

March 1, 1930.

To: Governor Young,

SUBJECT: Data re Branch, Group and

From: Mr. Wyatt, General Counsel.

Chain Banking.

In accordance with your request, made Tuesday of this week, I have gathered together what I believe to be substantially all the data in the Board's possession on the above subject, which might be of help to you in connection with your testimony before the Committee on Banking and Currency. I have digested or summarized this material under various headings listed in the attached analysis and have attached the original material as exhibits numbered according to the corresponding headings of the analysis and digest.

This system of numbering the exhibits results in some duplication of exhibits (i.e. the same material sometimes appears two or three times as different exhibits); but I believe it is justified by the resulting convenience of reference. If you decide to file with the Committee a written statement accompanied by exhibits, it may be advisable to eliminate this duplication by designating the exhibits A, B, C, etc., and referring back to an earlier exhibit, instead of introducing the same exhibit again under a different number.

In accordance with our understanding, I have not attempted to put the attached summary or digest in the form of a final statement to be filed with the Committee but rather in such form as to serve as a rough draft for you to revise and supplement in accordance with your own views. It, therefore, contains some references to confidential material, which should be omitted from any statement or exhibits filed with the Committee. In this connection, I quote the following from a memorandum addressed to me by Mr. Horbett with reference to the confidential character of some of the material compiled by Mr. Smead's division:

"As I told you over the telephone, a good deal of the material that we have presented to the Board has been of a confidential character, that is to say, we have not felt at liberty to disclose, except to the Board, the names of the individual banks reported to us by the Federal reserve agents. You will note, however, from the copies of the memoranda submitted to the Board on this subject, that they refer to the accompanying detailed reports, and in some cases the memoranda themselves give figures pertaining to individual banks. It may be desirable, therefore, to amend the memoranda somewhat, if they are to be used at the Congressional hearing, by omitting confidential data and references to accompanying confidential tabulations."

I strongly recommend that you confer with Mr. Smead about this before finally deciding what material to file with the Committee.

I regret that I have had to do this work so hurriedly that I am not very proud of the result; but I hope that it will serve for practical purposes.

Respectfully,

Walter Wyatt, General Counsel

F E D E R A L R E S E R V E B O A R D
D I G E S T O F
D A T A O N B R A N C H , G R O U P A N D C H A I N B A N K I N G .

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The following is a digest of all the data in the possession of the Federal Reserve Board on the subject of branch, group and chain banking. There is being submitted to the Committee at the same time as exhibits, copies of all the material referred to in this digest. In this connection, attention is called to the fact that part of the material submitted is confidential in its nature and probably ought not to be published in any report of the Committee's hearings. These confidential portions are indicated both on the exhibits and by explanatory statements in the body of the digest, so that the Committee can easily eliminate them if it should desire to publish this digest or any of the exhibits.

FEDERAL RESERVE BOARD

DATA ON BRANCH, GROUP AND CHAIN BANKING

I. Legal Research

1. September, 1922 - Status of Branch Banking Under the Laws of the Several States.
2. December, 1924 - Comprehensive Article on Branch Banking, Including Legal Status.
3. March, 1925 - Digest of State Laws as of December 31, 1924.
4. June, 1926 - Supplement to December, 1924, Article.
5. February, 1929 - Branch Banking Developments to June 30, 1928.
6. October, 1929 - Digest of State Laws re Ownership of Bank Stocks by Holding Companies.
7. December, 1929 - Branch and Chain Banking Developments in 1929.
8. February, 1930 - Digest of State Laws re Branch Banking.

II. Statistical Research re Branch Banking

1. June, 1924.
2. December, 1925.
3. December, 1926.
4. February 25 and June 30, 1927.
5. June, 1928.
6. June, 1929.
7. December, 1929.

III. Statistical Research on Chain Banking

1. December, 1922.
2. June, 1926.
3. June, 1928.
4. June, 1929.
5. December, 1929.
6. Annual Report for 1927.
7. Annual Report for 1928.

IV. Branch Banking in Foreign Countries

1. Canada.
2. British Isles.
3. Germany.
4. France.
5. Japan.

V. History, United States

1. "Branch Banking before the Civil War" - Address by Hon. Edmund Platt.
2. "Branch Banking for Country Banks" - Address by Hon. Edmund Platt.
3. Recent Growth of Branch Banking Through 1924.
4. Branch Banking in the United States from June, 1924, to December, 1925.
5. Branch Banking Developments in 1926.
6. Branch Banking Developments to June 30, 1928.
7. Branch and Chain Banking Developments to June 30, 1929.

VI. Federal Legislation on Branch Banking

1. First Bank of the United States.
2. Second Bank of the United States.
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9. The McFadden Act.
 - (a) National Banks.
 - (b) State Member Banks of the Federal Reserve System.

VII. Policy of Federal Reserve System on Branch Banking

1. Annual Report for 1915.
2. Recommendations During 1916.
3. Annual Report for 1917.
4. Annual Report for 1918.
5. Developments During 1919.
6. Annual Report for 1919.
7. Recommendation of Federal Reserve Agents in 1921.
8. Annual Report for 1922.
9. Annual Report for 1923.
10. Administrative Policy of Federal Reserve Board Prior to November, 1923.
11. Federal Reserve Board's Resolution of November 7, 1923.
12. Recommendations on McFadden Bill.
13. Administrative Policy During 1924.
14. Regulations of 1924.
15. After the McFadden Act.

VIII. Policy of Federal Reserve System on Chain Banking

1. Conditions of Membership.
2. Recommendations for Legislation.
3. Correspondence with Hon. Louis T. McFadden regarding Administrative Control.
4. Annual Reports for 1927 and 1928.
5. Conferences of Federal Reserve Agents and Governors of Federal Reserve Banks, 1927-1928.
6. Committee to Study Chain Banking.

IX. Bank Failures

1. Federal Reserve Board's Annual Report for 1926.
2. Report on Bank Suspensions, 1921-1927.
3. Study of Bank Suspensions, 1921-1929.
4. Federal Reserve Board's Annual Report for 1929.
5. Studies of Bank Failures by Professor Sprague and Dr. Burgess.

BRANCH, GROUP AND CHAIN BANKING

RESEARCH WORK

During the past eight years the Federal Reserve Board has done a great amount of research work in connection with the subject of branch banking, and during the past four years it has made much research in connection with the subject of group and chain banking. It is believed that the results of this research work will be very enlightening and helpful to the Committee. There is given below a brief discussion of the various different phases of this research work and there are attached exhibits containing the principal documents containing the detailed information resulting from this research work.

I. LEGAL RESEARCH

1. During September, 1922, Mr. Robert F. Leonard, Secretary to Hon. John R. Mitchell, who was at that time a member of the Federal Reserve Board, prepared a preliminary draft of a digest showing the status of branch banking under the laws of the several states. In this digest it appears that, in September, 1922, branch banking was prohibited by law in 15 States and was expressly permitted by law in 13 states. In 12 States there were no specific provisions of law prohibiting branch banking, but the State supervisory authorities did not permit branches to be established. In four States the laws prohibited branch banking but permitted the establishment of branch offices or agencies; and in three States the establishment of branches was permitted without any express authorization of law. In one State branch banking was permitted by implication, but there were no branches then in operation in that State. Of the 13 States expressly permitting branch banking, eight permitted it without any geographical limitations, while five permitted the establishment of branches only within certain geographical limits. A copy of this preliminary digest (X-3530) is attached hereto as Exhibit A. It appears that it was never put in final form.

2. In December, 1924, there was published in the Federal Reserve Bulletin (pages 925-940) a comprehensive article with reference to the entire subject of branch banking, which reviewed the administrative policies of the Federal Reserve Board with reference to this subject, the Board's recommendations to Congress, the extent of branch banking in the United States, both within and without the Federal reserve system, and the growth of branch banking. In addition to much valuable statistical

material, this article also contained (pages 930-931) a summary of the legal status of branch banking in the United States and a map showing in which states branch banking was authorized, in which States it was prohibited and in which States the laws contained no provisions with reference to branch banking. This summary showed that at that time branch banking was expressly prohibited by statute in 17 States and was either expressly or impliedly permitted by statutory provisions in an equal number of States. The free extension of branch banking on a State-wide basis was expressly authorized in 9 States, was impliedly authorized in 2 other States, and was permitted without specific statutory authority in 2 additional States, making 13 States in all in which State-wide branch banking was permitted. Three States restricted branch banking to the county or territory contiguous to the city or county in which the parent bank was located and 2 States limited the establishment of branches to the corporate limits of the city in which the parent bank was located. In 3 States additional offices or agencies, but not full-power branches, were permitted either by statutory provisions or under judicial decisions. A copy of this article is attached as Exhibit B.

3. In March, 1925, there was published in the Federal Reserve Bulletin (pages 182-187) a complete digest of State laws pertaining to branch banking, which was prepared in the office of the Board's General Counsel with the assistance of the Counsel for the various Federal reserve banks. This digest showed the status of branch banking legislation in the various States at the close of the year 1924. It showed that branch banking was permitted either specifically or by implication in 20 States

and was specifically prohibited in 17 States. It also shows that at that time there were 11 States having no express provisions of law covering branch banking. A copy of this digest is attached hereto as Exhibit C.

4. In June, 1926, there was published in the Federal Reserve Bulletin (pages 401-408) an article with reference to branch banking in the United States, bringing up to date the data contained in the article published in the Federal Reserve Bulletin for December, 1924. With reference to the legal situation in the various States, this article showed that three States had enacted legislation regarding the establishment and maintenance of branches during the year 1925. It showed that, on December 31, 1925, branch banking was permitted in 20 States either expressly or by implication; it was prohibited in 17 States; and there was no legislation on the subject in 10 States. In addition to the 20 States permitting branch banking, New Jersey had recently enacted a statute authorizing banks and trust companies to establish branches within the limits of the city in which the head office was located, if national banking associations in New Jersey should at the time be permitted by Act of Congress to establish branches. A copy of this article is attached as Exhibit D.

5. In February, 1929, there was published in the Federal Reserve Bulletin (pages 97-103) an article entitled "Branch Banking Developments to June 30, 1928", which not only brought up to date much of the statistical data on this subject but also contained a brief summary of the legal situation existing on June 30, 1928. This showed that, in the period which had elapsed since the enactment of the McFadden-Pepper Act of February 25, 1927, several States had enacted legislation expressly forbidding branch banking. A table published in this article indicates that on June 20

1928, branch banking was permitted in 22 States and in the District of Columbia, but was limited to the city or county in which the head office of the bank was located in 10 of these States and was permitted only in the home county and adjoining counties in one State and only in the home city or territory contiguous thereto in one other State, so that 12 of the States in all permitted branch banking only within limited geographical limits, while 10 States (not counting the District of Columbia) permitted branch banking without any geographical limitation. Branch banking was prohibited (except as to branches already existing) in 20 States. In only 6 States was there no legislation on the subject of branch banking, and no branches in operation. A copy of this article is attached as Exhibit E.

6. In October, 1929, there was prepared in the office of the Board's General Counsel, with assistance of Counsel to the various Federal reserve banks, a digest of State laws regarding the ownership of bank stock by holding corporations. This was not published, but a copy is attached hereto as Exhibit F. It shows that only 19 States had any legislation affecting this subject either expressly or by implication. In most of these States the legislation obviously was not intended to deal directly with the subject of chain or group banking. Most of the legislation was very general in its character and dealt only with the general powers of banks to own stock in other corporations or in other banks. Only in the States of New Jersey, Oregon, West Virginia and Wisconsin, did there appear to be any legislation designed specifically to restrict chain banking.

7. In December, 1929, there was published in the Federal Reserve Bulletin (pages 762-771) an article with reference to branch and chain

banking developments during the year 1929. This article pointed out that "the area within which banks were operating branch offices" on June 30 was composed of 28 States and the District of Columbia. In 9 of these States, however, any further extension of branch banking has been prohibited by law, leaving 19 States and the District of Columbia as composing what may be called "the branch banking area", to which may perhaps be added Wyoming, whose banking code would seem to permit branch banking, although no branch offices have been reported from this State. In 8 of these States (or 9 including Wyoming) State-wide branch banking is permitted, the establishment of branches being restricted in the other 11 States to the home city of the parent bank or territory nearly contiguous thereto. In tables published on pages 768 to 770, giving the data for individual States, the States are grouped with reference to the status of branch banking as defined in the State banking codes. A copy of this article is attached hereto as Exhibit G.

8. In February, 1930, the office of the Board's General Counsel, with the assistance of Counsel to the various Federal reserve banks, completed a preliminary draft of a new digest of State laws regarding branch banking. This digest has recently been completed in final form, and a copy of the final draft is attached hereto as Exhibit H. This digest shows that the establishment of branch banks is prohibited in 22 States; that the establishment of branches is authorized in 19 States, and that there are no specific provisions covering branch banks in 7 States. Of the 19 States permitting branch banking, nine permit State-wide branch banking and ten permit branch banking only within limited areas.

II. STATISTICAL RESEARCH ON BRANCH BANKING.

1. June, 1924. - The first survey made for the Federal Reserve Board on Branch banking in the country as a whole, i.e., including non-member as well as member banks, was prepared as of June, 1924, and the results were published in the 1924 December Bulletin, pages 925-940. That summary showed that 681 member and nonmember banks, out of a total of 28,468, were operating a total of 2,233 branches. Of this number, 248 were branches of national banks, 1,137 were branches of State bank members and 848 were branches of nonmember banks. The States in which the largest number of branches were reported at that time were California - 538, New York - 359, Michigan - 332, and Ohio - 203. A copy of the Federal Reserve Bulletin for December, 1924, is attached hereto as Exhibit B.

2. December, 1925. - The next survey on branch banking made for the Board was as of December, 1925, and the results are published on pages 401-408 of the June 1926 Federal Reserve Bulletin. This survey showed that the number of banks operating branches had increased from 686 in June 1924 to 735 in December 1925, and the number of branches in operation from 2,243 to 2,572. Of the total number of branches in operation in December 1925, 332 were branches of national banks, 1,280 of State bank members and 960 of nonmember banks. A copy of the Federal Reserve Bulletin for June, 1926, is attached hereto as Exhibit D.

3. December, 1926. - In 1926 the Board decided to maintain a complete record of all branches coming into or going out of existence of all banks in the country, and the Federal reserve agents were instructed to prepare the necessary data for this purpose. On the basis of this new record a compilation was prepared as of December, 1926, and presented to the Board

in Mr. Smead's memorandum of April 27, 1927. Briefly this memorandum summarized the branch banking situation at the end of 1926 as follows:

"The summary shows that out of a total of 28,000 banks in the United States on December 31, 1926, 789 banks in 401 cities were operating 2,777 branches. If mutual savings and private banks are excluded, in order to obtain figures comparable with previous compilations, it is found that 730 banks were operating 2,690 branches at the end of 1926, as compared with 735 banks with 2,572 branches in December 1925, and 686 banks with 2,243 branches in June, 1924. There was during 1926, therefore, an increase of 118 in the number of branches in operation (exclusive of branches of mutual savings and private banks) and a nominal decrease in the number of parent banks operating the branches, this decrease being more than accounted for by consolidations of banks having branches."

A copy of this report (St. 5334) is attached hereto as Exhibit I.

The same statistics, i.e., for December, 1926 were published in somewhat different form in the May, 1927, Bulletin, pages 315-318 and 384-389, a copy of which is attached hereto as Exhibit J.

4. February 25 and June 30, 1927. - Under date of February 17, 1928, Mr. Smead submitted a memorandum to the Board summarizing the branch banking situation as of the date on which the so-called McFadden Bill was passed. This memorandum also brought the statistics up to date as of the end of June, 1927. The following material taken from the first page of that memorandum shows briefly the status of branch banking at the time the McFadden Act was passed, as well as four months later, i.e., in June, 1927:

"On February 25, 1927, the date on which the McFadden amendment to the Federal Reserve and National Bank Acts became effective, there were in the United States 777 banks in 396 cities which were operating a total of 2,902 domestic branches, the figures by classes of banks being as follows:

	<u>Number of banks operating branches</u>	<u>Number of branches</u>
Total - all banks	777	2,902
National banks	144	389
State bank members	189	1,562
State bank nonmembers	385	863
Mutual savings banks	50	76
Private banks	9	12

"On June 30, 1927, the latest date for which complete figures for both member and nonmember banks are available, the number of banks operating branches was 788, or about 3 per cent of the total number of banks (about 26,800) in the United States, while the number of branches on the same date was 2,989, about one-tenth the number of banking offices (parent banks plus branches) in the country. Although the majority of the banks -- 481 out of 788 -- had branches only in the head-office city, there were 978 branches, or one third of the total number, that were located outside the head-office city.

"In most cases the size of the individual branch system was small, 442 of the 788 banks having only 1 branch and 136 but 2 branches. Of the 210 banks that had more than 2 branches, 58 were located in cities of less than 100,000 population (where national banks may not hereafter establish more than 2 branches), including 3 national banks, 13 State bank members, and 42 nonmembers. There were 51 banks that had more than 10 branches on June 30, 1927, including the following which had 30 or more branches."

A copy of this report (St. 5656) is attached hereto as Exhibit K.

5. June, 1928. - The next tabulation of statistics on branch banking gives the situation at the end of June, 1928, and is covered by Mr. Smead's memorandum to the Board of December 1, 1928. The first paragraph of that memorandum contains a condensed statement of the status of branch banking and is quoted below:

"Branch banking since passage of McFadden Act. In the 16-month period between February 25, 1927, the date on which the McFadden Act became effective, and June 30 of the present year, the number of branches of member and

nonmember banks in operation in the United States increased from 2,900 to 3,230, or by 330, and the number of banks operating branches increased from 779 to 835, or by 56. While the net increase in the number of banks operating branches was 56, there were really 109 banks operating branches on June 30, 1928, that had no branches whatever when the McFadden bill became a law. The difference between this figure and the net increase of 56 in the number of banks operating branches is accounted for by the fact that 39 banks which on February 25, 1927, were operating branches went out of existence through merger with other banks, 10 banks abolished their branches, and 4 banks suspended operations on account of financial difficulties. Of the 2,900 branches that were in operation on February 25, 1927, 72 were no longer in operation on June 30, 1928, 64 having been abolished or merged with other branches or with the head office, and 8 going out of existence as a result of the suspension of the parent bank. There were 402 branches in operation on June 30, 1928, that were not in existence when the McFadden Act became effective, including 258 established de novo and 144 that succeeded independent banks."

A copy of this report (St. 5937) is attached hereto as Exhibit L.

6. June, 1929. - Under date of October 1, 1929, Mr. Smead submitted a memorandum to the Board giving status of member and nonmember banks as of the end of June, 1929. The changes that took place during that year are summarized in the following paragraph quoted from that memorandum:

"Branch Banking Since June 30, 1928. During the 12-month period between June 30, 1928, when the last report on branches of member and nonmember banks was submitted to the Board, and June 30 of the present year the number of banks operating branches declined from 835 to 818 or by 17, while the number of branches in operation increased from 3,230 to 3,440 or by 210. Although as just stated there was a decrease during the year of 17 in the number of banks operating branches, there were 56 banks operating branches on June 30, 1928, which had no branches in operation a year earlier. This is accounted for by the fact that 51 banks which were operating branches in June 1928 went out of existence during the year through merger with other banks, 5 banks suspended operation on account of

financial difficulties, and 17 abolished their branches. Of the 3,230 branches that were in operation on June 30, 1928, 96 were discontinued during the year, 81 were abolished or merged with other branches, and 15 went out of existence as a result of suspension of the parent bank. There were 306 branches in operation on June 30, 1929, that were not in existence on June 30, 1928, including 171 established de novo, and 135 that succeeded independent banks."

A copy of this report (St. 6335) is attached hereto as Exhibit M.

The same statistics, i. e., for June 1929, were published in somewhat different form in the December 1929 Federal Reserve Bulletin, pages 762-770, a copy of which is attached as Exhibit G.

7. December, 1929, - These are the latest statistics that we have available on branch banking, but the Board's Division of Bank Operations is now finishing the preparation of a complete statement showing the branch banking situation at the end of the year 1929. A copy of this statement will be furnished to the Committee as soon as it is available; and, for convenience, it will here be designated as Exhibit N.

III. STATISTICAL RESEARCH ON CHAIN BANKING

1. December, 1922. - The Federal reserve agents were requested (by the Division of Research and Statistics) to gather together what material was available on the subject of chain banking, including a list of the chains and the constituent banks, and to send it to the Board. This material was reviewed in the Division of Research and Statistics, but apparently no memorandum on the subject was prepared for the Board. A copy of this material is attached as Exhibit C; but apparently it is CONFIDENTIAL and should not be released.

2. June, 1926. - At the Board's request, the Federal reserve agents made another survey of chain banking as of June 1926, and a memorandum summarizing the results of this survey was presented to the Secretary of the Board by Mr. Smead under date of May 7, 1927. This memorandum summarized the situation briefly as follows:

"A review of the data submitted indicates that on the whole there is relatively little chain banking in the eastern section of the country, though quite a number of small chains or affiliations are reported in New York and New Jersey. In the central and western States, however, in most of which there is little or no branch banking, chain banking appears to be conducted on a considerable scale. The banks in the chains are in most cases controlled by a majority ownership of stock - sometimes through a holding company, but quite often the banks' policies are dominated by interests owning a substantial part but not a majority of the stock. Quite a number of the constituent banks, it will be noted from the statement attached, are national banks, particularly in New York, New Jersey, Minnesota, Kansas, and Oklahoma."

A copy of this report is attached as Exhibit P. Apparently the part typed on white paper (which contains the names of the banks) is CONFIDENTIAL and should not be released.

3. June, 1928. - Another survey was made by the Federal reserve

agents as of the end of June, 1928, and a memorandum summarizing the agents' reports on this subject was presented to the Federal Reserve Board by Mr. Van Fossen of the Division of Bank Operations under date of January 17, 1929. The situation prevailing at that time was summarized in the memorandum as follows:

"Attached hereto is a summary showing the extent of chain banking in the various States, grouped in accordance with the provisions of State laws as regards branch banking. It will be noted, as might be reasonably expected, that chain banking has had very little development in those States in which State-wide branch banking is permitted by State law. Generally speaking, also, chain banking has not developed extensively in those States in which branch banking restricted as to location is permitted. The greatest development of chain banking exists in those States which either prohibit branch banking or in which, while there is no prohibitory legislation, branch banking is not practiced.

"In States which permit either State-wide or local branch banking there is, of course, little occasion for the operation of a number of local banks in a chain, and as a matter of fact except, in the case of Chicago and Pittsburgh, where branch banking is prohibited, there are no known instances of a banking chain located either entirely or chiefly within a large city. The Old Colony Trust Company of Boston and the Marine Trust Company of Buffalo each have banking chains confined to banks located within a comparatively short distance of Boston and Buffalo, respectively, and constituting in effect extensions of their branch systems restricted by law to within the head office city. The only other notable instances of large city banks controlling a chain of banks consisting of or including banks located outside of the head office city are encountered in California and may be due in part to the restrictions of the McFadden Act against State-wide branch banking by member banks. The typical chain banking system is, in fact, apparently a group of country banks, usually including one or more members of the Federal Reserve System, united by common stock ownership, in most instances by an individual or group of individuals, into a banking combination that under State law could not exist in the more obvious form of a branch-banking system."

A copy of this report is attached as Exhibit Q. The entire

report is marked CONFIDENTIAL, though the summary on the first few pages

probably could be released if names of banks are deleted.

4. June, 1929. - A fourth survey was made by the Federal reserve agents as of June, 1929: and, in order to insure uniformity in the reports on the subject, in so far as practicable, each Federal reserve agent was supplied with a copy of the reports rendered the year before covering the entire country. The survey for June, 1929, was felt, therefore, to be much more comprehensive and reliable than any that had been previously made.

A memorandum summarizing the chain banking situation in June, 1929, was presented to the Board by Mr. Smead on September 20, 1929. Following is an extract from this memorandum.

"...Reports of the agents indicate that on June 30, 1929, there were 231 chains comprising 1,563 banks of which 597 were National banks and 966 State banks. It is noteworthy that as of the same date, June 30, 1929, there were 818 banks operating 3,440 branches which taken together with the chain banks makes a total of over 5,800 banking offices belonging to branch or chain banking groups. As there were about 28,550 banking offices in the United States on June 30, the number connected with branch and chain banking groups constitute over 20 per cent of the total.

"The States in which chain or group banking has had its principal growth are Minnesota, New York, Iowa, Illinois, Michigan, Arkansas, Nebraska, North Dakota, Washington, Oklahoma, Kansas, Utah, and New Jersey. Branch banking is prohibited by law in seven of these States, in three others it is limited to the city in which the head office is located, and in the other three there is no provision in the State law regarding branch banking and there are no branches in operation."

There is available at this time only one carbon copy of the record for June, 1929, but the memorandum prepared for the Board and the accompanying list of banking chains or groups is attached as Exhibit R.

After the data on chain banking as well as branch banking as of June, 1929, had been presented to the Board, the material was written up and published in somewhat different form in the December, 1929, Federal Reserve Bulletin. That part of the article pertaining particularly to chain banking appears on pages 765 and 771, a copy of which is attached as Exhibit G.

5. December, 1929. - There are still some reports outstanding on the subject of chain banking as of December, 1929, but they probably will not affect materially the preliminary summary of the situation as given in a memorandum of February 15, 1930. The situation is pretty well summarized on the first page of the memorandum, the first two paragraphs of which read as follows:

"We have just completed a preliminary compilation on chain banking as of the end of 1929, subject to some revision upon receipt of additional data in a few instances. On the basis of the data now available it appears that there were 287 banking chains or groups in the United States at the end of December embracing 2,069 banks, as compared with 274 groups embracing 1,806 banks at the end of June. The 2,069 banks reported as belonging to banking groups or chains at the end of the year constituted about one-twelfth of the 25,000 banks in the country, while the loans and investments of the chain banks were about \$10,500,000,000 or nearly one-sixth of the aggregate loans and investments of all banks in the United States.

"National banks reported as members of banking chains or groups numbered 791 at the end of December as compared with 646 in June, state bank members 134 compared with 111 in June, and nonmember banks, 1,144 compared with 1,049 in June. Loans and investments of the national banks belonging to the banking groups were approximately \$5,600,000,000 or about one-fourth of the total for all national banks, while loans and investments of State bank members belonging to the groups aggregated \$3,000,000,000, and of nonmember banks \$1,800,000,000."

A copy of this preliminary report is attached as Exhibit S.

It is marked CONFIDENTIAL; but part of it could be released if names are deleted.

6. 1927 Annual Report. - The subject of chain banking was discussed in the Board's Annual Report for the year 1927 (page 31), as follows:

"During the past few years the expanding operations of financial companies specializing in the purchase of bank stock have presented special problems to Federal and State officials charged with the responsibilities of bank supervision. Such companies have been organized in increasing numbers to operate extensively in the field of banking, not simply as investment agencies but specifically in individual instances to acquire control of corporately independent banking institutions, through stock ownership, and to exercise this centralized control in effecting bank mergers; in extending identical or virtually single corporate control over companies operated as subsidiaries in special fields of banking; in building up branch systems in States which permit branch banking; and in building up in those and in other States - but particularly in States which do not permit branch banking - chain systems, embracing in individual instances banking institutions operating under national and State charters in several States. Since such companies are not directly engaged in the business of banking as defined in Federal or State statutes, they have not been subject to supervision or regular examination by banking authorities. In some respects the control exercised through stock ownership over a group of banks operated as a system is similar to that exercised by a parent bank over its branch offices. This character of the financial company brings it clearly within the field of banking activities, and banking officials have been urged to subject developments of this character to careful scrutiny."

A copy of this Report is attached as Exhibit T.

7. 1928 Annual Report. - In this report the subject is discussed in somewhat greater length on pages 30-31 and the report shows the number of chains in operation in each State in June, 1928. A copy of the Report is attached as Exhibit U.

IV. BRANCH BANKING AND ITS EFFECT IN FOREIGN COUNTRIES

In order to ascertain the possible effect of unrestricted branch banking in this country, the Board has caused investigations to be made of the history of branch banking in foreign countries with special reference to its effect on unit or single office banks in those countries. The information obtained is very enlightening and will be summarized below:

1. Canada. - Among banks doing a general banking business, the unit bank has disappeared. As of December 31, 1928 ten chartered banks controlled general banking in the Dominion. Each of these is a branch banking system with none having less than 30 branches. The three largest banks, the Royal Bank of Canada, the Bank of Montreal, and the Canadian Bank of Commerce, have \$2.5 billion in assets out of \$3.5 billion, the aggregate of all ten. Of the 3,966 domestic branches and agencies of the chartered banks, these three largest banks have 2,219.

The progress of concentration from 1868 to 1928, which resulted in the decrease of the total number of banks from 21 to 10, is shown by a table contained in a report attached hereto as Exhibit V.

2. British Isles. - Among banks doing a general deposit business, the unit bank has practically disappeared in the British Isles. Only seven small institutions doing all their business at one office exist. Indeed, most of these are doubtfully classified as deposit banks, some classifications placing them among acceptance or discount houses. Forty-two concerns are in the general deposit banking business in the British Isles, with 12,837 offices in all. The five big banks have 8,050 of these offices and have 67 per cent of the banking assets. Twenty-six concerns, including the big five, each with more than 100 offices, have 93 per cent of the assets.

A century ago banking in the British Isles was done by private banking

their organization was given in that year by an act which permitted the registration of such banks with limited shareholder liability. Before 1880 Lloyds Banking Company had participated in a number of amalgamations, and concentration moved rapidly after that date. However, it was not until 1896, that 20 private banking concerns united in Barclays Banking Company, and the fifth of the present big five began its career.

During the period between 1895 and 1928, the total number of banks in the British Isles was decreased from 154 to 42.

More detailed information on this subject is contained in a report attached hereto as Exhibit W.

3. Germany. - In Germany, the movement from the unit bank to a branch banking system among banks doing a general banking business advanced considerably in the twenty years from 1888 through 1907.

In 1888, 164 credit or joint stock banks with 173 branches were in existence. By 1907, there were 421 such banks with 1,064 branches. Of the total number existent in that year almost 200 were small unit banks with paid-in capital of less than 1,000,000 marks. These small banks controlled less than 2 per cent of the aggregate paid-in capital of the 421 credit banks. By the end of 1926, out of a total of 488 credit banks, as many as 354 were classified as having less than 1,000,000 marks capital. Unfortunately no figures for all credit banks are available to us since that date. However, the absorption of the smaller banks by the larger ones has progressed rapidly since that time, it is said.

For a long period of years, four great Berlin banks have been in the forefront of German banking - Deutsche, Disconto-Gesellschaft, Dresdner, and Darmstadter. The first two have recently merged. Among the 100 largest credit banks in Germany in 1907, these four banks controlled 27 per cent

of the aggregate capital and in September 1929, 42 per cent.

More detailed information is contained in a report attached hereto as Exhibit X.

4. France. - The unit bank in France has suffered severely from the competition of extensive branch banking systems and has been losing ground in recent years. Four great French banks, doing a general business, control approximately one-half the commercial banking business in France, it has been estimated. Three of these have a large net-work of branches throughout the country: Credit Lyonnais, 1014 branches; Societe Generale, 1350 branches; Comptoir d'Escompte, over 250 branches. The fourth, the Credit Industriel et Commercial, has many branches in Paris but none outside the city.

In addition to these large banks there are several sizeable banks which have many branches in particular regions of the country. For example, there are the Credit du Nord (branches in 75 places), Societe Nanceienne (105 branches and agencies), Banque Privee (more than 200 branches and agencies) and Societe Marseillaise (107 branches and agencies). Figures for branches are as of 1922. No satisfactory figures exist as to how many banks of a purely local importance survive. It was estimated for the National Monetary Commission (1911) that there were 2700-2800 banks (probably a loose classification) in France. The growth of the four big banks and the regional banks has been at the expense of the local bank, which is said to play a small role in French banking today.

More detailed information is contained in a report attached hereto as Exhibit Y.

5. Japan. - The unit bank in Japan is losing ground rapidly in the

face of a progressive branch banking movement. In the past few years the tendency has been deliberately fostered by the government based on the belief that larger organizations would contribute to stability. Between 1913 and 1928 the total number of banks was reduced from 2156 to 1163.

Of the 1163 banks in existence in 1928, 100 were savings banks, 32 special banks, and the remainder ordinary banks which do a general banking business. The special banks were individually chartered to further some particular end often as public or semi-public institutions. In this group are the Bank of Japan, Bank of Chosen, Bank of Taiwan, Yokohama Specie Bank, and the agricultural and industrial banks. Moreover, these figures do not include Japanese trust companies and cooperative banks.

Fourteen important ordinary banks at the end of 1928 had deposits equal to 55 per cent of all the deposits of the ordinary banks. The Big Five alone had 34 per cent of the aggregate of such deposits.

More detailed information is contained in a report attached hereto as Exhibit AA.

V. HISTORY OF BRANCH BANKING IN THE UNITED STATES.

The early history of branch banking within the United States has been the subject of research work done by Honorable Edmund Platt, Vice Governor of the Federal Reserve Board, in connection with certain speeches delivered by him. The more recent history of branch banking in the United States is very well covered by a series of articles published in the Federal Reserve Bulletin, commencing with the number for December, 1924. This material will be discussed briefly and copies will be attached as exhibits.

1. "Branch Banking Before the Civil War." In an address on this subject delivered before the National Bank Section of the New York State Bankers' Association at Ithaca, New York, on June 22, 1925, Mr. Platt points out that branch banking was very much in evidence in this country before the Civil War, especially in the West and in the South.

In 1848, out of 48 banks in Ohio; 29 were branches of the Ohio State Bank; Indiana had 17 branches of one State bank and no independent banks; Missouri had 1 bank and 5 branches; Kentucky 3 banks and 13 branches; Tennessee 3 banks and 17 branches; Virginia 6 banks and 30 branches; North Carolina 4 banks and 14 branches; South Carolina 12 banks and 2 branches; Georgia 13 banks and 7 branches; Delaware 5 banks and 3 branches and Alabama 2 banks and 4 branches. At the same time no branches were listed in the Eastern States except two each in the States of New York, Maryland and New Jersey.

In 1860 the situation was similar, though Illinois appeared with 75 banks, Indiana with 13, all of which were branches of the State Bank of Iowa, and Missouri had 42 banks of which 33 were classed as branches.

The two branches existing in New York in 1848 had disappeared in 1860, and apparently branch banking was forbidden in New York, Pennsylvania, Massachusetts and Connecticut.

Mr. Platt's address contains an interesting discussion of the motive for the establishment of such branches (which appeared to be the facilitation of the issue of bank notes which would be difficult to redeem) and also the reasons for the opposition to the establishment of branches in Eastern States.

A copy of Mr. Platt's address is attached as Exhibit B B

2. "Branch Banking for Country Banks." On May 20, 1927, Mr. Platt made an address at Birmingham, Alabama, before a meeting of the American Bankers' Association, at which he discussed the above subject. In this address he pointed out that, in the early days of banking in the United States, the right of any bank to establish branches was rarely questioned; both the First and Second Banks of the United States had branches; many of the early State banks established branches; and branches were looked upon as the natural means of providing banking facilities and convenience to the smaller communities.

He discussed the development of banking in the United States, commencing with the first incorporated bank in Philadelphia in 1781 and pointed out that the Philadelphia Bank, chartered in 1804, established branches in many of the interior towns of Pennsylvania, pursuant to an act of the legislature passed in March 1809. It also appears that the Bank of Manhattan Company had at least 3 branches outside of New York in 1811. It appears that most of these branches in the Eastern States were replaced by smaller independent banks during the early part of

the Nineteenth Century.

This speech also reviews again the cause leading up to legislation in the Eastern States restricting the establishment of branches, which apparently was due to the fact that banks were frequently located in remote places with branches in the financial centers at which their circulating notes were redeemed at a discount. From this, Mr. Platt reached the conclusion that the early legislation restricting branch banking was not really aimed at branch banking itself but at the issuance of "wild-cat currency."

In the South and the West, however, branch banking was the general rule. In this connection much of the statistical data incorporated in Mr. Platt's earlier speech with reference to branches in the Southern and Western States in 1848 and 1860 is covered again.

Mr. Platt states that the branch banking systems in the South and West successfully weathered the panic of 1857; and it seems to have been expected in 1866, when the State bank notes were taxed out of existence, that the successful banks in the Western States would convert into national banks and retain their branches. It appears, however, that they did not do so but reorganized as national banks and reorganized their branches as independent unit banks.

Mr. Platt points out that in 1860 the country banks in the South and West had a much larger average capitalization than at present, but that the authority contained in the National Bank Act for the organization of banks with a capital of only \$50,000 furnished an impetus for the organization of small banks and that some of the Western

States "ran wild in the effort to provide banking facilities in the very smallest towns by permitting the organization of independent banks with a capital as small as \$10,000, and even in a few States \$5,000."

Mr. Platt then traces the difficulties arising out of the organization of numerous small independent banks and calls attention to the number of failures among them in the panic of 1893. From about that time he traces the modern development of branch banking, which apparently started in the Southern States and in California.

Mr. Platt then discusses the number of bank failures in small banks during the years 1921 to 1926, inclusive, and calls attention to the fact that almost two-thirds of the suspended banks had a capital of \$25,000 or less and that 72 per cent of them had a capital of less than \$50,000. He points out that, in his annual report for the year 1898, Mr. Charles G. Dawes, then Comptroller of the Currency, recommended that branch banking be authorized in communities of less than 2,000 inhabitants, since many of such communities were not able to support independent banks. He then compares the experience of farmers in the wheat sections of the United States where the independent bank system was in operation and in Canada where the branch banking system was in operation and concludes that, "The Canadian farmers have lost nothing from the bank failures while \$298,070,000 in deposits has been tied up and at least 50 per cent of it lost, in the bordering States of Montana, North and South Dakota and Minnesota in 1134 bank suspensions in the past six years, nearly all of them in small towns and small banks."

Mr. Platt states that he does not advocate nation-wide branch banking for the United States, but believes that we need and must have

"larger country banks with a limited number of branches along the lines of the development that has taken place in many of the Southern States for many years." He claims that the McFadden Act discriminates against country banks and in favor of banks in the big cities. He reviews the statistics with reference to the number of branch banking organizations in the United States and concludes with a plea for branch banking in the country districts.

A copy of Mr. Platt's speech is attached hereto as Exhibit C C.

3. Recent Growth of Branch Banking through 1924. On pages 925 to 940, inclusive, of the Federal Reserve Bulletin for December, 1924, there is published an article entitled, "Branch Banking in the United States", which contains a comprehensive survey of the recent growth of branch banking in this country through the year 1924. No attempt will be made to summarize this article here, but its scope may be indicated by listing its various headings, which are as follows:

Limitations upon Federal Control of Branch Banking.

Administrative Policy of the Board Prior to November, 1923.

Branch Banking Recommendations to Congress.

Resolution on Branch Banking Adopted by the Board on
November 7, 1923.

Further Definition of the Board's Branch Banking Policy.
(In the Regulations of 1924.)

Extent of Branch Banking in the United States.

Legal Status of Branch Banking.

Branch Banking within and without the Federal Reserve System.

Resources of Banks Operating and Not Operating Branches.

Banks Operating Home City and Outside Branches.

Size of Branch Systems.

Branches in and Outside of the Home City of the Parent Bank.

Parent Banks and Branches Classified by Population of
Community in Which Located.

Growth of Branch Banking, 1865-1924.

Classification of Parent Banks and Branches by Federal
Reserve Districts.

State Totals.

A copy of this article is attached hereto as Exhibit B.

4. Branch Banking in the United States from June, 1924, to December, 1925. On pages 401 to 414, inclusive, of the Federal Reserve Bulletin for June, 1926, there is published an article entitled, "Branch Banking in the United States", which describes the development of branch banking from June, 1924, to the end of December, 1925, and thus supplements the article published in the Federal Reserve Bulletin for December, 1924. It contains not only a discussion of the development of branch banking during this period but also a classification of the States with reference to their branch banking laws as of December 31, 1925, and certain valuable statistical material with reference to the status of branch banking in this country on the same date. A copy of the Bulletin containing this article is attached as Exhibit D.

5. Branch Banking Developments in 1926. On pages 315 to 318, inclusive, of the Federal Reserve Bulletin for May, 1927, there is

published an article describing the development of branch banking in the United States during the year, 1926, which supplements the earlier articles on this subject. It contains discussions of the legal status of branch banking, the extent of branch banking, branch banking in California, and the method of establishing branches, and also valuable statistical tables showing the status of branch banking at the end of the year 1926. A copy of the Bulletin containing this article is attached hereto as Exhibit J.

6. Branch Bank Developments to June 30, 1928. On pages 97 to 103, inclusive, of the Federal Reserve Bulletin for February, 1929, there is published a discussion of branch banking developments in the United States from the end of the year 1926 to June 30, 1928, which supplements the earlier articles on this subject. This article is especially interesting because it describes the effect of the McFadden-Pepper Act of February 25, 1927, during the first eighteen months of the functioning of that Act. It contains a table showing the States permitting, restricting, and prohibiting branch banking to June 30, 1928, tables showing the number of banks operating branches and the number of branches in operation, together with the increase in these numbers from February 25, 1927, to June 30, 1928, together with other valuable statistical material. A copy of this article is attached as Exhibit E.

7. Branch and Chain Banking Developments to June 30, 1929. On pages 762 to 771, inclusive, of the Federal Reserve Bulletin for December, 1929, there is published an article discussing the branch

and chain banking developments in the United States during the year ending June 30, 1929. This not only supplements the information with reference to branch banking published in earlier articles, but contains much valuable material with reference to chain banking. The scope of the article may be indicated by the captions in the text and the headings of the tables, which are as follows:

Changes 1927 to 1929.

Banks Initiating and Discontinuing Branch Banking and Branches Established and Discontinued; 1927-1929.

Branch Banking Area.

Size of Branch Systems.

Size of Branch Systems for Parent Banks Located in Large and Small Cities; June 30, 1929.

Urban and Rural Systems.

Chain Banking.

Summary of Branch Banking Developments; 1924 to 1929.

Branch Systems with Head Offices in Selected Cities.

Banks Operating Domestic Branches and Number of Branches, by States; June 30, 1929.

Banks Operating Domestic Branches and Number of Branches, by States; June, 1924-June, 1929.

Size of Branch Systems and Location of Branches; June, 1929 and 1928.

Chains and Banks in Chain Systems, by States; June 30, 1929.

A copy of this article is attached as Exhibit G.

VI. FEDERAL LEGISLATION ON BRANCH BANKING.

Congress has in several instances enacted legislation authorizing the establishment of branch banking systems. In the early years of this country, 1791 and 1816, Congress authorized the establishment of the First Bank of the United States and the Second Bank of the United States. Both of these banks were authorized to establish branches in any part of the United States. The National Bank Act did not expressly forbid the establishment of branches; and the amendment of March 3, 1865, (Section 5155 of the Revised Statutes), authorized State banks having branches, with capital assigned to the head office and branches in definite proportions, to convert into national banks and retain their branches, regardless of their location.

Branch banking systems for particular purposes were also authorized when Congress authorized the establishment of the postal savings banks, Federal reserve banks, Federal land banks, joint stock land banks, Federal intermediate credit banks, and the War Finance Corporation. The establishment of branches in each of these systems, however, was permitted only under certain conditions and subject to certain restrictions and safeguards. Indetermining what legislation should now be enacted with reference to the establishment of branches by commercial banking institutions, it would be advisable to examine carefully the restrictions and safeguards which Congress has thrown about the establishment of branches in the banking systems it has heretofore authorized.

The legislation authorizing these various systems of branch banks will be discussed very briefly.

1. First Bank of the United States. In 1791 Congress chartered the First Bank of the United States. The charter of this bank provided that its head office should be located at Philadelphia and authorized its board of directors to establish branch offices within the United States wherever thought fit, for purposes of discount and deposit. It appears that eight branches of the First Bank of the United States were established in various parts of the country.
2. Second Bank of the United States. In 1816 Congress authorized the establishment of the Second Bank of the United States with its head office in the city of Philadelphia. The charter of this bank authorized its directors to establish branch offices wherever they thought fit within the United States, for purposes of discount and deposit. It appears that 18 of such branches were established by this bank.
3. National Banks. The National Bank Act did not expressly forbid the establishment of branches, and it was not until January 28, 1924, when the Supreme Court of the United States rendered its decision in the famous case of First National Bank in St. Louis v. State of Missouri, 263 U.S. 640, that it was definitely and finally settled that national banks could not establish branches under the provisions of that Act. Even after that decision, it was contended that, in the exercise of their incidental powers, national banks could establish "additional offices" for the performance of certain limited functions within the limits of the city or town in which they were located.

Although the National Bank Act did not expressly authorize the establishment of branches by national banks, the amendment of March 3, 1865, (Section 5155 of the Revised Statutes) specifically provided that State banks having branches with capital assigned to the head office and branches in definite proportions could convert into national banks and retain their branches, regardless of the location of such branches. Moreover, under the Act of November 7, 1918, a national bank having branches retained upon conversion from a State bank could consolidate with another national bank and the consolidated bank could retain the branches. Where the State law was suitable, therefore, national banks could acquire branches by the device of organizing a State bank with branches, converting it into a national bank, and consolidating with it. In 1925 there were in existence 103 branches of national banks acquired under these Statutes.

All of this, of course, was changed by the McFadden Act of February 25, 1927, which expressly authorized national banks to establish branches within the limits of the city or town in which their head offices are located but expressly forbids them to establish or acquire, by consolidation or otherwise, branches beyond the limits of the city, or town in which their head offices are located, except that they may retain or acquire by consolidation or conversion branches lawfully established and in actual operation prior to the passage of that Act. This will be discussed in more detail under a separate heading.

In this connection, it may be pointed out that, under the provisions of Section 25 of the Federal Reserve Act, any national bank having a capital and surplus of \$1,000,000 or more with the

permission of the Federal Reserve Board and upon such conditions and under such regulations as may be prescribed by the Board, may establish branches in foreign countries or dependencies or insular possessions of the United States; but this privilege is denied to State member banks of the Federal Reserve System under the provisions of the McFadden Act.

4. Postal Savings Banks. In 1910 Congress authorized the establishment of the postal savings system (United States Code, Title 39, Chapter 20). This system is under the control, supervision and administration of a board of trustees consisting of the Postmaster General, the Secretary of the Treasury and the Attorney General. Every post office designated by the Postmaster General may act as a postal savings depository and receive deposits of funds from the public. Such funds may be received from any one person in amounts of \$1.00 or multiples thereof, but not more than an aggregate amount of \$2,500 may be received from any one person. Interest at the rate of 2 per cent per annum is to be paid upon such deposits. These deposits may be withdrawn under such regulations as the Postmaster General may prescribe. The law contemplates that 5 per cent of postal savings deposits shall be kept with the Treasurer of the United States as a reserve and that the balance of such deposits shall be deposited in banks located in the city, town or village of the postal savings depository which receives such deposits, or under certain circumstances with the Treasurer of the Board of Trustees. The law also provides that under certain circumstances these deposits may be invested in bonds or other securities of the United States. Depositors in the postal savings system may surrender their deposits in certain specified amounts and receive therefor bonds of the United States. It

appears from these facts that the postal saving system is a form of branch banking with the controlling and supervising board located in Washington, D. C. and with branches located in the various post offices designated by the Postmaster General in different parts of the country.

It appears from the Annual Report of the Postmaster General for the fiscal year ending June 30, 1929, that at the close of that year there were 6,770 postal savings depositories in operation in the various post offices, including 794 such depositories located in branch post offices. Postal savings deposits held for depositors at the end of that fiscal year amounted to \$158,055,538.55 and there were 416,580 depositors.

5. Federal Reserve Banks. In 1913 Congress enacted the Federal Reserve Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford a means of rediscounting commercial paper, and to establish a more effective supervision of banking in the United States (United States Code, Title 12, Chapter 3). This act authorized the division of the continental United States, exclusive of Alaska, into not more than 12 districts and the establishment in each district of one Federal reserve bank. The Act authorized such Federal reserve banks to exercise certain banking powers and to perform certain functions for the national and State banks which were required or permitted to become members of the Federal reserve system by the purchase of stock in a Federal reserve bank. It provided for the creation of the Federal Reserve Board with supervisory powers over the entire Federal reserve system, and Section 3 of the Federal Reserve Act authorizes the Federal Reserve Board to permit or require any Federal reserve bank to establish branch

banks within the Federal reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Pursuant to this authority the Board has permitted the Federal reserve banks to establish branches within their respective districts. The total number of such branches which have been established is 25. It will thus be seen that, when Congress enacted the Federal Reserve Act, it authorized the establishment of a system of banks having branches with the supervisory power over such system vested in the Federal Reserve Board, with its offices in Washington, D. C., and the banking functions vested in the Federal reserve banks and their branches located in various parts of the United States. It will be noted that Congress in this instance restricted the establishment of branches of a Federal reserve bank to the district in which the particular Federal reserve bank is located, except in those cases where a Federal reserve bank may have been suspended.

6. Federal land banks and Joint stock land banks. In 1916 Congress enacted the Federal Farm Loan Act to provide for loans on farm lands secured by mortgages (United States Code, Title 12, Chap. 7). This Act authorized the creation of the Federal Farm Loan Board with supervisory powers and the creation of Federal land banks and joint stock land banks with power to make farm loans and, with the approval of the Federal Farm Loan Board, to issue farm loan bonds. It was provided that the continental United States, exclusive of Alaska, should be divided into 12 districts and that in each district there should be established one Federal land bank. It was not required, however, that only one joint stock land bank be established in each district. Such Federal land banks and joint stock land banks were authorized, with the approval of the Federal Farm Loan

Board, to establish branches within the district in which such banks are located. The Federal Farm Loan Board was also authorized to designate a Federal land bank which might establish a branch in Porto Rico and to designate a Federal land bank which might establish a branch in the Territory of Alaska. It will be seen that in this instance Congress has again provided for the establishment of a banking system with branches with the supervisory powers over such system vested in a board with offices in Washington, D. C., and the banking functions vested in banks and branches thereof located in various parts of the country. It is significant that here also Congress has restricted the right of each bank to establish branches to the area of the district in which it is located.

It appears that no branches of either Federal land banks or joint stock land banks have been established in the United States. One branch of a Federal land bank, however, has been established in Porto Rico.

7. War Finance Corporation. In 1918 Congress enacted legislation to create the War Finance Corporation and authorized this corporation to make loans to persons, firms, or corporations whose operations were necessary or contributory to the prosecution of the war. (United States Code, Title 15, Chap. 9). By a later amendment the corporation was also authorized to make loans for agricultural purposes. This corporation was also authorized to issue its notes or bonds. The management of the corporation was vested in a board of directors consisting of the Secretary of the Treasury and four other persons appointed by

the President, with the advice and consent of the Senate. It was provided that the principal office of the corporation should be located in the District of Columbia, but the corporation was authorized to establish agencies or branch offices in any city, or cities, of the United States, under rules and regulations prescribed by its board of directors. Congress thus authorized the establishment of a branch banking system for a particular purpose and subject to certain restrictions and supervision.

At the peak of its activity the War Finance Corporation had 33 loaning agencies or branches in operation in various parts of the country in connection with its loans for agricultural purposes.

8. Federal Intermediate Credit Banks. In 1923, Congress amended the Federal Farm Loan Act so as to authorize the creation of Federal intermediate credit banks. (United States Code, Title 12, Chap. 8.) This amendment provided for the establishment of twelve Federal intermediate credit banks, one to be located in each of the cities in which a Federal land bank is located, and authorized these institutions to make loans for agricultural purposes and to issue debentures. The powers granted to these institutions are to be exercised under the supervision and control of the Federal Farm Loan Board. It appears that in this instance, also, Congress has approved a form of branch banking. In this case the control and supervisory functions are vested in the Federal Farm Loan Board with its offices in Washington, D. C., and the banking functions are vested in the Federal intermediate credit banks located in different parts of the country.

9. The McFadden Act. No discussion of Congressional legislation of branch banking would be complete without a discussion of the McFadden Act of February 25, 1927, though the provisions of that Act are familiar to everyone who has made any study of the subject of branch banking.

(a) National Banks. The provisions of the McFadden Act with reference to branches of national banks may be summarized as follows:

(1) Any national bank may retain and operate such branch or branches as it had in lawful operation on February 25, 1927, regardless of their location.

(2) Any national bank which has continuously maintained and operated not more than one branch for a period of more than twenty-five years immediately preceding February 25, 1927, may continue to maintain and operate such branch, regardless of the legality of the establishment of such branch or the maintenance of it prior to the enactment of the McFadden Act.

(3) Where a State bank converts into a national bank such national bank may retain and operate any and all branches of such State bank which any bank had in lawful operation on February 25, 1927, regardless of their location.

(4) If a State bank consolidates with a national bank, such consolidated national bank may retain and operate any and all branches of either the State bank or the national bank which any bank had in lawful operation on February 25, 1927, regardless of their location.

(5) Where two or more national banks consolidate, such consolidated national bank may retain and operate any and all branches of any one of the constituent national banks which any bank had in lawful operation on February 25, 1927, regardless of their location.

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(6) After February 25, 1927, national banks may establish and operate new branches subject to the following conditions and limitations:

(a) Such branches may be established and operated only within the limits of the city, town or village in which the parent bank is situated;

(b) Such branches may be established and operated only in those States the laws of which permit State banks to establish and operate similar branches;

(c) No such branch may be established in a city, town or village of which the population by the last decennial census was less than 25,000;

(d) Not more than one such branch may be established in any city, town or village of which the population by the last decennial census does not exceed 50,000;

(e) Not more than two such branches may be established in any city, town or village of which the population by the last decennial census does not exceed 100,000;

(f) In any city, town or village the population of which exceeds 100,000 the determination of the number of branches which may be established by national banks is left to the Comptroller of the Currency; and

(g) No such branch shall be established or moved from one location to another without first obtaining the consent and approval of the Comptroller of the Currency.

(7) The term "branches" as here used includes any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or territory of the United States or in the District of Columbia where deposits are received, checks paid or money lent.

(8) This section of the McFadden Act does not affect the establishment or maintenance of branches by national banks in foreign countries or dependencies or insular possessions of the United States pursuant to the provisions of Section 25 of the Federal Reserve Act.

(9) The words "State bank", "State banks", "bank" or "banks" as used in this section includes trust companies, savings banks or other such corporations or institutions carrying on the banking business under authority of State laws.

(10). National banks are expressly authorized to transact at branches established or maintained in accordance with the provisions of the McFadden Act any and all business which might be lawfully transacted at the head office.

(b) State Member Banks of the Federal Reserve System. Under the McFadden Act, any State bank which, on February 25, 1927, had established and was operating a branch or branches in conformity with the State law, may retain and operate such branch or branches while remaining or upon becoming a member of the Federal Reserve System. In other words, any nonmember State bank which, on February 25, 1927, had established and was operating a branch or branches in conformity with the State law and which becomes a member of the Federal Reserve System is entitled

by law to retain such branch or branches, regardless of the number or location thereof; and any State member bank which, on February 25, 1927, had established and was operating a branch or branches in conformity with the State law is lawfully entitled to retain and operate such branches while remaining a member of the Federal Reserve System, regardless of the location or number of such branches.

The only restriction on the establishment of branches by State member banks is that no State bank may become a member of the Federal Reserve System or may remain a member of the Federal Reserve System except upon relinquishing any branch or branches established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is located. In other words, no nonmember State bank may become a member of the Federal Reserve System except upon relinquishing any branch or branches established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated; and any State member bank which establishes a branch or branches beyond the limits of the city, town or village in which the parent bank is located after February 25, 1927, must either relinquish such branch or branches or give up its membership in the Federal Reserve System.

The McFadden Act prescribed no limitations upon the number of branches which State member banks may establish or maintain within the limits of the city, town or village in which the parent bank is located, nor does it require any specified population of the cities, towns and villages in which State member banks may establish or maintain branches.

On the other hand, no exception is made as to foreign branches of State member banks and the Attorney General has held that they may not lawfully establish foreign branches and remain members of the Federal Reserve System since the passage of the McFadden Act, although the right of national banks to establish foreign branches under the provisions of Section 25 of the Federal Reserve Act is expressly preserved.

There are many inequalities in the branch banking provisions of the McFadden Act as they affect national banks and State member banks, respectively, and to a certain extent that Act fails to place these two classes of banks on an equality with respect to the establishment of branches.

VII. POLICY OF FEDERAL RESERVE SYSTEM ON BRANCH BANKING

1. Annual Report for 1915. - In its annual report for the year 1915, p. 22, the Federal Reserve Board recommended to Congress that national banks be permitted to establish branch offices within the city, or within the county in which they were located. The Federal Advisory Council, under date of September 21st and November 16, 1915, had recommended that the national bank act be amended so as to permit national banks to establish branches under certain conditions.

2. Recommendations during 1916. Consistently with this recommendation, the Board in 1916 prepared and transmitted to Congress the draft of an amendment to the Federal reserve act. In the terms of this amendment national banks located in cities of 100,000 and over having a capital and surplus of \$1,000,000 or more would have been permitted to establish branches within the corporate limits of the cities in which they were located, and any national banks located in other places would, with the approval of the Federal Reserve Board and under such regulations as the Board might prescribe, have been permitted to establish branches within the limits of the county in which they were located or within a radius of 25 miles, irrespective of county lines, but not in any case outside the State or Federal reserve district of the parent bank. (Federal Reserve Bulletin, pp. 323,327; 1916 Annual Report, pp. 29. 145.)

Under date of November 20, 1916, the Federal Advisory Council renewed its recommendation regarding the establishment of branches by national banks but added that the privilege of establishing branches

should apply to all banks in the national banking system and not only to such national banks as were located in States which permitted State institutions to establish branch banks. (See pages 28 and 34 of 1916 Recommendations).

An amendment drawn in compliance with the recommendations of the Board was adopted by the Senate, during 1916, and together with other amendments was referred to a conference committee of the House and Senate. In conference it developed that the amendment was not acceptable to the House conferees and the Senate on recommendation of its conferees receded from its proposal. (1916 Annual Report, p. 135.)

3. Annual Report for 1917. In its 1917 Annual Report to Congress, page 33, the Board recommended an amendment to the Federal Reserve Act to provide that any national bank located in a city or incorporated town of more than 100,000 inhabitants, and possessing a capital and surplus of \$1,000,000 or more, may, under such rules and regulations as the Federal Reserve Board may prescribe, establish branches, not to exceed 10 in number, within the corporate limits of the city or town in which it is located, provided that no such branch shall be established in any State in which neither State banks nor trust companies may lawfully establish branches. The Board stated that "State banks which become members of the Federal reserve system are allowed by law to retain any branches which may already be in existence and, with the approval of the Board, to establish new branches. National banks which have taken over State banks having branches are permitted to continue the operations of these branches. There seems to be no reason for

such discrimination between members of the Federal reserve system, and with the view of placing them more nearly upon terms of equality, besides affording in many cases better service to the public, it is recommended that provision be made for the establishment of branches by national banks, under proper limitations."

4. Annual Report for 1918. In its Annual Report for the year 1918, p. 83, the Board renewed its recommendation, expressing the opinion that national banks were "at a serious disadvantage in meeting the competition of State banks with branches", and that "the proper development of the Federal reserve system makes it necessary to coordinate as far as possible the powers of all member banks." This coordination of powers could not be effected without amendment of existing laws under which "some member banks, both National and State, are given advantage over other member banks." The Board renewed its recommendation of previous years, being confident that the proposed amendment would "prove beneficial to the Federal reserve system, as well as to the communities concerned". The Federal Advisory Council also renewed its recommendation that an amendment of this character should be enacted. (p. 6, 1918 Recommendations of Federal Advisory Council.)

5. Developments during 1919. In 1919, a bill was passed by the Senate which proposed to authorize national banks in cities of 500,000 or more population, having a capital and surplus of \$1,000,000 or more, to establish not exceeding 10 branches within the corporate limits of the cities in which they were located, provided State law extended a similar privilege to State banking institutions. Under

date of September 16, 1919, the Federal Advisory Council urged the Federal Reserve Board to use every effort to secure the passage of this bill in the interest of sound banking and the granting of equal banking facilities to all people in the same business. (p. 19 of 1919 Recommendations of Federal Advisory Council.)

6. Annual Report for 1919. The Board in its Annual Report for the year 1919, p. 64, made substantially the same recommendation regarding the branch banking amendment as it had made in its Annual Report for the year 1918, and commented upon the bill above referred to as follows:

"Under the present law national banks can not afford the same facilities to the public as are given by State banks having branches, except in cases where State banks and trust companies operating branches have merged with national banks, when existing branches may be continued by the national banks. *** While the board would prefer to have this privilege (of establishing branches) extended to national banks in cities of not less than 100,000 inhabitants, or, failing that, have the population limit raised to 200,000, it wishes to point out that the limit fixed in the Senate bill does not affect the principle involved, and it therefore respectfully recommends once more that national banks be permitted to establish branches in cities in which they are located under such limitations as in the wisdom of Congress may be deemed desirable."

7. Recommendation of Agents' Conference in 1921. The Conference of Federal Reserve Agents held in October, 1921, adopted a resolution favoring the establishment of branches in the same city in which a national bank is located, provided State banks are permitted that privilege under State law. (pp. 111-115 of proceedings of October, 1921, Conference of Federal Reserve Agents.)

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8. Annual Report for 1922. Again in its report for 1922, pages 5-6, the board commented briefly upon branch banking developments, noting that the establishment of branches by the larger State banks "had gone so far in a few States, notably California, and in a few large cities, including New York, Cleveland and Detroit, as to reduce greatly the number of national banks." The board expressed the opinion that the action of the Comptroller of the Currency in permitting national banks to open "additional offices" within the corporate limits of the cities in which they were located in States which permitted branch banking "does not meet the situation in California and does not fully meet it in the cities mentioned," and that "an amendment to the national banking act allowing national banks the same privilege given to State banks in States where branch banking is permitted is much to be desired."

In this connection the board noted a suggestion made by the Joint Commission of Agricultural Inquiry in its report to Congress dealing with the problem of rural credit, to the effect that "a system of limited branch banking might furnish a possible solution of this problem". Upon this suggestion the board commented as follows:

"Such systems are in fact already established in some sections of our country, notably in California, and appear to have gone far toward solving the problem. Branch banking has lowered the rate of interest in some of the leading agricultural sections of California, and at the same time has provided added security for the deposits of the farmers. There are interesting neighborhood branch banking groups in other States, which appear to be serving their communities well."

9. Annual Report for 1923. Finally, in its 1923 report, page 48, the board notes the difficulties which originate in the differences of State laws and the competitive disadvantages under which national banks operate in States which permit branch banking, and expresses the hope "that it can by administrative measures find some reasonable method of harmonizing existing differences of interest of State and national banks in the matter of branch banking, and thus lay the basis for a policy which will result in shaping the development and practice of branch banking in the United States along useful and serviceable lines."

10. Administrative Policy of the Board prior to November, 1923. -

In acting upon application of State member banks for permission to establish additional branches within the system the board, prior to November, 1923, had considered each case upon its merits, giving consideration to public convenience and to the parent bank's capacity for properly organizing the branch and assimilating the business taken over. As a matter of general policy rather than specifically of branch banking policy, the board in individual cases withheld its approval until satisfied that establishment of the additional branch or branches in question would not impair the solvency or liquidity of the parent bank. It gave consideration to the rate of expansion of the given branch system; coordination of branches already acquired; head-office control, supervision, and personnel; affiliation with outside corporations, relation of capital and surplus to deposit liabilities, especially in rapidly expanding branch systems; methods of acquiring branches; and generally to local conditions and needs in so far as they could be clearly defined. The Board distinguished branches from paying and

receiving stations not vested with discretionary power to make loans, except for inconsiderable sums and, while reserving the right to reconsider in case such offices in any instance developed into full fledged branches, it made approval of such outside offices more or less a matter of form, except where it appeared that the expense of maintaining them might impair the capital of the bank.

Although the board had not formulated any arbitrary rule requiring simultaneous examinations of head offices and branches, it had nevertheless regarded any evidence of inability on the part of State authorities to conduct proper examinations of banks maintaining extensive branch systems as being in itself adequate justification for limiting further expansion of such systems. It felt that responsibility for the conduct of adequate examinations must, in the case of member as of nonmember banks, be assumed primarily by State authorities rather than, in the case of member banks, by the Federal reserve bank of the given district.

In general, it may be observed that, prior to November, 1923, the board permitted expansion of member bank branch systems under State supervision and control, in so far as such expansion was consistent with sound banking principles of efficient administration, adequate State supervision, and complete solvency.

11. Resolution of November 7, 1923. On November 7, 1923, the Federal Reserve Board adopted a resolution (X-3881) formulating certain general principles for guidance of the board in acting upon

individual cases presented to it in applications for admission to membership of State banks operating branches outside the city or town or contiguous territory in which the parent bank was located and in applications of State member banks for permission to establish such branches.

This resolution reads as follows:

"Resolved, That the board continue hereafter as heretofore to require State banks applying for admission to the Federal reserve system to agree as a condition of membership that they will establish no branches except with the permission of the Federal Reserve Board; be it further

"Resolved, That, as general principle, State banks with branches or additional offices outside of the corporate limits of the city or town in which the parent banks are located or territory contiguous thereto ought not be admitted to the Federal reserve system except upon condition that they relinquish such branches or additional offices; be it further

"Resolved, That, as general principle, State banks which are members of the Federal reserve system, ought not be permitted to establish or maintain branches or additional offices outside the corporate limits of the city or town in which the parent bank is located or territory contiguous thereto; be it further

"Resolved, That in acting upon individual applications of State banks for admission to the Federal reserve system and in acting upon individual applications of State banks which are members of the Federal reserve system for permission to establish branches or additional offices, the board, on and after February 1, 1924, will be guided generally by the above principles; be it further

"Resolved, That the term 'territory' contiguous thereto' as used above shall mean the territory of a city or town whose corporate limits at some point coincide with the corporate limits of the city or town in which the parent bank is located; be it further

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"Resolved, That this resolution is not intended to affect the status of any branches or additional offices established prior to February 1, 1924, either those of banks at the present time members of the Federal reserve system or those of banks subsequently applying for membership in said system. "

The Federal Advisory Council, however, was not inclined to favor this resolution. Under date of November 19, 1923, it stated with reference to the resolution that "it believes that the resolution, if carried into effect, will give a position of monopoly to those State banks that have established State-wide system of branches, while those State banks that have refrained from branch banking will be placed in a position of great disadvantage." (p. 11 of 1923 Recommendations of Federal Advisory Council.)

12. Recommendations re McFadden Bill. On February 11, 1924, the so-called McFadden bill was introduced in Congress giving to national bank the right to establish branches and imposing some restrictions upon the establishment of branches by State member banks of the Federal reserve system. As has been shown above, the Board had repeatedly recommended the enactment of legislation authorizing the establishment of domestic branches by national banks and a number of bills designed to accomplish this general purpose were introduced from time to time. These bills were in various forms and contained various limitations and restrictions, but none of them was ever passed by Congress.

On May 26, 1924, and April 23, 1926, in letters addressed to Congressman McFadden and Senator McLean, respectively, the Board expressed its general approval of the McFadden bill. The Federal Advisory Council in 1924, 1925 and 1926 also recommended enactment of the bill, and on February 25, 1927, it was finally enacted into law.

13. Administrative Policy during 1924. At its meeting on January 7, 1924, the Board gave consideration to the applications of three banks for permission to establish branches from time to time over a period of several months in accordance with contemplated programs of development, and adopted a resolution to the following effect: That no blanket authority to establish branches would be granted; that each application must be presented separately in regular form and manner, subject to approval of the State banking authorities and a recommendation of the Federal reserve bank of the district; that applications to establish branches in non-contiguous territory, filed before February 1 (under the board's resolution of November 7) might be considered by the Board after that date; and that the board reserved right to pass on each application on its merits. (See X-3937.)

14. Regulations of 1924. On March 27, 1924, the board issued a revised and further elaboration of its regulations formulated under that general provision of the Federal reserve act which authorizes it to prescribe conditions of membership for State banking institutions applying for admission to the system. In these regulations, as amended a month later, on April 7, the board took occasion to give more formal statement than it had previously given to principles which would govern it in approving the establishment of branches.

By Section IV of its Regulation H, as amended April 7, 1924, the Board stated that it would prescribe the following conditions of membership for every State bank thereafter admitted to the Federal Reserve System:

"(4) Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, establish any branch, agency, or additional office.

"(5) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest."

These conditions were prescribed for all State banks and trust companies which were admitted to membership between April 7, 1924, and February 25, 1927, and were conditionally prescribed for all institutions admitted between February 26, 1927, and January 3, 1928. Prior to April 7, 1924, these conditions, or conditions substantially similar thereto, were prescribed for special reasons for a number of State banks and trust companies admitted to the System.

In Section VI of the same Regulation, the Board stated the administrative policy which it would pursue in acting upon applications for permission to establish branches under these conditions of membership as follows:

" SECTION VI. PRINCIPLES GOVERNING ESTABLISHMENT OF BRANCHES.

"In passing upon applications by State banks and trust companies for permission to establish branches, agencies or additional offices, under condition No. 4 of Section IV, or under any similar condition which may have been prescribed by the Federal Reserve Board and agreed to by any bank or trust company heretofore admitted to the Federal reserve system, the Federal Reserve Board will observe the following principles -

"(1) The Federal Reserve Board will as a general principle restrict the establishment of branches, agencies or additional offices by such banks or trust companies to the city of location of the parent bank and the territorial area within the State contiguous thereto, as said territory has been defined in the board's resolution of November 7, 1925, excepting in instances where the State banking authorities have certified and the board finds that public necessity and advantage render a departure from the principle necessary or desirable.

"(2) The Federal Reserve Board as a general principle will not consider an application by such bank or trust company for a permit to establish a branch, agency or additional office, unless the authorities of the State in which such bank is located regularly make simultaneous examinations of the head office and all branches, agencies or additional offices of such bank, nor unless the examinations made by the State authorities are, in the judgment of the Federal Reserve Board, of such character in every respect as to furnish the Federal Reserve Board with sufficient information as to the condition of such bank and the character of its management to enable the Federal Reserve Board fully to protect the interests of the public.

"(3) The Federal Reserve Board as a general principle will require each bank or trust company which establishes or maintains branches, agencies or additional offices to maintain for itself and such branches, agencies or additional offices an adequate ratio of capital to total liabilities and an adequate percentage of its total investments in the form of paper or securities eligible for discount or purchase by Federal reserve banks.

"(4) The Federal Reserve Board will not consider any application to establish a branch, agency or additional office until the State banking authorities have approved the establishment of such branch, agency or additional office, and the directors or executive committee and the Federal reserve agent of the Federal reserve bank of the district in which such bank or trust company is located have made a report upon the financial condition of the applying bank or trust company, the general character of

"its management, what effect the establishment of such branch, agency or additional office would have upon other banks or branches in the locality in which it is to be established, and whether in their opinion, it would be in the interest of the public in such locality, together with their recommendation as to whether or not the application should be granted.

"(5) When permission is granted for the establishment of such branch, agency or additional office same shall be established and opened for business within six months after such permission is granted. If such branch, agency or additional office is not established within such time the permit shall become void, unless the time is extended by the board for good cause.

"(6) The Federal Reserve Board reserves the right to cancel any permit which it may grant hereafter to establish any branch, agency or additional office whenever it shall appear, after hearing, that such branch, agency or additional office is being operated in a manner contrary to the interest of the public in the locality in which it is established."

15. After the McFadden Act. As a result of the amendments to the Federal Reserve Act contained in the McFadden Act, the Board issued a new set of regulations applicable to member banks which became effective on January 3, 1928. Before these new regulations became effective and after the passage of the McFadden Act, a number of State banks and trust companies were admitted to membership in the System. These banks and trust companies were admitted subject to certain conditions of membership which usually included the conditions in the 1924 Regulations regarding the establishment of branches, and such conditions were subject to any changes which the Board found to be necessary on account of the amendments to the Federal Reserve Act contained in the McFadden Act. After the Board's 1928 Regulations became effective (January 3, 1928) these banks were advised of the new conditions of membership to which they were subject.

As the McFadden Act prescribed the conditions under which branches might be established by State member banks, the Board¹ did not include a condition in these new regulations in that connection. In Section V of Regulation H, however, it stated its interpretation of the provisions of the McFadden Act regarding branches of State member banks as follows:

"1. Any State member bank which, on February 15, 1927, had established and was actually operating a branch or branches in conformity with the State law is permitted to retain and operate the same while remaining a member of the Federal reserve system, regardless of the location of such branch or branches.

"2. Any nonmember State bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with State law may, if otherwise eligible, become a member of the Federal Reserve system and retain and operate such branches, regardless of their location.

"3. In order to remain a member of the Federal reserve system, every State member bank must relinquish any branch or branches established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated.

"4. Any State member bank which establishes any branch or branches after February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated must either (a) relinquish such branch or branches or (b) forfeit all rights and privileges of membership and surrender its stock in the Federal reserve bank.

"5. No State bank which has established any branches subsequent to February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated may become a member of the Federal reserve system except upon relinquishment of every such branch.

"6. State member banks may establish branches within the corporate limits of the city, town, or village in which the parent bank is situated without obtaining permission of the Federal Reserve Board.

VIII. POLICY OF FEDERAL RESERVE SYSTEM ON CHAIN BANKING.

1. Conditions of Membership. Prior to the enactment of the McFadden Act, the Board prescribed conditions of membership under which State banks could be admitted to the Federal reserve system, in order to effect some degree of control over chain banking. One of the conditions with which State banks entering the Federal reserve system were required to comply, reads as follows:

"(5) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest."

This condition of membership was incorporated in the Board's Regulations of 1924 and was prescribed for every State Bank admitted to membership between April 7, 1924, and January 3, 1928. As a result of an amendment to Section 9 contained in the McFadden Act (February 25, 1927,) there is some doubt whether the Board now has authority to prescribe this broad condition and, therefore, it has been unable to exercise the same degree of control over chain banking. It has, however, prescribed the following condition of membership for every State bank or trust company admitted to membership since January 3, 1928.

"(3) Except after applying for and receiving the permission of the Federal Reserve Board, such bank or trust company shall not acquire an interest in any other bank or trust company, through the purchase of stock in such other bank or trust company."

2. Recommendations for Legislation. As early as January 8, 1926, the Board addressed a letter to Congressman McFadden (X-4500) recommending that there be incorporated in the pending McFadden bill certain provisions designed to secure adequate information regarding national and State member banks which are closely related in management, operation or interests to other banking institutions and, in particular, to afford some check upon the abuses frequently occurring from chain banking. These suggestions were not adopted by Congress. A copy of the Board's letter is attached hereto as Exhibit DD.

3. Correspondence with Hon. Louis T. McFadden re Administrative Control.— Under date of May 2, 1927, Congressman McFadden addressed a letter to the Comptroller of the Currency, suggesting that he adopt administrative measures calculated to control or prevent the growth of chain banking among national banks and sent a copy of his letter to the Federal Reserve Board with the suggestion that the Board should adopt similar administrative measures with reference to State member banks of the Federal reserve system. The Board, under date of May 18, 1928, (X-4354), replied that it was powerless under the law to take any such action. The Board called attention to the fact that it had suggested legislation along this line, but that Congress had not adopted its suggestions, and also called attention to the fact

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that Congress in the McFadden Act had amended the law so as apparently to take away the Board's power to control this practice through conditions of membership. The Board's letter, a copy of which is attached as Exhibit E N, concluded with the statement that the remedy lies with Congress.

4. Annual Reports for 1927 and 1928. In addition to the correspondence with Congressman McFadden above referred to, the Board has in its annual reports for the years 1927 and 1928 brought to the attention of Congress the fact that the expanding operations of financial companies specializing in the purchase of bank stock have presented special problems to Federal and State officials charged with the responsibilities of bank supervision. It was pointed out that such companies have been organized in increasing numbers and that since they are not directly engaged in the business of banking as defined in Federal and State statutes, they have not been subject to supervision or regular examination by banking authorities. (See pages 31-32 of 1927 Annual Report.) The difference between branch and chain banking was explained and it was pointed out that the more considerable developments in chain banking have been generally in States which prohibit the establishment of branch offices by banks. The chain banking situation in the United States was also summarized for the information of Congress. (See pages 50-51 of the 1928 Annual Report.)

5. Conferences of Federal Reserve Agents and Governors of Federal Reserve Banks in 1927 and 1928. The 1927 fall conferences of Federal reserve bank Governors and Federal reserve agents considered the development of investment companies for the purchase of bank stock, and the Federal reserve agents were of the opinion that a dangerous situation is developing which should be brought to the attention of the Federal Reserve Board and the banking authorities with the view that some legislation should be obtained placing such companies under the jurisdiction of the banking departments. The Federal reserve bank Governors felt that the possible dangers incident to a widespread development of such companies make it a matter for the consideration of the Federal reserve system. The Governors discussed this question further at their April, 1928, Conference and while nothing definite was recommended, it was stated that the question is a matter that deserves thoughtful consideration.

6. Committee to Study Chain Banking. The question of branch, chain and group banking development in the United States with particular reference to the effects of bank stock ownership by investment trusts and holding corporations, was considered by the Federal Advisory Council in 1929, and, on November 19, 1929, it recommended that, "The Federal Reserve Board appoint a committee to study the merits of the branch banking system as practiced in this and other countries, (conditions in Canada being apparently more comparable with our own), the group or chain banking system as developed

in this country and elsewhere, and the unit banking system of this and other countries; and further, the effect of ownership of bank stocks by investment trusts and holding corporations, in order that the Federal Reserve Board may be in possession of accurate and authoritative information on this important subject."

The December, 1929, Conference of Federal reserve bank Governors and Federal reserve agents voted to concur in and endorse the recommendation of the Federal Advisory Council that a committee be appointed to study the subject of branch, chain and group banking.

Accordingly, on February 27, 1930, the Board appointed a committee for this purpose, naming as members thereof, Messrs. Goldenweiser and Smead of the Board's staff, and Messrs. Rounds, Fleming and Clerk, Deputy Governors of the Federal reserve banks of New York, Cleveland and San Francisco, respectively.

IX. BANK FAILURES

In connection with the subject of branch, group and chain banking, some consideration must be given to the unfortunately large number of bank suspensions and failures in the United States, especially in view of the fact that the advocates of branch banking contend that the solution of the problem of bank failures lies in the substitution of branches of strong, well managed banks for small, unit banks in the rural communities. Fortunately, the Federal Reserve Board has reliable statistics with regard to bank failures and has made some study of the causes of these failures.

1. Federal Reserve Board's Annual Report for the Year 1926. - On pages 10 to 13, inclusive, of the text of this report, the Board called attention to the fact that, during the year 1926, 956 banks with deposits of nearly \$275,000,000 had suspended, as compared with 612 suspensions involving deposits of about \$175,000,000 in 1925, and 777 suspensions involving deposits of about \$215,000,000 in 1924. Certain statistics were given with reference to the number and percentage of member and nonmember bank failures and the causes of these failures were discussed briefly. One of the fundamental causes appeared to be that in many communities, and especially in small communities, there were more banks than could profitably engage in the local banking business and many of these banks had insufficient capital. A statistical table brought out the fact that nearly two-thirds of the banks which failed during 1926 had a capital of \$25,000 or less and were situated in towns of less than 1,000 inhabitants.

The situation described in the following paragraph, appearing on page 12, undoubtedly accounts for the present tendency to build up chains of banks with strong management or supervision in view of the legal re-

strictions on branch banking:

"Some small banks in small communities have found it difficult to make adequate earnings by conducting their business along strictly conservative lines, and have not been able to afford the expense of engaging skillful and experienced managers. The volume of business done by small banks in rural communities, furthermore, has diminished in recent years, as the result of improvement in roads and the widespread use of automobiles, which has led many bank customers to prefer to drive to the county seat or other near-by center and to use the facilities of the larger banks in these towns."

The general economic conditions leading up to the failures during the year 1926 were discussed concisely on page 13; and, on pages 190 to 196, inclusive, there were published a series of tables containing valuable statistics on bank suspensions during the years 1921 to 1926, inclusive.

A copy of this report is attached hereto as Exhibit FF.

2. Report on Bank Suspensions, 1921-1927. - Under date of April 11, 1928, Mr. E. L. Smead, Chief of the Division of Bank Operations, submitted to the Federal Reserve Board a comprehensive report on bank suspensions in the year 1927 and during the years 1921 to 1927, inclusive. A copy of this report is attached hereto as Exhibit GG.

This report showed that, during the year 1927, there was a total of 662 bank suspensions involving total deposits of \$194,000,000, and detailed figures were given for the various classes of banks.

The report also showed that, during the seven-year period, 1921-1927, 4,513 banks with an aggregate capital of \$169,000,000 and deposits of \$1,351,000,000 had suspended operations. During the same period 559 banks with a capital of \$21,000,000 and deposits of \$200,000,000 had reopened, leaving net failures of 3,954 banks with an aggregate capital of \$148,000,000 and deposits of \$1,151,000,000. Detailed statistics are given for the various

classes of banks. These statistics showed that, of the total of 4,513 banks that suspended operations during this seven-year period, 3,609 were located in places having a population of less than 2,500 and that more than 60 per cent of all suspended banks were located in places having less than 1,000 inhabitants. It also showed that nearly 40 per cent of the suspended banks had a capital of less than \$25,000 and that over 63 per cent of them had a capital of \$25,000 or less.

On page 5 of this report the principal causes of bank failures during this seven-year period were discussed as follows:

"The principal cause of bank suspensions during the 7-year period was reported as the accumulation of a large proportion of worthless, slow or past-due paper, but in quite a number of cases poor management and heavy withdrawals were assigned as largely responsible for the suspension. The causes of suspension listed in the order of importance, i.e., based on the number of times shown as having been a primary or contributory cause, are as follows:

1. Doubtful, slow or past-due paper
2. Heavy withdrawals
3. Poor management
4. Depreciation of securities
5. Loans to officers and directors
6. Defalcation
7. Loans to enterprises in which officers and directors were interested
8. Failure of banking correspondent
9. Failure of other large debtors"

While "doubtful, slow or past due paper" was given as the most important cause of bank failures and "loans to officers and directors" and "loans to enterprises in which officers and directors were interested" were listed as separate causes, it might well be argued that these causes could all be grouped under the head of "poor management," making that the principal cause of bank failures.

Some statistics are given with reference to the number of failures of banks operating branches and, on page 6, there is an interesting dis-

cussion of the failure of certain chain systems, notably the Witham System, with 179 banks in Georgia, and Florida and 10 in New Jersey and New York.

3. Study of Bank Suspensions, 1921-1929. - A similar report covering the nine-year period, 1921-1929, is now in course of preparation. The information pertaining to the causes of failures has not yet been completely tabulated, but it appears that the relative importance of the causes of suspensions will not be very different from that shown in the report for the years 1921-1927.

4. Federal Reserve Board Annual Report for the Year 1929. - While it has not yet been completed, a preliminary draft of that portion of the Board's Annual Report for the year 1929 which discusses bank failures is attached hereto as Exhibit HH.

From this it appears that 642 banks with aggregate deposits of \$235,000,000 suspended operations during the year 1929. This was larger than any year except 1926, when both the number and deposits of suspended banks were the largest on record. Although member banks constitute only about one-third of the total number of banks in the United States, only about one-eighth of the total number of banks which suspended during the year were member banks; and although the deposits of member banks are approximately three-fifths of the aggregate deposits of all banks in the country, the deposits of the member banks that suspended during the year 1929 were only about one-fourth of the aggregate deposits of all suspended banks.

During the nine-year period, 1921-1929, a total of 5,642 banks were reported as having suspended operations either temporarily or permanently on account of financial difficulties, and of this number 657 have since

been reopened, leaving 4,985 as the net number of bank failures. The deposits of the banks which suspended operations during this nine-year period aggregate about \$1,720,000,000 and the deposits of the reopened banks about \$240,000,000, leaving the net deposits of failed banks aggregating \$1,480,000,000.

A number of interesting tables are included in this draft of the report and one of them shows that over 62 per cent of all the banks which failed during this nine-year period had a capital of \$25,000 or less and that over 60 per cent of the total number were located in towns with a population of 1,000 or less; 91.6 per cent of all these banks were located in towns with a population of 10,000 or less, and only 8.4 per cent were located in towns with a population exceeding 10,000 inhabitants. This clearly lends some support to the opinion that branches of strong banks are needed in small rural communities.

5. Studies of Bank Failures by Professor Sprague and Doctor Burgess. -

In April, 1925, the Board employed Professor O.M.W. Sprague, Professor of Banking and Finance at Harvard University, as a research assistant in the Board's Division of Research and Statistics for the purpose of studying the question of needed banking legislation. During the course of Professor Sprague's employment with the Board he made a study of the causes of bank failures. He published an article on this subject in the Journal of the American Bankers Association for April, 1927, at pp. 703 and 704; and the report of the committee on Economic Changes of the President's Conference on unemployment, published in Volume 2 of "Recent Economic Changes", pp. 393-396, contains a discussion of bank failures, which was prepared by Professor Sprague and Dr. Randolph Burgess, Assistant Federal Reserve Agent of the Federal Reserve Bank of New York. Quotations

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of certain portions of these articles discussing the causes of bank failures will be of interest.

The following is quoted from Professor Sprague's article on "The Cause of Bank Failures" published in the Journal of the American Bankers' Association for April, 1927, pp. 703 and 704:

"Scattered banks in other parts of the country, and particularly banks in the larger cities, also enjoy the advantage of local diversity in loans and have funds available for other employment. But thousands of banks in the West and South are in a strikingly different position. They are established in localities in which there is but slight diversity in occupation, localities also in which the local demand for accommodation commonly tends to absorb all of the resources of the local banks and at higher rates than can be secured on outside investments.

"The more conservative banks, as a matter of wise policy do not employ all resources locally, and these banks may properly resort to reserve banks or to city correspondents for accommodation to take care of seasonal or other temporary requirements. At the opposite extreme are the numerous banks that make local loans to the full extent of their own local resources, and in addition acquire outside deposits, both public and individual, by the offer of a high interest rate, and still further enlarge the supply of bank credit in the locality by securing accommodation from reserve banks and city correspondents.

"Banks which follow this course may acquire prestige in their communities and earn large profits for shareholders in years of abounding prosperity; but clearly they are in no position to withstand successfully a long period of adverse conditions. Failure is probable unless quite extraordinary care and discrimination have been exercised in the determination of the amount of credit extended to each individual borrower. It is a reasonable presumption, however, that the lack of caution manifested in the general policy of a bank will also be exhibited in the quality of the particular loans that it makes.

"When the problem of bank failures is approached with full recognition of the powerful influence unfavorable to safety in banking exerted by the absence of industrial diversity and by the intense local demand for credit, it becomes evident that policies governing the establishment of banks have not been sufficiently directed toward the maintenance and improvement of standards in the management of banks.

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"While there is no exact relationship between the size and number of banks in a locality and the strength of the banking position, it is certain that these are factors which have a decided bearing upon competence in management. A community with aggregate banking resources of, say, \$5,000,000 will be better served in every way, including safety, by two or three banks than by six or more. The excessive number of banks induces cut-throat competition for accounts, and tends to undermine conservative standards in the granting of credit. A decided increase in minimum capital requirements would do much to restrict the number of banks within more desirable limits, but whatever may be accomplished in this direction should be coupled with the specific grant of power to the appropriate authority, as in the state of New York, to decline to approve new charters where it is evident that a community is already well served by existing banking institutions, and that additional competition will serve no useful purpose."

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"No doubt bank examinations might be improved, and in some states very materially improved, but incomplete information about the condition of the banks is not the most serious defect in existing supervisory arrangements. The opinion may be ventured that, aside from a few instances of exceptionally skillful dishonesty, and the special situation created by chains of banks, successive examinations preceding failure have regularly disclosed an increasingly unsatisfactory condition. But in making effective use of this information, almost insurmountable obstacles are encountered. Governmental authorities may criticize unwise policies, but they can only take action when statutes are violated, or upon clear evidence of impairment of capital or insolvency. Moreover, even within the field of violations of statutes, effective administration is hampered by the common failure of legislation to provide penalties other than the cessation of business or a receivership."

The following is quoted from Volume II of a book on "Recent Economic Changes" containing the report of the President's Conference on Unemployment, pages 693-696:

"Dishonesty and gross mismanagement account for a small number of these failures. The suspension of a larger number was precipitated by adverse conditions of a purely local character, such as a succession of crop failures or the sudden collapse of real estate booms in particular towns and cities. But the great majority of banks failed because they were unable to withstand the stress exerted by the persistence of unprofitable prices for the products of agriculture and

animal husbandry - stress that was particularly severe because it was experienced after years of a bounding prosperity and extreme appreciation in the value of farm property, and a large increase in the number of farms mortgaged and the amount of mortgage indebtedness.

"These adverse conditions alone, it can hardly be too strongly emphasized, do not furnish a complete explanation of the numerous bank failures of the last seven years. By no means all, or even a majority, of the banks in the localities most seriously affected have been obliged to suspend operations. Financially weak and unskillfully managed banks have been weeded out; strong, well-managed banks have no doubt experienced heavy losses, but they survive."

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"There are hundreds of small banks throughout the country which are ably managed and abundantly strong, and which overcome the handicap of an absence of industrial diversity in the communities which they serve by the exercise of exceptional judgment and caution. On the other hand, while there is no exact relationship between the number and size of the entire group of banks in a locality and the strength of its banking position, it is certain that no community can hope to enjoy the benefits of safety in banking if the business is organized in units so numerous as to exceed the available supply of competent officers and responsible directors, and with insufficient earning power to be able to absorb inevitable losses."

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"No community can possibly provide adequate resources, competent officers, and experienced directors for one bank to every 750 of its inhabitants as in North Dakota, or to 1,400 as in Iowa. And the situation in these states was not exceptional; on the contrary, an excessive number of banks have been established throughout those sections of the country that are mainly devoted to agriculture. Banking troubles were inevitable with the advent of adverse conditions, and for the severity of these conditions the unwise use of credit administered by an inordinate multiplicity of banks was in no small degree responsible."