

A BRIEF HISTORY
OF THE
NATIONAL BANKING SYSTEM



HUGH McCULLOCH
1863



J. F. T. O'CONNOR
1938

PREPARED IN CONNECTION WITH THE
Seventy-Fifth Anniversary Celebration
OF THE ESTABLISHMENT OF THE
BUREAU OF THE
COMPTROLLER OF THE CURRENCY

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THE YEAR 1863 was a momentous one in the story of the American people. Its opening day was made memorable by the issuance of Lincoln's Emancipation Proclamation, and within its span came the turning point of the War between the States.

On February 25, 1863, President Lincoln signed the bill which brought into being the National Banking System and the Office of the Comptroller of the Currency. This event was not only of vital importance to the successful prosecution of the War, but was also to become a paramount factor in the future welfare of the nation.

It seems opportune to review briefly the connection of the Federal Government with the development of banking in the United States.

The first organized bank in the United States, having a direct relation to the Government, was the Bank of North America, located at Philadelphia. It was conceived in the necessities of war. While it was not chartered until December 31, 1781, and did not begin operations until January 7, 1782, its origin can be traced further back.

The winter of 1779-80 was a gloomy one for the patriots. Something had to be done if the dream of Independence was to be realized.

In response to a plea by General Washington, on June 17, 1780, a committee of patriotic citizens banded together to subscribe money to supply the urgent needs of the Army. The Continental Congress set its stamp of approval on this unchartered bank and later granted it a permanent charter. Plans for the bank were perfected by Robert Morris. Subsequently it was incorporated under the laws of Pennsylvania and still later, after the passage of the National Currency Act, it converted into the National System where it remained until February 28, 1923, when it went into voluntary liquidation.

That this bank rendered essential service to the Government as a fiscal agent was acknowledged by Secretary of the Treasury Hamilton in his report made December 13, 1790. In this report Hamilton advocated the formation of a national bank, similar in many ways to the Bank of England, which had been in successful operation for nearly a hundred years. He contended that such a bank would be of great assistance to the Government in borrowing money and carrying on its financial affairs, and that it would be of service in supplying a badly needed medium of circulation as well as furnishing a market for Government bonds.

On February 25, 1791, Washington signed the bill bringing into existence the First Bank of the United States.

Some 25 years later, on April 10, 1816, President Madison signed the bill which created the Second Bank of the United States. The charter of the First Bank had expired in 1811 and the chaotic conditions in the monetary affairs of the nation occasioned by the War of 1812 induced Secretary of the Treasury Alexander J. Dallas to advocate the formation of a new national bank to take its place.

Just as the Bank of North America came into being during the emergencies of the Revolution, and the First Bank of the United States arose out of the needs of post-Revolution conditions, so the Second Bank of the United States emerged on the verge of a great financial crisis, resulting primarily from conditions engendered by the War of 1812.

Considerable controversy centered around the question of issuing a new Federal charter for this bank when its existing one should expire. The new charter was not granted, and at the expiration of its federal charter in March, 1836, the Second Bank received a charter from the State of Pennsylvania and continued in existence as a State bank.

It is apparent that the cry for a national bank became strongest during great national emergencies. War and its aftermath were the cradles in which these banks were nourished. The political battles and intrigues which surrounded these national banking institutions made it apparent that any system of Federal banking, to be successful, must be as far divorced from partisan influence as possible.

When the demand for a new national banking system increased during the War between the States, sponsors of the movement found in the history of the previous banks much that must be avoided in formulating the new system. Proponents of the plan took pains to point out that the old centralization of banking under the First and Second Banks of the United States, would be avoided under the proposed new system. The existence of a national emergency brought into being the National Banking System as we now know it.

With respect to the emergency we have only to glance at the conditions prevailing immediately prior to the signing of the bill. For over twenty years the State banks of the country had supplied the paper currency. It has been variously estimated that in 1861 there were between five and ten thousand different kinds of notes which circulated widely throughout the country. Commercial transactions were beset with great confusion as some of these notes were without value or almost so, while others were good for their face value. There was dire need for a uniform national currency backed by the credit of the Federal Government, as well as a market in which Government bonds could be readily disposed

of. This emergency was further augmented by conditions incident to the War itself.

Abraham Lincoln signed the National Currency Act on February 25, 1863, just 72 years to the day after Washington had signed the bill creating the First Bank of the United States. He must have uttered a fervent prayer for the efficacy of the proposed national banking system when he affixed his signature to the historic bill.

It would be a difficult task to decide to whom the most credit should go for originating the National Bank Act. The great work done by Congressman Spaulding of New York, who prepared the original draft of the bill, and by its sponsors in Congress—Senator John Sherman of Ohio in the Senate and Congressman Hooper of Massachusetts in the House—deserves much praise, but if any one individual is to be singled out for special commendation that person should be the Honorable Salmon P. Chase, Secretary of the Treasury. Chase in his annual reports to Congress for 1861 and 1862 strongly urged the enactment of a national banking law. Later when the passage of the bill in the Senate appeared endangered, he joined Senator Sherman in a personal appeal. Senator Sherman is authority for the statement that Chase's persuasion won over one of the powerful opponents of the bill, Senator Henry B. Anthony of Rhode Island. Henry Cabot Lodge averred that the national banking system as established by the Act "was one of the war measures of great and lasting effect and must ever remain as a monument to the wisdom of Salmon P. Chase as a public financier."

With the signing of the National Currency Act, it became imperative that the system as contemplated in the Act should become operative with a minimum of delay. To Secretary Chase fell the responsible task of finding an individual thoroughly qualified for the important work of organizing the Office of the Comptroller of the Currency and launching the National Banking System.

HUGH McCULLOCH, the president of the State Bank of Indiana, came to Washington in 1862 for the purpose of opposing the establishment of a national banking system. Mr. McCulloch, a man of wide banking experience, had been connected with his bank since 1835, and believed that such a system would prove harmful to the State banks of the country. It seemed, therefore, somewhat of a paradox when on May 9, 1863, Secretary Chase appointed him the first Comptroller of the Currency. It must be related, however, that whatever Mr. McCulloch's opinion was as regards the effect on the State banks of the country, he had finally come to recognize the need for a national banking system and his opposition of the enactment of the National Currency Bill had ceased. That he was embarrassed at his appointment is readily understandable, but he lost no time in beginning the difficult labor of organizing his Bureau. His original working force consisted of five clerks and a messenger.

A little over a month after his appointment, the first national bank was chartered. This was The First National Bank of Philadelphia, which received its charter on June 20, 1863, and is still in active operation. The distinction of being the first bank to open for business, however, went to The First National Bank of Davenport, Iowa, which opened for business on June 29, 1863.

During Comptroller McCulloch's incumbency of 22 months in office, 868 national banks were chartered and no failures occurred.

In the first of his two annual reports Comptroller McCulloch reviewed in detail the original Currency Act of 1863, pointing out its numerous defects, and recommending its reenactment with amendments, which were largely adopted in the Act of June 3, 1864. His second report was devoted principally to a discussion of the paper issues of the Government and the note-issuing function of national banks. While he defended the course of the Federal Government in resorting to the issues of United States notes as a public necessity incident to the time, he expressed with great clearness and force the conviction that when the Civil War ended, the emergencies which led to this form of money would no longer operate and consequently these notes should be promptly retired.

The National Banking System owes much to the wisdom of Comptroller McCulloch. He met and solved the many difficulties incident to the organization of his Bureau. To him must be given credit for the

authorship of one of the most notable documents ever issued from the Comptroller's Office. This was a circular letter addressed by McCulloch in 1863 to the Managers of National Banks, containing suggestions and advice with regard to sound banking methods and management. It is a great tribute to his wisdom and perspicacity that the advice contained in this circular can be profitably read and followed by bankers of the present day as a safeguard in the conduct of their banking business.

During his short term as Comptroller important progress was made by the National Banking System. After the passage of the act it became apparent that the State banks were hesitant to convert into the National System for a variety of reasons. Among these was the fear that the System might degenerate into a free-banking system and therefore become disreputable. Another anxiety on the part of the State banks was that the issuance of notes secured by Government bonds might result in the interests of the banks becoming too closely identified with the interests of the Federal Government, and their credit so dependent upon the status of the public credit that the banks would be ruined if the integrity of the war-torn Union could not be preserved. They also feared possible future interference from Congress, particularly in the form of inimical legislation. McCulloch further contributed to removing a minor objection from the State banks by persuading Secretary Chase, who was of the opinion that the banks should be named the First, Second, Third, etc., National Bank of the place in which they should be established, to agree that converting State banks could retain their old established trade names unchanged except with the addition of the word "National."

To bolster the growth of the National Banking System, which was retarded by reason of the competitive issues of State bank currency, McCulloch, in his Annual Report for 1864, recommended the placing of a sufficiently high tax on State bank circulation to make the issuance of such circulation unprofitable. The Revenue Act of March 3, 1865, with its tax of 10 percent on State bank notes, was the answer to McCulloch's recommendation. The effect of this was as expected. Within a few years State bank notes were withdrawn from circulation.

Comptroller McCulloch's labors as the first Comptroller of the Currency were given merited recognition by President Lincoln. He resigned his office as Comptroller on March 8, 1865, to join the Cabinet as Secretary of the Treasury.

To the end of his life, Mr. McCulloch maintained a lively and sympathetic interest in the Bureau he had done so much to establish on a firm foundation. He had set the Bureau's standard for loyal and efficient service during every national emergency; above everything, he had given to the position of Comptroller a dignity which was to be a jealously guarded criterion for his successors in the office.



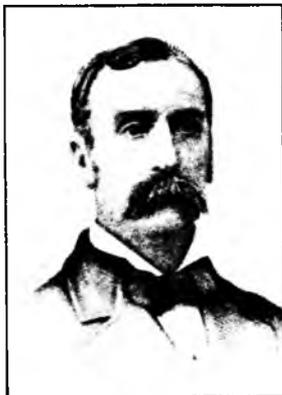
FREEMAN CLARKE, of New York, the second Comptroller of the Currency, was appointed by President Lincoln on March 21, 1865. Previous to directing his attention to banking, Mr. Clarke had engaged in mercantile pursuits and had represented his State in the House of Representatives.

His term as Comptroller was marked by a steady development of the National Banking System, more than seven hundred additional banks having been added to the System.

It is a coincidence that the National Banking System recorded its first failure on the very day, April 14, 1865, that President Lincoln was assassinated. On that date a receiver was appointed for The First National Bank of Attica, New York, which association had become insolvent by reason of injudicious banking and the bankruptcy of its large debtors. Two other national bank failures, which were traced to incompetent management, occurred during Comptroller Clarke's term of office.

No legislation affecting the National Banking System was passed during Mr. Clarke's incumbency in office. Like his predecessor, McCulloch, he renewed unsuccessfully the recommendation for separation of the Currency Bureau from the Treasury Department and its removal to New York City. In his annual report the principal topics discussed were the evils resulting from a redundant and irredeemable currency and an adjustment of the tariff so as to prevent a drain on the gold resources of the country by an excess of imports over exports.

Comptroller Clarke held office only sixteen months, resigning on July 24, 1866. Subsequently he was to serve two terms in Congress as a Representative from New York.



HILAND R. HULBURD, of Ohio, was appointed the third Comptroller of the Currency on February 1, 1867. From August 1, 1865, to the time of the resignation of Comptroller Clarke in July, 1866, he had served as a deputy comptroller. From that date to his appointment as Comptroller he was Acting Comptroller.

In his annual reports to Congress he devoted considerable attention to expounding his opposition to the practice of paying interest on bank balances. It was during his administration that a proposal was advanced to abolish the note-issuing function of the national banks and transfer this privilege to the Government. While such a move would have resulted in avoiding payment of interest on bonds securing circulation, Comptroller Hulburd took a decided stand against the proposed change. He contended that the carrying out of this plan would result in nine out of every ten national banks winding up their affairs, with a consequent disastrous effect on business. This, he held, was not so much because the function of note issuing was considered absolutely essential to the business of banking, but because the banks would not submit to the restrictions imposed upon them without the compensatory privilege of issuing circulation.

In his report for 1868, Hulburd urged upon Congress the establishment of an agency for the redemption of national bank notes at New York. While this proposal was not followed in detail, his idea of a central redemption agency subsequently took authorized form in the Act of June 20, 1874, creating the National Bank Redemption Agency located in the Treasury Department at Washington.

Legislation enacted during his term included the sections requiring reports of condition and of earnings and dividends of national banks to be made to the Comptroller. On July 12, 1870, an act was passed authorizing the organization of banks to issue gold notes, under which ten banks were chartered. Under this act California received its first national bank

charter. The existence of the Gold Banks was, however, of short duration. By 1880 three had gone into voluntary liquidation and under the Act of February 14, 1880, the others converted into regular national banking associations.

Comptroller Hulburd's term of office, which extended to April 3, 1872, witnessed many events of national significance. The purchase of Alaska, the opening of the Union Pacific Railway, New York's "Black Friday" of 1869, and the Great Chicago Fire in 1871, during which the buildings domiciling 17 of the 18 national banks in that city were totally destroyed, were among the many events that made the period memorable.



JOHN JAY KNOX, of Minnesota, was appointed April 25, 1872, during President Grant's first term, to succeed Hulburt as Comptroller. Mr. Knox had an enviable record in banking and finance. He had been engaged in banking in New York and Minnesota. He was one of the early supporters of a national banking system, having written an article advocating such a system at the outbreak of the Civil War. This article attracted the attention of Secretary Chase and ultimately led to his appointment in the Treasury. He was detailed to make an examination of the San Francisco Mint, as well as the Subtreasury in New Orleans, discovering a large shortage at the latter. In 1867, he was appointed Deputy Comptroller of the Currency, and while holding this position had supervision also of the mint and coinage correspondence. He revised and codified the laws relating to these subjects covering a period of about eighty years legislation, and drafted a bill embodying the codification which, with some modifications, was enacted into law and has since been known as the "Coinage Act of 1873."

Comptroller Knox was an ardent lover of figures and took special delight in analyzing statistics. A large part of the analyses of the tables contained in his twelve reports to Congress he worked out personally. He was the author of a history of Government issues, entitled "United States Notes", and at the time of his death was engaged on a "History of Banking in the United States", which was later revised, completed, and finally published in 1900.

Of the annual reports which Mr. Knox made to Congress, perhaps the most interesting is the report for 1876. His review of banking in the United States prior to the establishment of the National Banking System, as contained in that report, is of great value as reference material on that subject.

One of the most important events in Mr. Knox's administration was

the panic of 1873. This unfortunate financial crisis occurred in the midst of prosperity, preceded by four or five years of general industrial activity. It was precipitated by the failure of the Warehouse Security Company in New York City and the closing for the first time in its history of the New York Stock Exchange. The panic in New York spread rapidly and soon became general throughout the country. While the acute stage of this crisis was of short duration the country at large did not fully recover from the business prostration resulting therefrom for several years, and as Comptroller Knox contended, not until the resumption of specie payments in 1879.

Numerous amendments were made to the national banking laws during Mr. Knox's term, some of the more important of which were as follows:

1. Requiring the publication of statistical information of State banks in the Comptroller's annual report.
2. Prohibiting the use of the word "National" as a part of the title of any banking institution other than a national bank.
3. Providing for assessment of stockholders of national banks to make good an impairment of capital stock.
4. Requiring not less than five reports of condition of national banks each year.
5. Authorizing the extension of the corporate existence of national banks.
6. Repealing the tax on capital and deposits.

When Mr. Knox took office as Comptroller, 1,971 national banks had been chartered and when he retired in 1884 this number had increased to 3,170. During his twelve years in office there were 64 national bank failures. On June 29, 1874, the Freedman's Savings and Trust Company, the main office of which was located in Washington, suspended. This was the most disastrous failure during Comptroller Knox's administration, and while not under his supervision during its active existence, the liquidation of its affairs after failure was finally placed under the charge of the Comptroller's Office.

Mr. Knox has the distinction of having held the Office of the Comptroller of the Currency for a longer period than any of his predecessors or successors. In addition to his five year service as a deputy comptroller, he served in the administrations of four Presidents, Grant, Hayes, Garfield and Arthur. He resigned on April 30, 1884, to accept the presidency of the National Bank of the Republic of New York City, which position he retained until his death in 1892.



HENRY W. CANNON was appointed as the fifth Comptroller of the Currency on May 12, 1884. Although a native of New York State, he received his appointment from Minnesota, in which State he had acquired a wide banking experience.

Comptroller Cannon had hardly taken office when he was confronted by the financial panic of 1884. This crisis, however, was almost entirely limited to New York City, and in the national sense, therefore, the disturbance was not a panic. The prompt action of the New York Clearing House Association in issuing loan certificates did much to relieve the situation and restore confidence, thereby checking the spread of the financial disorder to the rest of the country.

Mr. Cannon's first annual report was chiefly devoted to a discussion of the panic and its causes, and the necessity for some legislation which would make the issuing of circulation more profitable to the banks. Comptroller Cannon contended that but for the privilege of issuing circulation profitably, the national banks would be unwilling to submit to the restrictions imposed on them by the national banking statutes. In his second annual report, Comptroller Cannon seems to have modified this latter view, stating that even if the national banks could not issue circulation at a profit, the superior prestige of national banks operating under one general and uniform law would result in a continuance of the National System. It is easy to see from the foregoing how the original purpose of the National Bank Act, the issuance of a uniform national currency secured by United States bonds, was gradually changing until even in Comptroller Cannon's day it was no longer regarded as the principal function of the national banks.

Comptroller Cannon resigned on March 1, 1886, to accept the vice-presidency of the same bank in New York City of which ex-Comptroller Knox was president. Less than a year later he was elected president of

the Chase National Bank of New York, continuing in that office until 1904 when another Comptroller of the Currency, A. Barton Hepburn, became his successor.



WILLIAM L. TRENHOLM, of South Carolina, the sixth Comptroller of the Currency, was appointed on April 20, 1886. His administration extended to April 30, 1889, when he resigned to accept the presidency of a surety company in New York City. The first year of his administration was marked by an unprecedented reduction in national bank circulation due to the high premium which prevailed on Government bonds and the rapid retirement of certain bonds redeemable at the option of the Government. In 1887, Trenholm sent a circular letter to all national banks inviting them to submit such suggestions for amendments to the banking laws as in their judgment would tend towards improvement and perpetuation of the System. More than 40 plans were involved in the replies received, all bearing on the note-issuing functions of the banks. In his annual report for 1887, the Comptroller summarized some of these various propositions under five headings, three of which he regarded as within the range of probable adoption. A bill prepared by the Banking and Currency Committee of the House of Representatives in 1908, known as the Fowler Bill, and the "Federal Reserve Act of 1913" were similar in some of their features to one of the plans outlined by Comptroller Trenholm. During his term of office 533 banks were chartered.

In Comptroller Trenholm's first annual report, he submitted a number of specific recommendations for amendments to the banking statutes, included in which was one to the effect that the compensation of bank examiners be based upon the aggregate liabilities of the banks instead of upon capital stock, and that the salaries of supervising examiners be paid out of the Treasury of the United States. In his second report he recommended a revision of the entire National Bank Act and embodied his views in the form of a prepared bill containing 222 sections codifying existing laws with such modifications and additional provisions

as he deemed essential. In his third report he called attention to the gradual and continuous contraction in national bank circulation that had taken place in the preceding ten years, stating the influences principally responsible for such contraction were the refunding operations of the Treasury Department in United States bonds, the growing scarcity and high price of bonds, the resumption of specie payments in January 1879, and the displacement of national bank notes by other forms of currency. He regarded the greenbacks, or United States notes, as the frailest element in our Currency System, and in classifying the money of the country in the order of its value he placed the national bank circulation second only to gold coin and gold certificates.

Trenholm recommended the transfer of the National Bank Redemption Agency from Washington to New York City and the creation of a subagency at each of the other two central reserve cities. Legislation adopted during his term of office included an act providing that a national bank might by a vote of its shareholders owning two-thirds of its stock, and with the approval of the Comptroller, increase its capital, notwithstanding the limit fixed in its original articles of association, and might change its name or place of operation elsewhere within the same State, not more than thirty miles distant.



EDWARD S. LACEY, of Michigan, was appointed seventh Comptroller of the Currency on May 1, 1889, by President Benjamin Harrison. He was thoroughly equipped for the position of Comptroller by reason of his background as a practical banker and an experienced legislator. Previous to his appointment he had represented his State for two terms in the House of Representatives and had acquired through twenty-five years experience in banking, an excellent and first-hand knowledge of that field.

Comptroller Lacey's administration was marked by the monetary stringency of 1890. The banks in the metropolitan centers were subject to pressing demands for relief and the expedient of issuing loan certificates, so successfully used during the panics of 1873 and 1884, was resorted to by the clearing house associations of New York, Philadelphia and Boston. While this, aided by the large disbursements of the Federal Treasury, contributed much towards relieving the tenseness of the situation and restoring confidence, it later became evident that this crisis was merely the forerunner of the panic of 1893. By that time, however, Lacey was no longer Comptroller, having resigned on June 30, 1892, to become president of a national bank in Chicago.

During Comptroller Lacey's term, 746 national banks were chartered and 47 national banks were declared insolvent.



A BARTON HEPBURN was named as the eighth Comptroller of the Currency by President Benjamin Harrison on August 2, 1892, in the closing months of his administration. Hepburn had a brilliant background of both legislative and financial experience. He had served for five consecutive terms in the New York State Assembly; was for three years Superintendent of Banking of the State of New York; and from 1889 to the time of his appointment as Comptroller, served as National Bank Examiner for New York City. His brief tenure of office prevented Hepburn from displaying to the fullest extent his unusual ability and qualifications for the position of Comptroller.

Comptroller Hepburn's administration was marked by an almost complete absence of any happening of special import in the banking and currency world. In view of the events that were later to take place, it can best be described as a kind of breathing spell between the monetary stringency of 1890 and the panic of 1893. Under Hepburn's Comptrollership 115 national banks received charters and 7 national banks were placed in the hands of receivers.

Mr. Hepburn resigned on April 25, 1893. For several years he was connected with various national banks in New York City. He became president of the Chase National Bank in 1904 and continued in that office until 1911. Mr. Hepburn was internationally known as an authority on financial and economic questions. He wrote, among other works, "The History of Coinage and Currency" and "Contest for Sound Money."



JAMES H. ECKELS, of Illinois, was named ninth Comptroller of the Currency on April 26, 1893, by President Cleveland. His appointment broke the established precedent of selecting for Comptroller only those with previous banking experience. The fact that Mr. Eckels was a lawyer and not an experienced banker occasioned considerable comment when his nomination was sent to the Senate for confirmation. In addition, he was only 35 years of age and his small stature and delicate looks gave him an even younger appearance. His own surprise at the appointment was as great as anyone's. In answer to an inquiry as to his banking experience he replied with facetious candor that he had had none whatever except as a borrower. Notwithstanding these facts, however, Eckels' ability was generally recognized. Ex-Comptroller Lacey upheld his nomination, and it is said was largely instrumental in dispelling the prevailing impression that only a practical banker of long experience was capable of successfully holding the Office of Comptroller. Secretary of the Treasury Lyman J. Gage paid tribute to his ability in the remark that "there was not much to Eckels," referring to his small stature, "but what little there was was three-quarters brains".

The Panic of 1893 was waiting to challenge the abilities of Comptroller Eckels in his new position as head of the National Banking System. Little more than a month after he took charge of the Bureau, the Nation was precipitated into one of the most violent financial crises in its history. Banks of all classes failed with appalling rapidity. The business and industry of the entire country became paralyzed. Six months after Eckels took office more than a hundred national banks closed their doors, fifty-eight of which were later declared insolvent. Although many of the failures were attributed to speculation and some to dishonesty, numerous suspensions occurred where no blame could be laid at the door of the

management. They were the victims of the general hysteria created by the panic-stricken depositors.

Mr. T. P. Kane, who acted as Comptroller Eckels' secretary and later became a Deputy Comptroller of the Currency, vividly described conditions and, at the same time, gave credit to Mr. Eckels' ability:

"During this trying ordeal, such as no Comptroller of the Currency ever was called upon before to undergo, Mr. Eckels, inexperienced as he was, even in the detail workings of the Bureau, discharged the onerous duties of the office with rare skill and good judgment, and not only quickly disarmed the opposition invoked by his appointment, but inspired the confidence of the entire banking and business interests of the country and contributed very materially toward allaying the excitement superinduced by the panic and the restoration of confidence.

"* * * * for weeks there was no rest, night or day. Every hour of the day and late into the night telegram after telegram was received announcing additional suspensions of banks or new complications which had to be promptly met. As many as thirty suspensions occurred in a single day, and for a time it looked as if every national bank in the system would succumb."

The above quotation is from Mr. Kane's book, "The Romance and Tragedy of Banking", which is the basis for much of the material concerning the first fourteen Comptrollers included in this publication.

Mr. Eckels resigned on December 31, 1897, to become president of a national bank located in Chicago.



CHARLES G. DAWES of Illinois, the tenth Comptroller of the Currency, was appointed by President McKinley on January 1, 1898. Mr. Dawes was even younger than his predecessor, Comptroller Eckels, being only 33 years of age. Although not possessing any practical banking experience he had been a student of finance and had published a book entitled "The Banking System of the United States".

In his first annual report to Congress Mr. Dawes stressed the note that the banking and currency laws seemed to ignore the interests of depositors. Such criticism was to become increasingly clamorous as the years went by, and was finally to bring definite action in the creation of the Federal Deposit Insurance Corporation.

Among the amendments to the banking laws enacted during his term of office was one authorizing the formation of banks with a minimum of \$25,000 capital in places whose population did not exceed 3,000. Another amendment increased the maximum circulation that banks might issue to an amount equal to the par value of the bonds deposited as security therefor, and increased the amount of bonds that could be received for circulation to an amount equal to the paid-in capital stock of the bank. In April, 1900, the national bank laws were made applicable to Porto Rico and Hawaii.

When Mr. Dawes assumed his tasks as Comptroller there were 121 national bank receiverships, the administration of all of which had progressed toward final liquidation, leaving mostly assets of a slow, doubtful or worthless nature. He immediately began a vigorous campaign for the economical and speedy disposition of these remaining assets. He reduced salaries in conformity with the diminished assets, and by placing one receiver in charge of several trusts, Comptroller Dawes established a practice which has since been successfully continued.

During his administration 871 national banks were chartered.

Since resigning as Comptroller on September 30, 1901, Mr. Dawes has had a distinguished career. His service during the World War won for him the rank of a Brigadier-General and the French War Cross. Later, he became the first Director of the Budget, author of the Dawes Plan for the settlement of international war obligations, was elected Vice President of the United States, was appointed Ambassador to the Court of St. James, and served as Director of the Reconstruction Finance Corporation.



WILLIAM B. RIDGELY was the third successive Comptroller to be appointed from Illinois. On October 1, 1901, he became the eleventh Comptroller of the Currency, receiving his assignment from President Theodore Roosevelt. Mr. Ridgely brought to the office a background of personal banking experience. Likewise, his forebears for several generations were engaged in financial interests.

During his term in office, the Act of April 12, 1902, authorizing the second extension of the corporate existence of national banks, was passed. Other amendments adopted provided for additional reserve cities and increased the loaning limit of a national bank to 10 percent of its capital and surplus.

Two appalling national disasters occurred during his administration. The Baltimore Fire of 1904, in addition to an estimated property loss of over \$125 millions, caused the complete destruction of 20 banking houses in the city, of which 10 were national banks. The Governor of Maryland was quick to act in order to protect the interests of these banks. By declaring a legal holiday of 16 days the maturing paper of the banks was protected and they were able to procure temporary quarters and resume active operation. The San Francisco conflagration of 1906, resulting from a severe earthquake, was similarly disastrous to the banking buildings in that city. The quarters of every national bank were completely destroyed. The Governor of California met the emergency by declaring a legal banking holiday, as Maryland's Governor had done after the Baltimore Fire.

Mr. Ridgely's administration accounted for the issuance of 3,103 charters to national banks and during his term of office 82 national banks were placed in the hands of receivers. The most sensational of these failures was that of a small bank in Oberlin, Ohio, on November 28, 1904, which

was occasioned by the classic frauds of the notorious Cassie Chadwick. The history of this insolvency, particularly with regard to the part played by the celebrated adventuress, is unparalleled in the history of national banking. The entire affair was marked with all the lurid and more unbelievable elements of a piece of fiction.

The Panic of 1907 stands out as the most momentous event during Comptroller Ridgely's tenure of office. For ten or twelve years prior to 1907, commercial and industrial activities were marked by a steady increase in prices. Large blocks of stocks and bonds of a highly speculative character were forced upon the market. As a consequence, a tightening of the money market became evident and the stock market showed a sharp decline in stock and bond quotations. Loans became difficult to obtain or to renew, and interest rates increased. Under such conditions only a spark was needed to explode the entire financial setup. The collapse of the corner in the stock of the United States Copper Company furnished the necessary impetus. As a result of the panic, approximately 34 trust companies and other banks, including three national associations, closed their doors in New York City alone. Cash payments were largely suspended throughout the country and banks resorted to the use of clearing house certificates in the settlement of transactions among themselves and scrip was used in dealing with the banks' customers. Notwithstanding this general paralysis of business and the banking panic, from October 1, 1907, to January 31, 1908, only 12 national banks failed throughout the entire country, and more than half of these were due to causes having no direct connection with the panic.

After serving six and a half years, Mr. Ridgely resigned as Comptroller on March 28, 1908.



LAURENCE O. MURRAY, of New York, became the twelfth Comptroller of the Currency on April 28, 1908, receiving his appointment from President Theodore Roosevelt. Mr. Murray had an excellent background of Government service, not only in the Office of the Comptroller of the Currency but also in what was then the Department of Commerce and Labor. Likewise, he had acquired a first-hand knowledge of the financial world by his association with trust companies in New York and Chicago.

By this time the growth of the National Banking System had become so great that Congress passed an act authorizing the appointment of a second Deputy Comptroller. Another act was also passed on May 30, 1908, known as the "Emergency Currency Act", which provided in part for a national monetary commission to inquire into and recommend to Congress any changes considered necessary or desirable in the national monetary system or in the laws affecting banking and currency.

During Comptroller Murray's tenure of office 1,259 national banks were chartered and 38 national banks were placed in receivership.

Mr. Murray's term expired by limitation on April 27, 1913. An interval of almost ten months was to elapse before his successor was appointed. During that period a drastic change was to take place in the banking system of the country by the passage of the Federal Reserve Act, approved on December 23, 1913. This measure was designed to correct defects in the banking and currency system by providing an elastic currency, means for discounting commercial paper, etc. The Act designated the Comptroller an ex-officio member of the Federal Reserve Board.

Under the Federal Reserve Act, twelve Federal Reserve Districts were created, and the Comptroller designated a District Chief National Bank Examiner for each district, under each of whom a corps of national bank examiners and their assistants worked. The fee system of compen-

sating examiners, which was in effect prior to the passage of this act, was responsible in some cases for examinations less detailed than was considered necessary, as the monthly earnings of an examiner were dependent upon the number of examinations made. After the inauguration of the Federal Reserve System the national bank examiners were placed on an annual salary basis and given necessary allowances for subsistence and travel expense. This fact materially added to the efficiency of the force by permitting examiners to devote sufficient time to the examination of a bank where conditions were found to make necessary a more prolonged stay in the bank.

Another outstanding feature of the Federal Reserve Act was its provision for the exercise of trust powers by national banks. Not until 1917, however, was the constitutionality of this section of the act definitely determined, when the Supreme Court handed down a decision upholding it.

The first fiduciary permit was issued to the National Metropolitan Bank of Washington, D. C., on the fifty-second anniversary of the signing of the original Currency Act, February 25, 1915.



JOHNSKELTON WILLIAMS, of Virginia, was selected by President Wilson to be the thirteenth Comptroller of the Currency. Mr. Williams was recognized as one of the leading financiers of the South, having had an extensive background in banking and finance. Immediately prior to his appointment as Comptroller he was Assistant Secretary of the Treasury. As a member of the Federal Reserve Bank Organization Committee, Mr. Williams took an active part in the formation of the Federal Reserve Districts and other work incidental to the inauguration of the new banking system.

Comptroller Williams' administration covered the entire period of the World War. The outbreak of this conflict in 1914 created a serious condition of affairs in the Nation, with a consequent threat of a business and financial crisis. The Stock Exchange was closed on the morning of July 31, 1914, in order to prevent a general demoralization of the market. It resumed operations under certain restrictions on December 12 of that year.

During Mr. Williams' term, an act was approved, on September 7, 1916, authorizing national banks located in places whose population did not exceed 5,000 to act as insurance agents and as agents in procuring loans on real estate. An Act was also approved on November 7, 1918, providing for the consolidation of two or more national banks.

The original War Finance Corporation was brought into existence on April 5, 1918, "To provide further for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to provide credits for industries and enterprises in the United States necessary or contributing to the prosecution of the war, and to supervise the issuance of securities, and for other purposes." The act was amended several times but the amendment of August 24, 1921, authorized the Corporation to make advances upon such terms not inconsistent with the act,

to any bank, banker, or trust company in the United States or to any cooperative association of producers which may have made advances or discounted or rediscounted paper for agricultural and livestock raising purposes.

In order to enable the Corporation to carry out the purposes of the act, the Comptroller was authorized to furnish to the Corporation for its confidential use such reports, records, or other information as he had available relating to the financial condition of national banks which had received or had requested loans from the Corporation. For the confidential use of the Corporation the Comptroller was also empowered to make, through his examiners, examinations of banking associations other than national, to which the Corporation had made or contemplated making advances.

On account of the urgency of the situation, and to provide men of experience, the Comptroller detailed certain of his examiners to the new Corporation for the purpose of passing upon collateral offered by the banks, in order that the relief so necessary in the form of advances or loans might be disbursed as quickly as possible.

The period of Mr. Williams' appointment expired on February 1, 1919, but he continued to discharge the duties of the office until March 2, 1921, under statutory authority.



DANIEL CRISSINGER, of Ohio, the fourteenth Comptroller of the Currency, was appointed by President Harding on March 17, 1921. Before his advent to the Office of Comptroller, Mr. Crissinger had engaged in the practice of law, and in banking, and was deeply interested in the advancement of agricultural work.

Comptroller Crissinger's first important official act as Comptroller was the revision and simplification of the forms on which national banks make and publish reports of condition required by law.

During his administration the ruling was made allowing the declaration of stock dividends by national banks. Mr. Crissinger, after an exhaustive and thorough consideration of the whole subject, was the first Comptroller to permit, under certain qualifications, the establishment and operation of additional offices or agencies of national banks in the same cities where they were authorized to do business.

Legislation enacted during Mr. Crissinger's incumbency reduced the minimum number of calls for reports of condition of national banks from five to three; provided for a third deputy comptroller; authorized the Comptroller to employ additional examiners and to assign to headquarters in Washington a corps of examiners and assistants; and extended the charters of national banking associations for 99 years.

Comptroller Crissinger resigned on April 30, 1923, to become Governor of the Federal Reserve Board. During his term of office, on June 30, 1922, there were 8,249 active national banks, the largest number on any "call" date in the history of the National Banking System.



HENRY M. DAWES, of Illinois, a man of wide business and banking experience, was the fifteenth Comptroller of the Currency. Mr. Dawes, a brother of the tenth Comptroller, was appointed by President Harding on May 1, 1923.

In the late summer of 1923, Mr. Dawes initiated a nation-wide investigation through the chief national bank examiner in each district, the aim of which was to gather and collate expert and technical recommendations for changes in the national banking laws. Each chief examiner was instructed to confer with the leading bankers in his district and to make recommendations to the Comptroller for new legislation based upon the practical needs of the national banks in their respective districts.

In the same year, Mr. Dawes called upon experts in the Bureau at Washington to make recommendations as to the same needs growing out of their administrative experience for a decade or more. While these investigations were in progress the Comptroller himself conferred with a large number of banks, both State and national, and with Federal Reserve officials with the view of developing a policy upon the basis of which he might make recommendations to Congress for new and remedial legislation.

With this mass of material before him Comptroller Dawes induced several bankers of wide experience to sit with him and his counsel as a voluntary committee to select from the numerous recommendations the particular features which should form the basis of his recommendation to Congress. In the course of a month this committee had agreed upon what was thought to be the essential needs for national banks. The data thus selected was then cast into the draft of a bill and referred to various sources for comment. On February 11, 1924, Mr. Dawes submitted his final recommendations to Congress. These were to result in the so-called

McFadden Act, which, however, was not enacted into law until the administration of Mr. Dawes' successor as Comptroller.

Mr. Dawes resigned his office as Comptroller on December 17, 1924.



JOSEPH W. McINTOSH, appointed by President Coolidge on December 20, 1924, as the sixteenth Comptroller of the Currency, was the fifth Comptroller from Illinois. Prior to his advent as Comptroller, Mr. McIntosh had considerable banking experience in Nebraska and Illinois. During the World War he had been a Colonel in the Army, serving with distinction in France, Italy and the Balkans. He had also been Director of Finance in the United States Shipping Board Emergency Fleet Corporation prior to an appointment as Deputy Comptroller of the Currency under Comptroller Henry M. Dawes.

It was during his term of office that one of the most important acts affecting national banks was enacted into the statutes. The date, February 25, seems to have special significance in the history of American banking. On that date in 1791, President Washington signed the act creating the First Bank of the United States; again on the same date in 1863, President Lincoln's signature brought into being the National Banking System; later, on February 25, 1915, the first fiduciary permit was issued to a national bank; and finally, on February 25, 1927, the so-called McFadden Act became a law.

This act was designed to bring new life to the National System and to enable the national banks to perform additional phases of banking which were being carried on by State banks and trust companies. Outstanding among its provisions were those authorizing statutory consolidations of State banks with national banks under certain conditions and when not in contravention of the laws of the States under which the consolidating State banks were incorporated; empowering the Comptroller under specified conditions as to population and State law to permit the establishment of branches by national banks within the limits of the city, town or village in which the parent bank was located; and giving

perpetual existence to national banks unless such existence should be terminated by voluntary liquidation or receivership.

The provision with respect to branch banking was of particular importance. An indication of its effect on the national banks of the country is reflected in the fact that on February 25, 1927, the date of the passage, 118 national banks were operating 372 branches, whereas on February 12, 1938, there were 192 national banks with authority for the operation of 1,549 branches.

Likewise, the perpetual existence provision of the act was of great value to national banks engaged in fiduciary capacities. The assurance that their charters would not expire before the trusts undertaken would be settled, not only increased the scope of the trust business transacted but caused a large increase in the number of national banks acquiring trust functions. At the present time those authorized to administer trusts constitute 36.10 per cent of the total number of banks and represent 81.96 per cent of the capital and 86.38 per cent of the commercial assets of all banks in the National System.

Pursuant to the McFadden Act, Comptroller McIntosh on June 30, 1927, issued regulations to national banks on investment securities, the effect of which was to exclude from the investment security business of such banks all securities which did not conform to the standards set up in the regulations. The latter were designed to carry out the intention of the act to limit the investment security business of national banks to liquid and readily marketable obligations having wider distribution than a purely local or restricted market.

Mr. McIntosh resigned the office of Comptroller on November 20, 1928.



JOHN W. POLE, of Ohio, was appointed the seventeenth Comptroller of the Currency on November 21, 1928, by President Coolidge, and served in that capacity for nearly four years, resigning on September 20, 1932, to enter private business.

Mr. Pole entered the service of the Currency Bureau as a national bank examiner in 1915, was appointed Chief Examiner for the Sixth Federal Reserve District in 1919, and in 1923 was made Chief National Bank Examiner of the United States with headquarters at the Comptroller's Office in Washington. He was Chief Examiner until appointed Comptroller.

It was during his administration as Comptroller that bank holding companies began organizing on a large scale in many sections of the country for the purpose of bringing together a number of banks into single operating groups. This was effected by purchase of a majority of the shares of the banks constituting the group, one of which would be a large city bank which in effect became the parent member of the group.

Mr. Pole, in his annual report, stated these holding companies were attempting to do under the sanctions of laws, which were crudely adapted to the purpose, what should be made possible in a simpler manner by new legislation. He recommended a further amendment to Section 5155 of the Revised Statutes of the United States to permit national banks with the approval of the Comptroller to establish branches within regional trade areas of the cities in which such banks may be situated. He explained that such areas might in some cases be coextensive with Federal Reserve district lines and in other cases they might be of a more limited extent. Such a statute, he stated, would permit branch banking to be extended from the adequately capitalized large city banks to the outlying communities within the economic zone of operations of such banks, and would obviate the occasion for the existence of holding companies.

He further recommended to Congress banking laws which would bring the operation of bank holding companies under some degree of Federal supervision. He recommended also legislation vesting authority in the Comptroller to examine security or investment companies affiliated with national banks.

In 1930, it was necessary for the Comptroller to appeal to the Court of Appeals to dismiss a receiver appointed by the United States District Court for the Port Newark National Bank of Newark, New Jersey, which was in financial difficulties. The appeal resulted in ousting the court receiver and restoring the receiver appointed by the Comptroller.

Legislation enacted during Mr. Pole's term as Comptroller included the Act of July 19, 1932, which extended the provisions of the National Bank Act to the Virgin Islands of the United States. An Act was also approved on July 2, 1932, which included among its provisions authority for an assessment against national banks to cover the expense of examination of their trust departments.

UPON the resignation of Mr. Pole in September, 1932, Mr. F. G. Awalt, the senior Deputy, served as Acting Comptroller for several months, during which occurred one of the worst financial crises in the history of this country.

Beginning in 1921, there had been several hundred bank suspensions annually, but not until three and a half years after the collapse in stock prices in 1929 had the number of suspensions exceeded one thousand annually. The growing lack of public confidence involved even sound banks. There were large foreign withdrawals of gold and widespread hoarding of currency. In order to meet withdrawals many sound banks were obliged to sell investments and dispose of other liquid assets under the most adverse conditions. This resulted in a further sharp contraction in the volume of bank credit and more severe declines in security prices and other values. To meet these conditions the National Credit Corporation was organized in 1931 to provide for mutual assistance among banks; later the Reconstruction Finance Corporation, organized in 1932, brought the national credit to the aid of banks and other financial institutions.

In Michigan, Governor Comstock issued a proclamation on St. Valentine's Day in 1933 which closed all the banks in that State. Because of large withdrawals of deposits in banks in Baltimore, Governor Ritchie, of Maryland, declared a bank holiday in that State on February 24. Fear spread among depositors elsewhere, heavy withdrawals occurred throughout the country, and the complete collapse of the banking structure appeared imminent. Friday, March 3, the eve of President Roosevelt's Inauguration, was another "Black Friday" in the annals of American finance. The attention of the entire nation was directed to the chief centers of financial activity, New York, Chicago and Washington. The situation was taut with suspense. The Governors of New York and Illinois were striving desperately to avoid the declaration of banking moratoria. Finally, however, early in the morning of March 4, Governor Lehman, of New York, issued a proclamation calling for a two-day banking holiday. Governor Horner likewise called for the suspension of banking by Illinois banks. The New York Stock Exchange and the Chicago Board of Trade closed, the latter for the first time since 1848.

On the morning of March 6, President Roosevelt proclaimed a bank holiday to be observed by all banking institutions and branches in the United States and possessions for four days, from March 6 to March 9. On

March 9, the day of the expiration of the temporary banking holiday, the President directed a message to Congress requesting immediate enactment of legislation giving the executive branch of the Government control over banks for the protection of depositors and further authority necessary to the reorganization and reopening of banks.

Within less than eight hours after being presented by the President, and without a dissenting vote, Congress passed the Emergency Banking Act of March 9, 1933. This Act was aimed to provide relief in the existing emergency in banking. It vested in the Comptroller authority to appoint Conservators for unlicensed national banks pending reorganization or other disposition of the banks.

On the same day, immediately subsequent to the passage of the Act, the President issued his second proclamation, continuing in full force and effect the regulations and orders incorporated in the first proclamation of March 6, thereby indefinitely extending the banking holiday.

At ten o'clock, Sunday night, March 12, the President announced to the country by radio that a definite program had been adopted for the reopening of banks and that in accordance therewith banks throughout the country would be reopened progressively on the 13th, 14th and 15th days of March. The plan provided that eligible member banks would receive licenses to open from the Secretary of the Treasury and nonmember state banks from state authorities.

Under authority vested in the President by the Act of March 9, 1933, an executive order was issued on April 5, 1933, prohibiting under penalty the hoarding of gold coin, gold bullion and gold certificates within the continental United States and requiring, with certain exceptions, that all gold coin, gold bullion and gold certificates in excess of \$100 owned or coming into ownership of all persons be delivered at Federal Reserve Banks in exchange for an equivalent in other United States coin or currency.

J F. T. O'CONNOR, of California, the eighteenth Comptroller of the Currency, was appointed by President Franklin D. Roosevelt on May 11, 1933.

To the new Comptroller fell the work of continuing to dispose of national banks which had been denied licenses to re-open at the conclusion of the banking holiday and the problem of liquidating the receivership banks. He was also appointed by the President a member of the committee to pass upon the purchase by the Reconstruction Finance Corporation of preferred stock of national banks.

To expedite the liquidation of all receivership banks and the payment of dividends to depositors, a Deposit Liquidation Board, of which the Comptroller was a member, was appointed by the President on October 15, 1933. Under the supervision of this committee, the Reconstruction Finance Corporation made loans to receivers of national banks totaling nearly \$400 millions, of which less than \$10 millions remains unpaid.

Realizing the great hardship to individuals whose money was tied up in insolvent banks, Comptroller O'Connor's particular ambition has been to expedite the termination of receiverships. Instead of limiting the disposition of real estate of insolvent banks to private sales, a new feature was successfully introduced in many cases by holding public auctions. Likewise, he has laid heavy stress on the economical liquidation of receivership trusts.

Under Mr. O'Connor's administration only 12 national banks have failed, and in a period of 22½ months from September, 1935, to August, 1937, only one national bank failure occurred, a record which had not been equalled for nearly 66 years. Primary charters have been issued for only 73 national banks since the holiday.

No account of the present administration would be complete without mention of the results secured in the handling of the 1,417 banks which remained unlicensed at the close of the Banking Holiday. Of the \$1.9 billion of unsecured liabilities impounded in these banks, \$1.6 billion had been released by December 31, 1937, as the result of reorganizations and dividends to creditors. This represents a percentage of 81.8.

Realizing the great importance of the banking crisis, a volume now in process of publication entitled "Banks under Roosevelt" was prepared by direction of the present Comptroller. This work aims to cover not

only the period of the Banking Holiday but also its background and causes, as well as its consequences. Likewise, it describes the activities in connection with the reorganization of banks and the parts played therein by the Emergency Banking Act and the Banking Acts of 1933 and 1935.

New high records for deposits and total assets of national banks were reached in December, 1936, and the highest aggregate ever shown for net profits before dividends occurred in the calendar year 1936.

At the annual meeting of the California Bankers Association in 1935 Mr. O'Connor made a suggestion that it would be a forward step for bankers to adopt a code of ethics to uphold the highest standards of banking practice and to make banking a profession rather than a business. He held that improper practices could be corrected by the bankers themselves as a group, and that there would be no necessity for penal statutes covering such practices. The legal, medical, and other professions have such codes, he stated, not because a majority of their members violate the higher principles which should guide men and women in their professional activities, but as a restraint upon the minority whose acts sometimes place the entire profession in a defensive position. Subsequent to that meeting the President of the Association addressed asked the Comptroller to outline his ideas for such a code of ethics and this was done by Mr. O'Connor a short time afterwards. The suggested code was enthusiastically received by bankers all over the country.

In February, 1936, regulations were issued by the Comptroller governing the purchase of investment securities and further defining the term "investment securities" as used in section 5136 of the Revised Statutes, as amended by the Banking Act of 1935. These regulations raised the standard of eligible investment securities by national and State member banks and prohibited investments in speculative issues.

A retirement system for national bank examiners, assistant examiners, and clerks on the examining force, was set up under authority of law, and became effective on June 1, 1936.

The Federal Deposit Insurance Corporation was created by the Banking Act of 1933, and the insurance of bank deposits under a temporary plan became effective January 1, 1934. A revised permanent plan of insurance embodied in the Banking Act of 1935 became effective on August 23 of that year.

Under the provisions of the act of 1933 the Comptroller was named as one of the members of the Board of Directors of the Corporation. As there were over 8,000 State banks which had to be examined before the insurance became effective, and as the other two members of the Board did not take office until September, 1933, it was necessary for the Comp-

troller to lay the foundation for the organization of the Corporation. The preliminary work included building up a force of competent examiners, and correspondence with the Governors of the various States concerning possible legislative or constitutional changes or amendments necessary within the States to enable non-member banks therein to take advantage of deposit insurance.

Beginning in June, 1936, Bulletins containing excerpts from letters and other official data constituting the administrative rulings of the office, have been compiled in the Comptroller's office and distributed among the bank examiners in the field. These are published to provide convenient and ready reference by the examiners in the field and have been valuable in maintaining throughout the country a uniform application of the laws and regulations relative to the operation of national banks.

Since the banking holiday, the Legal Division of the Bureau, in cooperation with its field attorneys, has handled approximately 50 thousand cases in the various trial and appellate courts, including the Supreme Court of the United States. They involved practically every phase of national bank receivership operations and have clarified and settled and virtually restated the maze of legal principles governing the subject. These decisions constitute, in the aggregate, a distinct and important contribution to the great body of the law relating to bank liquidation.

By one of the provisions of the Banking Act of 1933, authority of the Comptroller to permit the establishment and operation of branches by national banks was greatly extended. Under that Act a national bank may be permitted, with the approval of the Comptroller and under certain conditions as to capitalization and requirements of State laws for branch banking by State banks, to establish branches beyond the limits of the municipality in which the main office of the bank is located. The first branch authorized under this extension of authority was for The United States National Bank of Portland, Oregon. This branch was granted on June 28, 1933, and is located at The Dalles, Oregon.

In order to eliminate as a basis of possible injurious credit expansion a part of the excess reserves approximating \$3 billions, the Board of Governors of the Federal Reserve System under authority of the Banking Act of 1935 increased reserve requirements of member banks 50 per cent, effective August 15, 1936. In 1937 the then existing requirements were increased 33 $\frac{1}{3}$ per cent, effective March 1 and May 1 of that year. This made a total increase in the reserve requirements of 100 per cent, the maximum permitted by law.

During Mr. O'Connor's administration an event occurred which demonstrated how far the National Banking System had developed since

its inception in 1863. The original Act was mainly a currency measure, but as the System grew the issuance of currency became less and less of a paramount function of national banks. Finally, in March, 1935, Secretary of the Treasury Morgenthau issued an order calling for redemption of United States Panama Canal and Consolidated bonds which had the circulating privilege, and due to the expiration of the circulating privilege on certain other United States Bonds, the item of circulation has disappeared entirely from the balance sheet of national banks.

From the establishment of the National Banking System to the close of business January 31, 1938, charters have been issued to 14,397 national banks. However, due to consolidations, liquidations and receiverships, there were 5,262 active national banks on the latter date.

THE foregoing pages should not be construed in any sense as an effort to present a complete history of the National Banking System and the Office of the Comptroller of the Currency. Such a task would indeed be a monumental one. The purpose is chiefly to give an account of the background of the National Banking System, its evolution and growth under the eighteen Comptrollers who have held office, the leading problems that have been met and the events of financial import that have occurred during its seventy-five years of existence.

No summation of the annals of the Comptroller's Office would be complete without particular and stressed mention being made of the great importance of its examining function. Throughout the history of the Currency Bureau there has been a steady and laudable improvement in the manner in which the national banks have been examined. The Comptroller's office has gradually built up a splendid and efficient corps of examiners and assistants. The standards demanded by the Office for these individuals are of the very highest. The qualifications necessary to a satisfactory discharge of the duties of a national bank examiner, in addition to integrity, are a thorough knowledge of the laws of bookkeeping and accounting; a general knowledge of the laws governing negotiable instruments and commercial transactions; good judgment in regard to credits; force of character; tact and discretion. Bank examiners are not bank auditors, and the distinction between an examination and an audit is seldom recognized in the criticisms to which examiners are subjected when banks suffer losses through dishonesty or other causes which have remained concealed for some time. An audit of a bank requires calling in and balancing, or otherwise verifying, all of the depositors' pass books and certificates of deposit. An examination does not. The responsibility for auditing a bank rests with its directors. Examinations are made by bank examiners for the information of the Comptroller who represents the interest of the public in the bank, and not for the officers or directors of the institution. One of the most important qualifications that an examiner should possess is accuracy of judgment as to values. On this the Comptroller chiefly depends in determining the true condition of a bank examined.

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While a large majority of the banks are well and conservatively managed, there always exists a certain percentage of banks that require extra vigilance on the part of the examiners, in order to protect them

from the consequences of imprudent management and their creditors from the results of unsound banking practices. In some instances the examiners and the directors of the latter type of bank are summoned to Washington for a conference and plans are worked out with them which in many cases not only result in avoiding failure of the institution involved but also achieve a successful rehabilitation. When these efforts, however, do not meet with favorable results and the bank is compelled to suspend business, that fact is always known to the general public. The successful case on the other hand never becomes a matter of public information for the reason that secrecy is necessary in order to accomplish the result desired.

During its seventy-five years of service to the nation, the National Banking System, under the leadership of its eighteen Comptrollers, has successfully met and survived, with increased efficiency and vigor, financial and business crises of every character and severity. The System was conceived during the darkest days of a terrible war—it was the answer to a despairing cry for help from the sorely pressed and faltering Union. It was created for a war-torn population of 32 millions and survived to serve our mighty nation of over 130 millions. It knew peace and prospered—it lived through war and served.

The National Banking System has become an integral part in the pattern of our national life. Its creatures, the national banks themselves in multiple thousands, have stood by through wars and national and local emergencies. The part they played passes into history, not without some tarnish, but with a far greater measure of glory and honor. On the national banks and the Comptroller's Office much depends.

Comptroller O'Connor, in one of his addresses, sounded the keynote of the Office. Speaking at Chicago in September of 1933, he said:

“In the great divine scheme of life, as individuals we play our part and pass on. Our places can be filled without the slightest interruption in the march of progress. My purpose is to serve a great country with my limited ability. If uncounted hours in the day and long into the night will bring forth a better understanding between my Department and the people, will make for a more permanent banking structure, the effort will not be counted in vain.”

On another occasion he pointed the way to the future:

“Let us go forward together, rendering a service to a mighty people and deeply appreciative of their confidence. And may our actions vindicate their faith.”

COMPTROLLERS AND DEPUTY COMPTROLLERS OF THE CURRENCY, DATES OF APPOINTMENT
AND RESIGNATION, AND STATES WHENCE APPOINTED

<i>Name</i>	<i>Date of appointment</i>	<i>Date of resignation</i>	<i>State</i>
COMPTROLLERS OF THE CURRENCY			
1. McCulloch, Hugh.....	May 9, 1863	Mar. 8, 1865	Indiana
2. Clarke, Freeman.....	Mar. 21, 1865	July 24, 1866	New York
3. Hulburd, Hiland R.....	Feb. 1, 1867	Apr. 3, 1872	Ohio
4. Knox, John Jay.....	Apr. 25, 1872	Apr. 30, 1884	Minnesota
5. Cannon, Henry W.....	May 12, 1884	Mar. 1, 1886	Do.
6. Trenholm, William L.....	Apr. 20, 1886	Apr. 30, 1889	South Carolina
7. Lacey, Edward S.....	May 1, 1889	June 30, 1892	Michigan
8. Hepburn, A. Barton.....	Aug. 2, 1892	Apr. 25, 1893	New York
9. Eckels, James H.....	Apr. 26, 1893	Dec. 31, 1897	Illinois
10. Dawes, Charles G.....	Jan. 1, 1898	Sept. 30, 1901	Do.
11. Ridgely, William Barret.....	Oct. 1, 1901	Mar. 28, 1908	Do.
12. Murray, Lawrence O.....	Apr. 28, 1908	Apr. 27, 1913 ¹	New York
13. Williams, John Skelton.....	Feb. 2, 1914	Mar. 2, 1921	Virginia
14. Crissinger, D. R.....	Mar. 17, 1921	Apr. 30, 1923	Ohio
15. Dawes, Henry M.....	May 1, 1923	Dec. 17, 1924	Illinois
16. McIntosh, Joseph W.....	Dec. 20, 1924	Nov. 20, 1928	Do.
17. Pole, John W.....	Nov. 21, 1928	Sept. 20, 1932	Ohio
18. O'Connor, J. F. T.....	May 11, 1933	California
DUPUTY COMPTROLLERS OF THE CURRENCY			
1. Howard, Samuel T.....	May 9, 1863	Aug. 1, 1865	New York
2. Hulburd, Hiland R.....	Aug. 1, 1865	Jan. 31, 1867	Ohio
3. Knox, John Jay.....	Mar. 12, 1867	Apr. 24, 1872	Minnesota
4. Langworthy, John S.....	Aug. 8, 1872	Jan. 3, 1886	New York
5. Snyder, V. P.....	Jan. 5, 1886	Jan. 3, 1887	Do.
6. Abrahams, J. D.....	Jan. 27, 1887	May 25, 1890	Virginia
7. Nixon, R. M.....	Aug. 11, 1890	Mar. 16, 1893	Indiana
8. Tucker, Oliver P.....	Apr. 7, 1893	Mar. 11, 1896	Kentucky
9. Coffin, George M.....	Mar. 12, 1896	Aug. 31, 1898	South Carolina
10. Murray, Lawrence O.....	Sept. 1, 1898	June 27, 1899	New York
11. Kane, Thomas P.....	June 29, 1899	Mar. 2, 1923 ²	D. of C.
12. Fowler, Willis J.....	July 1, 1908	Feb. 14, 1927	Indiana
13. McIntosh, Joseph W.....	May 21, 1923	Dec. 19, 1924	Illinois
14. Collins, Charles W.....	July 1, 1923	June 30, 1927	Do.
15. Stearns, E. W.....	Jan. 6, 1925	Nov. 30, 1928	Virginia
16. Awalt, F. G.....	July 1, 1927	Feb. 15, 1936	Maryland
17. Gough, E. H.....	July 6, 1927	Indiana
18. Proctor, John L.....	Dec. 1, 1928	Jan. 23, 1933	Washington
19. Lyons, Gibbs.....	Jan. 24, 1933	Jan. 15, 1938	Georgia
20. Prentiss, William, Jr.....	Feb. 24, 1936	Jan. 15, 1938	California
21. Diggs, Marshall R.....	Jan. 16, 1938	Texas
22. Opepgard, Goodwin J.....	Jan. 16, 1938	California

¹Term expired.

²Died Mar. 2, 1923.

ADVICE TO BANKERS OF 1863

IN DECEMBER, 1863, Hugh McCulloch, then Comptroller of the Currency and later Secretary of the Treasury, addressed a letter to all national banks. Here are some of his paragraphs:

“Let no loans be made that are not secured beyond a reasonable contingency. Do nothing to foster and encourage speculation. Give facilities only to legitimate and prudent transactions. Make your discounts on as short time as the business of your customers will permit, and insist upon the payment of all paper at maturity, no matter whether you need the money or not. Never renew a note or bill merely because you may not know where to place the money with equal advantage if the paper is paid. In no other way can you properly control your discount line, or make it at all times reliable.

“Distribute your loans rather than concentrate them in a few hands. Large loans to a single individual or firm, although sometimes proper and necessary, are generally injudicious, and frequently unsafe. Large borrowers are apt to control the bank; and when this is the relation between a bank and its customers, it is not difficult to decide which in the end will suffer. Every dollar that a bank loans above its capital and surplus it owes for, and its managers are therefore under the strongest obligations to its creditors, as well as to its stockholders, to keep its discounts constantly under its control.

“Treat your customers liberally, bearing in mind the fact that a bank prospers as its customers prosper, but never permit them to dictate your policy.

“If you doubt the propriety of discounting an offering, give the bank the benefit of the doubt and decline it; never make a discount if you doubt the propriety of doing it. If you have reason to distrust the integrity of a customer, close his account. Never deal with a rascal under the impression that you can prevent him from cheating you. The risk in such cases is greater than the profits. * * *

“Pay your officers such salaries as will enable them to live comfortably and respectably without stealing; and require of them their entire services. If an officer lives beyond his income, dismiss him; even if his excess of expenditures can be explained consistently with his integrity, still dismiss him. Extravagance, if not a crime, very naturally leads to crime. A man cannot be a safe officer of a bank who spends more than he earns.

“The capital of a bank should be a reality, not a fiction; and it should be owned by those who have money to lend, and not by borrowers. The Comptroller will endeavor to prevent, by all means within his control, the creation of a nominal capital by national banks, by the use of their circulation, or any other artificial means; and in his efforts to do this, he confidently expects the co-operation of all the well-managed banks. * * *

“Pursue a straightforward, upright, legitimate banking business. Never be tempted by the prospect of large returns to do anything but what may be properly done under the National Currency Act. ‘Splendid financiering’ is not legitimate banking, and ‘splendid financiers’ in banking are generally either humbugs or rascals.”