. If provision for authorized but unissued stock were made, there should likewise be a provision requiring the advertising of the amount of the paid-in capital stock whenever the amount of the authorized capital was advertised. This would obviate any possibility of the public being deceived in this matter.

2. *Real estate loans.*—Under the law as it at present stands, national banks may make loans secured by first lien on improved real estate not to exceed 50 per cent of the actual value of the real estate and not for a longer time than five years. The aggregate of such loans may be made in a sum equal to 25 per cent of the amount of capital and surplus of the association, or of one-half of it savings deposits, subject to the general limitations contained in section 5200 of the Revised Statutes. Loans on unimproved real estate are not permitted.

It would be a great help to the national banks in California if the aggregate amount which may be loaned should be raisd to 60 per cent of the savings deposits and if the amount that could be loaned on any one property should be raised to 60 per cent of the actual value of the real estate. If choice had to be

made between these two, I think the raising of the amount of the individual loan would be the more helpful in meeting competition.

The 5-year limit seriously interferes with the making of installment loans on homes. Loans on homes to homeowners on a monthly payment basis, which included a steady reduction of principal as well as payment of interest, have always been regarded as a very satisfactory type of loan and is one which we believe could safely be made by national banks with their savings deposits. It is very difficult at the present time to get these loans on a 5-year basis. It would be far easier if installment loans on homes could be made with a 10-year limit.

There is an anomalous situation existing in connection with the amount that may be loaned on a particular piece of property. Trust departments in national banks, under a rule of the Federal Reserve Board interpreting section 11K of the Federal reserve act, Federal Reserve Bulletin, (vol. 6, pt. 2, p. 949), may lend the funds of a particular trust, when so authorized by the trust agreement, on real estate in accordance with the provisions of the State act, which would govern a State trust company if it were acting as trustee under the same trust instrument. This means that in such cases a loan up to 60 per cent of the value of a particular piece of property is possible in California.

Savings deposits in national banks have increased rapidly in recent years and there is every prospect that they will continue to increase, both through natural growth and through the consolidation with national banks of State banks that have been engaged largely in lending on real estate. This situation, as you are aware, has already developed in California and I think we must anticipate that a similar situation will develop in the rest of the country, if the national banking system is to grow in the way you hope it will. If, for example, legislation should be enacted which will permit national banks to extend their branches within a determined trade area or within Federal reserve limits, the result desired by such legislation would be greatly facilitated by the amendments above suggested.

In connection with the increase in savings deposits in national banks and the consequent increase in real-estate loans by these banks, I noted an item in the Los Angeles Examiner of Januray 3, of this year, with the date line New York, to the effect that "Holdings of real-estate loans by national banks of the country as a group registered an increase of $127,000,000, or 10 per cent in 1929 as compared with the preceding year. Realty loans approximated $1,413,000,000."

The competition of building and loan associations throughout the country for the savings of the people is tremendously keen. The restrictions upon the national banks in the matter of lending upon real estate make it very difficult for us to compete successfully for many good loans. The competition with national banks comes not alone from building and loan associations in California, but from State banks which can lend up to 60 per cent of the appraised value for a period not exceeding 10 years and without any limit upon the aggregate amount of loans that may be made by a savings department or a savings bank other than the requirement of a reserve in cash.

If amendments such as these could be adopted national banks would be helped toward a fairer competitive position in comparison with State banks and building and loan associations.

I am quite aware of the prejudice with respect to the making of real-estate loans by national banks, a prejudice holding over from a time when national banks were purely commercial banks. That condition has been enormously changed. Practically all of the larger national banks are in reality doing a departmental banking business and many of the smaller banks are taking savings deposits, though possibly not lending them on real estate. There seems to be a feeling that a national banker can lend more successfully when he is not lending on real estate, but I do not quite know why this should be the case. Every country banker is lending daily to a very large exrent on his judgment of the value of the realty holdings of his customers. Under the present situation the savings depositor in a national bank is really in a more precarious position than the demand depositor, due to the fact that if the bank finds itself pressed its demand depositors can insist upon payment, while notice is demanded of a savings depositor. Even if this does not take place, the demand depositors seem to be a little more in touch with the conditions of their banks and withdraw their money, to a certain extent, when difficulties are encountered, while the savings depositors generally do not do so to the same extent. This means that if the bank fails the bulk of the savings depositors are left with whatever commercial depositors still are in the bank, with only the poorest assets of the bank from which they can realize.

If at the same time it could be possible to segregate the assets of the savings department and give the savings depositors a first lien upon these assets the situa-

tion, in my judgment, would be vastly improved. Loans on real estate could more readily be made and I suspect it would bring a more wholesome situation in many small banks that are now lending commercially upon real estate.

With kind regards, I am

Sincerely yours,

EDWARD ELLIOTT, *Vice President.*

FIRST NATIONAL BANK IN DALLAS,
Dallas, Tex., December 4, 1930.

Hon. LOUIS T. MCFADDEN,
Chairman House Committee on Banking and Currency,
Washington, D. C.

DEAR CONGRESSMAN MCFADDEN: As you, of course, learned to-day, the First National Bank of Charlotte, N. C., suspended business this morning. One of our friends there wired us that the failure was not unexpected and grew largely, if not entirely, out of the bank erecting an office building costing $1,850,000. It appears that the capital and surplus of the bank amounted to only $700,000 and the deposits only about $1,700,000.

As you probably know, the banking laws in some States provide that a State bank shall not invest in a building and fixtures in excess of a certain percentage of its unimpaired capital and surplus. One or two, I recall, limit the amount to 33⅓ per cent. I think any effort to fix a percentage lacks flexibility, but there ought to be something to restrain a national bank from doing what the Charlotte bank did, and it is my thought that Congress could very well afford to enact an amendment to the national bank act which would provide that in the event a bank should desire to expend more than 33⅓ per cent of its unimpaired capital and surplus for a bank building and fixtures it should first obtain the approval of the Comptroller of the Currency, or if thought desirable, the Federal Reserse Board. Perhaps some penalty should be attached, such as creating liability on the part of directors who voted for such an expenditure without first obtaining the approval of the comptroller or board, as the case might be. You will recall that there is a precedent for this in the amendment to the Federal reserve act which prohibits Federal reserve banks from erecting buildings for headquarters or branches in excess of a certain amount without the approval of Congress.

There could be no better illustration of the need of the legislation which I suggest than this case of the First National Bank of Charlotte, which put $1,000-000 more than its capital and surplus, or, measuring it another way, more than its entire deposits, in an unliquid asset such as the building erected in this case.

This suggestion is submitted to you through no other motive than my desire to improve the banking situation of the country, a proposition in which I know that you and Mr. Pole, to whom I am sending a copy of this letter, are deeply and most unselfishly interested.

Very truly yours,

B. A. MCKINNEY.