

X-4463

WHY SECTION 9 SHOULD BE STRICKEN OUT.

Mr. L. T. McFadden, Chairman of the Committee on Banking and Currency of the House of Representatives, in his contribution to the November issue of the American Bankers Association Journal, entitled "Why Section 9 is Necessary to the National Bank Bill" declares that the only opposition to this section comes from "a small but influential group of state member banks" in one state, California, and from "one or two Cleveland state member banks, which desire to continue to establish branches in the suburbs of Cleveland."

It may be that the only organized opposition to this section comes from the groups mentioned, but it is nevertheless true that the section affects banks in no less than twenty-four states. It sets up a new standard of eligibility for membership in the Federal Reserve System, a standard not related to safety of management or sound banking policy, but solely to the question whether banks have branches or offices (the bill defines all additional offices as branches) outside of "the corporate limits of the municipality in which the parent bank is located." There were in June 1924 (Federal Reserve Bulletin December, 1924, page 933) 245 such non-member banks located in twenty-three different states as follows:

Arizona .....	4
Alabama .....	4
Arkansas .....	2
California .....	50
Delaware .....	4
Florida .....	1
Georgia .....	10
Indiana .....	1
Louisiana .....	21
Maryland .....	15

Maine .....	20
Michigan .....	3
Massachusetts .....	6
Mississippi .....	8
North Carolina .....	34
New Jersey .....	4
Ohio .....	8
Pennsylvania .....	9
South Carolina .....	4
Rhode Island .....	2
Tennessee .....	14
Virginia .....	18
Washington .....	3

Total .....245

This list of states should have included New Hampshire from which state a bank with two branches outside "the corporate limits of the municipality in which the parent bank is located" (Conway) has since been admitted to the Federal Reserve System. Of state banks maintaining such outside branches 245 are non-members and only 55 are members of the Federal Reserve System. This contrast of figures alone should convince any unprejudiced student of the subject that Section 9 cannot possibly accomplish what its proponents expect of it. Instead of strengthening the Federal Reserve System it will weaken it, in my opinion, by excluding from membership many well managed institutions, and by preventing any further additions of branches under any circumstances by member banks.

As to the unwisdom of such an iron-clad prohibition of all further extension of branches by member state banks I have only to cite the recent establishment of a branch of the Citizens and Southern Bank of Savannah, Georgia, in Athens, Georgia. This branch was established with permission of the Federal Reserve Board in August at the earnest request of the directors of the Federal Reserve Bank of Atlanta and at the request of the citizens of Athens. One of the leading citizens of Athens has recently written me that the establishment of this branch "has been of incalculable value in creating

confidence and stabilizing conditions generally in the city and community."

Now what good reason is there for prohibiting by law the rendering of such a service to a stricken community? If National banks can't be permitted to render service of this kind because of prejudice against branches why should we say to a state that its State banks cannot render such service and remain in the Federal Reserve System? The Athens case does not stand alone. There have been several others during the past year, and more during the two or three preceding years.

Section 9 will do nothing of consequence to strengthen the National Banking system, and if branch banking is as alluring as its opponents appear to think it is it will do nothing of consequence to prevent its spread. Section 8 purports to give city National Banks the right to establish branches within municipal limits, where state banks have that privilege, a right which the National Banks are already exercising with the concurrence of the Comptroller of the Currency. Section 9 denies to country banks the right to establish even neighborhood branches. It should be remembered that of the 310 banks operating branches outside municipal limits 239 are located in towns or cities with a population less than 25,000, and 129 of them in municipalities of less than 2,500. Some of these banks have operated branches successfully for upwards of thirty years. Is it likely that Section 9 will cause them to give up their branches or will coerce the States in which they are located into a change in their laws relating to the subject?

If Section 9 does nothing of consequence to strengthen the National Banking system another section of the McFadden bill will do much to weaken it. I refer to Section 7 which repeals an Act which has been a part of the National Banking Law since 1866. This repeal will prevent banks with branches

beyond municipal limits from becoming national banks and retaining their branches. Section 7 is doubtless regarded as an essential accompaniment of Section 9 and stands or falls with it. Instead of prohibiting these banks from becoming National banks the National Banking system would be greatly strengthened if such banks as the Grenada Bank of Grenada, Mississippi, the Tennessee Valley Bank of Decatur, Alabama, the Citizens and Southern Bank of Savannah, Georgia, the Wachovia Bank and Trust Company of Winston-Salem, North Carolina, the Industrial Trust Company of Providence, Rhode Island, the Merrill Trust Company of Bangor, Maine, and many others that I could mention could be induced to take out national charters. I have not mentioned the branch banking institutions of California because they are so well known, and because my purpose is to show that California and Cleveland are really only a small part of the picture.

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