Operation of the National and Federal Reserve Banking Systems

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-FIRST CONGRESS

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PURSUANT TO

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OPERATION OF THE NATIONAL AND FEDERAL RESERVE BANKING SYSTEMS

MONDAY, MARCH 2, 1931

United States Senate,
Committee on Banking and Currency,
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 10.30 o'clock a. m., Hon. Carter Glass (chairman) presiding.

STATEMENT OF J. CAMERON THOMSON, VICE PRESIDENT AND GENERAL MANAGER NORTHWEST BANCORPORATION AND VICE PRESIDENT OF THE NORTHWESTERN NATIONAL BANK, MINNEAPOLIS, MINN.

The Chairman. The committee will please come to order. Mr. Thomson, we are engaged in this inquiry, as you know, with a view to considering such modifications, if any be necessary, of the Federal reserve act and the national banking act, as may improve the banking situation and avert the recurrence of the troubles we have had in recent years. We have heard bankers from the eastern section of the country, from the South, from the Middle West, and the Pacific Coast, and we thought perhaps that the bankers in the northwestern section might be able to contribute something to the inquiry. So we should be obliged if you will give us, briefly, any suggestions you may care to make—a general statement of your views of the situation.

Mr. Thomson. Mr. Chairman, the two corporations, the Northwest Bancorporation and the First Bank Stock Corporation, represent, in their key banks, the oldest and the largest banks in the northwestern territory. It has been our feeling that we have met a situation that was peculiar to our territory, and, in the main, as far as the Northwest Bancorporation is concerned, what I say will be our experience in meeting that situation. If that is of value to your committee, we are very glad to give it, and we appreciate the opportunity of coming here.

I do not want to duplicate what was said in the House hearings, but I want to give just two or three basic facts as to the background in our territory which resulted in the formation of the Northwest Bancorporation. You gentlemen realize that, in our territory, the ninth Federal reserve district particularly, we have had over 20 per cent of the number of bank failures in the last 10 years and over 12 per cent in amount involved.

Senator TOWNSEND. Of the total amount?

Mr. THOMSON. Yes—in both cases, more than our share of bank failures. Those failures occurred mainly in banks of under $25,000 capital and, of course, in banks in towns or cities of less than 10,000 population.

There has been a lack of confidence in our banking situation, and one illustration has been the fact that the increase in postal savings deposits in the last 10 years in the four States, Minnesota, North Dakota, South Dakota, and Montana was in excess of $18,000,000, or more than the gain in postal savings deposits in the whole United States outside those States.

Taking a particular case, Milbank, S. Dak. The Milbank postal savings deposits had been going up. We started a bank there, people had confidence in the institution we put in, and money started flowing back again to that bank.

The reasons for the bank failures have been pretty well stated, and two officials of the Federal Reserve Bank of Minneapolis have investigated the situation very thoroughly and have recently published a booklet on the subject. In 1920 there was and even to-day we still have, an overbanked condition in that territory. The four States—Minnesota, South Dakota, North Dakota, and Montana—had one bank to approximately every 1,200 people in 1920, while New England had one bank to every 7,200 people. To-day those four States have one bank to approximately every 2,200 people—far more banks in proportion to population than other sections of the country with more wealth than we have. They had a very large percentage of small banks, with small capital in small towns.

Senator BULKLEY. Do you know your per capita wealth?

Mr. THOMSON. I can give it to you.

Senator BULKLEY. That would show what your banking resources would be.

Mr. THOMSON. I have the total deposits and the per capita wealth in my files. May I give this to you a little later?

Senator BULKLEY. There is no hurry. I should like to compare them with some of the Eastern States.

Mr. THOMSON. The per capita individual deposits in 10 States, roughly, in our territory, were, in 1930, $265 as compared with $411 per capita in the United States as a whole. As compared with 1920, we had $320 per capita deposits and, in the United States as a whole, $306. There has been a tremendous change.

Senator TOWNSEND. $265 to $411; is that it?

Mr. THOMSON. That is right. On the other hand, taking the per capita savings deposits as of June 30, 1930, we had in our section $156 per capita and the United States as a whole had $232.

In postal savings we had $3.41 per capita as compared with $1.42 for the United States.

The CHAIRMAN. What is that again?

Mr. THOMSON. We had $3.41 as compared with $1.42 for the United States as a whole.

Not only did we have an overbanked condition but we probably suffered more from changes that have been going on in the banking business than some other sections. The entrance of Government agencies into the mortgage business, of course, affected those banks relatively more than in other sections. Ours was a new territory being developed, with new settlers and more mortgages were made and those banks, in many cases, got a good portion of their earnings from mortgages and other business incidental to mortgages. The Government entering into that business took away some of the profits.

Those banks lost the exchange, and the exchange was a relatively greater factor among the smaller banks than in other sections of the country. The cost of collection in the ninth Federal reserve district has been higher than in most sections of the country.

The CHAIRMAN. It has been so low in all of them, however, they could not compute the cost in Washington.

Mr. THOMSON. The Federal reserve official survey calls attention to the fact that inexperience and lack of training among the officers of these banks, and particularly their inability to sense the trend of changing economic conditions, were vital factors in the situation.

The CHAIRMAN. Did not undercapitalization have a great deal to do with most of your failures out there?

Mr. THOMSON. Unquestionably; because in the midst of a changing condition, if there had been a larger capital requirement, they would not have been organized in the first place; if there had been a larger capital requirement with fewer banks, they would have been in a better position to withstand the losses necessarily incident to that changing condition.

We have also suffered from an overproduction of our basic agricultural commodities, which has resulted in a tremendous drop in income.

Senator NORBECK. How much increased production are you speaking of?

Mr. THOMSON. I am speaking not of increased production, but of a surplus production of grains and some dairy production.

Senator NORBECK. Could there be a surplus production without an increased production?

Mr. THOMSON. Yes.

The CHAIRMAN. By decreased consumption?

Mr. THOMSON. Yes, sir; but there certainly has been an increase in dairy products in that section.

Senator NORBECK. Did you contribute any money toward the campaign that urged them to milk more cows?

Mr. THOMSON. I think our emphasis has been on getting better cows and milk.

Senator NORBECK. And more of them?

Mr. THOMSON. Not as far as I am concerned.

Senator NORBECK. Did not a Twin Cities group put on that propaganda and encourage that diversification program and tell the farmers they did not know how to handle their business and should get into the dairy business more, with the result that it broke the market for those products?

Mr. THOMSON. I do not want to generalize on that, Senator——

Senator NORBECK. I just want to get your point of view.

Mr. THOMSON. I am a director in one of the largest farm organizations, in point of numbers, in that territory. That happens to be a dairy cooperative and I am probably more familiar with that situation than most bankers are, and, for that reason, I have felt and still feel that what we need is not more cows and more farmers but better cows and I do not think that——

Senator NORBECK. Better cows and less butter? That is what you mean?

Mr. THOMSON. No; we want more people to eat butter.

Senator NORBECK. But until you have a market you want less butter, do you not?

Mr. THOMSON. You can not change the consumption of butter in a hurry.

Senator NORBECK. Is not that the trouble—you got the production but you have not been able to increase the consumption? Is not that the fact?

Mr. THOMSON. That is true.

The CHAIRMAN. I can tell you what the real trouble with the dairies is, being one of them. No matter how low the staple grains fall, you have to pay an extortionate price for your concentrates with which you feed your dairy stock.

Mr. THOMSON. All of those are factors.

The CHAIRMAN. That is the factor.

Mr. THOMSON. Not so much in our section, Senator, because we can probably buy those concentrates cheaper than you can buy them in the East.

The CHAIRMAN. You mean not so high. The word "cheap" does not apply at all. [Laughter.] We pay as much for concentrates to-day, with wheat selling at Chicago at 65 cents, as we paid when it sold for $2.

Mr. THOMSON. I should like to talk with you about the dairy business, but I think you want me to get through and get out.

The CHAIRMAN. You have not given us any trouble so far.

Mr. THOMSON. Along with that situation, or rather as a result of it, individual deposits in the banks of the four States, Minnesota, North Dakota, South Dakota, and Montana, decreased in the 10-year period from $1,443,000,000 to $1,151,000,000.

Senator NORBECK. What decreased?

Mr. THOMSON. The individual deposits in the four States.

Senator NORBECK. And the figures are what?

Mr. THOMSON. Decreased from $1,443,000,000 to $1,151,000,000, a decrease of $292,000,000, or 20 per cent, while in the United States as a whole the individual deposits increased from $32,000,000,000 to $52,000,000,000, or an increase of 62 per cent.

As reflecting what those banks had to go through, other real estate, representing the accumulations of slow assets, increased from June, 1918, when there was $9,000,000, to $45,000,000 in September, 1925, and in March, 1930, they stood at $20,000,000.

Senator TOWNSEND. You mean by "other real estate" realty held by banks?

Mr. THOMSON. Accumulated as the result of having to take over real estate which had been acquired as result of unpaid loans or represented direct investments by the banks.

Those are the results of the change in that territory from a pioneer country to a more settled agricultural country, restricted immigration, and this changing economic condition, and also, to some extent, to a change in the transportation methods which interfered with the progress of the small towns. It was that situation and a very strong feeling on the part of our own institution, the Northwestern National Bank of Minneapolis, that made us decide that the banks themselves in that territory should do something to right the situation and provide a more stabilized banking system.

I should just like to quote an outside statement on that point. This is entitled "Causes of Bank Failures in the Northwestern States," by Curtis L. Mosher, assistant Federal reserve agent in the ninth district, and The Problems of Small Banks in that territory by F. M. Bailey, assistant Federal reserve agent. They state that:

> The recent and rapid development of the group form of banking was undoubtedly greatly accelerated by the epidemic of bank failures herein described, but group banking or some other development of similar character would undoubtedly have resulted from the necessity of creating, in the Northwest, stronger, safer, and more dependable institutions than many of the banks which formerly existed.

That investigation was made independently and represents the information that came to the Federal reserve bank in Minneapolis, and that is their judgment, that something like this had to come.

It was our conviction that the banks that represented the business interests of that territory had the responsibility for trying to meet that situation.

Now, along with that, as Mr. Decker pointed out in the House hearings, some of the banks in that section had offers to sell out to eastern interests. The trust business was developing as our section increased in wealth, but people were not disposed, even though they wanted trust facilities, to put their trust funds in institutions when they could not feel reasonably secure in their belief in their safety and permanency. Those institutions were generally small. They faced the problem of investing the large proportion of their funds in bonds and securities. Generally speaking, they did not have the information or the facilities to enable them to invest in that type of security as safely as they should have been able to.

There was a growing demand on the part of our own customers and on the part of national institutions operating in that territory to do business along regional lines, particularly because of the many bank failures in that section.

We also had seen many of our industries in our own States going east for financing, and we felt that we should put ourselves in a position to finance more of those industries and we had in mind that if we could set up some system of banking that would provide the benefits of a research bureau—if you want to put it that way—a centralized supervising group, so that these banks could keep better in touch with the trend of the times, that would provide for an exchange of ideas and for better methods of operation, that would enable these banks, out of their common experience, to determine on how they would make more money—if we could do that, that we would be doing a constructive thing for that territory. I say we wanted to help those banks make more money, because a bank that can not make money certainly can not last. If it can not make money, it has no right to be in business; and with the fluctuations in that territory unless banks can make money to take care of losses they can not remain in business.

The CHAIRMAN. Is your company an affiliate of a national bank?

Mr. Thomson. The Northwest Bancorporation—I am going to describe it later—is a holding company, owning stock in financial institutions, including national banks. We went into this plan of ours on the basis that we would try to get the leading key banks as our partners and work this thing out. We realized that whether we succeeded depended on our ability to manage our affairs, and we therefore got the key banks because they were the banks that could afford to pay for good management, and they were the banks that were more representative and banks that would be the best partners.

We tried to set this company up on the basis that these banks would really be partners, managing their own affairs. I think our by-laws provide that 75 per cent of the directors of these banks have to be local men, and more than that percentage of the directors of these banks are local men. We said, further, that these banks must come in on the basis of exchanging stock. We wanted to make sure that the banks would be willing to say to us that "We will not sell out to you, but we will exchange our stock for your stock. We will become your partners, and you will be our partners."

We felt in doing this that we were not only benefiting the communities but were also benefiting the stockholders of these banks, because they got an investment that represented a diversified interest and ownership in the larger banks in the territory, covering a wider range of territory than individual banks could serve, not so much dependent upon the local bank's business in any one year, and we felt if we could stabilize the banking situation we would benefit not only the customers and the banks but the territory as a whole.

The Chairman. You say they would not sell out to you?

Mr. Thomson. That is right.

The Chairman. Would not that largely depend on the terms on which you exchanged your stock?

Mr. Thomson. That gets to a question of whether we have been paying high prices or whether we have been offering a fair price. We think, Senator Glass, if you were to investigate it yourself, you would find that both the Northwest Bancorporation and the First Bank Stock Corporation have paid very reasonable prices and less than many other organizations that have bought bank stocks have paid; in fact, we would not pay what some people have paid, and our whole idea was to convince the people that came to us that they were going really to become our partners, and if the whole thing was right and well managed that they would eventually benefit by becoming associated in this central holding company.

The Chairman. I have not intended to imply that you did not pay a fair price. Nevertheless, it would largely depend upon the adjustment of the holdings as to whether you owned them or they own you.

Mr. Thomson. You are right in that.

The Northwest Bancorporation itself is a Delaware corporation, a holding company not engaged in the banking business and making very careful that it does not get into the banking business. It is a Delaware corporation. It was not advantageous to our own stockholders to have a Minnesota corporation because of the risk of double taxation.

It exists for the purpose of providing supervision to the extent that such supervision helps the individual bank, also that such supervision protects the corporation, and for rendering service in that territory. We believe this service is generally appreciated to-day, and if appreciated and extended it is going to make the Bancorporation a valuable property for the stockholders.

As to the fundamentals in that corporation: They are just the same as in an individual bank. I think that our principle of operation is right and I will give you, a little more in detail, a description of how we operate and you can judge from that.

The CHAIRMAN. Have you done that in the House hearings, Mr. Thomson?

Mr. THOMSON. No; we did not, Senator. We think that we are well located in that territory in spite of all the failures and in spite of all the changing conditions.

As to the management, I will leave with you copies of the annual report of the Northwest Bancorporation which has some comparisons with a year ago, a list of our directors, and a statement of our stockholders and where they reside. Every important city in our section of the country is represented in either one of these two corporations. These are the men that have been interested in the development of that territory. They are the men who will profit by the continued development of the territory. These men, we believe, with an institution so vital to the success of that territory and an institution with the chances for profitable operation that these corporations have, are going to see that the corporations are well managed.

We have, in the Northwest Bancorporation, an active executive committee as fully informed regarding the operations of the Northwest Bancorporation and in general of the operations of the banks, as the executive committee of a bank. In fact, they are better informed than the executive committee of many banks.

The CHAIRMAN. Who supervises the corporation?

Mr. THOMSON. The executive committee, and the active officers.

The CHAIRMAN. Is there any State examination provided for it?

Mr. THOMSON. There is no examination by any public body. We are on record with Mr. Pole, personally, and I would like to be on record here, as favoring an examination by the comptroller's office of the affiliates and the corporation itself and of the bank. We should like that.

The CHAIRMAN. And publicity of statements likewise?

Mr. THOMSON. Yes, sir.

Mr. WILLIS. Who owns the majority of the stock of this corporation?

Mr. THOMSON. The majority of the stock is owned in the four principal States that we do business in. Ninety-five per cent of the stock is owned, Doctor Willis, in the territory we serve.

Mr. WILLIS. What bank has a predominating ownership in the stock?

Mr. THOMSON. There is not any one bank.

Mr. WILLIS. What is the largest stock ownership in any one individual institution?

Mr. THOMSON. I do not recall, but I think that the largest individual holding would be around 20,000 shares out of 1,670,000 shares, and of course the largest block of stock is owned by the men who are connected with the Northwestern National Bank of Minneapolis.

Mr. WILLIS. How much stock is owned by interests, men or corporations, or affiliates, connected with the Northwestern National Bank of Minneapolis?

Mr. THOMSON. I do not know that offhand, but I shall be glad to get it for you.

Mr. WILLIS. You can give it approximately.

Mr. THOMSON. I do not know that, Doctor.

Senator NORBECK. Is it a control?

Mr. THOMSON. No; this corporation is owned by the public in that territory, and there is no one interest that has control. If, for instance, you should go to the First National, of Duluth, that city, being a very strong competitor of Minneapolis, as you know, Senator, the First and American National Bank is the largest bank in northern Minnesota outside of the Twin Cities; they would tell you they had as much right and interest in the corporation as the Northwestern National Bank of Minneapolis.

Mr. WILLIS. You will send in here a complete list of the stock holdings?

Mr. THOMSON. Yes, sir.

Mr. WILLIS. Showing not only the names but the groups, so as to show the affiliations of the owners, and so to indicate in whose hands the control really is?

Mr. THOMSON. Yes, sir.

(The witness submitted partial listings of stockholders of the Northwest Bancorporation, as follows:)

Distribution of stock in States in which we operate, as follows: Stockholders in Minnesota own 929,212 shares; Iowa, 132,912; Montana, 34,702; Nebraska, 70,761; North Dakota, 36,647; South Dakota, 67,626; Washington, 39,072; Wisconsin, 38,895.

Stockholders in miscellaneous States own 320,000 shares, of which the largest holdings are as follows: Illinois, 116,864; New York, 95,135; California, 53,221.

We have stockholders in practically every State in the Union. One individual stockholder has over 25,000 shares and half a dozen other individuals own over 12,000 shares.

The officers and directors of Northwestern National (Minneapolis) and affiliates own 213,920 shares; the officers and directors of Iowa-Des Moines National Bank & Trust Co., Des Moines, 27,441; the officers and directors of First and American National Bank, Duluth, 107,973; the officers and directors of United States National Bank and Stock Yards National Bank, Omaha, 25,704; the officers and directors of Spokane & Eastern Trust Co., Spokane, Wash., 11,581.

Mr. THOMSON. We believe that this set-up gives us a diversification because of the territory that we cover, and the range of business transacted in that territory.

May I just call your attention to this situation: If you are going to have diversification on a large scale in our section, you have to cover territory. The total bank resources of the ninth Federal reserve district are not so large as the resources of one bank in New York. We have whole sections that are largely dependent on wheat. So, to get diversification on a large scale, you have to cover territory and covering the territory that we do we have diversification through various forms of agriculture and industries. The largest portion of our income from agriculture comes from livestock and livestock products. We have copper mining and iron mining. We have some manufacturing. Iowa produces as much values in manufacturing as it does in agriculture. Des Moines is one of the largest——

Senator NORBECK. May I ask, for information, just one question? That would include such manufacturing as creameries and cheese factories, milk, and so forth?

Mr. THOMSON. Yes, sir.

Senator NORBECK. Even that might mean that agricultural products predominated, even in manufacturing, as well as agriculture?

Mr. THOMSON. Agricultural products are the predominating factor in that territory.

Mr. WILLIS. How many banks are owned in this corporation?

Mr. THOMSON. I am coming to that. We have, as of to-day, 134 institutions in the group.

Mr. WILLIS. How many banks are there in your Federal Reserve district?

Mr. THOMSON. There are 2,200 in the ninth Federal reserve district.

Mr. WILLIS. Do you have a vote for each of your banks in electing directors of the Federal reserve bank?

Mr. THOMSON. These banks are not all members of the Federal reserve system.

Mr. WILLIS. But as far as they are members of the Federal reserve system——

Mr. THOMSON. Each bank, a member of the Federal reserve, votes as a member bank in any other district.

Mr. WILLIS. Does your Bancorporation have the right to, and does it, tell them how to vote?

Mr. THOMSON. The Bancorporation on all matters of policy—and I should be very glad to have you verify that—tells the banks to do just exactly as they feel they should in the interest of their local community.

Mr. WILLIS. But theoretically it is possible, is it not, by the working out of this system, as it goes further, that there may be vested in one or two or a small number of corporations of this kind, the entire control of the Federal Reserve Bank of Minneapolis? That is possible, is it not?

Mr. THOMSON. I suppose it might be possible, but may I also raise this question with you, doctor: Talking of things theoretically, we can figure out dangers, but, in the last analysis, this depends upon management and personality, does it not?

Mr. WILLIS. As everything does.

Mr. THOMSON. As everything does; yes, sir. Now, our thought has been—and for instance, if you personally were to investigate our situation and knew the men, you would realize that to-day, and as far as anybody can humanly see, we are not interested in controlling——

Mr. WILLIS. I know the men and think highly of them, but you are not immortal and what you are doing is setting up a system that might profoundly affect the Federal reserve system. You do that by a corporation not controlled by, supervised, or subject to public law. Does not that present a serious problem for constructive and well thought out legislation?

Mr. THOMSON. Well, there is that possibility and it certainly ought to be taken into account by this committee.

Mr. WILLIS. That is all I wanted to bring out.

Mr. THOMSON. I should like to add one thing more. The First Bank Stock Corporation represents, in its key banks, and personnel, some of the very finest banks in our territory, and that institution is strongly competitive.

Mr. WILLIS. Under present management?

Mr. THOMPSON. Yes.

Mr. WILLIS. But we are considering legislation for the future, when the present generation shall have passed from the scene.

Mr. THOMSON. We have felt in our corporation that it was the best thing in the world in this territory that it had the strong competing groups, and while we have, as Mr. Wakefield will tell you, the utmost confidence in the men of their group and feel we are working toward the same thing, nevertheless we are strong competitors. We feel that to be a good thing for us and for the territory. It is a safeguard for the territory at the present time. It is not a legal restriction, but it is a safeguard against control or domination or anything of that kind in that territory.

We have in these 134 institutions 122 banks and 12 investment or cattle loaning companies.

Senator NORBECK. Will you give the location of the banks by States?

Mr. THOMSON. I will give you the entire list. I have not the figures. As far as bank resources go—will that answer the same question?

Senator NORBECK. No; I think that your statement regarding banks here has been rather misleading from the fact that you have spoken of the number of banks as compared with population, without any reference to the capital of the banks as compared with population. So, I do not think it will answer. I think we want to get it later on. Are most of them in Minnesota?

Mr. THOMSON. The largest number of our banks is in Minnesota.

Senator NORBECK. And the next largest in what State?

Mr. THOMSON. South Dakota, your own State.

Senator NORBECK. And which would be third?

Mr. THOMSON. North Dakota would be third.

Senator NORBECK. And have you some in Montana?

Mr. THOMSON. Montana would be the next largest number.

Senator NORBECK. That is what we need at this time. Have you any in other States?

Mr. THOMSON. We are in Iowa, Nebraska, western Wisconsin, and eastern Washington.

Senator NORBECK. Then you are in three or four Federal reserve districts?

Mr. THOMSON. Yes, sir.

(The witness produced a list of institutions, grouped by States, affiliated with the Northwest Bancorporation, as follows:)

NORTHWEST BANCORPORATION, MINNEAPOLIS, MINN.—AFFILIATED FINANCIAL INSTITUTIONS

(Combined resources, $495,000,000, January 29, 1931)

MINNESOTA

Minneapolis:
- Northwestern National Bank.
- Lake Street Office.
- Lincoln Office.
- North American Office.
- Minnesota Loan & Trust Co.
- BancNorthwest Co.
- Midland National Bank & Trust Co.
- Central National Bank.
- Central Co.
- Second Northwestern State Bank.
- Third Northwestern National Bank.
- Fourth Northwestern National Bank.
- Fifth Northwestern National Bank.
- Union Investment Co.

Albert Lea, First National Bank.
Appleton, First National Bank.
Austin, Austin State Bank.
Belle Plaine, First National Bank.
Bowlus, Morrison County State Bank.
Browns Valley, Union State Bank.
Dodge Center, Dodge Center State Bank.
Duluth:
- First & American National Bank.
- First National Duluth Co.

Elk River, Bank of Elk River.
Faribault, Security National Bank & Trust Co.
Farmington, First National Bank.
Fergus Falls, Fergus Falls National Bank & Trust Co.
Greenwald, State Bank of Greenwald.
Hastings, Hastings National Bank.
Hawley, First National Bank.
Hopkins, Security National Bank.
Jordan, First National Bank.
Lake Park, State Bank of Lake Park.
Lanesboro, Scanlan-Habberstad Bank & Trust Co.
Litchfield, Northwestern National Bank.
Luverne, Rock County Bank.
Mankato, National Citizens Bank.
Marietta, Union State Bank.
Montevideo, Union State Bank.
Montgomery, First National Bank.
Moorhead, First National Bank.
New Prague, First National Bank.
Northfield, State Bank of Northfield.
Osseo, Farmers State Bank.
Owatonna, Security Bank & Trust Co.
Red Wing, First National Bank.
Richmond, American State Bank.
Rockville, State Bank of Rockville.
St. Paul:
- Empire National Bank.
- Mounds Park State Bank.

Sauk Rapids, Union State Bank.
Slayton, Murray County State Bank.
South St. Paul, Stock Yards National Bank.
South St. Paul, Stock Yards Mortgage Co.
Thief River Falls, Union State Bank.
Two Harbors, First National Bank.
Virginia, State Bank of Virginia.
Warren, Peoples' State Bank.
Waterville, First National Bank.
Winona, First National Bank.

NORTH DAKOTA

Bismarck, Dakota National Bank & Trust Co.
Carson, First National Bank.
Edmore, Union State Bank.
Fargo, First National Bank & Trust Co.
Garrison, First National Bank in Garrison.
Grafton, Grafton National Bank.
Hillsboro, First National Bank.
Jamestown, James River National Bank & Trust Co.
Maddock, Farmers State Bank.
Mandan, First National Bank.
Minot, First National Bank & Trust Co.
Napoleon, First National Bank.
Starkweather, State Bank of Starkweather.
Valley City, American National Bank & Trust Co.
Wahpeton, Citizens National Bank.

SOUTH DAKOTA

Aberdeen, First National Bank & Trust Co.
Britton, First National Bank in Britton.
Brookings, Brookings County Bank.
Chamberlain, First National Bank & Trust Co.
Deadwood, First National Bank.
Dell Rapids, New First National Bank.
Gregory, Northwestern Bank of Gregory.
Groton, First National Bank.
Huron, National Bank of Huron.
Lead, First National Bank.
Madison, Northwestern National Bank.

Milbank, Farmers & Merchants National Bank in Milbank.
Mobridge, First National Bank in Mobridge.
Philip, First National Bank.
Rapid City, First National Bank.
Redfield, Redfield National Bank.
Sioux Falls, Security National Bank & Trust Co.
Spearfish. Bank of Spearfish.
Sturgis, Commercial National Bank.
Watertown:
- Citizens National Bank & Trust Co.
- First National Bank & Trust Co.

IOWA

Des Moines:
- Iowa-Des Moines National Bank & Trust Co.
- Iowa-Des Moines Co.

Mason City:
- First National Bank.
- Northwest Savings Bank.

Sioux City. Live Stock National Bank.

MONTANA

Anaconda, Daly Bank & Trust Co.
Dillon, First National Bank.
Ennis, Madison Valley Bank.
Great Falls, Great Falls National Bank.
Harlowton, Continental National Bank.
Havre, Hill County State Bank.
Helena:
- Union Bank & Trust Co.
- Montana Livestock Loan Co.

Kalispell, First National Bank.
Lewistown, Northwestern Bank & Trust Co.
Malta, First State Bank.
Manhattan, Manhattan State Bank.
Miles City, Bank of Miles City.
Roundup, Miners & Merchants Bank.
Sheridan, Bank of Sheridan.

NEBRASKA

Fairbury, First National Bank.
Hastings, Hastings National Bank.
Lincoln:
- Continental National Bank.
- Continental Co.

Norfolk, Security State Bank.
Omaha:
- United States National Bank.
- United States National Co.
- Stock Yards National Bank of South Omaha.
- South Omaha Savings Bank.
- Cattle Feeders Loan Co.

WASHINGTON

Cheney, Security National Bank.
Spokane:
- Spokane & Eastern Trust Co.
- Spokane Eastern Co.

WISCONSIN

Baldwin, First National Bank.
Berlin. Berlin State Bank.
Grantsburg, First National Bank.
Knapp, First National Bank.
La Crosse, National Bank of La Crosse.
New Richmond, First National Bank.
Prescott, First National Bank.

Senator NORBECK. That is all I wanted at this time. You may go ahead now.

Mr. THOMSON. The activities of our institutions are confined to the banking business as transacted in that territory; that is, we have the ordinary banking facilities and trust facilities. Our affiliates in the security business are in the business of underwriting and distributing securties.

Mr. WILLIS. You have affiliates who are in the securities business?

Mr. THOMSON. Yes, Doctor Willis.

Mr. WILLIS. How many of those have you?

Mr. THOMSON. I believe there are five.

Mr. WILLIS. What do they do?

Mr. THOMSON. Those affiliates were the affiliates of banks that became members of our group and we took them in; that is, in Duluth they had the First National Duluth Co. In Minneapolis the Minnesota Loan & Trust Co. had——

Mr. WILLIS. You merely inherited those and have not created any affiliates?

Mr. THOMSON. I do recall that we created a single securities affiliate.

Mr. WILLIS. You have not done so?

Mr. THOMSON. No, sir. We have two or three cattle-loan companies. We are, I suppose, the largest factor in that territory in making loans on livestock and that business was largely an inheritance resulting from the affiliation of certain banks doing that business.

Mr. WILLIS. When you bring out securities or make cattle loans in these affiliates, do you do so with the understanding or agreement that they will be absorbed by the various banks in your chain or group?

Mr. THOMSON. You can find in all the operations of the Northwest Bancorporation that no bank is ever asked to purchase any securities, whether it comes from our own affiliates or any other bank; that we have continuously stressed and have insisted that the management of these individual banks and boards of directors must understand that we hold them solely accountable for the management of their banks and the Bancorporation will not do anything in the way of recommendation or suggestion that will relieve them from the feeling that they have the absolute responsibility for the operation of their bank and its management.

Senator NORBECK. I do not question that at all, but it makes me wonder why you insist on 51 per cent of the stock instead of 49, if you are going to leave the control and management with them.

Mr. THOMSON. You might ask Mr. Wakefield about that. Our general feeling in the start of the Northwest Bancorporation was that if a man was going to be your partner he would prefer to come in entirely rather than have a divided interest, and we have found that you can not get the better banks in the territory to come in on a basis of divided interest.

Senator NORBECK. They only came in 51 per cent?

Mr. THOMSON. In our corporation we have, from the beginning, held over 95 per cent of the stock of the banks in our group, and. in addition to that 95 per cent, there is over 2 per cent that represents the qualifying shares of the directors of those banks.

Senator NORBECK. I am glad you brought that out because I have not understood that. Does that mean then that only 5 per cent of the stock is held locally by the particular group of directors that manages the bank in a town?

Mr. THOMSON. That is right.

The CHAIRMAN. In your view, after all, it comes down to a question of management?

Mr. THOMSON. Absolutely.

The CHAIRMAN. Your vindication of the system is good management?

Mr. THOMSON. Absolutely.

The CHAIRMAN. What would happen if there had been bad management?

Mr. THOMSON. Of course, you can do a lot of harm. You have an illustration in recent months of that, but we believe that, with the character of banks that are the foundation of our structure and with the business interests that are represented there and with the necessity for meeting competition in that territory, you are not going to have to worry about the corporation being well managed.

The CHAIRMAN. You will agree, however, that if this committee found it desirable, it ought to do something to avert the consequences of bad management?

Mr. THOMSON. Yes, sir.

Mr. WILLIS. To finish the question I put to you before, is it a fact, regardless of the power of the parent corporation or holding company—is it a fact that practically all the securities brought out by your affiliates are taken up and bought or discounted by the banks of your group?

Mr. THOMSON. Absolutely not.

Mr. WILLIS. Will you submit figures showing the distribution of securities of that kind in your group as compared with other groups? Pick out some underwritings of a recent year or two, or the last year or two, and show how the volume of securities was distributed.

Mr. THOMSON. I do not want to mention names, but I recall a concern which to-day is in receivership whose securities, as far as our territory is concerned, were underwritten by one of our affiliates. We had only $68,500 out of $16,000,000 in our group.

Mr. WILLIS. Give us the information that will enable us to form an opinion on this. The same question has been asked of other bankers who have come here and you yourself, I think, have furnished a lot of information.

Mr. THOMSON. I think we furnished Senator Glass information in regard to the changing——

Mr. WILLIS. But that does not throw any light on this particular question, and if you would furnish the statistical data there, I think it would bear out your point.

(Thereafter the witness submitted the following list and statement:)

List showing distribution of securities originating with or underwritten by the securities companies of the group and distributed through Northwest Bancorporation banks:

Issues:	Distributed to Northwest Bancorporation banks
$8,000,000	$493,000
$4,500,000	554,000
$4,000,000	10,000
$2,235,000	167,000
$1,000,000	72,000
$4,000,000	162,000
$1,000,000	93,500

When we say that the banks in the group took a certain quantity of an issue we do not necessarily mean that they held them for permanent investment, as many of our banks have bond departments and a fair percentage of these bonds was sold by these departments to investors.

In all cases it should be borne in mind that the affiliated banks purchasing these securities used their own judgment in doing so and in no case was any bank urged to take any.

Mr. THOMSON. I should like to go further and state that the Northwest Bancorporation management is separate and distinct from any affiliate. We are just as much working for the United States National Bank of Omaha, which is one of our partners, as we may be for the Northwestern National Bank of Minneapolis.

We take the position that any of our affiliates can compete for the business of our group. We have gone further and set up a securities department in the Northwestern Bancorporation office for the sole purpose of furnishing information to our banks and of cooperating with them so that they can check the information they get and each bank in our group may write in for recommendations or for suggestions, but if we make a recommendation or suggestion, we also tell them in the last analysis they must determine whether they will buy that security or not.

I shall be perfectly frank with you and go further and say that in a group such as this, the group management has got to see that those banks are well run, and if those banks bought poor securities and the management and the local board of directors did not correct that situation, we would have to see that that situation was corrected, but——

Mr. Willis. You would never bring out bad ones through your affiliates?

Mr. Thomson. Never intentionally.

Mr. Willis. So that they would be good, would they not?

Mr. Thomson. Yes.

Mr. Willis. So, if a member of your group wanted to buy really good securities, you would not tell them yours were bad?

Mr. Thomson. You understand, of course, we can not get enough good securities, nor can we probably get as great a diversification, as we would like.

Mr. Willis. Of course.

Mr. Thomson. Of the 122 banks that have been taken into our group, 102 of them came in without a change of their corporate status.

Senator Norbeck. May I ask just what that means?

Mr. Thomson. That is, these banks were taken in on a basis of exchanging our stock for theirs, without changing their corporate structure.

Senator Norbeck. Do a great many banks change their corporate structure?

Mr. Thomson. We started out to get the strong key banks in order to have the benefit of good partners and good management, but in probably 30 cases out of 122 banks coming into our group we have taken what you might call remedial action in one way or another, either to save a bank or recapitalize it or put in a new bank where there were no banking facilities. One hundred and two banks came in without either recapitalization or without putting up a new bank—just as they were, in effect.

The Chairman. What becomes of the American spirit of unit banking when an outside unit bank undertakes to compete with your system?

Mr. Thomson. Mr. Adams, here from Fergus Falls, is one of the outstanding bankers in Minnesota, and he has a bank that competes with another bank that is a member of our group in his own town. The First Bank Stock Corporation is not represented in that town. I do not know what Mr. Adams will say, but you can get a frank statement from him, a strong independent banker, as to whether we are a good competitor or a constructive factor in the community.

I think you can ask Mr. Bremer, who is an independent competitor of ours.

The CHAIRMAN. I do not think the reference to one or two strong banks would afford a sufficient answer to the question.

Mr. THOMSON. Generally speaking, the Northwest Bancorporation has been a very constructive factor and we welcome the competition of independent banks.

In the last analysis, if we are going to run a good bank, Senator, and the other fellow runs a good bank, the difference in the business they get is going to depend upon the personality and the local appeal. If we can not get business, we do not deserve to live under that kind of competition. We are a constructive factor and are good citizens and have not hurt any independent well-run bank.

We have, for instance, in the last year, devoted our energies to perfecting our management rather than going out for a lot more banks; but of the 31 institutions taken in last year, 19 represented cases where we took in a bank in order to help a local situation.

I should like to say this without its getting into your public record.

The CHAIRMAN. You may say it off the record, if you care to.

(Discussion off the record.)

Senator NORBECK. I should like to say at that point I have not talked to Comptroller Pole this last year about it, but about a year or so ago, or a little over a year ago, we had a discussion about banks that had then been taken over by the groups in South Dakota or by chains, and we went over them individually and carefully. That was prior to your taking over the Milbank bank. Up to that time I had not been able to discover you had taken over any weak ones. You may have since.

The CHAIRMAN. Let me ask you this question, Mr. Thomson: How and in what measure do you differentiate interstate banking by group and interstate branch banking?

Mr. THOMSON. Well, on the question of branch banking, our officers are opposed to nation-wide branch banking.

The CHAIRMAN. I did not say nation-wide.

Mr. THOMSON. On the question generally of branch banking, we believe that is a matter directly for these States to settle. It is conceivable that in general terms of management a group-banking organization covering all these States might be very comparable to a branch-banking organization; but we are, as far as we are concerned, perfectly willing to leave that decision as to branch banking in the hands of the States we do business in; and as far as the public goes, they will keep a check on our operations, and if they do not think that they want branch banking or do not want our banks to have branches in view of the fact we are covering these various States——

Mr. WILLIS. I do not think that covers the question.

Mr. THOMSON. I am wondering whether you mean the difference in the operation or from the public standpoint or——

Mr. WILLIS. I think the important thing is: In what way do the effects of the banking you carry on differ from the actual operating effects of the Northwestern National Bank if it had an equal number of branches equally capitalized in the same places you have unit banks?

Mr. THOMSON. If we had branch banking in our section, obviously these banks would be branches of, say, the Northwestern of Minneapolis, or if it was just state-wide branch banking of, say, our largest bank in South Dakota——

Mr. WILLIS. Let us say that the Northwestern of Minneapolis buys out your system and amalgamates your system with it—in what way would the financial results or effects of that system differ from that which exists now?

Mr. THOMSON. There certainly would be more centralized management, Doctor. Now we are operating as partners. Then we would have a definite centralized management vested in the parent bank.

Senator NORBECK. Your partners have two things—they have 5 per cent of the stock and have jobs and are on the pay roll. At the present time I should think the partners would be very anxious to please you or they would lose their meal ticket. In what way would that differ from branch banking, where you would have an employee in charge of a branch?

Mr. THOMSON. In the first place, these men have a very strong local interest.

Senator NORBECK. But they sold their interest to you.

Mr. THOMSON. No; they did not.

Senator NORBECK. Well, 95 per cent of it.

Mr. THOMSON. They just exchanged their stock for ours.

Senator NORBECK. But your stock is not local stock.

Mr. THOMSON. It is very largely local in that territory, and 95 per cent is owned in that territory. They own their own homes and their local business and they profit by the development of their own local community. Naturally they are thinking in terms directly of what is in the interest of their local community, and they realize that those banks will not develop in those communities nor be profitable to themselves or to this corporation unless the local bank is prosperous and the community is prosperous.

Senator NORBECK. I do not want to question the motives of the men who sold out to you, but I do not see how they have their local business after selling it out to you.

Mr. THOMSON. In actual practice those men are as interested in that territory as before, and those men tell us they are more interested than before, and I think you will find that the men who are running the banks are working harder to-day than when they had individual banks.

The CHAIRMAN. Not one of these banks employs anyone whose services they do not need?

Mr. THOMSON. That is right.

The CHAIRMAN. That would be true of a central bank with branches.

Mr. THOMSON. In the last analysis, when it gets down to management and operation, I can conceive of a branch-banking organization being of just as much service to a community. I presume you think there would be a greater centralization of funds under branch banking. There is no diversion of funds in our banks.

The CHAIRMAN. I think a branch bank would be as much interested in developing the community as your bank is.

Mr. THOMSON. I think it depends on the management.

The CHAIRMAN. Yes; it all devolves on the management.

Senator NORBECK. You are not going to assert that self-interest is not a strong element in the business? You are not going to assert that a man on salary is more interested in the success of the institution than the owner?

The CHAIRMAN. The question here is, Who is the owner?

Senator NORBECK. That has changed, of course.

Mr. THOMSON. He is still the owner.

Senator NORBECK. He owns about 1 per cent of the stock——

Senator WALCOTT. The man who has transferred his stock has diversified his risk.

Senator NORBECK. It is less local than it was.

Senator WALCOTT. He is a member of a group instead of an individual, but would you not have picked out the same type of man in that community if you had a branch banking system?

Mr. THOMSON. By all means.

Senator WALCOTT. The same personnel, in other words?

Mr. THOMSON. We have the largest bank in Minnesota, North Dakota, South Dakota, and Iowa, and the oldest bank in Nebraska. Naturally we would try to get banks of that type and men who could build up that type of bank.

Senator WALCOTT. Does it not boil down to this, that your essential difference is not a matter of personnel, but a matter of individual initiative? There must be some difference there.

Mr. THOMSON. Yes; but I think, though, that this plan of operation, maintaining a local unit, does retain more local interest and a stronger sense of responsibility in our territory than if you had branch banking to-day. Whether that would be true eventually, time only will tell.

The CHAIRMAN. What is to prevent your parent bank in Minneapolis from acquiring a greater proportion of the stock of these other banks?

Mr. THOMSON. In our section?

The CHAIRMAN. Yes.

Mr. THOMSON. Well, in the first place, we do not want to do it.

The CHAIRMAN. Well, suppose you had a board of directors that would want to do it? What would prevent it?

Mr. THOMSON. In the second place, it is inconceivable that the directors would want to acquire them on a basis that was not of benefit to the parent corporation.

The CHAIRMAN. Of course not.

Mr. THOMSON. And the other man is not under any obligation to sell.

The CHAIRMAN. But it is conceivable that the parent organization might want to acquire them because they are profitable.

Mr. THOMSON. There is no legal restriction against our going out and buying all the banks we want to buy providing we think it would be profitable, which we do not, and providing we would buy them on a fair basis and we are satisfied we are getting good management.

We have in our corporation 12,750 stockholders and 95 per cent of them live in our territory. In a great many cases the number of stockholders in the Northwest Bancorporation in a community where we have a bank, has increased very decidedly over the number of stockholders that the local bank had; in other words, there is a vastly greater number of people who are stockholders in the Bancorporation in a given locality than there were that were stockholders in the local bank. So there is a wider public interest in the success of the Bancorporation than there was, certainly, in a great many cases, in the individual local bank.

That does not apply in every case, but in a great many cases it does apply.

As to the basic principles of operation and supervision that we apply: In the first place, we have an efficient examining department which examines these banks at least once a year. These examiners officers and the executive committee of each bank in person, and leave or a representative of the corporation go over the reports with the officers and the executive committee of each bank in person, and leave with the directors a written report of our examination of the bank. That report is made from the standpoint of a partner. It covers not only the condition of the bank but the personnel and the earnings and the development of the business. It represents, from an impartial viewpoint, our analysis of the way that bank is operated and it should, and I believe does, give the directors of that bank a better opportunity to be good directors than in a very large number of cases they could have been before their bank was a member of the corporation. We insist that the executive committee and the directors shall definitely go over that report with our own people. Naturally, as owners of the stock of those banks, and as partners, we are in a position to go further and more into detail than the National or State examiner would be.

The CHAIRMAN. Suppose your management was to imitate some other managements, of which we have had examples, and undertake to put off on these individual banks of your group, at an exaggerated price, minor stocks or other stocks or securities that were practically worthless, what would happen to you?

Mr. THOMSON. Well, if we did that over a period of time the Bancorporation would not be worth anything. But as against that, you have our present policy and our present management and supervision by National and State authorities, which would certainly check that condition in a very short time.

Senator WALCOTT. They do not examine the holding company?

Mr. THOMSON. No; but I think it would be only a fair statement to say here that we have done everythinug in our power to acquaint not only Mr. Pole but the supervisors of banks in these various States, with not only the set-up of the holding company and its assets but the plan of operation and we would welcome all the supervision that those public officials want to give our corporation.

I believe that they are familiar with the character of the management and policy of the management of these groups in our territory; in other words. we say to these communities that we will see that their banks are well managed. If the officers do not manage them in the right way, we will come to the directors as the responsible heads of that bank. If the management is wrong and the directors do not correct it, then the Bancorporation will see that those situations are corrected.

The CHAIRMAN. You are talking altogether about administration and not about the system.

Mr. THOMSON. That is right. I grant you that.

Senator NORBECK. I might say, Mr. Chairman, that I do not think there is any member of this committee who has yet questioned their administration of their system. However, I am sure there is a difference of view in the committee as to whether it is a good system or not.

Mr. Thomson. I should like to make this statement, since you gentlemen evidently may have in mind what may happen and what has happened in some cases.

There is not, in the set-up of the Northwest Bancorporation, any bonus stock—just one class of stock owned by the public—there was no promotion expense. The only expenses were just the ordinary legal expenses. The stocks of our banks are carried on the books of the corporation at actual cost or less and——

Senator Norbeck. Which stocks?

Mr. Thomson. The stocks of the banks which we own are carried on the books of the corporation at actual cost or less.

Senator Norbeck. At the actual purchase price or less?

Mr. Thomson. Yes.

Senator Norbeck. That might have a different relation to the book value, might it not?

Mr. Thomson. That is right, absolutely.

Senator Norbeck. Is it not a fact you paid large premiums for a great many of these banks?

Mr. Thomson. No; that is not true, Senator.

Senator Norbeck. Is it not a fact you paid 5½ to 1 for some of this stock?

Mr. Thomson. Well, the statement that we paid 5½ shares to 1 means nothing unless you know the book value and the earning capacity of the bank.

Senator Norbeck. That is the reason I asked the question. Did you pay more than that for some of them?

Mr. Thomson. I do not remember the figures. I shall be glad to give you the total figures.

Senator Norbeck. But you have stated that the cost was not necessarily the book value. That is the reason I asked the other question.

Mr. Thomson. The actual liquidating value of the Northwestern Bancorporation stock, without taking into account nonledger assets, without any value for good will, and after writing down considerably on furniture and fixtures, is approximately $37 a share and the par value is $50 a share.

Senator Walcott. What is the market value?

Mr. Thomson. The market value to-day is about $34. It is following just the same tendency as other bank stocks are.

Senator Norbeck. How high did the bank stock go?

Mr. Thomson. Against our desire it went to 99.

Senator Norbeck. What is the highest you sold any treasury stock at?

Mr. Thomson. Well, we offered to our stockholders, our corporation by-laws provide that—aside from an original issue of $5,000,000 for cash in order to provide the first working capital—no stock can be sold except as it is offered to the stockholders; we twice offered stock to our stockholders, in 1929 once at $62 a share and once at $72.50 a share. Those are the highest prices at which stock was offered to them, and not all stockholders availed themselves of the privileges.

Senator Norbeck. Now, at what price was the original $5,000,000 sold?

Mr. THOMSON. At $50.

Senator NORBECK. But you sold some at $62 and some at $72.50?

Mr. THOMSON. We offered that to our stockholders.

Senator NORBECK. Did they take some at that figure?

Mr. THOMSON. They did not have to take it.

Senator NORBECK. But you did sell some at that price?

Mr. THOMSON. Yes, sir.

Senator NORBECK. And it is now at $34 a share?

Mr. THOMPSON. Yes; and if you will check up on the figures, you will find that stock has followed the same trend as other bank stocks.

Senator NORBECK. Is that due to a surplus, the same as with butter and wheat?

Mr. THOMSON. It is due to lack of purchasing power.

Now, you might question in your mind why we have banks in some States such as Iowa and Nebraska. These banks have the same general problems that banks in our territory have, and the banks that are in our group in those States, in many cases, asked to be in our group. We are a large factor in loaning on livestock, and in that connection Sioux City, in Iowa, draws business from Minnesota and South Dakota in our territory. Omaha, particularly, in the Stock Yards Bank, which is in our group, draws business from Montana in our territory. Those banks said they would rather be our partners than be in another group in another section. Having these banks adds to our diversification because Nebraska, for instance, has winter wheat, while we are rather largely a spring wheat country and yet our problems are generally similar.

We do not believe that the Bancorporation is any cure-all, but we do believe that the combination of local interests that is kept because of the local directorate, with the benefits of a supervisory organization, have provided, for our section, a type of banking which has been a very constructive factor, which is now accepted by the public and by the banks, and we believe to-day that it is the best system, at least for our section of the country.

The question has been raised as to whether this system does all that may be done, particularly in the small towns that can not afford to maintain an independent bank. Those States, you might be interested in knowing, are considering that very question. The State of Iowa passed a limited branch banking bill last week providing for branches of banks in contiguous counties to receive deposits and maintain such other routine facilities as were necessary, provided there was not a bank in a community, and to operate as long as there was not a bank in that community.

The State of Montana has passed, in one branch of the legislature, a bill providing for consolidations of banks in adjoining counties which might be continued under the supervision of the State superintendent of banks as branches.

Those legislatures are in the best position to judge how best to serve the local communities that need some sort of banking facilities and can not afford an independent bank. Whatever they may do, we will adjust our program to that situation.

I do not want to call on anybody unprepared, or suggest you call anybody, but Colonel Marsh from Litchfield happens to be sitting here. His bank is a member of our group. He can tell you definitely of the basis on which they operate their bank and we would be glad if you could acquaint yourselves with the actual effects of the operation of these corporations in that territory.

I am going to leave with you several copies of our annual report and I will see that all the members of this committee get a copy of that report.

Senator NORBECK. I should like to ask you a few questions at this point. Do I understand that your view is that this group banking is a better banking system for the country generally than a pure branch system, where it is all owned and controlled from the center?

Mr. THOMSON. I think that group banking, owned by the public and operated by the local people, is very much preferable to a branch or claim chain system owned by an individual or controlled by one interest, without that local interest and management.

Senator NORBECK. You feel that the branch-bank system would have too much of a tendency to centralize?

Mr. THOMSON. There again it depends upon management.

Senator NORBECK. I know, but you think there would be too much of a tendency to centralize. I know under good management it would not necessarily be abused, but I am talking about the system.

Mr. THOMSON. In our section of the country we do not think that—rather, we think that group banking is preferable to general branch banking in that territory.

Senator NORBECK. Because it has not the same tendency to centralize; is that it?

Mr. THOMSON. Yes; it has more local interest.

Senator NORBECK. It has less tendency to centralize than the branch-banking system?

Mr. THOMSON. Yes, sir.

Senator NORBECK. And therefore you feel it is better for the country?

Mr. THOMSON. Yes, sir.

Senator NORBECK. What is your view as to the territory over which these organizations should spread? You said you feel they should not go all over the country.

Mr. THOMSON. Well, our whole feeling about the question of whether we are going to have branch banking or group or chain banking, covering the territory we operate in, is that those things should develop along economic lines. The First Bank Stock Corporation covers only the ninth Federal reserve district. They are in Michigan, and we are not. We have reasons for determining the territory we cover. I think that should be determined by the economic situation and the business situation rather than by any rule.

Senator NORBECK. In other words, you feel it should not be defined by law, but by experience?

Mr. THOMSON. Certainly, by experience.

Senator NORBECK. As far as the law is concerned, you would leave the whole 48 States or Territories open to any organization that wanted to go out and attempt to branch out?

Mr. THOMSON. I would rather let experience determine that question.

Senator NORBECK. In other words, you do not advocate or recommend a legal limit, limiting them to any territory or Federal reserve district or any particular area?

Mr. THOMSON. I do not think it is necessary and I think experience will determine that.

Senator NORBECK. Nor best?

Mr. THOMSON. No, sir; I do not.

Senator NORBECK. Speaking now of economic areas, what do you especially have in mind in that statement?

Mr. THOMSON. Well, we think that ours is a good example of an economic unit. Some people differ from us. No one, as I far as I have seen or read, has been able to determine a satisfactory economic unit, and so——

Senator NORBECK. In other words, you feel that the expression "an economic unit" is a very vague thing and impossible to define?

Mr. THOMSON. That is right.

Senator NORBECK. How far from Minneapolis is your farthest-away bank, 2,000 miles?

Mr. THOMSON. No.

Senator NORBECK. Not quite?

Mr. THOMSON. Spokane is 1,200 miles west of us.

Senator NORBECK. Is that as far west as you have gone?

Mr. THOMSON. That is as far west as we have gone. Some of you gentlemen who come from the East have got to visualize that, for instance, it is as far from Minneapolis to the western portion of the Ninth Federal Reserve District as it is on an air line from Minneapolis to Jacksonville, Fla. So when you say 1,200 miles you have got to keep in mind in our territory distances are enormous and that this does not mean large population or large concentration of wealth and that the Ninth Federal Reserve District stretches, I presume, halfway across the United States from northern Michigan to the western boundary of Montana, which is just east of Spokane.

Senator NORBECK. I am mistaken about 2,000 miles; it is only 1,200 miles?

Mr. THOMSON. Yes, sir.

Senator NORBECK. You go in the other direction, south, how far?

Mr. THOMSON. I have never figured those distances.

Mr. WAKEFIELD. About 350 miles.

Senator NORBECK. Now, the capital of the bank——

Mr. THOMSON. Of the Northwestern National Bank?

Senator NORBECK. Yes.

Mr. THOMSON. The Northwestern Bank and its affiliates in Minneapolis employ about $13,000,000 in capital?

Senator NORBECK. How much of that is bank capital?

Mr. THOMSON. The Northwestern Bank itself has $5,000,000 capital.

Senator NORBECK. How much surplus and undivided profits?

Mr. THOMSON. It has $2,000,000 surplus and between a million and two million undivided profits.

Senator NORBECK. Speaking of affiliates, how many affiliates do you have?

Mr. THOMSON. The stock of the Minnesota Loan & Trust Co. is owned by the stockholders of the Northwestern National Bank, which has a million capital and a million and a half surplus and some undivided profits. There are some other small banks in the city included. When I speak of the affiliates, all told they employ about $13,000,000 of capital.

Senator NORBECK. How many affiliates does that capital include?

Mr. THOMSON. That includes six units.

Senator NORBECK. Would you place in the record, when you revise your remarks, a list of those affiliates, the capital and surplus, and the nature of their business?

Mr. THOMSON. It is all in the report.

Senator NORBECK. But we are not going to publish all of the report.

Mr. THOMSON. The deposits, resources, and so forth, of every institution in the group are included in the annual report.

(Thereafter the witness submitted the following statement:)

Following is the information asked for relative to institutions located in Minneapolis that are affiliated with the Northwestern National Bank of Minneapolis. They are:

Northwestern National Bank: Lake Street office. Lincoln office, North American office; Minnesota Loan & Trust Co., Second Northwestern State Bank, Third Northwestern National Bank, Fourth Northwestern National Bank, Fifth Northwestern National Bank, Midland National Bank & Trust Co., and Central National Bank.

The total capital and surplus, and undivided profits of these institutions is $13,981,749.04.

Senator NORBECK. You speak of the Bancorporation as an affiliate?

Mr. THOMSON. No; the Bancorporation is a holding company.

Senator NORBECK. And has $5,000,000 capital?

Mr. THOMSON. The Bancorporation——

Senator NORBECK. Oh, you started with $5,000,000—a first stock issue of $5,000,000?

Mr. THOMSON. The Bancorporation started with an exchange of stock of four principal banks, the Northwestern National of Minneapolis, the First National of Fargo, the First National of Mason City, Iowa, and the National Bank of La Crosse, Wis., and after it was formed it sold this $5,000,000 of stock for cash.

Senator NORBECK. Now, may I ask what the par value of the stock is?

Mr. THOMSON. $50 a share.

Senator NORBECK. May I ask when the Northwestern Bank was taken into that corporation, at what figure it was taken in, and as of what date?

Mr. THOMSON. The Northwestern Bank and its affiliates had over $13,000,000 capital and the stockholders of the Northwestern Bank, if they had all exchanged their stock, would have received $20,000,000 worth of Bancorporation stock and the actual asset value of that stock, eliminating any nonledger assets, was in excess of $13,000,000.

Senator NORBECK. In other words, the ledger assets were about $13,000,000 and the stock issued on it was about $20,000,000?

Mr. THOMSON. That is right.

Senator NORBECK. And the total issue of Bancorporation stock at this time, you say, is what?

Mr. THOMSON. The total stock outstanding is $83,695,000.

Senator NORBECK. And most of that has been issued in exchange for bank properties?

Mr. THOMSON. That is right.

Senator NORBECK. And the officers of the holding company are the Northwestern National Bank?

Mr. THOMSON. No; the officers of the holding company—well, I happen to be both vice president and general manager of the holding company, as well as vice president of the Northwestern National Bank, but generally the officers of the Bancorporation are not connected with any unit in the group.

Senator NORBECK. How did they come into the corporation? Those officers? Did they come in by purchase of stock or cash or in the taking in of bank properties?

Mr. THOMSON. They were picked because of their ability——

Senator NORBECK. How did they happen to be stockholders?

Mr. THOMSON. They were not picked because they were stockholders.

Senator NORBECK. Did they buy their stock for cash, or are they men who turned in their properties?

Mr. THOMSON. One or two of them were connected with banks in the group. Some of them had no connection with the group, and I will go further as long as you bring up the question——

Senator NORBECK. I do not care to go into that particular thing. Our time is short and——

Mr. THOMSON. I do not think——

Senator NORBECK. The whole point I am trying to make is this: Is the Bancorporation virtually controlled by the Northwestern or controlled by some one else?

Mr. THOMSON. It is controlled by the interests identified with our group.

Senator NORBECK. Or does the Northwestern own everything in the way of size——

Mr. THOMSON. I made the statement before, Senator, that the Northwestern Bank group owns the largest block of stock, but it is not control.

Senator NORBECK. But it overshadows the other banks. You can explain it briefly by saying, "Yes; it is controlled by the Northwestern bankers and their friends and associates." I am not saying that in criticism, but I want to get the record straight.

Mr. THOMSON. Well, I suppose that is correct.

Senator NORBECK. If it is controlled by anyone else, say so. We have lived long enough to know the public does not control anything.

Mr. THOMSON. Some of our partners would resent the statement that the Northwestern Bank is the overshadowing and dominating interest in that group.

Senator NORBECK. But they would not resent your telling the truth about it, if I put the question to you. I think you are right in that you gave the figures which show they overshadow it.

Mr. THOMSON. I think that is right.

Senator NORBECK. You sold $5,000,000 for cash at $50 a share?

Mr. THOMSON. That is right.

Senator NORBECK. How much of that did your Northwestern Bank group take? Most of it?

Mr. THOMSON. The Northwestern National Bank and the original banks that came in took, I would say, almost entirely stock and no cash.

Senator NORBECK. The thing I am not clear on is this—and that may be my fault and not yours: You spoke of a $5,000,000 stock issue, sold for cash, at $50 a share.

Mr. THOMSON. That is right.

Senator NORBECK. And as I understand it, that was done after the four big banks had gone in and formed the holding company. Who bought the most of the $5,000,000?

Mr. THOMSON. I do not know whether our group bought the most or another group. It was sold in that territory.

Senator NORBECK. Did the stockholders of your bank buy heavily of it?

Mr. THOMSON. They have bought heavily of Bancorporation stock for cash at $50 a share and at vastly higher prices and still hold it.

Senator NORBECK. And still you think you are smarter than the farmers who took a shrinkage in their lands?

Mr. THOMSON. I am not quarreling with you about the farmers at all, Senator.

Senator NORBECK. Now, then, I do not question your good faith in this matter at all. I am just trying to get at the facts. Now, you offered for sale at $62, stock at one time, as some still considerably higher?

Mr. THOMSON. That is right.

Senator NORBECK. But you did not force anybody to take it?

Mr. THOMSON. That is right.

Senator NORBECK. That offer—was that sold by you or through some brokerage concern? Have you sold that stock yourself?

Mr. THOMSON. I think that was offered to the stockholders of the Bancorporation.

Senator NORBECK. First?

Mr. THOMSON. First by the corporation and then——

Senator WALCOTT. Was it underwritten?

Mr. THOMSON. That issue at $62 was not underwritten. I think there was a tremendous demand for the stock at that price. The issue for $72.50 a share——

Senator NORBECK. Let us take one thing at a time. That was sold direct by your corporation?

Mr. THOMSON. Yes, sir.

Senator NORBECK. Would you mind putting in the record the advertising or soliciting asking them to take the stock, or your recommendation?

Mr. THOMSON. We made no recommendation.

Senator NORBECK. But you made an offer; you sent out your letters to the people about this stock. Would you put copies of them in the record?

Mr. THOMSON. Yes.

(Copies of the letters referred to are printed in full as follows:)

NORTHWEST BANCORPORATION,
Minneapolis, Minn., July 18, 1929.

To the common-stock holders of Northwest Bancorporation:

Northwest Bancorporation will offer to its common stockholders additional shares of its common capital stock for subscription at $62 per share as follows:

Stockholders entitled to subscribe: Common stockholders of record at the close of business on Thursday, August 15, 1929, will be entitled to subscribe for additional common stock in the proportion of 1 share of common stock for each 10 shares of common stock then held by them as shown by the books of the company.

Closing of books: The stock-transfer books of the company will be closed from the close of business on the 5th day of August, 1929, until the opening of business on the 16th day of August, 1929, except that where executed contracts are now, or may hereafter be, outstanding under the terms of which the shareholders of any bank, the stock of which has been acquired by the corporation, may elect to become a party to such contract by executing a counterpart of such contract and by depositing his bank stock, under the terms thereof, the stock-transfer books of the corporation will be open to the extent that it is necessary to issue shares of this corporation, in exchange for the bank stock, pursuant to any such contract.

Expiration of offer: The subscription privilege will expire on Saturday, August 31, 1929. Warrants will become null and void and of no value, unless exercised on or before such date.

Subscription rights: One "right" attaches to each share of common stock outstanding at the close of business on August 15, 1929. Common stockholders of that date are entitled to subscription rights on the basis of shares then registered in their names. Ten rights are required to subscribe for each share of the additional stock. Subscriptions will be accepted by the company for full shares only.

Issue of warrants: On August 15, 1929, warrants will be mailed to the common stockholders evidencing their subscription rights and specifying the number of shares for which each is entitled to subscribe under this offer.

Warrants will be of two kinds: (1) Full-share warrants entitling the holder to subscribe for one or more full shares of this stock and representing 10 rights or multiples thereof; and (2) fractional-share warrants for less than a full share, representing less than 10 rights. Rights evidenced by full-share warrants may be transferred to others by assignments duly executed in the form printed upon the warrants. Rights evidenced by fractional-share warrants may be transferred to others by delivery.

Subscriptions: Subscriptions must be made by executing the subscription agreements on the back of the warrants and delivering them with payment at the rate of $62 for each full share and $62 for each 10 rights—10 rights being the equivalent of 1 full share)—said payment to be in cash or solvent checks or drafts with Minneapolis Exchange, free and clear of collection charges, to Northwest Bancorporation at the office of the Minnesota Loan & Trust Co., Minneapolis, Minn., on or before August 31, 1929. Subscriptions will be accepted for full shares only.

Payment: Payment for shares subscribed for must be made to Northwest Bancorporation at the aforesaid office of the Minnesota Loan & Trust Co. not later than August 31, 1929.

By order of the board of directors.

E. W. DECKER, *President.*

NORTHWEST BANCORPORATION,
Minneapolis, Minn., August 15, 1929.

To the stockholders of Northwest Bancorporation:

In accordance with our circular letter dated July 18, 1929, addressed to the stockholders of Northwest Bancorporation, we inclose to you herewith stock purchase warrant (or warrants) showing the number of additional shares of stock of Northwest Bancorporation for which you are entitled to subscribe at $62 per share.

For your assistance we give you the following information:

Warrants to whom issued: Warrants are issued to the stockholders of record of Northwest Bancorporation as of the close of business on the 15th day of August, 1929.

How to subscribe: Subscriptions must be made by executing the subscription agreement on the back of the warrants and delivering them, with payment in full at $62 per share, to the company at the office of the Minnesota Loan & Trust Co., 405 Marquette Avenue, Minneapolis, Minn., on or before August 31, 1929.

Payment: Payment of the subscription price in full, in cash or solvent checks or drafts with Minneapolis exchange, free and clear of collection charges, must accompany the subscription.

Fractional share warrants: Fractional shares of stock can not be issued. If you have received a fractional share warrant, you may either purchase on the market sufficient additional fractional share warrants so as to make up a total of 10 rights (10 rights being the equivalent of one warrant for a full share), or you may sell your fractional share warrant.

Expiration of time to subscribe: All rights to subscribe for additional stock expire at the close of business on August 31, 1929. Warrants not exercised on or before such date will become null and void. In order to exercise your right to subscribe, your subscription, together with the subscription price, must actually be received by the company, at the office of the Minnesota Loan & Trust Co., on or before such date; merely depositing same in the mail on or before such date is not sufficient.

Signatures: Signatures on the subscription blank or assignment must correspond exactly with the name as written in the face of the warrant. Signatures on assignments should be witnessed. All signatures not known to the company should be guaranteed by a responsible bank or trust company. When assignments or subscriptions are executed by adminitrators, executors, trustees, guardians, attorneys, etc., proper evidence of their authority to do so must be filed with the company at the office of the Minnesota Loan & Trust Co.

Assignment of rights: Inasmuch as the company is offering the stockholders an opportunity to subscribe for stock at less than the present market price, these warrants are valuable. If you do not care to exercise your rights to subscribe for additional stock, you may sell your rights. Full share warrants may be assigned by executing the assignment on the reverse side of the warrants. Fractional share warrants may be assigned and transferred by delivery without executing a formal assignment. In the event of assignment, United States stock transfer stamps, at the rate of 2 cents per hundred or fraction thereof of the par value of the shares of stock for which rights are assigned, must be affixed to the warrant and canceled. If you wish to assign a part of your rights and retain part, you may surrender your warrant to the company at the office of the Minnesota Loan & Trust Co. and new warrants will be issued in the proportion which you desire.

Sale of warrants: If you wish to sell either your full share warrants or your fractional share warrants and do not know with whom to list them for sale, the same may be offered for sale either through this company or the Minnesota Co. at 405 Marquette Avenue, Minneapolis, Minn.

Yours very truly,

E. W. DECKER, *President.*

NORTHWEST BANCORPORATION,
Minneapolis, Minn., October 12, 1929.

To the common-stock holders of Northwest Bancorporation:

Northwest Bancorporation will offer to its common stockholders additional shares of its common capital stock for subscription at $72.50 per share, as follows:

Stockholders entitled to subscribe: Common stockholders of record at the close of business on Wednesday, October 30, 1929, will be entitled to subscribe for additional common stock in the proportion of 1 share of common stock for each 10 shares of common stock then held by them as shown by the books of the company.

Closing of books: The stock transfer books of the company will be closed from the close of business on the 19th day of October, 1929, until the opening of business on the 31st day of October, 1929, except that where executed contracts are now, or may hereafter be, outstanding under the terms of which the shareholders of any bank, the stock of which has been acquired by the corporation, may elect to become a party to such contract by executing a counterpart of such contract and by depositing his bank stock, under the terms thereof, the stock-transfer books of the corporation will be open to the extent that it is necessary to issue shares of this corporation in exchange for the bank stock pursuant to any such contract.

Expiration of offer: The subscription privilege will expire on Friday, November 15, 1929. Warrants will become null and void and of no value unless exercised on or before such date.

Subscription rights: One "right" attaches to each share of common stock outstanding at the close of business on October 30, 1929. Common-stock holders of that date are entitled to subscription rights on the basis of shares then registered in their names. Ten rights are required to subscribe for each share of the additional stock. Subscriptions will be accepted by the company for full shares only.

Issue of warrants: On October 30, 1929, warrants will be mailed to the common-stock holders evidencing their subscription rights and specifying the number of shares for which each is entitled to subscribe under this offer.

Warrants will be of two kinds: (1) Full-share warrants entitling the holder to subscribe for one or more full shares of this stock and representing 10 rights or multiples thereof; and (2) fractional-share warrants for less than a full share, representing less than 10 rights. Rights evidenced by full-share warrants may be transferred to others by assignment duly executed in the form printed upon the warrants. Rights evidenced by fractional-share warrants may be transferred to others by delivery.

Subscriptions: Subscriptions must be made by executing the subscription agreements on the back of the warrants and delivering them with payment at the rate of $72.50 for each full share and $72.50 for each 10 rights—10 rights being the equivalent of one full share—said payment to be in cash or solvent checks or drafts with Minneapolis exchange, free and clear of collection charges, to Northwest Bancorporation at the office of the Minnesota Loan & Trust Co., Minneapolis, Minn., on or before November 15, 1929. Subscriptions will be accepted for full shares only.

Payment: Payment for shares subscribed for must be made to Northwest Bancorporation at the aforesaid office of the Minnesota Loan & Trust Co. not later than November 15, 1929.

By order of the board of directors:

E. W. DECKER, *President.*

NOTE.—Warrants will be mailed to the stockholders on October 30, 1929. No action by the stockholders is necessary until the warrants have been mailed.

NORTHWEST BANCORPORATION,
Minneapolis, Minn., October 30, 1929.

To the stockholders of Northwest Bancorporation:

In accordance with our circular letter dated October 12, 1929, addressed to the stockholders of Northwest Bancorporation, we inclose to you herewith stock purchase warrant (or warrants) showing the number of additional shares of stock of Northwest Bancorporation for which you are entitled to subscribe at $72.50 per share.

For your assistance, we give you the following information:

Warrants, to whom issued: Warrants are issued to the stockholders of record of Northwest Bancorporation as of the close of business on the 30th day of October, 1929.

How to subscribe: Subscriptions must be made by executing the subscription agreement on the back of the warrants and delivering them, with payment in full, at $72.50 per share, to the company at the office of the Minnesota Loan & Trust Co., 405 Marquette Avenue, Minneapolis, Minn., or to the Continental Illinois Bank & Trust Co., Chicago, Ill., on or before November 15, 1929.

Payment: Payment of the subscription price in full, in cash or solvent checks or drafts with Minneapolis or Chicago exchange, free and clear of collection charges, must accompany the subscription.

Fractional share warrants: Fractional shares of stock can not be issued. If you receive a fractional share warrant, you may either purchase, on the market, sufficient additional fractional share warrants so as to make up a total of 10 rights (10 rights being the equivalent of one warrant for a full share) or you may sell your fractional share warrant.

Expiration of time to subscribe: All rights to subscribe for additional stock expire at the close of business on November 15, 1929. Warrants not exercised on or before such date will become null and void. In order to exercise your right to subscribe, your subscription together with the subscription price must actually be received by the company, at the office of the Minnesota Loan & Trust Co., in Minneapolis, or the Continental Illinois Bank & Trust Co. in Chicago, on or before such date; merely depositing same in the mail on or before such date is not sufficient.

Signatures: Signatures on the subscription blank or assignment must correspond exactly with the name as written in the face of the warrant. Signatures on assignments should be witnessed. All signatures not known to the company should be guaranteed by a responsible bank or trust company. When assignments or subscriptions are executed by administrators, executors, trustees, guardians, attorneys, etc., proper evidence of their authority to do so must be filed with the company at the office of the Minnesota Loan & Trust Co. or at the Continental Illinois Bank & Trust Co.

Assignment of rights: Inasmuch as the company is offering the stockholders an opportunity to subscribe for stock at less than the present market price, these warrants are valuable. If you do not care to exercise your rights to subscribe for additional stock, you may sell your rights. Full share warrants may be assigned by executing the assignment on the reverse side of the warrants and surrendering the warrant to the company at the office of the Minnesota Loan & Trust Co. in Minneapolis or the Continental Illinois Bank & Trust Co. in Chicago, in exchange for new warrants to be issued to the assignee. Fractional share warrants may be assigned and transferred by delivery without executing a formal assignment. In the event of assignment, United States stock transfer stamps, at the rate of 2 cents per hundred or fraction thereof of the par value of the shares of stock for which rights are assigned, must be affixed to the warrant and canceled. If you wish to assign a part of your rights and retain part, you may surrender your warrant to the company at the office of the Minnesota Loan & Trust Co. in Minneapolis or at the office of the Continental Illinois Bank & Trust Co. in Chicago, and new warrants will be issued in the proportion which you desire.

Sale of warrants: If you wish to sell either your full share warrants or your fractional share warrants and do not know with whom to list them for sale, the same may be offered for sale either through this company or the Minnesota Co., at 405 Marquette Avenue, Minneapolis, or through A. G. Becker & Co., at Chicago, Ill.

Transfer or exercise of warrants at Chicago: For the convenience of those who wish to do so, arrangements have been made so that warrants may be transferred or exercised at the office of the Continental Illinois Bank & Trust Co., Chicago, Ill. Warrants issued by the Continental Illinois Bank & Trust Co., in exchange for warrants which are transferred, must be countersigned by a duly authorized officer of the Continental Illinois Bank & Trust Co. before they are valid. In case warrants are exercised at the office of the Continental Illinois Bank & Trust Co., the warrant holders must allow a reasonable time within which the Continental Illinois Bank & Trust Co. may procure the stock certificates from the office of the company or the transfer agent in Minneapolis, Minn.

By order of the board of directors:

E. W. DECKER, *President.*

Senator NORBECK. Was there more than one letter that went out recommending the stock?

Mr. THOMSON. There was not a letter that went out recommending the stock. The Bancorporation has not recommended any stock. It has recommended, from the beginning, that the banks in the group should not lend on the stock because we anticipated legislation preventing us from doing that, and the only letters that went out were the letters notifying the stockholders that the directors had authorized a certain stock issue and they were entitled to buy it at a certain price.

Senator NORBECK. Whatever the letters contained, if we can put them in the record, they will speak for themselves.

Mr. THOMSON. Yes.

Senator NORBECK. Now, the issue that was sold at $72.50. Why was that offered at $72.50 instead of at $50?

Mr. THOMSON. At that time, in 1929, Senator, people were paying higher prices for stocks generally than they are now. That represented the judgment of men in our group who were in touch with general conditions as to a fair price for the stock under the conditions at that time.

Senator NORBECK. In other words, there was a prospective profit that would justify that?

Mr. THOMSON. It was felt that the corporation would be benefited by having the amount realized above the par value of the stock.

This was put in a surplus fund, and the corporation to-day is the beneficiary of the surplus realized from the sale of that stock at $72.50. We have felt from the beginning that this corporation should have a surplus and we have provided that we must have investments in other than bank stocks equal to more than 10 per cent of our capital.

Senator NORBECK. All of which sounds good but does not answer the question. Our time is getting short. If you felt that there were prospective earnings that justified the $72.50 a share at the time you offered it——

Mr. THOMSON. The market value of the stock justified offering the stock at that price, and there was no question of profit in the sense of earnings——

Senator NORBECK. In other words, you do not claim an earning that justified that value?

Mr. THOMSON. No; not based on present conditions.

Senator NORBECK. But you sold it at that price?

Mr. THOMSON. We offered it at that price.

Senator NORBECK. And sold it at that price?

Mr. THOMSON. A great many stockholders took it at that price.

Senator NORBECK. Then you sold it, did you not?

Mr. THOMSON. Yes; you can put it that way.

Senator NORBECK. Did those statements that went out promoting that sale carry the statement that the book value of the property was $37 a share?

Mr. THOMSON. I do not recall, Senator. I will send you a copy of those letters and you can see for yourself, but our annual report of last year——

Senator NORBECK. I am speaking of the letter soliciting the stock sales.

Mr. THOMSON. I do not recall. I shall have to get the letter for you.

Senator NORBECK. What is the capital of your corporation?

Mr. THOMSON. $83,000,000, approximately.

Senator NORBECK. What dividends has the Northwest Bancorporation paid on this stock?

Mr. THOMSON. The Bancorporation has paid $1.80 per share dividend per annum since it started.

Senator NORBECK. How many dividends have been paid?

Mr. THOMSON. It paid eight quarterly dividends.

Senator NORBECK. They paid dividends for two years on the basis of $1.80 per share per annum.

Mr. THOMSON. Yes.

Senator WALCOTT. Quarterly?

Mr. THOMSON. On an annual basis.

Senator NORBECK. Forty-five cents quarterly?

Mr. THOMSON. Yes, sir.

Senator NORBECK. You spoke in your opening remarks here of a bad condition developing in the Northwest that led to people taking their money out of banks and putting it into postal-savings certificates?

Mr. THOMSON. Yes.

Senator NORBECK. Did you say $18,000,000 in the ninth Federal reserve district has gone into postal savings?

Mr. THOMSON. I said the increase in postal-savings deposits in the four States of Minnesota, North Dakota, South Dakota, and Montana in the last 10 years was in excess of $18,000,000, which was more than the increase in postal-savings deposits in the entire United States outside these four States during that period.

Senator NORBECK. Now, then, I notice you named one town. Let me ask about other towns. The inference is that your bank came in and corrected a bad situation. Did you have any such situation at Lead when you bought the bank there? You spoke of Milbank. Did you have that situation at Lead?

Mr. THOMSON. I do not recall whether our deposits in Lead have gone up or not.

Senator NORBECK. Have you an increase in postal-savings certificates in Lead?

Mr. THOMSON. I do not know, Senator.

Senator NORBECK. Is Milbank the only one you have in my State?

Mr. THOMSON. I would have to look it up.

Senator NORBECK. Is that the only one you can think of?

Mr. THOMSON. The reason I remember that is that I happened to be down here making provision for getting some of that postal-savings money and I recall that particularly.

Senator NORBECK. Do you not recall that prior to your purchase of the bank at Milbank, that there was a row between the stockholders and they went into court and put witnesses on the stand to show that the large part of the bank loans was worthless?

Mr. THOMSON. They did have a row there.

Senator NORBECK. Exactly. But they did not have that sort of situation in other places, did they? That would not be a fair reflection of the situation in that territory as a whole?

Mr. THOMSON. All I wanted to convey was that the establishment of a bank owned by the Northwest Bancorporation in that town did restore confidence in that bank.

Senator NORBECK. That is admitted, because there was no confidence in it before. It is the same as though you started a new bank.

Mr. THOMSON. That is true.

Senator NORBECK. Is it not true that you acquired banks out there—a bank like the Lead bank—which had weathered the storm and was in splendid condition when you bought it?

Mr. THOMSON. That is right.

Senator NORBECK. Was it not as good as any bank in the United States?

Mr. THOMSON. I will not say that, but it was a good bank, and we are glad to have it.

Senator NORBECK. Is it not a fact that its assets were liquid and carried a large surplus fund and had nothing to charge against it? Was not the largest part of the assets in Government bonds?

Mr. THOMSON. I do not recall whether that was true, but it was a good bank and we were glad to have it in the corporation.

Senator NORBECK. Was not the bank at Deadwood a good bank?

Mr. THOMSON. Yes, sir.

Senator NORBECK. And was not the Miller bank a good bank?

Mr. THOMSON. Miller is not in our group.

Senator NORBECK. Is the Huron bank a good bank?

Mr. THOMSON. A fine bank.

Senator NORBECK. Was it not an outstanding bank that would have been a credit to any bank in the United States when you bought it?

Mr. THOMSON. By all means.

Senator NORBECK. The point I make is that you did not do all the good for the country you claim you did.

Mr. THOMSON. I tried to get your permission to give you the names of the banks in your State where we have given assistance.

Senator NORBECK. You have my permission, but I do not want you to publish that before these newspaper men.

Mr. THOMSON. Then just tell the newspaper men that you know of good banks and bad banks that we took in, but you are only asking me about the good banks.

Senator NORBECK. I am asking about all the banks you own. How about Sioux Falls?

Mr. THOMSON. That is a good bank.

Senator NORBECK. You paid 5½ to 1 for that bank?

Mr. THOMSON. I do not recall, but something like that is right. If we did, that is one of the notable earning banks in that section of our territory.

Senator NORBECK. Was the Aberdeen bank a good bank when you acquired it?

Mr. THOMSON. In Aberdeen we took over one bank that was in good shape and two banks that were not. We have 21 banks in South Dakota and in 9 cases we saved the situation out of the 21.

Senator NORBECK. May I ask this question of you: Have I asked you about all the large banks you took over in my State so far?

Mr. THOMSON. You did not ask me about the First National of Rapid City, which is a good bank, and the two Watertown banks.

Senator NORBECK. They are all right?

Mr. THOMSON. Yes, sir.

Senator NORBECK. All the large banks in the State you took over you found in pretty good shape?

Mr. THOMSON. That is right.

Senator NORBECK. And when you had to fill in, those were the smaller banks?

Mr. THOMSON. There are some fair-sized banks, Senator.

Senator NORBECK. Now, then, you spoke about the territory being overbanked, and you quoted the number of banks as compared with population. Have you any figures showing the capital invested as compared with population? Numbers are very misleading things.

Mr. THOMSON. I have not got those, but I think the information is available.

(Thereafter the witness advised the committee that such information was not available to him.)

Senator NORBECK. I am going to ask you to put that comparison in the record—the comparison of the ninth Federal reserve district with the whole country as to banking capital compared with population—because it will clear that matter up. The point I am making is this: That small, scattered communities may need a number of small banks, whereas a large community may need only one or two big banks, and you can not prove the overabundance of banks by numbers but also you must go into the capital invested.

Now, speaking of this condition in the Northwest, I notice you have limited yourself to the last 10 years in your testimony. What was the bank situation in the 10 previous years?

Mr. Thomson. Taking the 10 previous years, Senator, of course the deposits had increased. I did not give those figures——

Senator Norbeck. What was the general banking condition in the period 1910 to 1920?

Mr. Thomson. Well, part of that time it was fair, a part of the time good, and part of the time not so good.

Senator Norbeck. How many failures did you have in that period as compared with the last period?

Mr. Thomson. I can give you them, but I do not recall now.

Senator Norbeck. I recall. I recall that most of the failures happened after 1920.

Mr. Thomson. I have not the figures, Senator.

Senator Norbeck. Is not this the fact: That the general banking situation for 20 or 30 years preceding the agricultural deflation in 1920 was pretty good in the Northwest; that the average bank was solvent; that you would take the draft of the average bank without suspicion?

Mr. Thomson. People did; yes. There is no question about that.

Senator Norbeck. This condition that you are speaking about is a new condition that has come on in the last 10 years?

Mr. Thomson. I think that is true; but part of it is due to a condition that originated before that.

Senator Norbeck. You have not submitted any figures yet to prove your point about the overbanking situation. You are speaking about the number of banks and not their size. There may be less bank capital per 100,000 population in the Northwest than anywhere else for all I know and any member of this committee knows this morning. But you are going to put that in the record—the ninth Federal reserve district as compared with the rest of the country.

Now, then, do you attribute this economic condition to bad banking?

Mr. Thomson. No; I was very careful not to say that.

Senator Norbeck. I know you did not say it. It was just inferred.

Mr. Thomson. No; I did not imply that.

Senator Norbeck. Maybe you did not intentionally.

Mr. Thomson. I made the frank statement that there were a number of factors, including changed economic conditions and the overbanked condition, which is generally conceded by the banking superintendents in our territory, and other factors that resulted in that situation.

Senator Norbeck. Suppose, for the sake of argument, that we admit the country was overbanked. Can you tell me any line in the West that is not overdone? Are there too many stores or hotels?

Mr. Thomson. It would be hard to made a general statement that all lines of business have had the proportion of failures that banks have.

Senator Norbeck. Is it not a fact the mercantile business is also overdone, where the merchant has trouble in making a profit?

Mr. Thomson. I am perfectly willing to take your own statement on that. I do not want to make general statements about all these lines of business.

Senator NORBECK. I notice you were perfectly willing to make the statement that farming was overdone.

Mr. THOMSON. I did not.

Senator NORBECK. You said a surplus was created.

Mr. THOMSON. You are a greater authority on farming than I am.

Senator NORBECK. You stated there was a surplus. If farming is overdone, I think you should be willing to admit that the manufacturing, banking, and store business have been overdone, but only in your line you think it should be restricted to less competition. What are you going to do with the fellows you knock out of business? Tell them to milk more cows and have more surplus butter?

You spoke about the par clearance of checks cutting off a great amount of income of banks. Was it one of the larger incomes of banks?

Mr. THOMSON. No; but it was a substantial factor.

Senator NORBECK. Was it sufficient ordinarily to pay dividends?

Mr. THOMSON. I know of some cases—I have heard of cases—where it was, but I do not know that this was the case generally.

The CHAIRMAN. There was one case in North Carolina where 51 per cent of the profits of the bank was from exchange.

Senator NORBECK. I know of a bank where the cashier said that the only profit the bank had was the $15 a day that it earned on exchange and that it had paid its previous dividends out of that.

The CHAIRMAN. At the expense of the patrons of the bank.

Senator NORBECK. Your statement is here that the small banks are unable to sense the changing economic conditions. I agree with you on that, but was it not true also of the larger groups?

Mr. THOMSON. The fact is that these larger banks were able, through management and through broader contacts, which gave them a better knowledge of these changing conditions, to put themselves in a position to take the losses that they suffered and still pay their dividends. I think that answers your question that those banks were better able to sense the changes.

Senator NORBECK. Was it not due to the fact they had prior knowledge of what was coming?

Mr. THOMSON. I do not believe so.

Senator NORBECK. Did they not get the tip that the deflation was coming and the small banker kept loading up, while the big banker had the tip?

Mr. THOMSON. That is not true.

Senator NORBECK. I do not think you and I can decide it, so we will leave that question. I think there is a great deal of evidence before the committee indicating that. You spoke of the fact that one reason for organizing the group was that a great many of your industries or enterprises had to go East to be financed.

Mr. THOMSON. That is right.

Senator NORBECK. Now, they can get the money near home, is that it?

Mr. THOMSON. We hope they will be able to, Senator; yes.

Senator NORBECK. I must admit ignorance of it. I am not able to follow you on that.

Mr. THOMSON. In the House hearings you will find a statement that, for instance, in Minneapolis, the Archer-Daniels Midland Co., Pillsbury Flour Mill Co., and others all went East for financing.

Senator NORBECK. You feel that you can take care of such situations as that?

Mr. THOMSON. Gradually, as we build up an organization or are able to distribute securities more effectively, we should get more of that business.

Senator NORBECK. You mean to sell their securities through your branches?

Mr. THOMSON. Through the securities companies within our group.

Senator NORBECK. But really through your business organization?

Mr. THOMSON. That is right.

Senator WALCOTT. Through your affiliates?

Mr. THOMSON. Yes, sir.

Senator NORBECK. But also through the banks over the country—these one hundred and odd branches or members of your group?

Mr. THOMSON. The reason I am differentiating, Senator, is that I do not think—I do not know—what proportion of the banks in our group—certainly not a majority—sell securities. The small banks do not sell securities.

Senator NORBECK. Where will the money come from that will absorb the new securities?

Mr. THOMSON. That territory buys securities all the time and will continue to buy more if the farming question is settled.

Senator NORBECK. Is it not a fact that when the farming question was normal they were not buying them at all? For instance, in the State of South Dakota you could not sell securities before the agricultural breakdown, could you?

Mr. THOMSON. I think you could.

Senator NORBECK. The bonding branch of the biggest bank in Chicago, and the second largest one in the United States, told me on a very attractive bond issue which they sold in the United States, they circularized South Dakota in 1919 and could not sell any, because there was a local demand for the bonds.

You know the northwestern country suffers from lack of capital. That is what you tell us, that we need capital. Now, you propose to take capital away from our section instead of from the East. Will not that make us short?

Mr. THOMSON. No; that will not make you short.

Senator NORBECK. It is the difference between subtraction and addition.

Mr. THOMSON. What you say does not apply to all sections. We will sell the securities where we can sell them most advantageously. If the people there have surplus funds to invest, we will sell them there; if not, we will sell them elsewhere.

Senator NORBECK. The bank is a powerful factor in selling something. European bonds are sold here by the banks. The banks of New York allot them around and say, "Your share is so much," and they have to take them. I have no doubt you can allot a lot of bonds to your banks and they will have to take them.

Mr. THOMSON. Except that in our case you have independent banks that determine their own policies. They are under supervision by either State or national authority and we have a definite policy that these banks or their affiliates shall determine what they wish to buy or sell.

Senator NORBECK. As far as that policy is concerned, I commend it. I do not say you are running the worst kind of banking system. Not at all; but you are running a new kind, and while it sounds nice to say the directors are in charge, they are, in fact, in charge as long as you let them have a meal ticket.

You also said your banks had an opportunity to sell out to eastern interests.

Mr. THOMSON. That is right.

Senator NORBECK. There was a demand from the East to acquire the properties?

Mr. THOMSON. Yes, sir.

Senator NORBECK. Your holding company would control the banks if it had a majority of the stock?

Mr. THOMSON. Yes, sir.

Senator NORBECK. If some one had a majority of the holding company stock, they would control the whole thing, would they not?

Mr. THOMSON. They could.

Senator NORBECK. And might also easily control the Federal Reserve Bank of Minneapolis?

Mr. THOMSON. Yes, sir; with the First Bank Stock Corporation.

Senator NORBECK. And all they would have to invest was about one-eighth of the capital?

Mr. THOMSON. As a practical proposition—and this has got to be my opinion—I do not think there is much chance of the Northwest Bancorporation either owning or controlling——

Senator NORBECK. But I am talking about the system now, and not the way it is administered under your policies.

Mr. THOMSON. Oh, you can raise all the questions you want as to what might happen. You say one-eighth of the value of the banks might control all?

Senator NORBECK. In other words, the capital of that bank is $20,000,000. What is the total deposits of your banks?

Mr. THOMSON. $409,000,000.

Senator NORBECK. For five or six million dollars properly placed the whole $400,000,000 stock could be controlled.

Mr. THOMPSON. The capital of the holding company is $83,000,000.

Senator NORBECK. In other words, they would have to get half of that?

Mr. THOMSON. Yes; and if some one owned a majority of that stock or any other corporation they could control it.

Senator NORBECK. I should like to have your views on this bank-tax situation, but I will not ask you more questions.

Mr. THOMSON. I am not worrying about your asking them; I am worrying about my ability to answer them.

Senator NORBECK. What is the average tax on banks—what rate of tax is applied to your banks in Minneapolis now, 2 or 3 per cent?

Mr. THOMSON. Senator, I can not give you the information in detail on the tax situation. I know from conferences and from discussions we have had that our banks are paying in personal-property tax in Minnesota now, and paying voluntarily without compulsion, a higher rate than other similar capital pays. I do not know the figures in detail.

Senator NORBECK. You have reference to the fact that the Supreme Court of the United States has practically vitiated the law under which we have operated most of the time for 50 years and you can not compel a full collection of taxes in States like Minnesota? You are paying it voluntarily, and if you took advantage of the law it would be only about one-tenth of that amount?

Mr. THOMSON. Yes.

Senator NORBECK. But, as a matter of fact, have not the bankers served notice on the tax commissioners that they will not pay their taxes next year?

Mr. THOMSON. No. You know the story up there. We have sat down with the authorities and have told them that we were being asked to pay a larger tax than other similar capital is asked to pay; that we would like to see them consider the matter and make some adjustment. We have been promised, as I understand, that that adjustment would be made, and after four years the adjustment has not yet been made.

Senator NORBECK. And when you speak of that tax on capital, you refer to when one farmer loans another farmer $4,000 he gets out of paying the 3 per cent tax? You want the banking capital to go into the same class as these individual loans?

Mr. THOMSON. All we want is to do our fair share of paying taxes, but we feel at the present time we are paying more.

Senator NORBECK. Are you paying more than the farmers?

Mr. THOMSON. I would answer that if I could, but I can not tell you.

Senator NORBECK. Is it not a fact that in South Dakota the banks refused to pay and they fell back to one-tenth——

Mr. THOMSON. I do not know that.

Senator NORBECK. Is it not a fact that the banks you hold out there pay one-tenth the tax other business pays?

Mr. THOMSON. I do not know, except the banks pay the taxes levied and that question has never been referred to our office.

Senator NORBECK. No; I am not blaming you for it.

Mr. THOMSON. I just do not know.

Senator NORBECK. The point I am going to make is this, that the prospects of big dividends seem to be——

The CHAIRMAN. Senator, there there are three other gentlemen here who want to be heard, and one tells me he has to get away. Can not we expedite this?

Senator NORBECK. I just want to suggest that there is no one here except those who invited themselves to be here.

The CHAIRMAN. I did not mean that in a critical sense, but one of the gentlemen has notified the chairman he wants to get away.

Senator NORBECK. Who is the gentleman?

The CHAIRMAN. Mr. Adams.

Mr. THOMSON. Senator, do you want to leave the impression that the prospect of our paying dividends depends on our escaping the payment of the taxes?

Senator NORBECK. I will say this, that if the banks are to pay one-tenth the same as merchants or farmers, that it will make a difference in the dividends.

Mr. THOMSON. That is not true.

Senator NORBECK. It is not true?

Mr. THOMSON. No, sir. The Bancorporation pays the taxes that are now assessed, and the payment of those taxes will not affect the dividends of the Bancorporation at all.

Senator NORBECK. In other words, the payment of taxes is not going to affect the dividends?

Mr. THOMSON. Not at all; that is, anything we are now talking of.

Senator NORBECK. That is all I have.

Mr. THOMSON. I hope I have not taken too much time, and I thank you very much.

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

The CHAIRMAN. Mr. Adams, we will be glad to hear you on any phase of the banking question you may care to discuss.

Mr. ADAMS. I have a short statement here which I think will give all the suggestions I have to make.

I reside at Fergus Falls, Otter Tail County, Minn. Fergus Falls is a city of about 7,000 and is the county seat of Otter Tail County. Otter Tail County is a representative agricultural county of Minnesota. The county is entirely given up to agriculture and the income of the people residing there is almost wholly from the sale of farm products, principally milk, poultry, hogs, livestock, cattle, and sheep. Almost no grain is marketed at the elevators, being fed on the farms. It is, perhaps, as prosperous as any agricultural county in the State. It had a steady growth, and farm values increased rather slowly until the invasion of land speculators from the South between 1915 and 1920.

The First National Bank of Fergus Falls, of which I have been president for 17 years, is the oldest national bank between the Twin Cities and the Pacific coast. It has been in continuous operation for 59 years, under the same name, not even the preposition being changed. During the time it has been in operation more than 50 banks have been started in the territory which it serves. There are now about 30 banks in the territory. In some of the small villages there have been three banks operating at the same time and there are several villages of less than 500 people which now have two banks. It was unquestionably a serious error when the National Government reduced the necessary capital from $50,000 to $25,000 for a national bank. Until recently, State banks with a capital of $10,000 were permitted, but the law has been changed so it is now necessary to have $20,000 capital, unless the securities commission can be convinced that a smaller capital is adequate.

In the past eight years nine banks have failed in our county. No national bank has failed. While the failure of these nine banks was due in part to unwise loans during the land-boom period, there was dishonesty in nearly every one, and 10 officials of the banks which failed in the Fergus Falls area were sent to the penitentiary.

It may be interesting to know that 85 bank officials and employees were sentenced to the penitentiary during the incumbency of superintendent A. J. Veigel, who has just retired as commissioner of banks after 10 years of service. Practically every one of these little banks which failed was in the farm-land game. For their profits they took second and third mortgages, and these second and third mortgages drifted into the bank, and when they once had this paper on their hands they thought it was necessary to make advances to help the occupants of the land carry on. Sometimes they needed more money to pay interest and other times to buy additional machinery or twine with which to bind their grain, and the banks, in trying to save what they already had loaned, followed up. A crop failure or an improper diversion of the proceeds of the crops soon put loans of this character into the frozen class.

These small banks not only borrowed when they ought not have done so, but they had no secondary reserve of any kind which could be cashed when people wanted their deposits. If their stockholders had been substantial men of the community who had had any funds with which to engage in the banking business, there would have been some chance of relief, but about the first intimation the dierctors and stockholders had of the condition of their bank was when they were called upon to mortgage their own property and raise funds in hopes that the bank might be saved.

I do not believe it is any exaggeration to say that in 90 per cent of the country banks the directors have no knowledge of the condition of their banks. Recently there have been many lawsuits in which directors have been sued, not only for receiving funds in their institutions after they were insolvent, but for their failure to use proper diligence in guarding the funds which were attached to the institution through their good names.

During the time when these banks have been failing in our section, conditions in institutions in the same territory have apparently been very prosperous. I am president of two State banks in villages adjacent to the county seat. The territory which they serve is practically the same as where the banks have failed. These banks started with a capital of $10,000. The Bank at Underwood has built up a surplus of $20,000 and undivided profits of $10,000, and during all the time has paid good dividends. The bank at Dalton has earned a surplus of $10,000 and $5,000 in undivided profits and never missed a dividend. In spite of the fact that these two banks adequately serve the community, charters were granted in both places and farmers' State banks were started. Underwood is a village of 300 people and Dalton a village of 150, and these two towns are within 12 miles of the county seat, so it is perfectly apparent that by granting these additional charters the field is overfilled.

While a large number of the banks started in the Northwest in the last 15 years were started by farmers who wished to engage in the banking business, a great many were started by holding companies operating out of the large cities. These banks operated from a central point and were no more successful than those operated by the farmers. For a while their earnings were large, due to the making of farm loans which were sold for the commission. Many small banks were broken in the Northwest by being compelled to carry the paper furnished from the central office.

This committee may be interested in knowing the effect which the development of the group banks has had upon the unit or home-owned banks. The situation in Fergus Falls is a representative case. There are four banks in the city, two natitonal and two State. One of the national banks is owned by the Northwestern group. The other three are owned by local stockholders. There is a group bank at Rothsay, 20 miles to the north, at Wahpeton, N. Dak., 29 miles to the northwest, at Fargo and Moorhead, 50 miles to the northwest, and at Alexandria, 50 miles to the south. I do not think that there has been any change in the business in the banks of Fergus Falls due to the acquiring of a local bank by a group, and there has been very little growth due to new business. If the local banks have lost to the chain banks, or the chain bank has lost to the others, it is negligible.

When the holding companies first invaded local territory and advertised their large resources, the home-owned banks were more or less disturbed, but there is fully as much advantage in the fact that a bank is home owned and home controlled as there is in being connected with an institution with its large resources owned elsewhere.

My conclusion is that no unit bank which is properly conducted need fear the presence of a group-owned bank. If the authorities, State and national, will not grant charters to the groups to enter localities already amply supplied, there is no reason why the local-owned bank can not succeed, if it is managed properly.

The two types of banks have joined the groups in the Northwest. In many places there were good banks operated by men who had long been in the service and they were glad to turn their banks over to a responsible group and be relieved of the responsibility of these trying times. There is another type, where the banks have become involved and were unable to put themselves in proper condition, and they were very glad to avail themselves of the opportunity to be taken over.

It has been surprising that the failure of so many banks has not caused a more widespread distrust. An open run on the banks of the Northwest has been very rare. The shrinkage in deposits has been due to evaporation and lack of earning power of the people of the community. It is perhaps true that in some instances the banks of the groups have drawn some savings deposits from near-by points, but the main cause of the decrease in deposits has been due to the decline in the prices of products and the constant outgo of funds for farm machinery, automobiles, radios, and similar things which have been a constant drain on the communities.

There are a large number of excess money banks in the territory northwest of the Twin Cities. The banks with which I am connected have always been heavy buyers of outside paper in order to keep their funds invested. Only once or twice in a half century has it been necessary for our bank to borrow, either from the Federal reserve bank or from our correspondent banks, and then only for a very brief period.

The Chairman. Mr. Adams, what use have you for correspondent banks when you have the Federal reserve bank?

Mr. Adams. I beg your pardon?

The Chairman. What use have you for correspondent banks when you have the Federal reserve bank? What business can you transact through a correspondent bank that you can not transact just as well through the Federal reserve bank?

Mr. Adams. I do not know that I can answer that question. It has always been the custom to carry the reserve with the Federal reserve bank and it has been always the custom to carry the business with the correspondent banks. We have never leaned on them.

The CHAIRMAN. It just happens in your case. One purpose of the Federal reserve act was to emancipate you from the correspondent banks.

Mr. ADAMS. In our case we did not need to be emancipated. In fact, the only service we get from the Federal reserve bank is they store our bonds without compensation.

The CHAIRMAN. You get other services of a very valuable nature. They insure you, in the first place, against a currency panic.

Mr. ADAMS. I do not think we have ever borrowed from the Federal reserve bank.

The CHAIRMAN. But you can if you want to.

Mr. ADAMS. Yes; it is there as a reserve. We appreciate very much having it there to protect our bonds in these bandit days.

When modern financing took commercial paper off the market, and especially grain and jobbing paper, which was a large field for investment in the Northwest, the banks began to buy bonds of longer or shorter maturities.

Up to the time of the Liberty loan drives there was scarcely a bond in the small banks of the Northwest. This will cover Senator Norbeck's question. Following the Liberty loan drives, the salesmen began to flock over the Northwest, and as a result the banks began to buy bonds. They were told about the desirability of having a secondary reserve, and not being experienced in the bond-buying business on many occasions they became the victims of high-pressure salesmen sent out by institutions the names of which carried weight and respect. For some considerable time these bond accounts were regarded with pride by the banks which had them. Many banks which were able to escape the deflation in land and farm products now find themselves in a rather uncomfortable position due to the depreciation in their bond accounts. It is apparently becoming a very serious matter. Nearly every bank is having more or less defaults, while the market quotations have dropped so much that if the departments, State and National, require them to take care of the depreciation out of their surplus and undivided profits they will be unable to do so.

The banks, in their ignorance, undoubtedly showed poor judgment in buying bonds which paid too high a rate, but in view of the fact that they felt that it was necessary to pay depositors the rate which they were paying for savings it was necessary to secure bonds bearing a fairly high rate in order to break even.

Mr. WILLIS. What rate were they paying for savings?

Mr. ADAMS. Four per cent was the going rate in Minnesota until about three years ago, when we cut to 3½ and 3. Every time a new bank came in they would start at 5 per cent and disconcert things. They would advertise even 5 or 6, and that would tend to draw ignorant people from the regular banks, but I think we have a State law now that no bank can pay more than 4 per cent.

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

Depositors who have lost their money in closed banks complain bitterly that they are unable to get any information as to why their deposits are lost and why they were not paid more by the receivers. Practically no information is given out to the depositors, and they only know that the bank was closed. If our authorities in the Northwest would dig into some of the bank failures, as is being done in New York in the case of the Bank of the United States, it would certainly have a more salutary effect.

Four hundred State banks have failed in Minnesota in the last eight or nine years. I have not the figures, but I think this is a larger proportion than is the case with the national banks. However, many bankers are now considering the advisability of asking the legislature to drop the word "State" from their names as there is a feeling that there is a loss of prestige. A great many good "State" banks are suffering on account of the failure of the poor ones.

There is a good deal of discussion as to the advisability and necessity of permitting local banks to operate branches in near-by areas. Many of the small villages which have had 1, 2, and 3 banks are now without 1, and they complain of the inconvenience and are urging that the banks in the county seats be permitted to operate branches in such villages. I am myself in doubt as to the necessity and whether the branches could be made to pay. The improvement of the roads makes it possible for the residents of the small villages of the county to drive to the larger points without great inconvenience. They go to the larger places to do their shopping, and with rural mail delivery there is grave doubt whether branches would pay in these villages which have lost their own banks.

I think most independent bankers agree that in the metropolitan districts the large banks should be allowed to operate branches within the city limits. The inconvenience of traffic and the constantly increasing menace of hold-ups make it next to impossible for people living at a very great distance to reach the down-town institutions. If legislation of this kind is enacted, I think the independent bankers feel that the branches ought to be restricted to the metropolitan districts and that the large banks of the terminal centers should not be permitted to invade the territory where local banks are able to handle the business satisfactorily.

The crying need, however, is for banks which will take care of the poor borrowers. By the poor borrowers I mean the men who never want to pay a note when it is due and who, too often, want to add the interest to the principal. These men need help and must be helped if they are going to function. They have to have seed when spring comes. They have to have feed for their stock if there is a shortage, and they are quite likely to need machinery and twine when it is time to harvest. They mean to pay their notes, but every now and then some disaster comes and they are unable to do what they agreed to do; and so these banks, which have been carrying this class of business, have been involved in situations from which it was impossible to extricate themselves. Neither a group bank or a branch bank will ever take care of this class of trade. The local banks have done their share of it. In former days the general merchant and the implement dealer aided. They not only gave them credit for goods but it was not an uncommon thing for the farmer who was trading at a store to borrow small sums until he could harvest, sell an animal, or raise the funds in some other way. The old-time storekeepers were generous in this way and the banks carried them, but you can imagine a farmer who suddenly needs a little money going to see Mr. Woolworth's manager, or Mr. Montgomery Ward's manager, or Mr. Sears-Roebuck's manager and getting the accommodation which he used to get from the old-time merchant. This situation of the poor borrower is constantly getting worse as the number of farms acquired by mortgages increases. The tenants on these farms are very seldom in financial condition so that they can provide an equipment of machinery, their one-half of the stock, and get along from harvest to harvest. There is a crying need for institutions to take care of this class of business, but I am unable to determine how it can be done, and I have lived among them for many years. We do what we can along these lines, and while the losses have not been very large, it is because we have been very discriminating in accepting them.

The CHAIRMAN. Do you have the Morris bank system out there?

Mr. ADAMS. No, sir; not in the country; but we do in Minneapolis, St. Paul, and Duluth.

Senator NORBECK. I note in your statement that outside securities were almost unknown in the northwestern banks until recently, and that the salesmen have loaded a lot on the banks and also central banks that have affiliated companies, have used those banks as an outlet for those securities.

Mr. ADAMS. I would not say the affiliated banks have done that. We bought our securities from various sources—the First National of Minneapolis and Chicago and of prominent bond houses.

Senator NORBECK. They buy from the correspondents rather than the affiliates?

Mr. ADAMS. No; there were no affiliates in those days.

Senator NORBECK. They came on in recent years?

Mr. ADAMS. Yes, sir; we began buying after the Liberty loans.

Senator NORBECK. Did it not come after the newspaper propaganda was carried on that everything in the Northwest was very badly managed?

Mr. ADAMS. I would not say that.

Senator NORBECK. Was there not a lack of confidence in our States? Do you recall when the "Pain in the Northwest" was written up in the leading periodicals? About that time a great many people in our section began to want eastern securities, and they began to think things in other sections were better than in their own section.

The CHAIRMAN. Everybody thinks that about everything. There are people who will pay five times as much for a cow that comes from the island of Jersey and gives one-half the milk that a thoroughbred Jersey cow dropped in this country will give.

Senator NORBECK. I know the word "imported" helps. That is human nature; but the point I am making is this: That this condition was unknown to us until the agricultural deflation came on. People were not buying those securities until this came on.

Mr. ADAMS. Our troubles began when the Iowa invasion began. Up to that time we were engaged in farming. In Iowa they said our land was too cheap and real-estate agents and banks down there came up and bought our land, which was worth only $40 an acre. Well, they began to buy it and sell it to Iowa people, and pretty soon they became involved. In certain townships they sold the land over and over again and they advanced the price of the land up to $75 an acre. Then the collapse came and the present situation developed.

Senator NORBECK. That period of advance began when?

Mr. ADAMS. I have never been in the land business until recently, when I had to take a few farms. I suppose that started along about in 1915 to 1918. It became rampant in about 1918.

Senator NORBECK. You spoke of some cases where land sold at $75 an acre. Was that the better class of farms, better improved, or the average increase?

Mr. ADAMS. That was the better class.

Senator NORBECK. In other words, the increase was about double over what it was previously?

Mr. ADAMS. I would think so.

Senator NORBECK. Is it not a fact that everything else doubled in price in the same decade?

Mr. ADAMS. Yes; but those prices were forced up by the dealers.

Senator NORBECK. Did they not force up the price of shoes, locomotives, office buildings, and so forth, to about double their former price?

The CHAIRMAN. That sort of epidemic was not peculiar to the Northwest. I recall that I paid $3,500 for a corner lot on Colorado Avenue in a town in Virginia and sold it for $3,800, and ultimately it was sold for $1.89 taxes.

Senator NORBECK. But that is another matter. The whole point I am making is that that period of inflation was a general one. It was not of land alone. It was of everything.

Mr. ADAMS. Yes, sir; but in certain townships, where the land boomers did not come in, the landowners continued to be prosperous. In the townships in Otter Tail County, where we have these little banks that are prosperous, they have been careful with their expenditures, marketing diversified crops, and have been thrifty and saved their money. In this community our bank has $500,000 deposits, and the bank across the street has $250,000, whereas, on the prairies, where the farms were traded in, the banks are closed.

Senator NORBECK. The cost of production in agriculture now is so high that no one can come out even except the man who performs his own labor.

Mr. ADAMS. That is right.

Senator NORBECK. In other words, the new economic situation has made larger farming unprofitable.

Mr. ADAMS. In the prairies they did not raise anything but grain. They had not got into dairying.

Senator NORBECK. Are there many communities to-day that do not produce their own butter and eggs?

Mr. ADAMS. We are very widely diversified.

Senator NORBECK. You have been diversified for some time?

Mr. ADAMS. Yes, sir. There is one other question. You asked about taxes. Our bank in Fergus Falls has $100,000 capital and $150,000 surplus and our taxes—personal property taxes—are $5,800.

Senator NORBECK. You are taxed on the surplus the same as capital?

Mr. ADAMS. Yes, sir.

Senator NORBECK. The South Dakota Legislature granted a relief by relieving that heavy tax on capital. They since, because the national banks refused to pay the taxes, have been required to relieve all banks from paying it.

Mr. ADAMS. We do not get a fair break on the assessments. As a banker, I know what is in the various stores in the community, and when I see a stock of goods worth $100,000 assessed at $10,000 and our bank with $100,000 assessed at $40,000, I know the assessment is unfair, but my lips are sealed. I know persons with thousands of dollars on deposit who make no return. The credit tax is so small there is not enough involved to lie about.

(Discussion off the record.)

Mr. ADAMS. When a man only has to pay $3 a thousand for taxes on his money, it is too cheap to lie about it.

(Discussion off the record.)

Senator NORBECK. You feel that $5,800 is too heavy a tax, but you would not feel that $580 would be quite enough?

Mr. ADAMS. No, sir. We want to pay on a parity with everybody else in the community.

The CHAIRMAN. We are very much obliged to you, sir. The committee will stand in recess until 2.30 this afternoon.

AFTER RECESS

The hearing resumed at 2.30 o'clock p. m., at the conclusion of the recess.

The CHAIRMAN. The committee will come to order.

Mr. Wakefield, we will be very glad to have any suggestions you may care to make about the banking situation, within your scope of the inquiry.

STATEMENT OF L. E. WAKEFIELD, VICE PRESIDENT, FIRST BANK STOCK CORPORATION, MINNEAPOLIS, MINN.; PRESIDENT FIRST NATIONAL BANK IN MINNEAPOLIS

Mr. WAKEFIELD. Mr. Chairman, I want to explain to you the conditions that exist in our territory in a banking way and believe in doing so that your primary interest is in knowing those conditions and situations, in order that in any legislation that you may see fit to pass you may not do an injustice to a community such as ours and to institutions that are in existence and going ahead doing what we believe to be a good job.

I want first to call your attention to just what the ninth Federal reserve district is in a banking way. The First Bank Stock Corporation operates in the ninth Federal reserve district.

Senator NORBECK. That is your corporation?

Mr. WAKEFIELD. Yes, sir. The ninth Federal reserve district was created at the time of the creation of the Federal reserve bank and was determined by the flow of transactions in the banking business, the Twin Cities being the center of those transactions in that particular area. The borders of it were, at the time of its establishment, somewhat controversial and there may be in those borders to-day some conflict as to the flow of banking transactions, which is indicative of the flow of business transactions; that is, the markets where they come from or originate in and the limits of those territories. But it was, I believe, a pretty well-chosen area. It consists of the States of Minnesota, North Dakota, South Dakota, Montana, the northern peninsula of Michigan, and a little strip off of Wisconsin. So, our business of the Twin Cities has naturally been close to and had its relationship in that particular area.

The ninth Federal reserve district, when considered as to banking resources and deposits, is of comparative unimportance in its relationship to the entire banking facilities of the country, and yet our banking resources and deposits are all we have to work with. They are of vital importance to us.

We have now, in the ninth district, 2,218 banks with total deposits of $1,594,580,000. Those deposits are $979,800,000 in Minnesota; $109,700,000 in North Dakota; $143,000,000 in South Dakota; $149,-000,000 in Montana; there are $88,800,000 deposits in the northern peninsula of Michigan, and $123,700,000 in the ninth Federal reserve district in Wisconsin.

So, when we think of the ninth Federal reserve district in its relation to a country-wide consideration, we recognize its comparative unimportance. But we also recognize that as far as it concerns those of us who are residents in and do business in that particular territory, it is of vital importance.

Our competition, in a banking way, has for a great many years in the Twin Cities been more definitely related with Chicago and New York banks than with any other single factor, and they to-day are our chief competition. When it comes to the rates that we make to borrowers of importance, those rates are definitely related to the rates they make in New York and Chicago. We are in competition all the time in matters of that kind.

We have in the First Bank Stock Corporation just about 100 banks to-day, the center of those institutions being the two Twin City banks that are in our group; that is, the First National Bank of St. Paul and the First National Bank of Minneapolis, and we also have about 85 or 90 banks—I have forgotten the exact number—outside.

The CHAIRMAN. Is your company an affiliate of these national banks?

Mr. WAKEFIELD. Our company, the First Bank Stock Corporation, is a holding company which owns practically 98 per cent of the capital stock of all of the banks in the group. The First Bank Stock Corporation has outstanding, at the present time, 3,097,000 shares of stock of a par value of $25 per share. That stock is owned by 17,918 stockholders. Of that number of stockholders, 13,223 own 74.19 per cent of the total number of shares and reside in Minnesota.

In Montana there are 1,180 stockholders owning 6.6 per cent of the stock. In North Dakota there are 1,062 stockholders owning 5.92 per cent of the stock. In South Dakota there are 598 stockholders owning 3.33 per cent of the stock. In Wisconsin there are 486 stockholders owning 2.172 per cent and in States outside of the ninth Federal reserve district there are 846 stockholders owning 4.73 per cent of the stock of the corporation.

Now, in the relation of the stock ownership to the $385,000,000 of deposits in the group of banks in the First Bank Stock Corporation, $286,639,000 is in Minnesota banks, or 75 per cent of the deposits are in Minnesota banks, and 74 per cent of the stock is owned by Minnesota people.

The next largest amount is $62,415,000 of the deposits, which are in Montana banks, which own 6½ per cent of the stock; $18,666,000 is in North Dakota banks, and $10,070,000 is in South Dakota banks; $8,043,000 is in banks in the northern peninsula of Michigan, and we have none in Wisconsin.

Now, the thing that I am trying to bring to your attention is this, that this corporation is owned, operated, and managed by people whose every business interest and investment is in the territory served by the banks and that its vital interest is always in the development and improvement and carrying on of this business which is in the ninth district, which is the vital factor on which we have to depend for our progress and success.

In addition to the group of men who are directors of the First Bank Stock Corporation, in every town where we have a bank we have a local board of directors, and no bank operated by the group system could get to first base or be successful in any degree except with the hearty approval and support of that local board of directors. I would not give 5 cents for a bank in any town up there except with the support and approval of a group of business people in that town who were interested in the town and the banks that are there.

Senator NORBECK. You do not consider the branch-banking system a good system at all?

Mr. WAKEFIELD. I am going to get to that. But I consider this set-up of ownership and control, with its vital interest in the local territory, a more responsive and better system than any that can be devised.

Now, then, that being the case, and with all of the changes that have taken place over which we had no control, but which we have been obliged to meet in a banking way, there have been mistakes in the past. No one can be blamed. These people who have run their banks in the past could be put before you and you could get the history, time after time, where the men associated with the banks that have been closed up have given every bit of everything in them and every bit of property that they owned and their friends and associates have put in everything in addition to save the depositors from loss. So it is not anything that you can lightly talk about or that you can pass off with just an expression of some particular factor being responsible. It was the result of conditions that have occurred and of economic changes, and there was not any way of stopping it. Our interest in group banking is not because in the First National Bank of St. Paul and the First National Bank of Minneapolis we were desirous of gaining control of a greater number of institutions. It was because of the fact that we know that as far as the Twin Cities are concerned, they can not develop and grow in a business and banking way except as there is that same growth and development and stability in the territory from which we draw our business and in which our associates are located. The facts are, as far as making money for the stockholders of the First National Bank of St. Paul and the First National Bank of Minneapolis is concerned, we knew when we went into this undertaking that we were going to help be the cause of improving the general situation in the Northwest; that it was not going to be an added money maker to us except as it comes from the continuous development and improvement of the territory served. In the years to come there may be profit to us in it in proportion as we aid the territory's development.

But the fact is, that what we have had to do and what we have done is to attempt to build a structure which would be in the position of assisting and advising and controlling the management of banks out through the territory. When a bank becomes associated with the First Bank Stock Corporation we recognize that at that time, regardless of what we may wish to do or anyone may want to say, that the responsibility for that bank rests on us, and under no circumstances can we permit it to go to pieces.

So, in building up our method of administering these properties, we called together a year ago, immediately after we got these banks, two or three representatives from each bank, and we sat down and discussed with them methods of operation, and in this particular enterprise you will be interested.

In the first place, one of the first things they said to us was this, " that we have been obliged, in years past, and more so all of the time, to purchase bonds and securities for some of the funds in our banks. We recognize that this is a topic about which we have not adequate facilities and information, and so we would like to have you set up some kind of machinery which will do that purchasing for us."

We did that in this way: We established in the head office of the First Bank Stock Corporation a department which has charge of the securities owned in any one of our banks, and in all of them. That department is in charge of a vice president, whose business it is to follow and watch securities which we own. Some of the bonds which came into our banks are not bonds we want to keep. We have been turning those out and converting them and bringing them into satisfactory line. But no bond is purchased by any bank in the First Bank Stock group except as it is purchased through that department in the head office, and it has to have the approval of a group of several men before it is purchased, and our own securities company can not sell any bond to any bank in our group except as they are purchased for the group through the main office.

We keep a control in the main office of every single security owned and where it is lodged—which bank it is in—in order that we may not find ourselves sometimes with more bonds of a particular issue lodged in our banks than we think it would be wise for us to hold as a single line of securities.

When it comes to buying commercial paper, we do exactly the same thing. We do not send a bond to a bank. We send them a list of bonds and they can choose what they want to buy, but it must have the approval of the main office.

In buying commercial paper, our banks have set up this program—it is their program; we have constructed it and they have put it into operation. It provides that in the purchase of commercial paper all companies whose paper we would be willing to buy and have in our banks, shall be approved by the executive committee in the First Bank Stock Corporation. We have, also, built up a credit file of commercial paper names; that is, the names of paper that appears in the market, and we have checked those companies from every angle that a bank would check them if they were giving them a line of credit and then have approved an amount we are willing to carry, of, say, $200,000 of the paper of a certain concern. That amount is approved and that name goes on the list and, with that approval, the management may buy the paper of that concern if it appears in the market and we will furnish it to those banks. There is not any way of doing a constructive job, in my opinion, unless you organize to give it the most competent and experienced management that you can give it and do it with the approval of the people who are interested in it.

We have found that that program is heartily approved and indorsed by the people in our banks. They are enthusiastic about it. They like to feel that they have some direct way of getting this stuff and yet know what they are getting, and I think we will find, as time goes on, that this system will be of material—very material—benefit to those banks.

We have organized an examining force, which is making two examinations each year of each bank, in an exhaustive way. Every loan that is made in any bank is reported to the head office the day following with a statement of the borrower or the collateral. We have credit files in the main office of all borrowers in all banks.

The creation of this machinery has cost money and the main contributor to the cost of the operation comes from the two big banks in the Twin Cities. I am simply giving you that to show you that the interest of those banks is more vitally concerned with good banking in the territory than with the immediate purpose of attempting to make an extra dollar, because we believe, and I know this is true, that the entry of these two groups into the field has helped the banking situation in the Northwest.

Mr. Willis. Are all of the surplus funds of these banks deposited in the bank in St. Paul?

Mr. Wakefield. No; they carry the usual deposits they used to send to——

Mr. Willis. To the eastern cities?

Mr. Wakefield. Yes, sir.

Mr. WILLIS. Does the central board, or whatever you call it in the Bank Stock Corporation—does that dictate to them how much they shall send to the correspondents?

Mr. WAKEFIELD. No; it is according to the volume of their business, and so forth.

Mr. WILLIS. You never have placed call loans for them?

Mr. WAKEFIELD. It never has. I wish the call money market would pick up. We have plenty of money.

Mr. WILLIS. It did pick up.

Mr. WAKEFIELD. During the period of the high call rate some of the banks in the group did have money in the call market. We (the First National Bank in Minneapolis) did not. During that period of 1929 we did not have a dollar loaned on call.

Mr. WILLIS. You exercised no control over their entry into the call market in any way whatever?

Mr. WAKEFIELD. I certainly think we would advise with them at the time.

Mr. WILLIS. But at that time you did not?

Mr. WAKEFIELD. This group has been going since—it has operated nearly two years.

Mr. WILLIS. You have never done it so far?

Mr. WAKEFIELD. No, sir.

Mr. WILLIS. But in the future it would be part of this central board's policy?

Mr. WAKEFIELD. I think we would use some judgment as to what was being done.

The CHAIRMAN. And what rate must the call-money rate get to before you would go into the call market?

Mr. WAKEFIELD. We are not in it at the present time because the rates are not satisfactory. With the excess money we have to-day we would like to be in.

The CHAIRMAN. At what rate would you ordinarily want to go into the call-money market?

Mr. WAKEFIELD. That depends on the comparative situation.

The CHAIRMAN. Do you ever give your own merchants and your own industries the advantage of a low rate of discount? For instance, right now, when you have more money than you need or what you know what to do with.

Mr. WAKEFIELD. Oh, they make the rates for us.

Mr. WILLIS. You do not fix a uniform rate for the borrowers in the several towns?

Mr. WAKEFIELD. We have never disturbed those rates in those towns.

The CHAIRMAN. You never disturb them in any town?

Mr. WAKEFIELD. You must remember this, Senator Glass, which is a point I want to bring out: It has been said by some people that there was a conflict of interest between the independent banker and the group bank. I claim that there is not.

The CHAIRMAN. I am not discussing that particular point now. What I want to find out is why the bankers generally utterly refuse to demoralize their standard rate of interest by giving the local industries and commerce of their own territory the advantage of abundant funds and credits rather than play the market with it?

Mr. Wakefield. Let me tell you that in 1929, when the call money was loaning at 9, 10, 11, and 12 per cent, we never had a rate in our banks to our business people above 6 per cent. Six per cent was our top rate. We did charge people who borrowed on stocks and bonds as high as 7 per cent.

The Chairman. What is your legal rate?

Mr. Wakefield. Eight per cent. We were never above 6 per cent.

Mr. Willis. Have you been below it?

Mr. Wakefield. On standard paper to-day the rate is 3 per cent.

Mr. Willis. I mean the average man in the small town.

Mr. Wakefield. He will pay 6 per cent.

Mr. Willis. Just as he always did?

Mr. Wakefield. Yes.

Mr. Willis. He has a stable, unvarying rate of interest?

Mr. Wakefield. Yes. Let me give you an illustration. I want to bring this out so you will see what that relationship is. For instance, the First National Bank of Minneapolis has to-day the correspondent accounts of 1,400 banks. The business of those 1,400 banks represented a deposit account with our bank of over $20,000,000, or practically one-fifth of our deposits. Our relationship with those people is such, and we are interested sufficiently in them and their business, so we have been always in the position of wanting to keep them sound and prosperous and we will go a long way with them.

The Chairman. Why should you keep them sound and prosperous?

Mr. Wakefield. Because they are—well, here is the situation——

The Chairman. In other words, you accommodate them when they are in an emergency?

Mr. Wakefield. Yes.

The Chairman. And that makes them practically subservient to your bank?

Mr. Wakefield. No.

The Chairman. I think it does.

Mr. Wakefield. Here is the situation. I will illustrate to-day how this is going on. Here is a banker in a small town in Mennesota with a bank with $1,000,000 of deposits. He arrives in the office Saturday morning and states on account of the closing of the bank in a near-by town that in about 90 days he had lost $450,000 of his deposits. Now, I know that, because we have helped him take care of the payment of those deposits. He came in and said this: "Unless you fellows can find some way to step in and take this bank, I have got to close it Monday morning. I can not open."

Now, remember that everything we do to-day has a vital effect upon those banks in our territory, and you gentlemen do not need to be told of the disaster that follows the closing of a bank, no matter how small, if it relates in its size to the resources of that town and we can not afford to do what we may sometimes desire to do; we can not afford to disturb the earning power of those institutions under present conditions. It can not be done.

The Chairman. That is an extraordinary emergency. That does not relate to the ordinary relationship of correspondent bank—taking over a bank like that.

Mr. Wakefield. Oh, no; but in all these ways the man who happened to be a correspondent of our bank has not been subservient to us. We have been very careful to try to handle his business in a way which would keep him a customer of ours instead of going to another bank.

The CHAIRMAN. When I use the word "subservient," that does not mean a legal or practical compulsion. You put him under such obligations he is obliged to patronize you.

Mr. WAKEFIELD. Oh, he can pay us off and move to-morrow.

The CHARMAN. He can, but he does not.

Mr. WAKEFIELD. No; because good treatment will keep him.

Mr. WILLIS. It seems to me this is the right point to enlarge upon the question I asked Mr. Thomson this morning as to how you think this remarkable, new structure fits in with the general situation of our banking system and the Federal reserve. Here you have something that is not under the supervision of the State or Federal authorities. How many votes have you in the Federal reserve bank?

Mr. WAKEFIELD. There are three classes of directors in the Federal reserve bank.

Mr. WILLIS. Yes.

Mr. WAKEFIELD. I think our two groups could elect one class. I think of the number of banks of that size, we have perhaps enough to elect one class.

Mr. WILLIS. Theoretically, you two concerns can control one-third of the directors of the Federal reserve bank in Minnesota.

Mr. WAKEFIELD. Yes; but I would be willing to make an absolute agreement, if you can fix up some method of electing Federal reserve directors, to let them be elected——

Mr. WILLIS. The Government controls one-third and all the other banks one-third.

Mr. WAKEFIELD. Yes.

Mr. WILLIS. Look at the thing from the public standpoint—and of course you are looking at that—and you must realize that this is a great innovation in bank control. What plan do you suggest to modify the present banking system to accord with your scheme? What regulation of your system is desirable?

Mr. WAKEFIELD. You have two questions in one, but I will answer them in this way: Our position is this, that we are very anxious—we have even asked, for our own protection, because we are on the level in this undertaking and we recognize that what other people may do will affect us—we would welcome and want some provision made whereby the comptroller's office, if that seems to be the proper place, will have a perfect right and obligation to examine not only our national banks (78 of our banks are national), but all affiliations of any nature with which we are connected, and the holding company included. We know that would be a protection to us and a value and advantage to us.

Mr. WILLIS. And you would also be willing to give up the votes in these banks as provided in the proposed bill?

Mr. WAKEFIELD. I would be perfectly willing—the votes of each bank——

Mr. WILLIS. For the election of the Federal Reserve Board directors.

Mr. WAKEFIELD. I am willing to do that if they will keep the right people in the reserve bank.

Mr. WILLIS. What about the provision in the Glass bill about the voting of stock in the Federal reserve banks?

Mr. WAKEFIELD. I am coming to that. That is one of the things that I wanted to say just a word about.

The CHAIRMAN. Before you do that, on the question of control, I do not think Doctor Willis has stated the thing fully. You have the absolute power of selection of one-third of the directors——

Mr. WAKEFIELD. We would, probably, between the two groups.

The CHAIRMAN. Then, the Government has one-third, and then you have a very appreciable effect on the remaining thirds.

Mr. WAKEFIELD. Yes; I think that is true. This I would like to say, that I regard the Federal reserve bank as the bulwark of the banking business. We recognize its value. I should like to make this statement: That I heard and listened to the criticisms of the Federal reserve bank and the Federal reserve system, and I am not one of those who is willing to subscribe to those criticisms. The Federal reserve bank is a new institution. It may have had some faults. It must learn from experience, and those things could not be thouhgt out in advance. But the Federal reserve bank is the backbone of the business of this country. Without it we would be in a serious situation. I would not want to be in the banking business to-day if we did not have the Federal reserve.

The CHAIRMAN. You would not be in it.

Mr. WAKEFIELD. I do not believe we would, and so we have never been a critic of the Federal reserve system. We want it to be preserved. We have always said that during the period of inflation when the Federal Reserve Board were issuing statements concerning the situation, which were intended to warn the public, that if the public had listened we would have been a long sight better off than we are to-day.

The CHAIRMAN. If one notable bank official had been compelled to listen to the Federal Reserve Board, the Federal Reserve Board would have been better off to-day.

Mr. WAKEFIELD. I do not know much about that. But in the so-called Glass bill, which I understand is a tentative proposal, in paragraph 3 you provide that only bona fide individual stockholders of the national banks can vote their stock. It disqualifies all associations, corporations, or partnerships who may own stock, and disqualifies all individuals who are officers, directors, or employees of such corporations, associations, or partnerships. So, it necessarily disqualifies all trusteeships, whether testamentary or otherwise, holding bank stocks for beneficiaries.

Now, we are in a peculiar position in that respect. We have the First Bank Stock Corporation, which is a holding company, owning the capital stock of the group of banks which are in our group. There is no means that I know of whereby we can unscramble that particular situation. If a bill of this kind became law, the only way out we would have would be we would be forced to abandon the Federal reserve system, which we would dislike doing, and probably convert our institutions under State law. That we never want to do, but we could be placed by legislation of this kind in a position where we might either have to quit entirely—I do not know of any way we could unscramble the thing——

The CHAIRMAN. Your statement, so far, impresses me in this way: You have emphasized almost exclusively the sound and fine management of your corporation. I have not any question on earth but that you have done that accurately and fairly. But suppose a similar corporation should get into the hands of people who are not fairly disposed and whose acquisitiveness might amount to greed. Suppose your corporation at some time in the future got into the possession of people of that kind. What would happen? In other words, you are not discussing the system so much as the fine management of your particular corporation.

Mr. WAKEFIELD. Of course, all that I know about the system is what I know of my own institution. Now, in answer to your inquiry, we recognize just as well as you do that there is that danger of unscrupulous management. That is why we are urgent in our statement that we would like to have our holding company and our affiliations of every nature brought in under the comptroller's office in some manner that would make us sure that we could not be damaged or that some future management could not damage our institution by wrongful handling of it, because I know just what you have in mind might happen. This stock collapse and changing conditions have stopped the promotion of schemes at the present. I do not doubt, however, but for that to-day we might be confronted by such situations.

Mr. WILLIS. Has the First National Bank of St. Paul made its exchange of bank stocks the same as the others?

Mr. WAKEFIELD. Yes, sir. Originally the First National Bank of St. Paul and ourselves thought that we were a little smarter than the Northwestern group and we said, "We are not going to put our banks into a holding company, but to do something along that line, we will form a separate corporation which will be owned by the First National of St. Paul and the First National of Minneapolis, and we will go out and buy 51 per cent of the local banks—51 per cent, because when we become connected with it it is our responsibility, and in order to fulfill that responsibility we must be in a position of control." There is no doubt about that—and we went out and operated on that basis for six months and found it would not work at all; that the local people in the towns affected did not want to continue to own stock in the local bank. They said, "No; we recognize the fact that whatever difficulties may arise in our territory will affect this bank, and what we want to do is to participate in the whole show and diversify and spread our investment and risks in order that we may be taken care of in a more substantial way," and we were obliged to change our system and adopt the system of the Northwestern Bancorporation.

Mr. WILLIS. Who controls the corporation?

Mr. WAKEFIELD. We have 18,000 stockholders. It would take about 1.200 of the largest stockholders to make a control.

Mr. WILLIS. What is the largest single holding?

Mr. WAKEFIELD. I think the Hill interests in St. Paul, through the ownership of the First National Bank, own the largest amount. That is somewhere around 180,000 shares.

Mr. WILLIS. That would be what percentage of the total?

Mr. WAKEFIELD. There are 3,096,000 shares.

Mr. WILLIS. Now, take all the shares including those in the hands of the affiliated group of persons who center around these banks: What degree of control have they, perfectly frankly?

Mr. WAKEFIELD. I imagine—I have never sat down or figured that up at all or paid any attention to it—but I presume if you took the stockholders of the First National Bank of St. Paul and the stockholders of the First National Bank of Minneapolis, that they together would be a controlling interest.

Mr. WILLIS. But there is no arrangement that enables their stock to be voted as one block?

Mr. WAKEFIELD. No.

Mr. WILLIS. Simply the fact they have worked together for a long time?

Mr. WAKEFIELD. We are in a little peculiar situation in this, that St. Paul and Minneapolis never did work together until we started this thing. So we are really watching each other.

Mr. WILLIS. Now, about the double liability of shareholders. How does that arrangement affect that?

Mr. WAKEFIELD. The stockholders of the Frst Bank Stock Corporation, being a Delaware corporation, do not have a double liability. When we started to organize this institution we did all the work on the theory we would have it a Minnesota corporation, which would have double liability. At the last minute, when we found that every stockholder in North Dakota, South Dakota, and Montana would, in case of death, have a double inheritance tax, they complained so strongly about that situation we shifted and put it into a Delaware corporation.

Mr. WILLIS. Is it fair to say you have practically abolished the double liability of shareholders?

Mr. WAKEFIELD. I do not think so. I think the collection of an assessment on the stock of the banks of the First Bank Stock Corporation is much more assured than it was ever under the ownership of the individual people.

Mr. WILLIS. If the impossible should happen and the group of banks collapse, their double liability would be ended?

Mr. WAKEFIELD. It would not exist, except there is a very large investment in the First Bank Stock Corporation not in bank stock.

Mr. WILLIS. How do you recommend that some corrective should be applied to a situation in which a Delaware corporation controls a large number of banks all through the Northwest, then operates in Minnesota and practically controls, with the aid of another corporation like it, at least one-third of the directors of the Federal Reserve Bank of Minneapolis and, as the chairman has pointed out, has an interest in the other third and yet is not subject to any public supervision whatsoever? Does not that seem to call for some sort of recognition in law?

Mr. WAKEFIELD. I do not think that it does, and I will tell you why.

Mr. WILLIS. You think there should be no legislation affecting it?

Mr. WAKEFIELD. I do not think it necessarily calls for any legislation affecting it as relating to the Federal reserve bank. It is perfectly all right to me that it should, but I want to say this: We have no exclusive franchise in the banking business. There is no business that I know of that can be destroyed by mismanagement as rapidly as the banking business, and it is not possible for me to believe that any control could come into power in our First Bank Stock Corporation and misuse the facilities in the territory in which it must draw its business and continue to exist. I think the business would leave it and go to the other system.

Mr. WILLIS. Would not this system be a great deal stronger and better if it were definitely recognized in law and subject to the same control as other bank systems?

Mr. WAKEFIELD. That is the point I am making, that we would like to be. We would like to have every institution of this kind that is started subject to the regulations of the comptroller's office.

Mr. WILLIS. But your whole argument seems to be against any legislative control. I understood you as saying that no legislation was needed.

Mr. WAKEFIELD. You were speaking of this being a Delaware corporation and operating in Minnesota.

Mr. WILLIS. I am talking about the whole situation.

Mr. WAKEFIELD. No; we were talking about the matter of control.

Mr. WILLIS. For example, to put a hypothetical question: You would not object to converting into a Federal corporation if that was possible?

Mr. WAKEFIELD. I do not know the legal aspects of anything of that kind, but I would be delighted with the opportunity.

Mr. WILLIS. It seems to me, if I might suggest that it would be a great forward step, if you were to devise some constructive plan taking in such a scheme as this and fitting it into the banking laws of the country.

Mr. WAKEFIELD. I do not think I am smart enough to make a suggestion along that line.

Mr. WILLIS. You seem to be smart enough to develop a system outside of the law, and it seems to me it would be easier to fit it into the law.

Mr. WAKEFIELD. I do not think we are doing anything that is really outside of the law.

Mr. WILLIS. I did not mean to suggest that you were indulging in anything that was illegal. Like yourself, I have not the knowledge or smartness to detect it.

The CHAIRMAN. Doctor Willis wants you to substitute your ingenuity for our lack of it. I confess mine.

Mr. WAKEFIELD. This has been on my mind all the time, but I do not know the answer. The main purpose of my wanting to come here and talk with you to-day is because I wanted you, in your effort to find some solution, at least to understand the problems that we were confronted with and the situation that we are in, in order that you might not do us a great injustice.

Mr. WILLIS. I think we understood those from your very interesting hearing of last spring and the testimony of Mr. Decker in the House. The problem, it seems to me, is that of finding some satisfactory and constructive way of dealing with it.

Mr. WAKEFIELD. There has been some talk about branch banking. I am not in favor of branch banking. I am definitely opposed to it, and I will tell you the reasons why. I have just given you a little indication of the importance of the business in the ninth Federal reserve district. If that became a part of a nation-wide branch-banking system we do not stand anywhere.

The CHAIRMAN. Now, right there: Do you think nation-wide branch banking is in the remotest way possible?

Mr. WAKEFIELD. I am afraid that, given a start, the thing may develop into that and we feel definitely that the ownership by, and the business interests of, the people that own our institutions—and this is the same thing as all independent banks of a town—that their desire to carry on as it should be carried on, the banking business, is more assured under our system.

The CHAIRMAN. You do not want somebody else's system of branch banking, but you prefer your own?

Mr. WAKEFIELD. No.

The CHAIRMAN. Oh, yes. The correspondent bank is nothing more than a branch bank, in a measure—nothing more on earth.

Mr. WAKEFIELD. I have stated our position on branch banking. We recognize this fact——

The CHAIRMAN. Do you mean that to apply to all branch banking, city branch banking or state-wide branch banking?

Mr. WAKEFIELD. No; but when it comes to country-wide branch banking, I do not want to see that in any circumstances. When it comes to sitting down and looking at what we have, that is another thing. There is no doubt but in the changed situations that have taken place some branch-banking privilege of some kind within a limited area is necessary in order that people without banking facilities may be again taken care of. Of course I would not stand in the way of a development of that kind.

As Mr. Thomson says, it is coming up in our territory. I hope to see it come on the part of the States. If those laws are put into effect in those States prior to the action of Congress, I can see a chance that somebody may get excited and there may be quite a shift from the national banking system into the State banking system in order to avail themselves of the privileges that they can not enjoy under Federal charters.

The CHAIRMAN. You know the provision in the bill we have here takes care of that situation.

Mr. WAKEFIELD. Of course, that will not come until another session of Congress.

The CHAIRMAN. Of course not.

Mr. WAKEFIELD. But in the meantime certain State legislatures are starting off, which will leave an embarrassing situation.

The CHAIRMAN. I think Congress would be willing to protect the national system.

Mr. WAKEFIELD. I think so, too, but I am only worrying about the interim.

The CHAIRMAN. Oh, well.

Mr. ADAMS. Senator Glass, I wish you would bring out, while we are here, the advantages of a dual system—State and National.

The CHAIRMAN. I do not know of any. I should like to see a unified banking system in the country because whenever we have a proposition to do anything to strengthen the national banking system we are confronted with the complaint that certain privileges—some totally unsound in my opinion—prevail in the State banking system; so, instead of having the national bank system upon a high standard for the emulation of the State banks, we have been engaged in the process of reducing the national banking system to the level of the worst-managed State banks in some respects.

Mr. ADAMS. I can not see any reason—and I am president of both national and State banks—of having State charters except we have an easier and softer condition in State banks.

Mr. WILLIS. Why did you go to Delaware for your charter?

Mr. WAKEFIELD. I do not know. I would have to go and see the lawyers about that.

Mr. ADAMS. Minnesota has just done away with the double liability law.

Mr. WAKEFIELD. That is not the reason we incorporated in Delaware. It is because a Delaware corporation has, in all ways, a freer operation among other States, and you do not get into all the difficulties, for instance, as you do with a Minnesota corporation.

Mr. WILLIS. A Delaware corporation imposes no liability upon the part of the directors at all.

Mr. WAKEFIELD. I do not know.

Mr. ADAMS. The State of Minnesota voted last fall to change our constitution and do away with all double liability except banks.

Senator NORBECK. The law applied to double liability upon what corporations before?

Mr. WAKEFIELD. Everything except manufacturing corporations. As a side light, I want to give one piece of information. Here are four towns on the Milwaukee Railroad in North Dakota. During the year 1928 there were shipped from these four little towns livestock products of a value of more than $4,444,000. That is the year 1928. In the year 1929 the same products from those same towns were valued at $3,961,000. During the year 1930 the value of those products was $1,992,000. That shows you what our country is subject to.

The CHAIRMAN. That is a frightful deflation.

Mr. WILLIS. How do you and the gentleman representing the other corporation feel about getting together and having a serious and frank talk on the subject of legislation and indicating what kind of public oversight or control you think could be constructively and properly applied, with a view to initiating such oversight or regulation as may be necessary in the long run to assure continuity of good management?

Mr. WAKEFIELD. I think we would be glad to sit in with some group that knew something about legislation. I have never had anything to do with getting a bill made up and passed. I do not know anything about that. I would like to sit down with some one trying to do that.

Mr. WILLIS. You are sitting down with those who are trying to do that now. The trouble this committee, as others, has encountered is that when it asks those objecting to the proposed measure what they want, they say, "We have not decided." The president of the American Bankers' Association made about the same reply.

Mr. WAKEFIELD. As far as I have gotten in thinking about this thing, I can think of a lot of things we can not do that we would like to do. I can think of other things, and here are the conclusions that I have reached as to what would be desirable and would control the situation.

First, that the comptroller's office be placed in the position where it has the right and the obligation to examine the holding company itself and every affiliate, and, in addition to that, any State banking institution which may be affiliated or in the group, at the expense of the group.

The CHAIRMAN. Would you be willing to endure the penalty or penalties of mismanagement that might be prescribed?

Mr. WAKEFIELD. Yes. I do not think Congress will prescribe any penalties that are not justified and desirable.

The CHAIRMAN. The trouble with the national banks is that it has not prescribed any penalty except the death penalty; in other words, take this Louisville bank for example—and I do not care that this remain out of the record, either. The records of the comptroller's office show that for a period of five years the management of that bank has been bitterly criticized by the comptroller's office, showing from year to year a tremendous writing off of losses and continuance of doubtful loans that, in some cases, exceeded a million and a half dollars, and yet, what did it all amount to? They just kept on in utter disregard and defiance of the criticism of the comptroller's office, and he had no recourse or remedy except to close the bank, and that was done after five years of illicit and irregular banking. It seems to me there should be some intermediate penalty that would put a stop to that sort of thing.

Mr. WAKEFIELD. Of course, you have always accompanying a situation of that kind, I presume, a feeling on the part of every State superintendent of banks or the comptroller's office of a desire to avoid a calamity in that community.

The CHAIRMAN. But it would have been a less calamity if, five years ago, he closed the bank when they were discovered than to wait a whole 5-year period and then close it, to the destruction of the confidence of the people of that State in all banks.

Mr. WAKEFIELD. I do not think there is any question but what greater power could be given to the comptroller and have it result to the welfare of the banks of the country.

The other factor that we have heard discussed and that I think of in connection with banking such as we are doing is this thought in the public mind, or some minds, that, for instance, our being a Delaware corporation was intended to avoid the double liability of stockholders. I would say that if that is of importance it might easily be provided that a holding company should create a surplus account in its holdings or build up a surplus account of some proportion of the capital of the banks that should be kept in liquid securities, or something of that sort. There could not be any objection to that, and if there was any advantage in it I am sure we would all like to have it to work with.

The CHAIRMAN. Might it not be well to provide that a holding company of that description must obtain its charter in its trade area rather than come away out here to little Delaware to get it?

Mr. WAKEFIELD. Then you have to go up against whatever may be the laws of the State in which you are to operate, and sometimes they are rather difficult, not because of tax matters or that sort of thing, but you can not just prescribe that without looking into it a little.

The CHAIRMAN. It all seems to go back along that line to what that distinguished banker said before the money trust inquiry, that they hired lawyers to evade the law and not obey it.

Mr. ADAMS. I think the double liability in Minnesota has produced about 30 per cent. The hundred per cent liability has produced only 30 per cent.

Mr. AWALT. 49.6 per cent for the national banks.

The CHAIRMAN. Senator Norbeck?

Senator NORBECK. I think Mr. Wakefield has expressed himself on a great many matters I wanted to inquire about. You suggested you were opposed to branch banking as such. What are the great advantages or disadvantages?

Mr. WAKEFIELD. There are some advantages in making money. You can simplify its management and control very easily, but I claim that the system we have at the time, with its tie-up to the local people, is more responsive.

Senator NORBECK. A substantial investment still remaining in the community?

Mr. WAKEFIELD. Yes, sir.

Senator NORBECK. And the stockholders' liability in the community——

Mr. WAKEFIELD. We were just talking about the holding company having no liability——

Senator NORBECK. But the 49 per cent that remains in the local community——

Mr. WAKEFIELD. No; that does not remain there. The people do not want to have the stock of a single bank in their community. They wanted to hold the stock of the group, and so we own 98 per cent of the stock of all the banks in the system.

The CHAIRMAN. How do you explain this, to me, extraordinary phenomenon? I have been in Congress 30 years, and on the Banking and Currency Committee of one House or the other for the whole period, and I have never known a borrower—a man who wanted credit—to object to a branch-banking system. I do not mean nation-wide branch banking.

Mr. WAKEFIELD. You should listen to the people over the radio—the people who are candidates for office in our territory.

The CHAIRMAN. I am not talking about candidates, but people who want credit. I have never, in that whole period, had people appear and object to branch banking who wanted credit.

Mr. WAKEFIELD. The very nature of the banking business is such that their selfish interest—every selfish motive that a banker has—obliges him to do his best to soundly develop the business of the territory in which he operates. If he does not do that——

The CHAIRMAN. You are talking about sound bankers, but there are excessively acquisitive bankers as well as public-spirited bankers.

Mr. WAKEFIELD. I can give my idea on that by repeating what some one at the time of the House hearings asked; namely, what would prevent some Wall Street outfit coming out and buying control of the First Bank Stock Corporation and running it out of New York? There is nothing to prevent it, unless you want to do something to destroy the negotiability of the stock; but, in my opinion, if somebody in Wall Street bought control of the First Bank Stock Corporation, they would be obliged to run it as it is being run, or they would destroy the value of the very thing they are purchasing, because banking is competitive and they could not continue to come out there and take the money from the Northwest and get away with it.

The CHAIRMAN. Under the proposed banking system that I would like to see established, no Wall Street outfit could establish any branch in Minnesota or any other State except New York.

Senator NORBECK. The danger is getting the banking situation where it is not competitive?

Mr. WAKEFIELD. Could it ever be?

Senator NORBECK. You say that the protection of the public lies in the competitive feature that exists to-day?

Mr. WAKEFIELD. Yes.

Senator NORBECK. The danger would be if we destroyed that competitive feature by having only one bank in the community.

Mr. WAKEFIELD. You can only destroy it by passing a law to prevent a bank coming into a community.

Senator NORBECK. You realize the tendency in that respect. Now, then, why do you limit yourself to the ninth Federal reserve district?

Mr. WAKEFIELD. Because that is the country in which we feel that our relationships were established.

Senator NORBECK. You feel that a group bank, chain bank, or branch-banking system should not in any event be nation-wide?

Mr. WAKEFIELD. It all depends on what relationships existed there. I am not sure whether the Northwest Bank Corporation has banks in Omaha or Des Moines, but we have very close relationships to that territory. It is simply a matter of our judgment as to where we want to confine ourselves.

Senator NORBECK. You formed these banks for what purpose, mainly?

Mr. WAKEFIELD. For the main purpose that we are in business in St. Paul and Minneapolis.

Senator NORBECK. I missed something of what you said. I was on the long-distance telephone.

Mr. WAKEFIELD. Our growth and development in the Twin Cities is dependent on the growth and development of the business of our territory, and we are interested in trying to see that——

Senator NORBECK. I wish the Twin Cities would appreciate that fact more fully than they have. But you acquired these banks because you felt they would be good business? That is the idea? Or did you do it to help out the poor devils in the short-grass country?

Mr. WAKEFIELD. Because of a desire to build up the territory and thus build up our own business.

Senator NORBECK. In other words, just the same reason as other people enter into other investments?

Mr. WAKEFIELD. Yes.

Senator NORBECK. There is not any charity about it?

Mr. WAKEFIELD. No, sir.

Mr. ADAMS. You missed one point this morning when you were examining Mr. Thomson. You named over certain banks which they bought. All those banks were outside of the agricultural district of South Dakota. They were out in the mining territory.

Senator NORBECK. No, sir; just two—Deadwood and Lead. I named Huron, Aberdeen, Miller, and Sioux Falls. There is a great deal of diversity of products in South Dakota. I think it ranked first in the production of gold.

Mr. ADAMS. But the good banks are in the hills.

Senator NORBECK. No; there is no better bank than in Huron. Of course, the bank at Lead—you know its affiliations. It has always been exceptionally sound. It may have been as unfair for me to start with that one as for Mr. Thompson to start with Milbank, which is the worst one.

Now tell us something more about your set-up—your present set-up.

Mr. WAKEFIELD. Here is the whole story (exhibiting the second annual report of the First Bank Stock Corporation).

Senator NORBECK. It is a little long to put into our hearings, I guess. How many banks have you acquired, outside of the first two?

Mr. WAKEFIELD. One hundred and two or one hundred and three.

Senator NORBECK. The largest number is in Minnesota?

Mr. WAKEFIELD. Forty-three in Minnesota.

Senator NORBECK. And South Dakota?

Mr. WAKEFIELD. Eighteen in Montana; 22 in North Dakota; 13 in South Dakota, and 3 in Michigan.

The CHAIRMAN. And these various points that you own these banks; at how many is there a competing bank?

Mr. WAKEFIELD. I can not answer offhand; but in very few places—probably four or five places—are we the only bank.

Mr. WILLIS. Do you welcome the existence of that competition?

Mr. WAKEFIELD. We would rather be in a 2-bank town. We welcome competition. If you have a town big enough to support two banks, you had better let another bank be there. It will come sooner or later.

The CHAIRMAN. I am frank to say I would rather have it come later if I were in the banking business.

Mr. WAKEFIELD. If a bank is run right, you are obliged to disappoint some one every day.

Senator NORBECK. I see the importance of competition; otherwise there would be too much dissatisfaction in the community.

Mr. WAKEFIELD. Sure; you will get it sooner or later.

Senator NORBECK. You turn them down and they go to the other bank and are turned down and they are not so sore any more with you?

Mr. WAKEFIELD. That is right.

Senator NORBECK. The First National at Minneapolis has what capital?

Mr. WAKEFIELD. The First National of Minneapolis has $11,645,000 capital and surplus and the First National of St. Paul has $11,073,000.

Senator NORBECK. What affiliates have those two banks?

Mr. WAKEFIELD. They are all in the First Bank Stock Corporation.

Senator NORBECK. You mean the First Bank Stock Corporation has taken over the affiliates?

Mr. WAKEFIELD. Yes.

Senator NORBECK. How many affiliates?

Mr. WAKEFIELD. This whole list [exhibiting].

Senator NORBECK. No other affiliates than the banks?

Mr. WAKEFIELD. No.

Senator NORBECK. You do not have a cattle-loan corporation?

Mr. WAKEFIELD. We have no cattle-loan association but we have one securities company.

Senator NORBECK. And that has what capital?

Mr. WAKEFIELD. $7,100,000.

Senator NORBECK. Is that in the Bank Stock Corporation?

Mr. WAKEFIELD. That is owned by the First Bank Stock Corporation.

Senator NORBECK. And the amount of capital owned by the corporation?

Mr. WAKEFIELD. There are 3,093,000 shares.

Senator NORBECK. At a par value of what?

Mr. WAKEFIELD. The total capital stock outstanding is $77,343,000.

Senator NORBECK. That was sold at what price?

Mr. WAKEFIELD. We sold but one lot, 200,000 shares of stock, which was sold for cash.

Senator NORBECK. At what price?

Mr. WAKEFIELD. $47.50 per share, because instead of giving our stockholders the rights which they ordinarily would have to buy that stock, we wanted to introduce new stockholders and bring new people into it and in fixing the price, that price was determined by the then existing market for the stock of the First National of Minneapolis and the First National of St. Paul.

Senator NORBECK. They sold at 47½?

Mr. WAKEFIELD. Yes.

Senator NORBECK. And the book value was figured at what?

Mr. WAKEFIELD. At the present time $20 per share.

Senator NORBECK. How high has your stock gone?

Mr. WAKEFIELD. As high as 57 or 58.

Mr. ADAMS. Sixty-four.

Mr. WAKEFIELD. That must have been for five minutes. I did not know that.

Senator NORBECK. You did not sell any except the original?

Mr. WAKEFIELD. The only stock sold to the public was that 200,000 shares originally.

Senator NORBECK. How long since you started your organization?

Mr. WAKEFIELD. Almost two years.

Senator NORBECK. What dividends have you paid?

Mr. WAKEFIELD. $1 a share—25 cents quarterly. This year the earnings of the First Bank Stock Corporation were at the rate of $2.28 per share on the outstanding capital stock and in order to show what banks have to do, of that amount we used pretty nearly $1,100,000 to charge off items in those banks and pay $1 a share dividend.

Mr. WILLIS. Were those items that came into existence since your ownership of the banks, or were they old items?

Mr. WAKEFIELD. No; we are not going to have any stuff in those banks; we are not going to have examiners come in and list up stuff and say it is slow.

Senator NORBECK. But when you bought those banks you bought them with regard to those assets?

Mr. WAKEFIELD. Yes.

Senator NORBECK. So it does not represent a loss; it is just a bookkeeping loss?

Mr. WAKEFIELD. It is what we knew we would have to pay out of earnings.

Senator NORBECK. And that was taken into consideration when you bought the banks?

Mr. WAKEFIELD. Not in all cases.

Senator NORBECK. There were a few that you could not catch?

Mr. WAKEFIELD. Yes, sir; which sometimes happens.

Senator NORBECK. You spoke about a 6 per cent rate. Is that the usual rate of bank loans?

Mr. WAKEFIELD. It differs in localities. The rate charged for money in a great many country towns has a considerable relationship to the rate they pay on deposits.

Senator NORBECK. What would be the prevailing rate in Minnesota when you get 100 miles away from the Twin Cities?

Mr. WAKEFIELD. I think 6 per cent in the larger towns.

Senator NORBECK. But in the smaller towns—8 or 10 per cent?

Mr. WAKEFIELD. I think 7 in Minnesota would be about the top.

Mr. ADAMS. Eight is the maximum and at Fergus Falls the rate is 6 per cent as the main rate.

Senator NORBECK. In North and South Dakota there are generally higher rates prevailing?

Mr. WAKEFIELD. Yes.

Mr. WILLIS. Is your corporation, Mr. Thompson, also a Delaware corporation?

Mr. THOMPSON. Yes, sir.

Senator NORBECK. What is your relation to the present tax laws in Minnesota?

Mr. WAKEFIELD. Well, sir, we paid last year in, our banks—our earnings were $6,100,000 or a little over and we paid taxes amounting to $1,552,851.17.

Senator NORBECK. All the banks with which you are connected paid their assessments?

Mr. WAKEFIELD. Paid it in Minnesota. We paid in all our banks on the voluntary basis on the law as it stood and was declared not effective.

Senator NORBECK. Are you going to do that next year?

Mr. WAKEFIELD. I do not know how long we ought to wait for them to correct the situation. I do not know. We have had two sessions of the legislature already. I do not know that we ought to wait any longer.

Senator NORBECK. If you do not, you will be relieved of about 90 per cent of it?

Mr. WAKEFIELD. In paying taxes on a voluntary basis, we take some risk with our stockholders as to whether we are privileged to pay it. I do not want to build up too large a fund that we are liable on.

Senator NORBECK. In taking over these banks, say, in my State, the basis that you generally took them over on would be what?

Mr. WAKEFIELD. Every single bank would be a transaction in itself, all dependent on what is inside of it and what exists there. There is no formula that I could give you.

Senator NORBECK. What would be the highest that you paid for any of them?

Mr. WAKEFIELD. I could not tell you. I would have to look it up. I do not know.

Senator NORBECK. I think I have covered all I want to ask; unless you can think of something.

STATEMENT OF OTTO BREMER, CHAIRMAN AMERICAN NATIONAL BANK OF ST. PAUL, MINN.

Mr. BREMER. Mr. Chairman, I come here without any preparation. I have not prepared any statement. I did not know what was wanted of me, but I am here at your service, and I wish you would ask any questions you want to.

Mr. WILLIS. With what institution are you connected?

Mr. BREMER. I am chairman of the American National Bank of St. Paul.

Mr. WILLIS. And that is outside of these two groups entirely?

Mr. BREMER. Yes, sir.

Mr. WILLIS. What is your attitude toward the group system in banking?

Mr. BREMER. Well, if the groups are managed properly, they may be a good thing, but I am of the opinion that the unit bank has just as much right to exist as any other.

Mr. WILLIS. Do you regard these groups as in any way invading that right to exist?

Mr. BREMER. It is pretty hard to answer that question. I would not answer that. I could not answer that.

Mr. WILLIS. It seems to me that you leave the whole question in a vague condition that is not desirable.

Mr. BREMER. At the present time the groups are in very high hands. I have listened with great interest to what has been said and I have the very highest regard for the men who are running the group banks and their associates.

Senator NORBECK. And they are running good banks?

Mr. BREMER. Yes; and I sometimes think it is a new thing and time only can tell whether it is wise or not, and I am not prepared to say one way or another. Only time can tell.

Mr. WILLIS. How many banks do you own?

Mr. BREMER. I do not own any.

Mr. WILLIS. You own no stock except in your own bank?

Mr. BREMER. Yes; but I do not own any banks.

Mr. WILLIS. How many blocks of bank stock do you own?

Mr. BREMER. I own a few shares of stock as an investment and my investment is a friendly investment and of that kind only.

Mr. WILLIS. In how many banks?

Mr. BREMER. In about 40.

Mr. WILLIS. Then you are what is called a chain banker?

Mr. BREMER. No sir. I have a friendly interest in those banks. They have come to me, most of them when they were in need of help or advice, and I invested some of my money with them.

Mr. WILLIS. Fifty-one per cent?

Mr. BREMER. No. I never make that a condition. My idea is that I would rather have a larger interest at home where the banks are located than away from home; in other words, I would say that the banks I am interested in are considered home banks, wherever they are. I have no corporation nor any affiliations for the purpose of holding stock.

Mr. WILLIS. You simply run them as an individual?

Mr. BREMER. They operate the banks as they were operated before I became interested in them. If I can be helpful to them with advice, it is there at their beckoning without any cost whatever.

The CHAIRMAN. You are not prepared to discuss the respective systems?

Mr. BREMER. No.

The CHAIRMAN. You do not know whether you are in favor of group banking or chain banking or not?

Mr. BREMER. You did not ask me about branch banking. I have some ideas about branch banking. I do not think it would be a good thing for our country at large if we had branch banking all over. In a few localities it may be preferable, but as a whole I think it is un-American.

The CHAIRMAN. How un-American?

Mr. BREMER. In a way a man likes to be independent.

Mr. WILLIS. Do you mean to say it is German or English? They have branch banking there.

Mr. BREMER. Yes; they have branch banking there, Doctor Willis, but I am just about between these two ideas: I consider myself and with my friend Elmer Adams, as an independent banker, although I have interests in other banks.

I have just had a report of a large German bank in my home town which has gone out of its way to acquire an interest in two old banks in order to provide better banking facilities at those places. One was established in 1761 and the other in 1794, and it reports in its statements that these small banks served a good purpose, being closely allied with the producing and trading middle class. It is business that the big banks are not familiar with and do not want and it, the Bank of Brunswick, invested some money in those banks in order to keep them functioning as two independent banks.

Senator NORBECK. You feel there is a real need of small banks over the country as well as large banks?

Mr. BREMER. Yes; and I repeat again that the management of these two groups has done a great deal to help steady the situation in our territory, but it seems to me that at the same time there is a field for the unit banker, but after all I think it is absolutely up to the public. If the public is attracted to large figures—if those big figures are the only attraction, then the little unit bank is out of the picture. But I think the unit bank has just as much chance as it ever had to do its business.

The CHAIRMAN. You say you have stock in 40 different banks?

Mr. BREMER. Yes, sir.

The CHAIRMAN. Of how many boards of directors are you a member?

Mr. BREMER. As a rule, where I have a larger interest, I am on the board of directors. Not in the national banks.

The CHAIRMAN. No?

Mr. BREMER. That would be against the Clayton Act. But I have gone into some of them for a constructive purpose. These bankers appealed to me for help when they had their troubles. I never bought any stock in a bank in which I had no interest at the time unless I was invited to do so by the management of the bank.

The CHAIRMAN. You have the appearance of a philanthropist, but there are not so many philanthropists in the banking business.

Mr. BREMER. No. It has cost me some money sometimes.

Senator NORBECK. You feel the danger of branch banking is too much centralized control and too far from the public?

Mr. BREMER. Yes; and not a good thing for the district in which it operates.

Coming back to my idea about the home bank: My idea about the banks is this: The home district comes first. The bank that I am interested in are not going outside of their sphere and neither I nor the banks are interested in selling or underwriting any bonds or securities. I may be dead wrong in this and may have foregone a great deal of profit. I do not care for that line of business. I am, if you will permit the expression, an old-fashioned banker who takes deposits from the people who trust us with them and lend them out at a slightly larger return, and that is our bread and butter.

The CHAIRMAN. We are very much obliged to you, Mr. Bremer.

Mr. BREMER. I am sorry I can not add much more to what has been said.

Mr. WILLIS. Have you ever owned stock in a failed bank?

Mr. BREMER. No.

Mr. ADAMS. Let me say this for Mr. Bremer: Whenever there has been a bank in the Northwest—I will not say whenever, but scores and scores of times—they have gone to Mr. Bremer as an individual and he has come in and helped save them. Sometimes they call him Santa Claus, but it should not be Santa Claus because it has turned out well. But he has never gone into a community unless asked, and when Otto Bremer adds his name in a community it stabilizes that institution.

The CHAIRMAN. I guessed that. I said he looked like a philanthropist. It is bad we have not a great many more like him.

STATEMENT OF C. H. MARCH, A MEMBER OF THE FEDERAL TRADE COMMISSION

The CHAIRMAN. Please give your name, address, profession, occupation, and former business connections, and present business connections.

Mr. MARCH. C. H. March. I am on the Federal Trade Commission.

Senator NORBECK. From Minnesota?

Mr. MARCH. Yes, sir.

Senator NORBECK. And prior to that, you were what?

Mr. MARCH. I was interested in the First National Bank, at Litchfield, and I am an attorney at law.

Senator NORBECK. You have been on the Federal Trade Commission how long?

Mr. MARCH. Two years.

Senator NORBECK. You were in the banking business in Minnesota how long?

Mr. MARCH. Oh, 30 years I have been interested in banks.

Senator NORBECK. Tell us something about your experience up there.

Mr. MARCH. Well, I am a little bit like Mr. Bremer. I got into the banking business largely to save a bank. I was interested in a great many banks before, but lately I have been interested to save a bank, and the reason of the failures and closings of most banks is the failure of the communities.

Senator NORBECK. In other words, the change in economic conditions was responsible for much of it?

Mr. MARCH. Yes. The banks I have been interested in have been in the farming communities, and of course when the deflation came in and the farmer failed, the bank could not collect its money, and that is what caused the closing of most of the banks. Had it not been for that I do not think you would have had much occasion for these two chain bank systems.

Senator NORBECK. How large a bank was that you were connected with in Litchfield?

Mr. MARCH. $100,000 capital.

Senator NORBECK. You sold that to one of the groups?

Mr. MARCH. That went into the Northwestern group.

Senator NORBECK. Indicating it was in pretty good condition?

Mr. MARCH. It was. We had a large surplus of money on hand and we had no borrowed money except that there was some paper that——

Senator NORBECK. But you attribute the failure of the banks——

Mr. MARCH. I attribute the failure to the condition of the agricultural country. For instance, a farmer would bring in 100 bushels of wheat and buy a binder here in 1910 and 1912. Now he will bring in over 300 bushels. As a matter of fact, the farmer's ability to earn has been reduced so greatly that it has caused the closing of these banks. A farmer would have 10 cows and they would be worth $1,000 and they dropped down so they were worth $40, and of course the banks could not collect their loans.

Senator NORBECK. It was not only the drop in the price of farm commodities; it was an increase in everything the farmer had to buy.

Mr. MARCH. Everything he had to buy went up and everything he had to sell went down. That was really the reason for the closing of the banks.

Senator NORBECK. Otherwise you feel most of the small banks in that section would have gone on?

Mr. MARCH. I think with very few exceptions. I have lived in central Minnesota, one of the best agricultural communities in the country, and if it had not been for the deflation of the farmers——

Senator NORBECK. There would not have been any bank trouble?

Mr. MARCH. That is all; and had it not been for the bank trouble we would not——

Senator NORBECK. We would not have an argument over whether it should be group, chain, or branch banking?

Mr. MARCH. Not at all. That is what caused these chains and groups to come into existence. Since we went into the Northwestern Corporation our local directors have handled that bank just the same as they handled it before, and it has been very satisfactory.

Senator NORBECK. You consider the present way of handling these banks through the group as a pretty safe and satisfactory way for the community in which the banks are located?

Mr. MARCH. I think so.

The CHAIRMAN. Is that all, Senator?

Senator NORBECK. That is all.

The CHAIRMAN. Well, sir, we thank you.

(Whereupon, at 4.15 o'clock p. m., the subcommittee adjourned subject to call of the chairman.)

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