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BRANCH, GROUP AND CHAIN BANKING



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BRANCH, GROUP AND CHAIN BANKING

BY

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NEW YORK
THE MACMILLAN COMPANY
1931

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Set up and printed. Published September, 1931.

Printed in the United States of America by
J. J. LITTLE & IVES COMPANY, NEW YORK

TO

MY MOTHER

PREFACE

Concentration forces in the banking field have taken such definite shape that it is now possible to appraise them with some degree of accuracy. These forces in the form of group banking, consolidations, and branch banking are attracting increased attention on the part of the public and the banking profession. It is doubtful if they can be considered as purely temporary, probably to be surmounted by a revamped unit system. From a contemporary viewpoint, therefore, it would appear that the advisability and method of concentration are the outstanding problems facing the banking profession.

Thus far no comprehensive analysis has been offered which would facilitate a thorough understanding of these forces and of their possible influence on the banking structure of the future. This volume, it is believed, will aid in the understanding of the factors underlying the movement. It has been written not only with the intent of satisfying general readers wishing a broad view of the scope, purpose, and methods of banking concentration, but also for the practical guidance of depositors and investors, as well as organizers and managers of the various institutions participating in the banking concentration movement.

Perhaps the most important controversy in the concentration movement is in connection with chain and group banking. It is the activity of chain and group organizations particularly which has aroused the greatest apprehension as well as interest and constitutes the main object of this study. No compact body of available data devoting particular attention to these organizations is now available. A major proportion of the material of this study, therefore, has been compiled and arranged in order to indicate the actual functioning of chain and group banking systems as well as determine the advantages and disadvantages of these organizations.

The writer desires to express his gratitude to those who

have rendered assistance. He wishes to make special mention of his obligation to Professor Walter E. Spahr of New York University for a careful reading of the manuscript and for many valuable suggestions. He also wishes to make special acknowledgment of his indebtedness to Mr. Park Rowley of the Bank of Manhattan Trust Company; to Mr. John E. Rovensky of the Bank of America; to Mr. E. L. Smead, Chief of the Division of Bank Operations, Federal Reserve Board; to Professor Major B. Foster of New York University; to Mr. Charles W. Collins, formerly Deputy Comptroller of the Currency; and to Professor James D. Magee of New York University. To Mr. O. M. W. Sprague, of the Bank of England, and formerly of the Graduate School of Business Administration, Harvard University, the writer is indebted for his early instruction in banking principles. The writer is also indebted to his wife, June, for her assistance and encouragement in bringing the work to completion.

GAINES THOMSON CARTINHOUR

New York City,
March, 1931.

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BRANCH, GROUP AND CHAIN BANKING

BRANCH, GROUP AND CHAIN BANKING

CHAPTER I

THE EFFECT OF CONTEMPORARY ECONOMIC FORCES ON BANKING IN SMALL CITIES AND TOWNS

New movements in American banking

American banking is confronted with new movements which will materially affect the future structure of the banking system. In recent years, similar alterations have revolutionized the economic, social, and industrial organization of the nation. However unusual the changes may seem, the fact must be recognized that the banking system is aligning itself, perhaps in a tardy manner, with these developments. After all, it is inevitable that the trend toward concentration in industry should enfold the banking system in view of their close relationship.

The unit system is being subjected to relentless pressure and invasions from all sides. The small town banker realizes that he is standing at the cross-roads, confronted with the alternative of being submerged or of facing a lingering struggle for existence against growing odds. The issue has been hastened by the general acknowledgment that legislative restraints and the limitations imposed by the recent McFadden amendments not only have failed of their purpose, but have served to stimulate irregular forms of banking concentration.

The public has come to accept industrial concentration as essential to improve standards of living, wages, and production. The government itself, following a more liberal interpretation of the anti-trust laws, has legalized and is fostering the consolidation of railroads into strong groups. It is hardly

reasonable to expect that banking, in its individualistic and isolated sense, can survive against such new elements in economic life. Recognition must be given to the changes that have taken place in the last ten years in the business life of the community, in the variety of banking services which must be rendered, and in the technique of the business itself.

Throughout the country the concentration movement is gaining adherents. As soon as the public discovered an economic advantage in the chain store, it discarded sentiment in deference to economic advantage. If the branch of a metropolitan bank, with its greater strength and prestige, has an economic advantage to offer the small community, the country bank will pass. Centralization no longer frightens people as it did in the past. The chain store has made an important contribution; in a similar manner it is reasonable to expect that Statewide, or even interstate branch banking will perform similar services. This movement is bringing a mental change in the minds of the people.

Ever since the dissolution of the Second Bank of the United States in 1836 the banking development of this country has been along lines radically different from those of every other country of financial importance. Sectional feeling and the Federal Reserve System have favored the enactment of legislation forcing local community banking. Within recent years the commercial banking system of this country has been trying to organize itself along lines parallel to those which have been taken by almost every line of industry in this country.

As a result of centralized production and distribution in American industry, the local gas plant, electric plant, ice plant, telephone company and many other local enterprises have about disappeared. The local drug store, grocery store, cigar store, department store appear to be headed in the same direction. The local iron worker and carriage maker now express themselves through the modern steel companies and the automobile industry. Concentration of business into larger and larger groups usually takes the form of a strong centralized management with branches or offices scattered throughout a large area. While it is difficult to secure exact data to measure

definitely these changes, certain concentration data are available,[1] and must therefore be considered as significant factors in the new banking trend.[2]

Scale of production in terms of wage earners, horse power and value of products per establishment

The reduction from ten years to five, and then from five to two, in the interval between the taking of succeeding censuses of manufactures affords comparable material concerning the scale of production. All census data are given in terms of establishments and signify a single plant or factory.[3] From these records, it is possible to measure the trends in size of establishments in three ways: by wage earners, by horse power, and by value of products per establishment. While the following table, compiled from data collected by the Bureau of the Census, Department of Commerce, merely shows this relationship in the aggregate, it offers an interesting comparison with the average data given in Table II.

TABLE I

NUMBER OF MANUFACTURING AND PRINTING AND PUBLISHING ESTABLISHMENTS, NUMBER OF WAGE EARNERS, VALUE OF PRODUCTS, AND HORSE POWER, 1914 TO 1929[1]

Census year	Number of establishments	Number of wage earners (average for the year)	Value of products	Horse power
1914	176,468	6,887,677	$23,837,257,989	22,264,343
1919	214,188	8,997,921	62,000,093,444	29,323,697
1921	196,098	6,944,315	43,529,574,115	[2]
1923	196,182	8,776,646	60,529,565,920	33,092,222
1925	187,224	8,381,511	62,668,259,591	35,766,944
1927	191,866	8,349,755	62,718,347,289	38,825,681
1929	206,556	8,742,761	69,417,515,929	42,778,911

[1] *Census of Manufactures*, Volumes I and II for 1914; Reports of the *Fourteenth Census of the United States*, Volumes VIII, IX, and X for 1919; Reports of the *Biennial Census of Manufactures* (a single volume for each year) for 1921, 1923, 1925, 1927, and 1929.
[2] Not given in data issued by Bureau of Census for 1921.

[1] For a more general discussion, see *Recent Economic Changes*, a Report of the Committee on Recent Economic Changes, of the President's Conference on Unemployment (McGraw-Hill Book Co., New York, 1929), 940 pages. See particularly Chapters II and V.

[2] Concerning the data presented at certain points throughout the chapter, no assumption is made that the record here given is complete. Furthermore, it has been impossible to secure statistics for 1929 and 1930 in some cases. However, there is no reason why we cannot assume, with considerable justification, that the material presented indicates the trend of the movement.

[3] Statistics for Industries and States, *Census of Manufactures*, 1929, p. 2.

By applying the simplest measure of all, the arithmetic average of all establishments reporting, to these data, the following statistics may be compiled.

TABLE II

AVERAGE SIZE OF ALL ESTABLISHMENTS REPORTED IN THE CENSUS OF MANUFACTURES FOR THE YEARS, 1914-1929 [1]

Census year	Wage earners per establishment		Horse power per establishment		Value of products per establishment	
	Actual	Relative	Actual	Relative	Actual	Relative
1914	39.0	100	126.2	100	$135,080	100
1919	42 1	108	137.1	109	288,990	214
1921	35.5	91	(not collected)		222,072	164
1923	44.8	115	169.0	134	308,101	228
1925	44.7	115	191.0	151	334,669	248
1927	43.5	112	203.4	163	325,990	241
1929	42.3	110	205.7	165	336,100	249

[1] Also see *Recent Economic Changes*, p. 167.

These figures indicate a slight advance in the number of wage earners per establishment, a considerable advance in horse power, and a more than doubling in the value of products per establishment.[4]

Wage earners per establishment, for the industries for which the census was taken, increased from 100 in 1914 to 110 in 1929. While these data are not especially significant of concentration, the record for horse power offers a much clearer picture of growth. The census figures refer to the total rated horse-power capacity of engines, motors, and other prime movers, and indicate an increase from 100 to 165 during the same period, thus definitely indicating the larger sized establishment even if the figures were corrected for the increase in price levels that have taken place.[5] The number of establishments, employing less than 250 wage earners, increased from 96,368 to 106,793, or about 10 per cent, but establishments employing more than 1,000 persons increased from 648 to 1,020, or about 57 per cent.[6] In spite of the large number of small establishments and the fact that establishments with more than 1,000 wage earners were only slightly more than

[4] See *Recent Economic Changes*, p. 167.
[5] *Ibid.*
[6] Compiled from data showing distribution of establishments employing six or more wage earners, by number of wage earners per establishment.

1,000 in 1929, the figures compiled are significant in indicating the trend.[7]

The record for value of products per establishment is a somewhat misleading criterion of size. It reflects not only the increase in the quantity of output, but also the changes in the prices of commodities. If prices doubled, one would expect the value of products per establishment to double, but this could not be taken as a significant change in the scale of production. However, the figure for value of products may be taken as an indirect indication that the physical output per establishment has increased, because the value of products has increased much more than any of the indexes of prices from 1914 to 1929.[8] Furthermore, since there has been a decline in the number of establishments whose value of products is less than $100,000, and an increase in the larger establishments,[9] it is evident that the number of large establishments, using the volume of business as an indicator, is increasing.

Income tax records

The records of the Bureau of Internal Revenue, collected in connection with the income tax, have some bearing on the concentration problem. If industry were becoming more concentrated, one might expect an increasing number of concerns falling in the larger income groups. Unfortunately, income-tax returns are notoriously subject to manipulation, and changes in rates from time to time would probably tend to increase or decrease the incentive toward evasion. Despite these hazards, the fact that the number of corporations reporting a net income of more than $100,000 was 9,634 in 1918, whereas in 1928,[10] they increased to 11,025,[11] is indicative of the increasing size of business units in a general way. This increase was largely in the public utility and finance groups.[12]

[7] See *Recent Economic Changes*, pp. 168-169.
[8] *Ibid.*
[9] *Ibid.*
[10] The statistics of income for 1929, from returns filed in 1930, are now in process of compilation and will not be available until some time in the early autumn. No data are available for the 1930 returns being filed during the current year.
[11] *Statistics of Income for 1928*, Bureau of Internal Revenue, Treasury Department, pp. 49 and 375.
[12] *Ibid.*, p. 379.

Mergers and consolidations [13]

The era of mergers and consolidations has received so much publicity that some general evaluation of the movement in its bearing on the problem at hand becomes advisable. The development of the technique of management and the reduction of processes to routine and to automatic machine operation have made possible the great industrial corporations under a unified management.

From various sources the Committee on Recent Economic Changes, collected over 16,000 items relating to the changes in the control of concerns in the mining and manufacturing industries.[14] However, many consolidations have taken place in fields other than manufacturing and mining, to which the tabulation was limited. A decided tendency exists, for example, toward vertical integration in the motion-picture industry. Theaters have been grouped in chains, and the latter have in turn come under the control of the film distributor, and finally of the film producer. As early as 1926, about 5,000 of the total 20,000 motion-picture houses in this country were owned or operated by large producers and distributors.[15]

The tabulation of the Committee also excluded the mergers of department stores and hotels, although there have been a number of important consolidations in these fields. Extensions of corporate control beyond the boundary of the United States, as well as railroad and banking mergers were also omitted. However, the number of mergers in mining and manufacturing were found to have increased steadily from 89 in 1919, involving 292 concerns, to 221 in 1928, involving 687 merged concerns, or a total during the period of 1,268, including 3,114 concerns which were merged, and 5,991 concerns which disappeared. In 1929 alone, over 1,250 concerns were involved in mergers or acquisitions, and in the depression of 1930 nearly three times the number of concerns were involved

[13] For a discussion of some of the important questions that have been raised as a result of fifty years of industrial integration, see *Mergers in Industry* (National Industrial Conference Board, 1929), 205 pages. The efficiency of mergers from the standpoint of profits is studied along with the trend of industrial consolidation.

[14] *Recent Economic Changes*, p. 182.

[15] J. Homer Platten, "Motion Pictures—A New Public Utility," *The Bankers' Magazine* (October, 1926), Vol. XXX, No. 10, p. 75.

in mergers as in the depression of 1922. There will undoubtedly be an increased number of mergers in the future.[16]

The most conspicuous trend toward consolidation in recent years has been in the field of public utilities. The development of holding companies with vast networks of subsidiaries has received considerable publicity. Between 1919 and 1928 alone, 4,329 public utilities disappeared.[17]

The inevitable result of such mergers and consolidations has been to destroy opportunities for the local bankers to have a hand in local enterprises and transfer financing to large cities where metropolitan banks handle the business.

Chain stores and mail order business [18]

Chain stores, and mail order organizations are invading the rural districts and taking the place of the country store in the economic structure.[19] Until June, 1929, the Federal Reserve Board regularly presented statistics for 34 grocery chains, 14 five- and ten-cent stores, 5 apparel chains, 13 drug chains, 4 cigar chains, 7 shoe chains, and 4 candy chains. Since that date chain data is only available for grocery chains, five- and ten-cent stores and drug chains. These figures do not include all the chains in specified lines. There are, of course, many other lines in which chains are established. Very aggressive chains are found in such lines as hardware, automobile accessories, baking, hotels, laundries, moving pictures, and others.

The tremendous increase in the sales of chain stores is indicated by Table III which gives in summary form a comparison of the growth of chain stores and sales at wholesale. When the monthly average sales of the years 1923, 1924, and 1925, are taken as 100, then the sales of the grocery chains, just mentioned, increased from 45 to 237; five- and ten-cent store sales from 53 to 173; apparel chain sales from 36 to 225; [20] and drug chain sales from 64 to 205 from 1919 to 1929

[16] *Recent Economic Changes*, p. 186; and *Proceedings of the American Economic Association* (December, 1930), p. 78.

[17] *Ibid.*, p. 187.

[18] See "Changes in Distribution," *National City Bank Bulletin* (May, 1930), pp. 86-87, for good summary of merchandising adjustments.

[19] *Recent Economic Changes*, p. 331.

[20] Average for the year 1928. See Table III.

inclusive. This means that the average monthly sales of groceries by chains was almost four and one-half times as great in 1929 as in 1919. The average monthly sales of five- and ten-cent stores increased considerably more than two times, and those of the apparel chains advanced over six times during the nine years under review.[21] During the period 1919-1928, average monthly sales of mail-order houses increased from 93 for 1919, to 137 for 1928, or nearly 50 per cent.[22] Suppose the figures for 1921 are compared with those of 1929. Since 1921, prices have been fairly comparable. The index for sales by grocery chains was 59, compared with 237; for sales by five- and ten-cent stores, 66 compared to 173; for sales by apparel chains, 59 compared to 225; [23] and for sales by drug chains, 79 compared to 205 for the years 1921 and 1929. Mail-order sales in the period 1921-1928 advanced from 67 to 137.[24]

It will be seen from Table III that there was a material decline in every case except drugs and men's clothing when compared to 1919. This decline in sales at wholesale was, of course, due to the fall in the general price level since 1919. However, when chain store sales of groceries, for example, advance over five and two-tenths times in the face of a great decline in prices, the tremendous growth in this line becomes apparent. While the sales at wholesale are not directly comparable to sales by chains at retail, yet it is probable that sales at retail by stores other than chains advanced or declined by approximately the same percentage as the sales at wholesale. If this is true, then the index numbers here used are roughly comparable and show a very marked enhancement of the business of chain stores while the progress made by stores other than chains has been scattered and often uncertain.

The only dependable information regarding the proportion

[21] Average for the year 1928. See Table III.

[22] *Federal Reserve Bulletin* (February, 1929), Vol. XV, p. 124 Averages have been compiled from data given therein. It is to be noted that some of the reporting mail-order houses have been establishing throughout the country during recent years an increasing number of branch stores in which sales are made over the counter. Changes in the volume of sales by these firms, therefore, no longer measure changes in sales through the mails to the detriment of local communities. Data for 1929, therefore, is omitted as irrelevant.

[23] Average for the year 1928. See Table III.

[24] *Ibid.*

TABLE III

INDEXES OF DOLLAR SALES BY CHAIN STORES AND AT WHOLESALE COMPARING 1919, 1921, 1928, AND 1929 [1]
(Base-average monthly sales 1923–1925 = 100)

SALES	1919	1921	1928	1929	PERCENTAGE INCREASE [2] 1919 TO 1929	PERCENTAGE INCREASE 1921 TO 1929
Sales by chain groceries	45	59	208	237	427	300
Five-and-ten-cent stores	53	66	150	173	226	162
Apparel	36	59	225	(3)	(3)	(3)
Drugs	64	79	166	205	220	160
Mail Order	93	67	137	(3)	(3)	(3)
Sales at Wholesale:						
Grocery	118	93	95	94	−20 [2]	1
Dry goods	100	91	85	86	−14	−6
Men's clothing	78	72	91	91	17	26
Women's clothing	93	84	62	(3)	−33 [4]	−26 [5]
Drugs	91	86	113	117	29	13

[1] Compiled from *Federal Reserve Bulletins* for 1929, and December, 1927. Owing to defects of the data, computation of all the index series, with the exception of that relating to five-and-ten chains, have been discontinued. These series, therefore, are not available for the year 1930, or for the current year.
[2] Figures with minus signs are declines.
[3] Comparable figures for the twelve months of 1929 not available.
[4] Average decline for the year 1928
[5] Comparing 1921 and 1928.

of retail trade handled by chain stores was that obtained by the Census of Distribution taken by the United States Bureau of the Census in 11 cities for the year 1926. A detailed analysis of the census figures for sales by unit stores and chain stores was published by the Domestic Distribution Department of the Chamber of Commerce of the United States, which had sponsored the census.[25] This survey indicated that 41 per cent of the grocery and delicatessen sales were made through chain stores in that year. Chain groups sold 71 per cent of variety sales, 73 per cent of gas and oil, 44 per cent of dairy and poultry products, 51 per cent men's hats and caps, 52 per cent of shoes, 36 per cent of cigars, 37 per cent of millinery, 28 per cent of coal, wood, and ice.[26] The present survey of contemporary conditions, by the above organization,[27] will show more

[25] See *Retail and Wholesale Trade* (Chamber of Commerce of the United States, Domestic Distribution Department, Washington, May, 1928), pp. 1-75.
[26] *Ibid.*
[27] No data available to date.

fully the extent to which the chain store has taken over the business of the small town.[28]

New relation between city and rural districts

Just as the canal, the railroad, the steamship, the telephone and telegraph, and the electric railways caused revolutionary changes in methods of carrying on trade, through new and swifter means of transporting merchandise and passengers, so the automobile has increased the average trading area for consumers in rural districts from 5 or 6 miles to 30 to 150 miles, and this change is still going on.[29] This situation has shifted trade in certain lines of merchandise away from crossroads stores, village stores, and some small town stores, to stores located at county seats or other trading centers. From the county seats and trading centers, some trade, particularly in dry goods and wearing apparel has shifted to the cities of, roughly, 25,000 to 100,000 population.[30] These medium-size cities, in turn, have lost some trade to the metropolitan markets, but the shift to metropolitan markets has been less marked than the changes at the smaller trading points.[31] Almost no statistics have been available on the change in retail trading areas, but ample evidence has been found, nevertheless, to show that a change of major significance is under way.[32]

The unit bank, like many other types of local enterprises, has been made possible because of the distance between communities. Distance has now been abolished and as a consequence unit banks find themselves face to face with a difficulty that seems to be almost insuperable. Comptroller Pole refers to the position of the country banker as a result of the new relation existing between city and rural districts as follows:

> The modern city itself is in a much closer relationship to the outlying territory than was the case a few decades ago when communication and contact were dependent upon horse or intermittent railroad transportation. Each one of us here today has witnessed the complete obsolescence of the slow and painful travel by horse

[28] For a more complete discussion of the chain store and mail order business, see *Recent Economic Changes*, pp. 362-372.
[29] *Recent Economic Changes*, p. 337.
[30] *Ibid.*, p. 331. [31] *Ibid.* [32] *Ibid.*

on country roads which have been replaced by paved highways radiating in every direction from our large cities, upon which travel automobiles at high rates of speed. Communication by telephone is now almost universal, having largely displaced the slower methods of communication by mail and messenger. I do not wish to take up the time of the committee with a sociological discussion of municipal development, but in considering the question of concentration of banking capital in the large cities it is necessary to consider the new relationship which exists between the city and the rural districts.[33]

Since the horizon has been extended and people are thinking in terms of wider areas, business can now be transacted with banks in the larger centers. Banks in larger centers are therefore actively soliciting business from a wider radius than at any time in the past. Even the one-bank towns have been affected by improved means of transportation. Formerly this group of banks did not face much competition but today the small town bank competes with the large town and the large town with the city.

It is now impossible for the country bank to gain that diversification in the banking business which was possible a few decades ago. The business of the small city is becoming more and more an adjunct of the business of the larger commercial centers. Opportunities for independent local financing are becoming fewer and fewer. The commercial business and the trust business are going to the large city bank. The country bank is left largely with real estate and small local loans. It is placed in the position of securing sufficient income from the remaining small business establishments, still financially in a position to struggle along, and from agriculturists satisfied with present accommodation. However, it is well known that agriculture is in a depressed state and in many sections of the country is in a semi-bankrupt state.

Movement of population from rural communities

The process of adjustment to changed conditions which has been going on since 1920 has stimulated the rate of move-

[33] *Hearings before the Committee on Banking and Currency,* House of Representatives, Seventy-First Congress, Second Session (U. S. Government Printing Office, Washington, D. C.), p. 10. Hereafter cited as *Hearings.*

ment from rural communities to cities. As one sociologist put it, "We are faced with a distribution of the population as between urban and rural. This means for the urban population a rate of increase out of all proportion to the rate for the rural population." [34] The use of the tractor and the combine also has made it possible for fewer workers to cultivate much larger acreage and has been another cause for the exodus of people from the farm. Western society, considered from an international viewpoint, is rapidly becoming a society of cities with a background of agriculture.[35]

The following statement appears in the report of the Fourteenth Census of the United States, which was taken in 1920 and is descriptive of the situation as early as that year:

> Of the 105,683,108 of the census of 1920, 54,816,200 or 51.9 per cent are living in incorporated places of 2500 or more, and 50,866,899, or 48.1 per cent, in rural territory. Total increase since 1910 was 14.9 per cent, but during the decade there was an important increase in that portion of the population living in the urban territory of 12,192,826, or 28.6 per cent; and in that portion living in rural territory, of 1,518,016, or only 3.1 per cent; and if the comparison is extended to cover the two classes of rural territory it appears that the portion living in incorporated places of less than 2500 inhabitants shows an increase of 1,743,317, or 21.5 per cent, whereas that portion living in purely country districts shows an actual decrease of 227,355, or six-tenths of one per cent.
>
> Not merely has there been a great increase in total population in the countries of the world during the past hundred years, but a thorough redistribution has taken place, with a constant diminution of those engaged in agriculture and a rapid growth in industrial life and in cities as the organizing basis of industry.[36]

From 1920 to 1928, the cumulative loss in farm population alone was over 3,000,000 persons.[37] The most careful

[34] Walter Burr, *Small Towns* (The Macmillan Co., New York, 1929), p. 74. This book gives an estimate of the conditions of rural areas and their place in the American economic structure. It does not attempt to follow blazed trails nor to accept orthodox views on the subject and is an excellent source of background material descriptive of the local problem faced by small town bankers.

[35] See E. R. Beach, *Introduction to Sociology and Social Problems* (The Macmillan Co., New York, 1925), pp. 235, 252, 253.

[36] *Fourteenth Census of the United States*, 1920, pp. 35-36.

[37] *Bureau of Agricultural Economics Bulletin*, "The Agricultural Situation," (April 1, 1928), Vol. XII, No. 4, pp. 22-24.

studies of the whole matter have been made by Dr. C. J. Galpin, of the United States Department of Agriculture.[38] His surveys are available in the Yearbook of the Department.[39]

Growth of American business, 1904-1930

The salient figures in the table below compare the tremendous expansion of wealth and industrial activity in America today with twenty-six years ago, and indicate in a general way that the growth of centralized business is inevitable. The development of the latter obviously necessitates strong banking institutions.

TABLE IV

GROWTH OF AMERICAN BUSINESS [1]

	1904	1914	1930 ESTIMATE
Wealth of United States	$107,104,000,000	$186,000,000,000	$475,000,000,000
Income of United States	18,000,000,000	33,000,000,000	110,000,000,000
National Bank Deposits	3,312,439,000	6,268,692,000	20,000,000,000
State Bank Deposits	2,073,218,000	3,226,793,000	11,000,000,000
Trust Company Deposits	1,600,322,000	3,939,807,000	12,000,000,000
Total Deposits in Commercial Banks	6,985,979,000	13,435,292,000	43,000,000,000
Savings Bank Deposits	3,060,178,611	4,936,591,849	13,000,000,000
Savings Deposits in All Banks	Not available	6,400,411,041	31,000,000,000
Bank Clearings	112,449,664,000	163,849,811,000	550,000,000,000
Railroad Gross	1,975,174,000	3,127,729,000	5,000,000,000
Railroad Net	579,176,000	674,190,000	1,200,000,000
Wheat Crop (Bushels)	552,399,517	891,017,000	670,000,000
Corn Crop (Bushels)	2,467,480,933	2,672,804,000	2,100,000,000
Cotton Crop (Bales)	12,750,000	16,134,930	14,000,000
Pig Iron Production (Tons)	16,500,000	23,332,244	40,000,000
Copper Production (Pounds)	780,800,000	1,150,136,960	1,600,000,000
Value of Manufactured Products	14,793,902,563	24,246,434,724	59,000,000,000
Foreign Trade	2,451,914,000	4,258,504,000	8,000,000,000
Market Value Securities, New York Stock Exchange	Not available	27,394,627,000	85,000,000,000
Brokers Loans, New York Stock Exchange	Not available	1,009,752,000	4,500,000,000
Share Sales, New York Stock Exchange	187,313,065	47,900,568	500,000,000
Population	75,994,575 (1900)	91,972,266 (1910)	126,000,000
Life Insurance in Force	12,547,937,000	21,565,652,000	110,000,000,000
Building Contracts	1,893,000,000	2,606,000,000	6,000,000,000
Banking Resources	13,310,405,000	40,000,000,000	60,000,000,000

[1] Data compiled from *Bureau of Census Reports, Comptroller of Currency Reports, Poor's Railroad Manual, U. S. Department of Agriculture Reports, Bureau of Mines Reports, World's Almanac, Insurance Yearbook* of Spectator Company, New York, and *Commercial and Financial Chronicle*. Estimates for 1930 made by the writer.

[38] See *United States Department of Agriculture Yearbook*, 1926, p. 593; 1927, pp. 28-29.

[39] A former President of the American Bankers Association made the statement in 1928 that: "Forty years ago 75% of the population of this country was rural and 25% urban. At the rate we are going it will be but a few years until these percentages will be completely reversed. Eighty per cent of the population of New England is now urban and twenty per cent rural." See T. R. Preston, "The Changing Business World," *American Bankers Association Journal* (January, 1928), Vol. XX, No. 7, p. 515.

It will be noted from these data that total banking resources have more than kept pace with the development of manufactures. During the period 1904-1930 banking resources increased about 365 per cent as against about 300 per cent for the value of all manufactured products. The argument cannot be raised, therefore, that the banking system as a whole has not adequately financed this division of American business. However, it must be remembered that banking is also concerned with the great problem of financing distribution as well as other phases of trade and industry. Furthermore, the mere fact that banking resources in the aggregate have increased so substantially does not mean that each of the 22,445 individual banks in the United States have experienced a correspondingly strengthened financial position.

Adjustment of banking system as a whole to growth of business

The following compilation indicates the degree of adjustment from 1921 to 1931, insofar as an increase in average resources and a decrease in weak banking units is concerned, but does not give a correct prospectus of the status of the country bank since it draws no definite line of demarcation between country banks and other banks.

The total resources of the banking system with 30,812 (largest number of banks ever existing in this country) in 1921 was $46,671,390,000,[40] while in January, 1931, there were only 22,445 banks, but their total resources amounted to about $60,000,000,000.[41] Consequently, in the ten year period, the number of banking institutions decreased in round numbers by about 8,400 and banking resources increased by nearly $13,500,000,000. Whereas the average bank in 1921 had total resources of $1,513,000, the average bank in January, 1931, had resources of $2,673,201. Therefore the average resources per bank increased over $1,100,000 in the ten year period. While total resources increased by nearly $3,500,000,000, and average resources per banking institution by over $200,000 during the

[40] *Report of the Comptroller of the Currency* (1921), p. 108.
[41] *Federal Reserve Bulletin* (April, 1931), Vol. XVII, pp. 189 and 191.

year 1928 alone,[42] total resources for the following year only increased about $600,000,000, or an average of about $25,000 per institution.[43] Increase in average size was not only attributable to the accumulation of resources, but also to the decrease in the number of banks, this reduction being a net decrease covering voluntary liquidations, insolvencies, consolidations, and primary organizations.[44] During 1930 total resources decreased considerably.

Metropolitan institutions, as a result of their large capital and their ability to secure the most highly trained personnel, are able to adjust themselves to changed conditions.[45] Centralized financing presents no problem to them except insofar as it is necessary to increase their loaning ability. Competition, while important, is not their main problem, nor are they bothered with constant failures.

On the other hand, about three-fourths of the banks of the United States are outside the metropolitan centers and serve a majority of the population.[46] They differ from city banks not only in size but in the character of their operations and in their customs. Their problem has not been to develop lending power but to meet competitive conditions and, at the same time, render improved service to their customers. With commerce and industry integrating along the lines of national boundaries, this group of banks has consistently lost business as a result of their inability to adapt themselves to modern economic conditions.

Those banks which are the only ones in their respective communities and which loan at the rate custom dictates, regardless of general financial conditions or the monopoly position of the bank, do not feel the need of adjustment in the same degree as competitive banks. Where competitive conditions prevail, each banker lends at the going rate and over that rate he has little control. The position of such communities

[42] *Annual Report of the Federal Reserve Board* (1928), p. 33.
[43] *Report of the Comptroller of the Currency* (1929), pp. 105 and 108.
[44] The term "primary organizations" is used by the Federal Reserve Board to apply to new banks.
[45] J. W. Pole, "The Need of a New Banking Policy," American Bankers Convention Section, *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, p. 65.
[46] *Ibid.*

has been described as follows: "In small communities having only one bank it may be that the banker has considerable power over the rate on advances to customers. Even here, however, he does not have a free hand. It is no uncommon occurrence to find country banks lending their funds season after season and year after year at the same rate, regardless of general financial conditions. If the bank lends at all it lends at the rate which custom dictates." [47]

The general situation confronting country banks, as well as several pertinent and related factors, has been described by the Comptroller of the Currency as follows:

> A comparison of the banking situation in 1900 with the present shows with what rapidity the United States has developed in banking resources. In that year there were 10,672 incorporated banks of all classes. The aggregate capital was about $1,150,000,000 and the total resources about $12,000,000,000—the latter figure being less by more than $4,000,000,000 than the resources of all the banks in New York City today. Within the short period of three decades the banking resources of the United States have increased by 600 per cent. This great development in banking resources is reflected in two aspects; first, in the increased number of country banks which remained small, and second, in the growth in size and diversification of business of the large city banks. The latter are more prosperous today than ever before in the history of the country, whereas the country banks are in a much less favorable position than they were 30 years ago. The acceleration of the flow of trade to the large cities has been one of the chief causes of the development of the modern form of metropolitan banking.[48]

In an address before the American Bankers Association in the fall of 1929, the following comment was made in connection with the contribution of the unit system to the achievement of American trade: "When we recall, and recall we can with pride, the encouragement and assistance which the freedom of independent initiative in our highly individualized banking system has given to the constructive achievements of American history and trade and the enhancement of the popular welfare, I am satisfied that all these questions can receive an answer affirming that there is no necessity in our banking

[47] R. G. Rodkey, *The Banking Process* (The Macmillan Co., New York, 1928), p. 97.

[48] *Hearings*, p. 23.

past or present for a revolutionary change in our banking system in the near or further future." [49]

Nevertheless, what has been adaptable to the past will not necessarily meet present or future requirements. Furthermore, this appeal for the retention of the unit system is primarily based on sentiment, a poor criterion for an adequate banking system. Former Deputy Comptroller of the Currency, Charles W. Collins, expressed the opinion, referring to the factor of sentiment, that, "Considerations of sentiment may be effective politically, and may lead to legislative action, but a solution which ignores the operation of economic laws proves no solution at all." [50]

We will now consider some of the specific and urgent forms in which the banking problem presents itself from a contemporaneous viewpoint. Due to the lack of adjustment to modern economic conditions,[51] two unfortunate developments have resulted: first, an excessive number of bank failures; and second, decreased earning power. While these developments will be treated separately for the sake of clarity, it is obvious that they are closely associated since failure inevitably results where the banking service of a given institution becomes less and less profitable.

[49] G. W. Dawson, "Banking Evolution in America," *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, p. 74.

[50] C. W. Collins, "Nationwide Branch Banking," *The Bankers Magazine* (October, 1928), Vol. CXVII, No. 4, p. 509.

[51] For a brief discussion of certain correlated factors see Chapter II, "Excessive number of banking institutions," and "Agricultural conditions as a contributing factor to bank difficulties."

CHAPTER II

BANK SUSPENSIONS AND THEIR SIGNIFICANCE

Statistical survey of suspensions indicative of status of unit system

There has been so much discussion of bank suspensions as proof of the inadequacy of the unit system that a statistical survey of the situation is in order. Advocates of group and branch banking contend that the problem of suspensions can only be solved by the substitution of group or branch systems for small unit banks. Statistics presented in this chapter, relative to suspensions, tend to justify their contention, or at least indicate the dire necessity of strengthening unit banks in small cities and towns in some way.

Number and location

During the ten year period, 1921-1930, a total of 6,987 banks were reported as having suspended operations, either temporarily or permanently, on account of financial difficulties (see Table V). Of this number 6,063 were State banks and 924 were national banks.[1] This was about 10 per cent of the national and 22 per cent of the total State banks. Of the total number of suspensions,[2] 806 have since reopened, leaving 6,181 as the net number of failures. The deposits of the banks which

[1] *Federal Reserve Bulletin* (February, 1931), p. 112.

[2] The term suspension is not used here as synonymous with the term failure although these two terms are frequently so used. The writer is using them on the basis adopted by the Federal Reserve Board in contrast with that utilized by the Bureau of the Comptroller of the Currency. For the purpose of this chapter, the Federal Reserve figures present a more accurate description of the situation. The statistics of the Board for bank failures are based on suspensions. In other words, a bank suspends when it is unable or unwilling longer to keep open its doors for carrying on the business of banking. The Bureau of the Comptroller of the Currency, on the other hand, has adopted the practice of listing as a failed bank only those for which receivers have been appointed and leaving out those which have been restored to operations after suspension.

suspended operations during this ten year period aggregated about $2,586,388,000 and the deposits of the reopened banks about $303,000,000, leaving the net deposits of the suspended banks aggregating $2,283,082,000 (see Table VI).

During the year 1930 alone, there were 1,345 banks which suspended operations causing the tying up of about $864,715,000 of deposits.[3] The latter figure is larger than for any previous year. However, in 1926, 957 banks, with deposits of nearly $275,000,000, suspended, as compared with 611 suspensions, involving deposits of about $175,000,000 in 1925, and 778 suspensions, involving deposits of about $215,000,000, in 1924.[4]

During the first sixteen weeks of 1931, there have been 421 additional suspensions with deposits of $227,514,000.[5] Of this number, 63 operated under national charter and 358 under State charter.[6] If this rate of suspensions continues, we may have a record number during 1931. However, this seems unlikely. It is believed that the 1930 failures mark an acceleration in the pace of closings, and were not due to tardy tallying of those which would have failed in 1929 under other circumstances.

In other words, more than twelve years after the World War we are still in the midst of a continuation of a condition which is causing small banks to fail. Why should nearly seven thousand banks fail in the United States during this period? On the average, these have been years of prosperity and business expansion throughout the country. During this period we have witnessed considerable development of mass production of goods and commodities. The general standard of living of the rank and file of our people has been raised to the highest point in our history. It would therefore be the normal expectation that our banks in general reflect this high level of business prosperity and social comfort. That such is not the case is an indication that something is fundamentally wrong with our banking structure.

[3] *Federal Reserve Bulletin* (February, 1931), p. 112.

[4] *Annual Report of the Federal Reserve Board* (1926), pp. 10-13. The general economic conditions leading up to the failures during 1926 are concisely discussed on page 13. See pp. 190-196 for a series of tables containing valuable statistics on bank suspensions during the years 1921 to 1926, inclusive.

[5] *American Banker* (April 25, 1931), p. 3.

[6] *Ibid.*

TABLE V

NUMBER OF BANK FAILURES BY STATES [1]

	TOTAL FOR 1921-1930	1921-1930									
		1921	1922	1923	1924	1925	1926	1927	1928	1929	1930 [2]
Alabama	66	1	..	2	10	5	2	1	..	11	34
Alaska	..	..	..	..	..	..	..	..	..	..	..
Arizona	32	6	4	9	3	3	1	1	..	..	5
Arkansas	230	5	4	5	11	8	19	18	14	11	135
California	38	3	6	2	2	3	5	6	..	4	7
Colorado	94	13	8	18	9	15	14	4	3	5	5
Connecticut	9	.	1	..	1	..	..	..	..	..	7
Delaware	2		..	..	..	..	.	..	..		..
Florida	229	5	5	4	3	1	43	31	35	63	39
Georgia	350	56	14	11	29	31	102	18	26	32	31
Hawaii	1	.	1	..	..	..	..	..	..	..	..
Idaho	73	23	8	10	7	8	4	7	2	3	1
Illinois	264	10	4	5	14	8	20	29	14	34	126
Indiana	205	7	7	7	4	10	7	25	24	24	90
Iowa	614	24	12	35	83	84	135	70	51	34	86
Kansas	266	14	20	34	16	19	46	36	26	12	43
Kentucky	72	3	2	2	7	6	7	7	7	2	29
Louisiana	43	7	4	4	2	3	8	4	2	..	9
Maine	3	..	1	1	..	..	..	1	..	..	..
Maryland	13	5	2	..	..	2	..	..	1	1	2
Massachusetts	9	5	..	1	..	..	..	..	..	..	3
Michigan	87	8	4	3	7	5	23	7	..	9	21
Minnesota	433	13	14	45	55	50	92	65	46	31	22
Mississippi	86	5	10	2	1	1	5	5	4	1	52
Missouri	400	17	11	20	43	45	58	48	31	23	104
Montana	214	21	31	77	46	16	8	2	1	1	11
Nebraska	383	28	23	17	17	12	18	25	50	149	44
Nevada	3	..	1	..	..	..	..	..	1	1	..
New Hampshire	2		..	..	..	1	..	..	..	..	1
New Jersey	6		2	..	..	..	..	..	..	1	3
New Mexico	62	5	8	14	22	10	1	1	..	1	..
New York	34	5	1	4	6	..	..	2	3	5	8
North Carolina	218	15	9	19	13	18	11	14	8	18	93
North Dakota	489	36	10	106	75	32	59	37	38	36	60
Ohio	80	2	..	6	4	1	6	16	11	10	25
Oklahoma	290	27	41	54	50	21	21	28	5	20	23
Oregon	45	6	5	5	3	3	5	12	3	1	2
Pennsylvania	59	4	2	4	2	8	6	8	1	5	19
Rhode Island	3	.	..	1	..	1	..	..	1	..	..
South Carolina	254	14	18	23	24	43	44	21	22	18	27
South Dakota	448	3	9	45	111	64	115	27	7	13	54
Tennessee	94	3	1	3	6	8	12	17	4	12	28
Texas	333	69	31	21	30	39	38	38	23	10	34
Utah	21	6	3	2	2	1	..	2	2	..	3
Vermont	2	.	..	..	..	..	..	..	..	..	2
Virginia	65	6	6	2	4	3	4	4	7	9	20
Washington	59	13	5	5	12	6	2	4	2	7	3
West Virginia	44	1	1	..	2	4	2	5	5	14	10
Wisconsin	99	..	2	11	10	10	11	14	6	11	24
Wyoming	60	6	4	9	32	3	3	2	..	1	..
Total	6,987	500	356	647	778	611	957	662	487	643	1,345

[1] *Hearings*, p. 418.
[2] *Federal Reserve Bulletin* (February, 1931), p. 113.

With regard to sections where suspensions have predominated, it appears from Table V that four States along the Atlantic coast, North Carolina, South Carolina, Georgia, and Florida, have suffered most among the Eastern States, whereas Minnesota, Iowa,[7] Missouri, Oklahoma, Arkansas, Illinois, North Dakota, South Dakota, Nebraska, Kansas, and Montana, eleven additional States in the Central Northwest, a purely agricultural section, had considerably over half of the suspensions during the ten-year period. On the Pacific coast, where banking has become more highly organized than elsewhere, and on the north Atlantic coast, where banking, though less highly organized, is supported by greater capital

TABLE VI

BANKS SUSPENDED AND REOPENED, BY YEARS, 1921–1930 [1]

CLASS OF BANK AND YEAR	BANKS SUSPENDED			BANKS REOPENED		
	Number	Capital	Deposits	Number	Capital	Deposits
All banks:						
1921	501	$22,802,000	$196,460,000	60	$1,918,000	$17,493,000
1922	354	13,743,000	110,721,000	65	4,003,000	35,565,000
1923	648	21,943,000	188,701,000	37	1,516,000	11,674,000
1924	776	28,358,000	213,338,000	94	2,815,000	22,862,000
1925	612	24,441,000	172,900,000	62	1,994,000	16,618,000
1926	956	32,804,000	272,488,000	149	5,134,000	60,610,000
1927	662	24,763,000	193,891,000	95	3,906,000	35,729,000
1928	491	19,715,000	138,642,000	39	1,540,000	15,727,000
1929	642	32,254,000	234,532,000	58	3,052,000	25,829,000
1930	1,345	111,643,000	864,715,000	147	6,802,000	61,599,000
Total . .	6,987	$332,466,000	$2,586,388,000	806	$32,680,000	$303,306,000

[1] *Annual Reports of the Federal Reserve Board.*

accumulation in the general community, the number of bank suspensions has been, by comparison, relatively negligible.

The following table shows for 1930 the number and de-

[7] As far back as 1921, banking conditions in Iowa, from the failure viewpoint, were most unsatisfactory At that time the Committee on Banking and Currency, House of Representatives, had confidential information that if the banks in Iowa were required to liquidate and to do so within two years' time, 95 per cent of them would have proven to have been insolvent. See *Hearings*, p. 191. Of course, it is possible that similar conditions prevailed elsewhere at the time but such information has been kept confidential.

posits of the banks that suspended operations in selected States. The largest number of failures during the year occurred in Arkansas, Illinois, and Missouri.

TABLE VII

BANK SUSPENSIONS IN SELECTED STATES DURING 1930 [1]

State	Number of suspensions	Deposits (in millions of dollars)	State	Number of suspensions	Deposits (in millions of dollars)
Arkansas	135	47	Florida	39	45
Illinois	126	63	Texas	34	11
Missouri	104	20	Alabama	34	9
North Carolina	93	57	Georgia	31	6
Indiana	90	38	Kentucky	29	63
Iowa	86	31	Tennessee	28	28
North Dakota	60	5	South Carolina	27	7
South Dakota	54	11	All other States	236	376
Mississippi	52	27			
Nebraska	44	10	Total	1,345	865
Kansas	43	11			

[1] *Federal Reserve Board Report* (1930), p. 18.

As further illustration of the wide scope of this economic condition, it appears that in eight States over 40 per cent of all the banks in existence in 1920 have failed and in twelve States between 20 and 40 per cent. In fourteen States over 10 per cent of the banks that were in operation in 1920 have since failed (see Table VIII). When it is considered that only three important failures have occurred among banks in the larger cities,[8] the ratio of failures in the country districts is even higher.

TABLE VIII

NUMBER AND PERCENTAGE OF BANK SUSPENSIONS BY STATES, 1921-1930

No Suspensions	*Total Banks June 30, 1920* [1]	*Suspensions 1921-1930* [2]	*Per Cent Suspensions*
District of Columbia	45	..	...
0.1%-5% Suspensions			
New Hampshire	125	2	1.6
New Jersey	388	6	1.6
Vermont	108	2	1.8
Maine	161	3	1.9
Massachusetts	465	9	1.9
New York	1,056	34	3.2
Connecticut	220	9	4.0

[8] *Report of the Federal Reserve Board* (1930), p. 18.

TABLE VIII—*Continued*

0.1%-5% Suspensions	*Total Banks June 30, 1920* [1]	*Suspensions 1921-1930* [2]	*Per Cent. Suspensions*
Delaware	47	2	4.3
Maryland	282	13	4.4
5.1%-10% Suspensions			
California	723	38	5.2
Rhode Island	48	3	6 3
Ohio	1,145	80	6.9
Nevada	33	3	9.1
10.1%-20% Suspensions			
Wisconsin	976	99	10.1
Kentucky	584	72	12 4
Michigan	700	87	12.4
West Virginia	340	44	12 9
Virginia	488	65	13.3
Washington	394	59	14 8
Louisiana	267	43	16.1
Oregon	277	45	16.2
Illinois	1,610	264	16.4
Utah	133	21	16.5
Tennessee	546	94	17.2
Alabama	352	66	18.7
Indiana	1,057	205	19.4
Kansas	1,349	266	19.7
20.1%-30% Suspensions			
Texas	1,582	333	21 0
Colorado	403	94	23.0
Missouri	1,652	400	24.2
Mississippi	354	86	24.3
Minnesota	1,515	433	28.5
30.1%-40% Suspensions			
Oklahoma	959	290	30 2
Nebraska	1,196	383	32.0
Idaho	222	73	32 9
North Carolina	623	218	33 4
Iowa	1,763	614	34.8
Arizona	87	32	36 8
Wyoming	160	60	37.5
Over 40% Suspensions			
Arkansas	487	230	47.2
Georgia	738	350	47.4
Montana	431	214	49.6
New Mexico	123	62	50.4
North Dakota	898	489	54.4
South Carolina	461	254	55.1
South Dakota	604	448	74.1
Florida	265	229	86.4

[1] From *Report of the Comptroller of the Currency* (1920), pp. 250, 664-665.
[2] From Table V.

Suspensions in the Federal Reserve System

Comparison by Federal reserve districts tells the same story but from a different point of view. In the territory served

by the Federal Reserve Banks of Boston, New York, and Philadelphia, bank suspensions have been relatively few—only 97 during the ten years, 1921-1930. The Cleveland district with 142 suspensions, and the San Francisco district with 263, also show a comparatively low casualty rate. In the four southern districts of Richmond, Atlanta, St. Louis, and Dallas, on the other hand, there were 2,599 suspensions during this ten year period. The three remaining districts present a still less favorable record; the Chicago district shows 1,093 suspensions, Kansas City shows 1,156, and finally there is the astounding number of 1,637 suspensions in the Minneapolis district. The largest number of suspensions was reported by the last two districts because of the excessive number of small banks in these agricultural regions. The number of suspensions in each district during the ten year period 1921-1930 and during 1930 are shown in the following table:

TABLE IX

NUMBER OF BANK SUSPENSIONS, BY FEDERAL RESERVE DISTRICTS, DURING 1930 AND 1921-1930 [1]

Federal reserve district	Total		Member banks		Nonmember banks	
	1930	1921-1930	1930	1921-1930	1930	1921-1930
All Districts	1,345	6,987	187	1,181	1,158	5,806
Boston	12	27	1	4	11	33
New York	11	41	4	9	7	32
Philadelphia	10	29	1	5	9	24
Cleveland	41	142	9	26	32	106
Richmond	152	589	22	74	130	515
Atlanta	140	751	22	107	118	644
Chicago	266	1,093	32	213	234	880
St. Louis	358	807	43	78	315	729
Minneapolis	156	1,637	16	289	140	1,348
Kansas City	137	1,156	15	139	122	1,017
Dallas	41	452	17	127	24	325
San Francisco	21	263	5	100	16	163

[1] *Annual Report of the Federal Reserve Board* (1929), p 23, and *Federal Reserve Bulletin* (February, 1931), p 112.

Although member banks constitute only about one-third of the total number of banks in the United States, less than one-seventh of the total number of banks which suspended during the past year were member banks; [9] and although the deposits of member banks are approximately three-fifths of the aggregate deposits of all banks in the country, the deposits of

[9] See *Report of the Federal Reserve Board* (1930), p. 131.

the member banks that suspended during the year 1930 were only about two-fifths of the aggregate deposits of all suspended banks.[10]

Between 1921 and 1930 only 9.9 per cent of the national banks suspended. During the same period 17.1 per cent of the State member banks and 23.6 per cent of the non-member State banks suspended, thus indicating a weaker financial position on the part of State banks, and particularly non-members. After taking into consideration the fact that there are almost three times as many State banks as national banks, the national system as a whole has shown a stronger resistance in the ratio of approximately 3 to 1 during the ten year period. However, while the number of State bank suspensions exceeds those of the national banks, small national banks have not been immune to the conditions which have been causing the failures of small country banks generally.[11] The conditions which rural banking faces in the United States are the same for both national and State banks.

Relation of capitalization, size of town or city, and suspensions

It is among the small banks that most of the suspensions have occurred. Over 61 per cent of all the banks which suspended during the ten year period, 1921-1930, had a capital of $25,000 or less and over 60 per cent of the total number were located in towns with a population of 1,000 or less; 90.6 per cent were located in towns with a population of 10,000 or less, and only 9.4 per cent in towns with a population exceeding 10,000 inhabitants.[12]

Furthermore, of the total number of banks in the United States at the present time, over 19,000 are situated in cities or towns of 10,000 population or less. In other words, more than four-fifths of all the banks in the United States are situated in small communities. The average capital of these banks is less than $50,000.

Studies made by the Federal Reserve Board have regularly

[10] See *Federal Reserve Bulletin* (February, 1931), pp. 64, 112.
[11] See *Report of the Federal Reserve Board* (1929), p. 123.
[12] *Ibid.* (1930), p. 133.

emphasized the important part played by small banks in increasing the number of failures.[13] A typical study of this nature was made in connection with the unfortunate failure situation in 1926. The Board pointed out that "the sections of the country in which suspensions were most numerous were the sections in which the number of banks was relatively large in proportion to the population and in which the communities served by the banks are of relatively small size." [14] Of the banks suspending in 1926, nearly two-thirds had a capital of $25,000 or less, and were situated in towns of less than 1,000 inhabitants.[15]

Another comprehensive investigation of bank failures, which was made during 1925, found that "the average size of 2,112 State banks that failed in thirty States since January 1, 1919 (until August, 1925), was $342,000 in resources, while the resources of the active State bank in these States for the same period of time was $675,000. The average State bank that failed was, on the whole, but half as large as the average active bank. It may be concluded therefore that the small bank is about twice as likely to fail as the average-sized bank." [16]

However, in 1930 some large institutions closed their doors, one having as much as $160,000,000 in deposit liabilities and two others of $38,000,000 and $35,000,000, respectively, with the consequence that average deposits of suspended banks were $640,000 in 1930, compared with $300,000 for the preceding nine years.[17]

The table on page 27 gives a classification of banks suspended during the ten year period, 1921-1930, according to size of center and size of bank.

Of the 23,852 banks in the United States, June 30, 1930, there were 4,931 banks with capital of less than $25,000; 4,865 banks of $25,000 capital; 5,868 banks with capital above $25,000, but not exceeding $50,000; and 1,040 banks with capital

[13] See sections pertaining to failure statistics of national and State banks, *Report of the Federal Reserve Board* for the years 1921-1930.

[14] *Annual Report of the Federal Reserve Board* (1926), pp. 11-12.

[15] *Ibid.*, p. 10.

[16] *Hearings before a Subcommittee of the Committee on Banking and Currency, U. S. Senate,* 69th Congress, 1st Session on S. 1782 and H. R. 2 (February 16, 17, 18 and 24, 1926), p. 144.

[17] *Report of the Federal Reserve Board* (1930), p. 18.

TABLE X

BANK SUSPENSIONS, 1921-1930, CLASSIFIED ACCORDING TO SIZE OF BANK AND SIZE OF CENTERS IN WHICH LOCATED [1]

Banks with capital of—	Number suspended	Per cent of all suspensions	Banks located in centers with population of—	Number suspended	Per cent of all suspensions
Less than $25,000	2,670	38.3	Less than 500	2,720	39.9
$25,000	1,606	22.8	500 to 1,000	1,411	20.2
$25,001 to $50,000	625	9.0	1,000 to 1,500	695	10.0
$50,000 to $100,000	1,206	17.3	1,500 to 2,500	674	9.6
$100,000 and over	760	10.8	2,500 to 10,000	831	11.9
Figures not available	120	1.8	10,000 and over	656	8.4
Total	6,987	100.0		6,987	100.0

[1] *Annual Report of the Federal Reserve Board* (1930), p. 133.

above $50,000 up to, but not including, $100,000.[18] In other words there were almost 17,000 institutions subject to the vicissitudes of the small unit bank.[19]

While it might appear that a Federal statute requiring a minimum capitalization of $100,000 for national banks and a similar provision for the various State banks would solve the capitalization problem, the plan is open to several serious objections. First, it would require complete legislative coöperation on the part of the State governments. In the past such coöperation has not been secured. On the contrary Congress, by the Act of May 14, 1900, had to reduce the minimum capital for national banks from $50,000 to $25,000 in order to lower the standard towards that of the States. Second, such a plan would cause many small national banks to take out State charters in order to remain in business. Third, many communities, where banks are now operating, would be deprived of local banking services if there was not enough business to justify a larger capital. And fourth, there might be the danger

[18] Also see *Hearings,* Exhibit H, p. 1031.

[19] For an interesting study to show the survival power of small banks, see Ralph Pickett, "Bank Failures in Iowa," *Journal of Business* (January, 1929), Vol. II, No. 1, pp. 65-81. Also see "The Size of Failing Banks," *Commercial and Financial Chronicle* (Mar. 30, 1930), Vol. 128, p. 1435, for a summary of the results of Mr. Pickett's study.

of giving a single local bank a monopoly on the banking business of an entire community.

While we are faced with a banking situation which applies almost entirely to the rural districts, it should be borne in mind that there are also a considerable number of small banks in the larger cities, particularly in the outlying districts.

Excessive number of banking institutions [20]

It would not be within the facts to ascribe the large number of suspensions in small cities and towns solely to a changing industrial development. To be sure, as indicated in Chapter I, this is by far the most important cause, but the excessive number of rural banking institutions and depressed agricultural conditions are significant contributing factors. While it is obvious that these factors are closely associated, they are treated separately for the sake of clarity.

A comparison of the number of banks per 10,000 population by States for a ten year period is shown in Table XI. Some degree of correlation appears to exist between this population data and the suspension ratios shown in Table VIII. In South Dakota there were 8.45 banks per 10,000 population in 1919 and suspensions of 74.1 per cent. North Dakota had 10.69 banks on the same population basis and reported 54.4 per cent suspensions. Montana with 8.36 banks reported 49.6 per cent failures. On the other hand, Kansas with 6.63 banks per 10,000 population had only 19.7 per cent suspensions and Missouri with 4.39 banks, 24.2 suspensions during the ten year period. Obviously when there is one bank for each 1,182 population, there is a plethora of banking service. In 1930, Canada, with

[20] For an authoritative discussion as to causes of bank difficulties see *Hearings*, Exhibit GG, covering suspensions during the years 1921-1927. A similar report for the period 1921-1929 is now in course of preparation under the direction of the Division of Bank Operations, Federal Reserve Board. In the opinion of the writer the reports of the Board fail to stress the correct difference between primary and secondary causes. For example, doubtful, slow or past due paper, and heavy withdrawals are invariably treated as primary causes, whereas they should be shown as secondary and a detailed enumeration of contemporary fundamental economic forces listed as primary causes. Also see O. M. O. Sprague, "The Causes of Bank Failures," *American Bankers Association Journal* (April, 1927), Vol. XIX, No. 10, pp. 703-705; *and Recent Economic Changes*, pp. 393-396, prepared by Professor Sprague and Dr. Randolph Burgess.

TABLE XI

COMPARISON OF NUMBER OF BANKS PER 10,000 POPULATION BY STATES [1]
June 30, 1919–March 27, 1929

	June 30, 1919					March 27, 1929				
	Population (000 Omitted)	Number of Banks			No per 10,000 Population	Population (000 Omitted)	Number of Banks			No per 10,000 Population
		Natl	State	Total			Natl	State	Total	
Alabama	2,385	94	261	355	1 49	2,530	107	250	357	1 41
Arizona	380	18	63	81	2 13	439	15	31	46	1 05
Arkansas	1,830	78	386	464	2 54	1,895	77	349	426	2 25
California	3,330	279	425	704	2 11	4,165	208	247	355	1 02
Colorado	1,080	127	244	371	3 14	1,065	122	168	290	2 72
Connecticut	1,330	67	150	217	1 63	1,625	65	187	252	1.55
Delaware	225	19	26	45	2 00	245	18	42	60	2 45
District of Columbia	480	14	30	44	91	530	12	29	41	.77
Florida	955	53	200	253	2 65	1,310	60	208	268	2 05
Georgia	2,995	95	653	748	2 53	3,130	80	346	426	1 36
Idaho	510	70	138	208	4 08	520	43	95	138	2 65
Illinois	6,390	471	1,079	1,550	2 43	7,260	487	1,315	1,802	2.48
Indiana	2,900	253	781	1,034	3.57	3,155	222	781	1,003	3.18
Iowa	2,250	356	1,502	1,856	8 26	2,530	265	1,024	1,289	5 09
Kansas	2,000	241	1,084	1,325	6 63	1,842	247	840	1,087	5 90
Kentucky	2,460	129	446	575	2 34	2,530	139	439	578	2 28
Louisiana	1,875	32	222	254	1 35	1,930	33	192	225	1.17
Maine	783	62	97	159	2 03	787	54	80	134	1 70
Maryland	1,435	96	155	251	1 75	1,625	82	154	236	1 45
Massachusetts	3,940	158	300	458	1 16	4,230	154	525	659	1 61
Michigan	3,200	108	595	703	2 20	4,125	134	613	747	1 69
Minnesota	2,390	305	1,148	1,453	6 08	2,675	275	814	1,089	4 07
Mississippi	2,010	33	293	326	1.62	1,793	36	302	338	1 89
Missouri	3,520	133	1,413	1,546	4.39	3,478	134	1,191	1,325	3 81
Montana	500	134	284	418	8 36	700	69	128	197	2 81
Nebraska	1,375	189	957	1,146	8 33	1,388	156	711	867	6 25
Nevada	126	10	23	33	2 62	79	10	25	35	4 43
New Hampshire	453	55	70	125	2 76	457	56	68	124	2 71
New Jersey	3,095	203	171	374	1 21	3,850	298	272	570	1 48
New Mexico	470	44	69	113	2.40	395	28	30	58	1 47
New York	10,713	480	541	1,021	.95	11,650	565	577	1,142	98
North Carolina	2,520	82	471	553	2 19	2,930	74	428	502	1 71
North Dakota	825	172	710	882	10 69	6,688	131	337	468	7 01
Ohio	5,335	369	781	1,150	2 16	6,563	325	709	1,034	1 58
Oklahoma	2,515	343	582	925	3 68	2,372	315	339	654	2 76
Oregon	925	87	178	265	2.86	875	92	144	236	2.70
Pennsylvania	8,930	834	643	1,447	1 65	9,650	860	982	1,842	1 91
Rhode Island	645	17	31	48	.74	685	10	23	33	.48
South Carolina	1,650	79	342	421	2 55	1,840	53	211	264	1 43
South Dakota	775	126	529	655	8.45	696	95	307	402	5.78
Tennessee	2,335	103	416	519	2 22	2,470	101	391	492	1 99
Texas	4,650	543	945	1,488	3 20	5,310	623	709	1,332	2 51
Utah	465	26	99	125	2 69	518	20	85	105	2 03
Vermont	370	48	58	106	2.86	356	46	59	105	2 95
Virginia	2,275	153	295	448	1.97	2,520	165	322	487	1 93
Washington	1,740	83	281	364	2 09	1,565	108	237	345	2 22
West Virginia	1,450	119	214	333	2 30	1,650	119	201	320	1 94
Wisconsin	2,650	147	798	945	3 57	2,940	156	807	963	3 28
Wyoming	200	42	106	148	7 40	233	25	62	87	3 73
Porto Rico	1,265	..	13	13	10	1,385	..	..	.	
Alaska	94	3	13	16	1 70	91	4	...	4	.44
Hawaii	235	3	17	20	.85	310	2		2	.06
Philippines	9,250	.	10	10	01	11,170	.	.		
Total	118,444	7,785	21,338	29,123	2 46	131,320	7,575	18,386	25,961	1 98

[1] Compiled from *Reports of the Comptroller of the Currency* for the years 1919 and 1929. No later data available.

only eleven banks and more than 4,200 branches, had only one bank office to every 2,291 population, and England, with twelve banks and 8,300 branches, had only one banking office to every 4,653 inhabitants.

The largest number of banks in the United States was in 1921 with 22,782 State and 8,030 national banks.[21] From 1920 to 1931 the number of State banks decreased 7,271 and the number of national banks 1,096. The situation has been improved through this reduction in the number of banks. On the basis of banks per 10,000 population, the number has been reduced from 2.46 in 1919 to 1.98 in 1929, a reduction of 24 per cent. There is still much liquidation to be done. North Dakota still has 7.01 banks per 10,000 population; Kansas, 5.90; South Dakota, 5.09; Iowa, 5.09; Nebraska, 6.25. Commenting on this situation and the need for restricting charters to small institutions for which there is no need, former Comptroller of the Currency, Henry M. Dawes, said: "The only thing that can be done for the unsound banks which are now in existence is for the supervising authorities, State and national, to help them to bring about liquidation in a way that will occasion the least loss and . . . stop chartering too many small institutions for which there is no need." [22]

Agricultural conditions as a contributing factor to bank difficulties

An important contributing factor to bank suspensions has been the depression in agriculture. Unfavorable conditions have brought about the foreclosure of 5,021 farms valued at $16,310,588, by the Federal Farm Loan Banks, during only a two year period covering 1929 and 1930, and the acquisition during the same period of 2,179 farms valued at $15,802,677, by the Joint Stock Land Banks.[23] The ratio of foreclosures to

[21] *Report of the Comptroller of the Currency* (1921).

[22] *Hearings*, p. 1759. In connection with the question of granting new charters, three rules should be followed in the opinion of the writer: first, the probable volume of business in the community must assure the bank's successful operation; second, the proposed capital must be adequate for the needs of the community; and third, the personnel of its stockholders, directors, and officers, must be of such high character that there will be no question about the safe operation of the institution.

[23] *Annual Report of the Farm Loan Board* (1930).

loans since the inauguration of these systems is over 4.0 per cent.[24] These figures exclude foreclosed farms held by State banks, finance and insurance companies. The situation, from the viewpoint of the latter institutions, has been summarized as follows: "Estimated on the basis of total value of foreclosed farms in the hands of the Farm Loan Banks, the farms foreclosed and held by Life Insurance Companies would be valued at about 60 million dollars. The amount of frozen assets now held by the Farm Loan Banks, amounting to about 50 million dollars, is therefore only a part of the non-liquid security held by country banks since each bank has relatively large non-liquid loans of its own outstanding. A safe guess is that these loans far exceed the frozen loans of the Farm Loan Banks and Life Insurance Companies. In addition to the large numbers of foreclosed farms in the hands of banks, there must be many millions of dollars' worth of paper secured by first, second and third mortgages, that are in no sense liquid or bankable, and an additional large amount of notes by farmers secured only by the hope for a good crop and good prices.[25]

Effect of enforced liquidation in country banks on borrowers and depositors

Enforced liquidation in country banks works a severe hardship upon the very type of borrowers which it has been claimed the unit system of banking is particularly designed to protect. Suspended banks in the United States have probably caused within the last ten years the enforced liquidation of over $2,750,000,000 of loans, chiefly small loans. Bank suspensions also injure many depositors. It is estimated that 7,264.957 depositors have contributed to the great total of more than $1,700,000,000 of deposits in failed banks during this period, and that no less than 114,000 stockholders have suffered losses.[26] These losses have been nothing short of a calamity in the small cities and towns in which the suspensions have occurred. Such suffering should not be permitted to continue, especially since it falls on that element

[24] *Ibid.*

[25] Bernhard Ostrolenk, *The Economics of Branch Banking* (Harper and Brothers, New York and London, 1930), p. 33.

[26] *Hearings,* p. 14.

of the population least able to bear it, if it is within the power of the National Government to provide a remedy.

Public confidence has been so severely shaken in many areas that funds, which should find their way into the local banks, are probably being withheld, or sent to strong banks in large cities. Banking-by-mail has been carried on since 1929 between Chicago and several areas, particularly Iowa.[27] While the following statement is conjectural in nature, it is quite explanatory in a general way of the situation which has given rise to such a practice: "In marked contrast, to prosperity, unprecedented during the past ten years, in the industrial world, and in the business world aside from banking, 15% of our banks have closed their doors and another 60% have taken losses that, if known to the public, would shatter confidence in the very structure itself. I place the loss to banks and undeserving users of credit in some 20 States, comprising the Mississippi Valley, and hence the agricultural section of this country, at not less than $5,000,000,000.[28]

The remedy most frequently suggested as a protection to depositors is some form of guarantee of bank deposits. Ten to twenty years ago it was thought that all the vexations and losses attendant upon suspensions could be solved by the enactment of bank guaranty laws.[29] Laws involving the guaranty of deposits of State banks have been in operation in Kansas, Mississippi, Nebraska, North Dakota, Oklahoma, South Dakota, Texas and Washington, but all have been repealed.[30] Things went along smoothly enough so long as only one bank failed here and there but when they began to fail by the dozen it presented quite another problem. The most thorough study of the guaranty of bank deposits theory concluded with the statement that "the whole movement reveals a striking example of the tendency of the American people to over-emphasize the influence which legislation can have

[27] Editorial, *United States Investor* (January 19, 1929), Vol. XX, p. 1.
[28] S. L. Cantley, "Organized Cooperation the Basis of Sound Banking," *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, No. 3356, p. 106.
[29] Thomas B. Robb, *The Guaranty of Bank Deposits* (Houghton Mifflin Company, Cambridge, Mass., 1921), p. 201.
[30] *Hearings*, p. 15.

upon economic conditions." [31] Any system of guaranty or insurance of bank deposits is unsound in the opinion of the Comptroller of the Currency, who said: "Any attempt to maintain the present country bank system by force of legislation in the nature of guaranty of deposits or the like, would be economically unsound and would not accomplish the purpose intended." [32] It would appear, therefore, that a deposit guaranty system, either from a State or national point of view, offers no remedy. While such a system might theoretically give the depositor 100 per cent protection in case of suspensions, it is not a remedy for the suspension itself.

Attention is directed particularly to the fact that suspensions of country banks are not embraced in a period of time which has been closed and upon which we may look in retrospection. The error should not be made of referring to the 6,987 bank suspensions as though they arose out of some past condition.

The data, which have been submitted above, clearly prove that the criticism of the small bank, from the standpoint of suspensions and failures, is justified.

[31] Thomas B. Robb, *ibid.*
[32] *Report of the Comptroller of the Currency* (1929), p 4.

CHAPTER III

THE EARNING POWER OF SMALL BANKING INSTITUTIONS [1]

As an important element in the problem at hand, there are some rather significant figures as to the earning power of small banking institutions. A very large percentage of this group is conducting business either at a loss or with steady impairment of earnings. An analysis of available data relative to the net earnings of banks, classified according to loans and investments or capital funds, that is, capital, surplus and undivided profits, indicates this fact. The inability of many banks in small cities and towns to earn a fair profit upon invested capital is quite naturally reflected in the large number of failures which have occurred during the past ten years.

Position taken by the Comptroller of the Currency

In the opinion of the Comptroller of the Currency, "It is cause for immediate concern that the operating conditions faced by country banks show no prospect of improvement under the present system. There are many country banks now operated at a loss and many others operating upon earnings insufficient to justify their capital investment." [2] According to Mr. Pole:

A study of bank earnings covering the last two or three years, which have been years of general business prosperity, shows that a large percentage of banks outside of the principal cities—constituting three-fourths of our banks and serving the majority of our population—are operating with insufficient earnings. There is not

[1] Since the data in this chapter omit certain areas, it is not complete. However, while statistics are not obtainable for these districts, available data are quite representative. It is believed that the loss in significant data is so slight that the value of the conclusions relative to the earning power of the small and large bank is not seriously impaired.

[2] *Report of the Comptroller of the Currency* (1929), p. 3.

available to me the earning statements of State banks but taking the national banks as an illustration and 1927 as a typical year, later earning figures not being available, 966 national banks operated at a loss, and an additional two thousand earned less than five per cent. In other words about thirty-eight per cent of all national banks earned for the year 1927 less than the yield of a high grade security. It is well known that the general run of country national banks is certainly not below that of the State banks similarly situated.

Current statistics for State banks are incomplete for the whole country, but figures are available for the calendar year 1926 which show that about two thousand State banks operated at a loss. The average earnings of all banks, national and State, in one of our great agricultural States for the years 1924 to 1928, inclusive, were less than 1½% on invested capital. In four other great Middle Western States, comprising both agricultural and industrial activities, 2,053 banks, national and State, earned in 1927 less than 6% on invested capital.[3]

In his testimony before the Banking and Currency Committee in 1930,[4] the Comptroller also said that he felt quite certain that similar figures for later years would upon analysis disclose an equally unfavorable situation.[5]

Relation of net additions to profits and capital and surplus for national banks [6]

An examination of national banks as a group by States, for the period June 30, 1921, to June 30, 1930, tends to substantiate the Comptroller's analysis. National banks in Montana, Georgia, South Carolina, Minnesota, New Mexico, Utah, Kansas, South Dakota, Nebraska and Oklahoma, reported either poor average earnings or actual losses during the ten year period while the per cent additions to profits on capital and surplus for the year 1930 was 2.63 per cent for all national banks in Iowa; 11.42 per cent (deficit) for Florida; 4.28 per cent in Arizona, a State which reported consolidated national bank losses for six consecutive years prior to 1928;

[3] J. W. Pole, "The Need of a New Banking Policy," *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, No. 3356, p. 65.

[4] *Hearings,* p. 12.

[5] The Comptroller's Office has not yet made available such data.

[6] The trend of this ratio over a ten year period is considered sufficiently representative of the earning power of national banks.

4.35 for Missouri; 4.10 for Idaho; 4.43 for West Virginia; 4.77 for Georgia; 4.52 for Colorado; and 4.69 for South Carolina. In all of these States, this unfortunate record pertains to country banks exclusively, the banks in the larger cities being reported separately (see Table XII). Due to good business conditions, the year 1929 was a more profitable year for banks in a larger number of the sections of the country than any of the previous years covered by the table. Therefore, data for this year exclusively should not be considered representative of conditions faced by national banks during the past decade.

It will be observed that the same States, which were outstanding in connection with suspensions (see Table VIII), indicated further weaknesses as brought out by earning statements. The data in Table XII are misleading since they include national banks and do not incorporate the much larger but financially weaker State systems. Figures for earnings for State banks, on a comparable basis, were not available to the writer. However, it is to be presumed that comparable State bank data, when made available, will probably indicate a much weaker position than has been reported for national banks. This statement is warranted by the fact that for the period 1921-1930 only 9.9 per cent of the national banks suspended, whereas 17.1 per cent of the State member and 23.6 per cent of the non-member State institutions suspended.[7]

Another study of national bank earning power developed the fact that national banks experienced decreased earning power of over 10 per cent between 1916 and 1926.[8] Group profit ratios for 1916 showed 15.4 per cent in comparison with 5.27 per cent in 1926.[9]

In connection with this matter of bank earnings, someone has prepared statistics to show that General Motors, for example, in a recent year, with an investment equal to one-fourth of the investment of the national banks of the country, had earnings equal to the earnings of all the national banks

[7] Also see *Hearings*, p. 80.
[8] W. L. Crum, *Corporate Earning Power* (Stanford University Press, 1929), p. 109.
[9] *Ibid.*, pp. 112-113.

TABLE XII

PER CENT NET ADDITIONS TO PROFITS-TO CAPITAL AND SURPLUS[1]
Averages of national banks in selected States and cities,
June 30, 1921–June 30, 1930
(Minus signs denote deficit)

STATES[2] AND CITIES	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930
West Virginia	13 52	10 28	12 05	11 20	10 06	7 53	7 36	7 18	1 51	1 43
South Carolina	6 55	3 05	3 21	7 00	−2 09	2 47	1 72	7.51	7 36	1 69
Charleston	10 82	8 76	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Georgia	5 38	2 96	4 11	3 96	3 51	1 73	1 63	1 63	6 56	4 77
Atlanta	9.85	8 21	10 49	6 76	46	10 39	11 05	8 64	10 79	(2)
Savannah	(2)	6 34	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Florida	13 93	8 60	11 94	13 36	20 36	25 22	6 62	3 63	−2 29	−11 42
Jacksonville	17 41	9 74	13 96	17.75	25 28	22 69	11 81	10 24	3 67	0 59
Minnesota	10 60	5 82	3 90	3 74	2 68	5 36	5 16	5 24	8 11	8 36
Minneapolis	11.53	5.11	−1 23	2 80	7 74	8 80	8 17	9 62	10 86	9 40
St Paul	9 82	12 34	9 89	5 95	7.91	15 57	13 20	18 45	−15 35	15 60
Iowa	9 98	3 14	3 92	− 53	−1 73	− 66	−1 85	1 81	3 10	2 63
Des Moines	11 08	10 41	6 31	− 64	5 95	1 56	1 19	−2 26	2 05	2 90
Dubuque	12 40	8 72	12 20	6 40	5 60	8 80	8 10	(2)	(2)	(2)
Sioux City	4 18	7 81	3 27	63	−11 26	2 07	1 63	−17 66	9 70	5 19
Missouri	10 29	4 55	5 82	3 33	5 04	6 10	6 18	4 28	5 42	4 35
Kansas City	14 65	4 48	−1 28	− 82	3 52	9 96	9 07	10 25	13 94	11 56
St Joseph	11 95	3 55	8 39	−3 85	6 41	7 46	31	8 24	8 97	−1 27
St Louis	10 97	7 26	7 30	7 22	9 87	8 90	6.73	10 95	17 39	14 58
North Dakota	8 13	74	1 27	−6 95	−2 20	1 19	2 29	2.77	4 88	7 86
South Dakota	4 90	(2)	1 70	−2 43	−1 16	.85	1 89	5 04	6 52	11.92
Nebraska	9 29	3 02	6 12	15	1 50	82	2 16	5.43	5.15	7 31
Lincoln	8.44	4 62	5 04	9.03	7 53	6 53	6.71	8 64	7.90	12.10
Omaha	7 96	4.26	1 56	−6 26	4 93	8 04	1.74	11 07	13 52	8.19
Kansas	7 25	5 91	2 70	1 87	2 93	3.69	3.03	4 88	8 29	6 53
Topeka	12 28	10 92	8 30	9 69	2 85	8 88	10 19	12 58	9 82	9 12
Wichita	11 24	3 33	3 05	3 10	8 87	6 59	8 13	4 27	13.11	12.59
Montana	3 63	−0 95	−2 67	−7 99	− 14	5 23	6 15	8 19	8 44	9 30
Helena	6.45	9 94	−4 77	8 52	2 58	5 29	10 97	(2)	(2)	(2)
Wyoming	10 38	4 81	2 99	35	−5 92	5 70	8 66	8 83	13 53	10 97
Colorado	6 87	2 51	1.19	94	2 62	1 79	4 64	4.22	4 66	4 52
Denver	5 81	8 00	9 30	16 06	8 89	9 05	10 74	13 19	12 85	10.94
Pueblo	19 24	1 75	14 83	4.74	12 86	7 26	6 34	(2)	(2)	(2)
New Mexico	4 52	2 05	−6 55	−4 11	−3 22	1 72	5 77	8 58	8 72	10 81
Oklahoma	4 46	−1 45	−1 22	−1 96	2 17	3 15	3 95	8 55	12 21	13 66
Muskogee	13 23	5.74	7 18	2 73	9 08	8 51	15 72	15 98	14 30	(2)
Oklahoma City	1 21	5 03	8 25	4 35	11 10	7 55	7 69	16 47	20 96	18 66
Tulsa	12 69	3 84	1 94	−8.44	78	11 21	14 80	13 48	13 37	15 56
Idaho	3 35	−4 35	−3 71	−1 43	−4 43	1 20	1 67	8 02	4 25	4.10
Utah	6 16	7 46	3 77	2 69	3 72	6 75	4 49	5 36	5 84	8 36
Ogden	(2)	7 53	−2 49	3 73	8 36	−11 11	4 78	(2)	(2)	(2)
Salt Lake City	3 77	−0.11	1 06	−14 48	7 44	10 32	8 90	8 24	9 68	11 68
Arizona	(2)	−7 04	−6 42	−4 55	−6 31	−10 76	−13 02	2 45	4 03	4 28

[1] Compiled from statistics given in an exhaustive study by H N Stronck Co , of the *Trends of Earning Ratios of National Banks by States* (H N Stronck Company, Bank Consultants, Chicago, Illinois, 1931), p 1. Ratio calculations based on dollar figures compiled by the Bureau of the Comptroller of the Currency.
[2] Not available
[3] Names of States are italicized.

combined.[10] This statement proves nothing and is of interest only insofar as it compares the relative earning power of banking and industrial corporations.

[10] Letter from Mr. C. B. Hazlewood, former President of the American Bankers Association, and Vice-President, First National Bank of Chicago, March 21, 1930, contained this statement. The following comment was also

Federal reserve bank surveys

The Chicago, New York, Philadelphia, Boston, and San Francisco Federal reserve banks have made studies from time to time of the earnings and expenses of member banks in their respective districts classified according to size of bank.[11] A survey of the relationship of earnings to invested capital in three Eastern districts, one in the Middle West and one on the Pacific coast, offers not only a contrast with statistics given above, but gives additional representative data for a wider geographical area. The Kansas City and Richmond districts would have been the most representative Southern districts but no comparable study has ever been made in the former,[12] and no data compiled for any year since 1926 in the latter.[13]

Analysis of earnings and expenses in Chicago Federal reserve district [14]

An exhaustive analysis of member banks earnings and expenses, covering the calendar year 1928, was made in the Chicago Federal reserve district on the basis of size of bank. The study will be summarized at this point since it further demonstrates the inferior earning power of small banks.

incorporated in Mr. Hazlewood's letter and indicates earnings of less than 5 per cent on net invested capital for actual commercial operations in the banks surveyed: "The statement that commercial operations in a large number of banks show earnings on net invested capital of less than 5 per cent is substantiated by statistics from different States and sections. In one middle western State over 1,219 banks had an average ratio of net profits to invested capital of 4.22 per cent. If a deduction had been made of any earnings these banks may have had from sources other than their commercial operations, the net profits would have been even less. In a survey of banks in an eastern State, it was found the commercial departments actually lost money. Sixty-eight per cent of the checking accounts were carried at a loss, and 10 per cent failed to show any profit. Only 22 per cent were profitable, and the profits were not sufficient to off-set the losses."

[11] No other districts have made comparable studies. Usually the member banks are grouped according to the amount of time deposits. The latest available data has been utilized in the following sections.

[12] Letter from A. M. McAdams, Assistant Federal Reserve Agent, Federal Reserve Bank of Kansas City, June 2, 1930.

[13] Letter from F. E. Broyles, Manager, Statistical Department, Federal Reserve Bank of Richmond, June 12, 1930. The 1926 data indicated net profits, after losses, on loans and investments under $250,000 of 3 per cent in contrast with 7.3 per cent on loans and investments over $1,000,000.

[14] This is a biennial compilation, therefore no data is forthcoming for 1929. The analysis of 1930 data is not yet available.

Net additions to profits for all member banks with earning assets of less than $250,000 averaged 1.37 per cent in contrast with over 17.00 per cent for institutions with earning assets of $500,000 or more.[15] Excluding banks in Chicago, institutions with loans and investments of less than $250,000 earned approximately 6 per cent on capital funds, in contrast with average earnings of 12 per cent for banks with loans over $1,500,000, for the years 1926 and 1928, before losses were deducted. After deductions for losses, the smaller group reported average net profits to capital funds of .5 per cent in contrast with over 9 per cent for the larger group (see Table XIII). The earning power of small non-member institutions would probably have compared even less favorably.

TABLE XIII

RATIO OF EARNINGS TO CAPITAL FUNDS OF MEMBER BANKS FOR CHICAGO DISTRICT (EXCLUDING BANKS IN CHICAGO) FOR 1926 AND 1928 [1]

Loans and investments	Net earnings (before losses) 1926 Per cent	Net earnings (before losses) 1928 Per cent	Net profits (after losses) 1926 Per cent	Net profits (after losses) 1928 Per cent
Less than $250,000	5 9	6.4	0.7	0 3
$250,000 to $500,000	8 1	9.1	1 9	2 4
$500,000 to $750,000	9 6	10 0	3 9	4 8
$750,000 to $1,000,000	9 9	10 3	5 4	5.5
$1,000,000 to $1,500,000	10 2	10.4	6 8	5.1
$1,500,000 to $2,000,000	11 4	12 2	7 8	6 8
$2,000,000 to $3,000,000	13 0	12 6	8.1	8.9
$3,000,000 to $4,000,000	11.9	12 1	8 2	8.1
$4,000,000 to $5,000,000	11 8	12.7	9 1	9 7
$5,000,000 to $6,000,000	13 6	11 1	8 7	6 7
$6,000,000 to $10,000,000	12 4	12 5	9 7	8 2
$10,000,000 to $15,000,000	13 2	12 0	10 1	8 2
Over $15,000,000	12.1	10 0	9.8	7.7
Total	11 6	10 9	8 2	7.2

[1] *Hearings*, p. 617.

Larger banks outside the Chicago area indicated a tendency toward proportionately smaller expenditures for salaries and wages than smaller institutions. For banks with earning assets of less than $250,000, the percentage of gross earnings paid out for salaries and wages in 1928 was 28.87, while the per-

[15] Compiled from *Analysis of Member Bank Earnings and Expenses in 1928*, Division of Research and Statistics, Federal Reserve Bank of Chicago, October, 1928, p. 3.

centages for the group with earning assets of $500,000 or more were 19 and 19.26 respectively. Salaries and wages showed a progressive decline for banks up to one million dollars in earning assets and remained practically on the same level until reaching the $6,000,000 size, after which another drop was noticeable, especially for the group with earning assets over $15,000,000.[16]

The groups comprising the smaller banks wrote off heavier losses than the larger institutions. Losses as expressed in relation to average earning assets showed a uniform downward trend with the increase in size of bank, and additions to profits moved upward, although after the group of banks of $3,000,000 size was reached both of these trends were irregular. A steady gain in the ratio of earning assets to invested capital was noted in the larger groups.[17]

Statistics tabulated according to the population of the centers in which the institutions were located revealed identical conclusions with those based on loans and investments.[18]

Relation of earnings and expenses to loans and investments of member banks in the New York Federal reserve district

Statistics relative to member banks in the New York and Boston Federal reserve districts substantiate above statements relative to the earning status of small banks. Net earnings, before losses, for the past seven years on loans and investments under $500,000, averaged 11.0 per cent on invested capital, in comparison with an average of 14.5 per cent on loans and investments above this figure (see Table XIV). It will also be noted that net earnings outside New York City, on loans and investments over $10,000,000, averaged almost 1 per cent higher than in New York City. This fact tends to offset the general opinion that New York City banks are the biggest money makers in this Federal reserve district.

Small institutions disposed of a larger percentage of gross earnings for salaries and wages. For the group with loans and

[16] *Ibid.*
[17] *Ibid.*
[18] *Ibid.*, pp. 5-8.

TABLE XIV

RATIO OF EARNINGS TO CAPITAL FUNDS OF MEMBER BANKS IN NEW YORK FEDERAL RESERVE DISTRICT [1]

Loans and investments	1923 Per cent	1924 Per cent	1925 Per cent	1926 Per cent	1927 Per cent	1928 Per cent	1929 Per cent
Under $500,000	10.5	10.3	11.6	11.2	11.2	10.6	11.8
$500,000 to $1,000,000.	12.2	11.9	11 2	13 6	13 9	12.8	12.2
$1,000,000 to $2,000,000.	14.7	13.7	14.7	14.8	14.5	13.8	12.8
$2,000,000 to $5,000,000.	15.7	13.8	15.6	14.3	13.5	13.7	13.9
$5,000,000 to $10,000,000	15.2	16.0	15.0	14.2	14.1	14.0	15.5
Over $10,000,000 Outside New York City	13.4	14.4	14.4	14 4	13.2	14.4	15.9
In New York City..	13.3	13.5	13.4	13 8	12.5	13.3	14.7
Total	13.6	13.4	13.7	13.8	13.3	13.2	13.8

[1] Compiled from data in *A Comparison of the Operating Ratios of Representative Member Banks in the Second Federal Reserve District* for the calendar years 1923, 1924, 1925, 1926, 1927, 1928, and 1929. These studies cover about 10 selected member banks in each group. Data for 1930 not yet available.

investments under $500,000 the ratio was 21.2 for 1929 and an average of 22.4 for the period 1923-1928, in comparison with 17.4 for 1929 and an average of 17.6 for the period 1923-1928 for the group with loans and investments of $500,000 or more. Losses decreased and additions to profits moved up with the increase in size of bank.[19]

An analysis of operating profits and costs of member banks, according to size, in the Philadelphia Federal reserve district reveals similar conclusions.[20] The only comparable statistics for the Boston district apply to earnings for the years 1925, 1926 and 1927, and indicate net profits of 6.4 per cent for banks with loans and investments under $500,000, in contrast with 8.4 per cent for groups with loans in excess of this figure.[21]

It should be noted that small Eastern member banks are in a much stronger earning position than small institutions in

[19] *Operating Ratios in Second Federal Reserve District, loc. cit.*, pp. 2-3.

[20] See *Analysis of 1929 Operating Costs and Profits of Member Banks*, Philadelphia Federal Reserve Bank (May 12, 1930), pp. 1-8. Study of 1930 costs and profits not yet completed.

[21] *Annual Survey of Member Bank Income and Expenses in the First Federal Reserve District* for 1925, 1926, and 1927. The classification of banks according to size was abandoned entirely after 1927 since this classification appeared to have little or no significance as far as this Federal reserve district was concerned, according to letter from H. R. Bowser, Manager, Financial Statistics Division, Federal Reserve Bank of Boston, May 31, 1930.

the Middle West, since the latter only show about 75 per cent as much income, after losses, as the former.

Earnings and expenses of member banks in the San Francisco Federal reserve district

Institutions with earning assets of $1,000,000 and under, had profits on invested capital of 4.67 per cent in comparison with an average of 8.05 per cent for the group with earning assets in excess of this figure. The $5,000,000 group had the largest earning power, showing 8.95 per cent (see Table XV). The situation in this district as regards the relative trend of salaries and wages, losses, and net additions to profits was precisely the same as that experienced in the other Federal reserve districts.[22]

TABLE XV

RATIO OF PROFITS TO INVESTED CAPITAL IN SAN FRANCISCO FEDERAL RESERVE DISTRICT FOR 1927 [1]

Average Amount of Earning assets	Profits to Invested Capital per $100 [3]
$1,000,000 and under [2]	4.67
$1,000,000 to $1,999,999	5.81
$2,000,000 to $2,999,999	6.40
$3,000,000 to $3,999,999	6 97
$4,000,000 to $4,999,999	8.11
$5,000,000 and over	8.95

[1] Compiled from data in *Monthly Review of Business Conditions*, Federal Reserve Bank of San Francisco (December 20, 1928), p. 96. Latest available data in this district.
[2] Lower classifications omitted
[3] Invested capital includes capital stock, surplus and reserves for contingencies.

Ratio of net profits to invested capital of Illinois banks [23]

In the State of Illinois, except Cook County, for the year 1929, those institutions with loans and investments under $250,000 earned net profits on invested capital, before losses, of 6.50 per cent in contrast with an average of 12.27 per cent

[22] *Monthly Review of Business Conditions*, Federal Reserve Bank of San Francisco (December 20, 1928), p. 96.

[23] The latest data have been utilized relative to the earning status of banks in Illinois, Iowa, Michigan, Indiana and Wisconsin. While sections dealing with these States are open to the criticism or comment that they are not representative of the situation in the United States as a whole, they cover all available and comparable data. This group of States, comprising the Chicago Federal reserve district appears suitable since they incorporate a representative grouping of agricultural and industrial interests. The group has been treated as a whole in the analysis of the Chicago Federal reserve district.

for the group with loans and investments over $1,250,000 as indicated by the following table:

TABLE XVI

ALL BANKS IN STATE OF ILLINOIS OUTSIDE COOK COUNTY FOR THE YEAR 1929 [1]

Invested Capital	Net profits Before Losses
Under $250,000	6.50
$250,000 to $500,000	8.67
$500,000 to $750,000	9.28
$750,000 to $1,250,000	10.26
$1,250,000 to $5,000,000	11.24
$5,000,000 to $10,000,000	13.05
Over $10,000,000	12.52

[1] Compiled from *Analysis of Bank Operations in Illinois* for the year ending December 31, 1929, p. 14. Prepared by the Illinois Bankers Association.

In an analysis of earnings, dividends, and expenses of all banks (State and national) in Illinois for the year 1929, the net losses were 10.09 per cent of gross earnings on earning assets under $250,000 in comparison with an average of 5.76 on earning assets over $1,250,000 (see Table XVII). Statistics for Illinois banks therefore indicate the smaller institutions have an earning power of only about 50 per cent of the larger banks and a much higher ratio of losses on loans and investments than the larger banks.

TABLE XVII

LOSSES OF ALL BANKS IN ILLINOIS DURING 1929 [1]

Class	Number of Banks	Earning Assets	Ratio of Losses on Loans and Investments to Gross Earnings
1	552	Under $ 250,000	10.09%
2	443	$ 250,000 to 500,000	12.50
3	204	500,000 to 750,000	11.14
4	210	750,000 to 1,250,000	11.48
5	282	1,250,000 to 5,000,000	7.00
6	52	5,000,000 to 10,000,000	5.73
7	34	Over 10,000,000	4 56

[1] Compiled from *Analysis of Bank Operations in Illinois* for the year ending December 31, 1929, p. 4. See C. B. Hazlewood, *The Bank and Its Directors* (The Ronald Press, New York, 1929), pp. 130-137, for interesting calculations from 1928 data collected by Illinois Bankers Association.

Relation of net earnings and net profits and loans and investments of Iowa banks

The status of all banks in Iowa for the years 1924 to 1929, inclusive, is given in the table below, which reveals the un-

usually poor condition of the banks in this State for the six year period. In all respects, it substantiates the data for Iowa given in Tables V and XII. Average net earnings to invested capital, before losses, was 9.0 per cent, with net profits, after losses, running less than 2 per cent for the six year period. However, banks with loans and investments over $1,000,000 averaged over 4.5 per cent after losses, whereas the smaller institutions operated at a loss.

Data for Iowa for 1928 and 1929 show an improved condition over previous years. Failures decreased about 50 per cent in comparison with 1927 and preceding years (see Table V). Net profits to loans and investments for 1929 were 4.2 per cent in contrast with 2.3 per cent for 1928 and a deficit of almost 1.00 per cent for the preceding four years.

TABLE XVIII

ALL BANKS IN STATE OF IOWA [1]
(1924–1929)

LOANS AND INVESTMENTS	NET EARNINGS						NET PROFITS (AFTER LOSSES)					
	1924 Per cent	1925 Per cent	1926 Per cent	1927 Per cent	1928 Per cent	1929 Per cent	1924 Per cent	1925 Per cent	1926 Per cent	1927 Per cent	1928 Per cent	1929 Per cent
Under $75,000	0 9	0 3	0 2	0 9	2 7	3 5	−6 6	−9 6	−7.6	−9.5	−6.6	−0.6
$75,000-$100,000	3 0	2 5	3 1	4 8	4 4	4.7	−5 6	−8 8	− .1	−5.2	−1.0	−0.1
100,000- 150,000	2 5	3 4	4 0	4 5	5 4	6 2	−7.3	−6.3	−5 1	−5 9	−1.8	−1.2
150,000- 250,000	5 0	4 5	6 0	6 0	7 0	8 1	−2 2	−1 7	−2 2	−1.1	0.1	1 9
250,000- 500,000	6 8	6 8	7 7	7 4	9 2	11 2	− .9	−1 0	− .9	−1 6	1.1	3 7
500,000- 750,000	7 2	7 8	8.7	9 6	10 2	13 5	−1 2	− .4	−2 3	1.6	3 4	6 0
750,000-1,000,000	7.6	8 5	10 1	10 4	10 2	12 8	−1 5	.8	2 7	1 0	3.9	5 0
1,000,000-1,750,000	8 9	8 6	9 1	9.1	11 0	12 7	4 1	5	4 3	1.4	3 2	4 4
Over $1,750,000	9 2	10.7	10.9	9 7	11 2	13 1	3 3	6 3	6 2	4.4	3.5	4 7
Total	7 5	8 0	8 7	8 5	9 7	11 9	.5	1.0	1.6	.8	2 3	4 2

[1] *Reports of the Committees of the Iowa Bankers Association* (June 16, 17, 18, 1930), pp. 30–31.

Net earnings to invested capital in Michigan institutions

Michigan institutions with loans and investments under $250,000 earned on invested capital during 1928 about 6.75 per cent, before losses, in contrast with over 12.73 per cent for the group with loans and investments exceeding $1,000,000, as indicated by the following table:

TABLE XIX

ALL BANKS IN STATE OF MICHIGAN FOR 1928 [1]

LOANS AND INVESTMENTS	NET EARNINGS TO INVESTED CAPITAL PER CENT
Under $150,000	5.18
$150,000 to $250,000	8.96
$500,000 to $750,000	12.58
$750,000 to $1,000,000	13.27
$1,500,000 to $2,000,000	13.89
$2,000,000 to $3,000,000	13.53
$3,000,000 to $5,000,000	10.78
$5,000,000 to $15,000,000	12.19
Total	11.30

[1] *Hearings*, p. 1612. Latest available data.

Ratio of net profits to loans and investments of Indiana banks

Banks in Indiana for the year 1927 with loans and investments under $250,000 earned, after losses, 2.3 per cent on invested capital in contrast with a 7.8 per cent return on loans and investments of over $1,000,000, thus indicating the low earning power of small institutions in this State (see Table XX).

TABLE XX

ALL BANKS IN STATE OF INDIANA FOR 1927 [1]

Loans and investments	Net earnings Per cent	Net profits (after losses) Per cent
Under $75,000	4.2	2.8
$75,000 to $100,000	4.8	—1.9
$100,000 to $150,000	6.6	3.4
$150,000 to $250,000	7.9	5.0
$250,000 to $500,000	9.0	6.0
$500,000 to $750,000	9.2	5.5
$750,000 to $1,000,000	9.3	6.1
$1,000,000 to $2,000,000	10.6	7.4
$2,000,000 to $5,000,000	11.0	8.3
Over $5,000,000	10.1	7.7
Total	9.8	6.9

[1] *Hearings*, p. 617. Latest available data for all banks.

Relation of net earnings and loans and investments of Wisconsin institutions

Banks in Wisconsin for the year 1927 reported earnings, after losses, on loans and investments under $250,000 of only 3.1 per cent in contrast with over 10.6 per cent on loans and investments over $1,000,000, thereby showing the inferior earning power of small banks in this State. In both Wisconsin and Indiana 1928 data reveal an improved condition for national banks over preceding years.

TABLE XXI

ALL BANKS IN STATE OF WISCONSIN FOR 1927 [1]

Loans and investments	Net earnings Per cent	Net profits (after losses) Per cent
Under $150,000	5.9	1.8
$150,000 to $250,000	9.5	4 3
$250,000 to $350,000	11.5	8 6
$350,000 to $500,000	11 8	7.9
$500,000 to $750,000	13.1	8.5
$750,000 to $1,000,000	12 1	7.3
$1,000,000 to $1,500,000	14.2	10.8
$1,500,000 to $2,000,000	15 5	11 5
$2,000,000 to $5,000,000	14 0	10.1
Over $5,000,000	12 0	9 9
Total	12.7	9.4

[1] *Hearings*, p. 617. Latest available data for all banks.

It has been said that, "Many of the strong and well managed country banks have found it necessary to discontinue making loans and to build up and carry large cash reserves for long periods of time. Due to the fear of lack of confidence and in their efforts to be prepared to withstand sudden withdrawals, some of these banks have restricted their operations to such an extent that they are of little benefit to the community in which they are located, and in some communities have practically ceased to function. Such banks are necessarily experiencing difficulty in earning a sufficient amount to cover operating expenses." [24]

Destructive competitive methods are one of the most dangerous obstacles confronting the banking profession and are a

[24] *Hearings*, p. 11. This statement was made by the Comptroller of the Currency, John W. Pole.

significant cause of decreased earnings. Banks are subject to several kinds of competition. In the first place, there may be competition in service. This problem is closely associated with the service charge difficulty.[25] In the second place, banks may compete for the product which they deal in, namely, deposits, through offering excessive rates of interest on commercial and time deposits. In the third place, banks may compete for loans by variations in the loan rate or by acceptance of undue risks. Over-aggressive solicitation of prospects, unfairness in the use of credit checking, the use of solicitors on a commission basis, and impossible promises made to prospects are some of the evils with which banks have to contend and have brought about decreased profits or failures. Possibly, in rural areas, the greatest evil is the practice on the part of some banks of paying excessive rates of interest on commercial accounts.

While operating costs have mounted, interest rates received by small banks throughout the country have remained unchanged,[26] thereby reducing income.[27] Income has also been reduced for other reasons. Money used to be made out of placing mortgages, but the Federal Government has taken over the most profitable farm loan business. In addition to crediting checks as cash, the country banks have carried small accounts that did not pay their way, have drawn wills, and performed many other services without charge, which have served to decrease income. The remedy most frequently suggested to increase income is some form of service charge.

[25] The problem of chain store accounts is closely associated with the service charge difficulty. For a discussion of this problem see the following: H. Y. Lemon, "Chain Stores and Banks Get Together," *American Bankers Association Journal* (January, 1930), Vol. XXII, No. 7, p. 665; R. W. Lyons, "The Chain Store Side," *ibid.* (September, 1929), Vol. XXII, No. 3, p. 229; C. F. Zimmerman, "The Country Bank and the Chain Store Account," *ibid.* (November, 1929), Vol. XXII, No. 5, p. 457. The latter article reports the results of a survey in twenty-two Pennsylvania communities and indicates out of 70 accounts, 36 per cent were found to be very satisfactory; 17 per cent fairly satisfactory; 26 per cent unsatisfactory; and 21 per cent very unsatisfactory. A committee of the American Bankers Association made a nationwide survey of chain store accounts. It reported an average balance of $800, a minimum figure permitting banks to break even in handling chain store accounts. The survey is described in Mr. Lemon's article.

[26] *Hearings*, p. 18.

[27] See Bryce Edwards, "High Cost of Country Banking," *American Bankers Association Journal* (September, 1929), Vol. XXII, No. 3, p. 207, for a very simple method of analyzing costs in small institutions.

The problem of service charges

Particularly with reference to banks in small cities and towns, service charges should be installed. According to a survey prepared by the Clearing House Section of the American Bankers Association, free services have been costing the banks $300,000,000 annually.[28] The annual loss of the country banks alone in the twenty States of the Mississippi Valley Conference from the failure of these banks to properly charge for the use of money and credit and services has been between $14,000,000 and $15,000,000.[29] A nationwide survey indicated that if all the banks in the United States would adopt float charges more than $50,000,000 (or 5 per cent on a $1,000,000,000 capital investment in banks) would be added to earnings annually.[30]

An effort has been made to develop interest in the per item charge, which seeks to remove the inequalities which frequently result from flat charges by applying the charge directly to the items handled. A country-wide survey made by the Commission on Banking Practices and Clearinghouse Functions, American Bankers Association, during the fall of 1929, indicated that only 36.8 per cent of the banks replying (1,000 in number) were making per item charges of one sort or another.[31] The table on page 49 indicates the percentage of banks in each section of the country which reported making such charges on checks payable in other cities. It is interesting to note that the southern section of the country reported the largest percentage.

Little headway has been made as far as charges on local items are concerned. Only 9.2 per cent of the banks were found to be making a charge on such items. However, some progress has been made in connection with charges on items drawn by their depositors. For the country as a whole, 19.6 per cent

[28] A complete report on this subject was presented at the 1929 American Bankers Association Convention by the Clearing House Section. See *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, pp. 138-139.

[29] *Proceedings of the Mississippi Valley Conference on Commercial Bank Management* (1929), p. 78.

[30] R. W. Putnam, "Making More Money On Float," *American Bankers Association Journal* (August, 1929), Vol. XXII, No. 2, p. 107.

[31] C. G. Mitchell, "Per Item Charges Pay Profits," *American Bankers Association Journal* (December, 1929), Vol. XXII, No. 6, p. 591.

TABLE XXII

BANKS EMPLOYING PER ITEM CHARGES BY GEOGRAPHICAL DIVISIONS[1]

(December 31, 1929)

Divisions	Per Cent
Southern States	62.2
Western States	34.6
Middle Western States	30.2
Eastern States	16.2

[1] *American Bankers Association Journal* (December, 1929), Vol. XXII, No. 6, p. 591. No later survey has been made

of the banks replying reported making such charges. In the South, this figure was 27.2 per cent, while in the East only 12.5 per cent of the banks stated they were imposing such a charge.

Banks are evidently showing a disposition to move slowly in this respect. While they must realize that they are entitled to this source of income, it appears that they fear the reaction on the part of their customers who might resent the bank's change of policy in this respect.[32] Especially in agricultural districts during the period of farm depression, the banks probably hesitate to install such charges. Perhaps they fear the reaction of putting into effect a charge for float lest they then be called upon to pay interest on daily balances.[33]

Higher standards of management

The remedy most frequently suggested to meet country bank problems is the inauguration of better bank management. It has been very well said that, "Theoretically this is all right, but in practice it will not work. The small bank cannot afford to pay the salary necessary to secure the services of well-trained, experienced and capable bank officers."[34] The

[32] See Booklet 4, "Unprofitable Practices and the Remedy-Per Item and Float Charges," prepared by Clearing House Section, 1929. There is included a detailed plan for installing float charges and a specimen schedule of service charges. Booklet 2, "Profit and Loss Operations," is also good as a check on the trend of profits or losses.

[33] Every time a bank advances funds in payment of an uncollected item or allows immediate interest on it, it makes an irregular loan for which interest should be collected. The depositor is the only one benefited by irregular loans and consequently should pay a reasonable charge for the service rendered. For a further discussion of how to improve earnings through float charges, see W. R. Morehouse, "Irregular Loans Commonly Called Float," *American Bankers Association Journal* (September, 1929), Vol. XXII, No. 1, p. 246.

[34] Clyde Hendrix, "Limited Branch Banking Best Adapted to Agricultural Needs," *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, No. 3356, p. 102.

argument of better management sounds plausible theoretically but lacks perspective.[35] It may be able to postpone the effect of these forces but is not a permanent remedy. It is all very well to effect economies with business retained but regaining business which has been lost,[36] and increasing income from sources which are rapidly becoming restricted, due to causes beyond the control of the individual banker or the local community,[37] is quite another question.

As unit bankers in small cities and towns observe the development of competition in the form of great metropolitan banking institutions and bank holding corporations, they probably begin to doubt the security of their position no matter how well they think their institutions are managed.[38] A former Deputy Comptroller of the Currency said that, "The high ideals being preached to unit bankers by well-meaning advocates are beyond the possibility of attainment."[39] The Committee on Recent Economic Changes takes a slightly different viewpoint and expresses the opinion that, "Exceptionally capable management will doubtless enable many to surmount these various obstacles, but these conditions are not favorable to the maintenance of solvency, to say nothing of satisfactory earnings."[40]

The illusion that the particular age in which a given system exists, with its dominant structure and policies, is final, is one that is continually being disrupted. From the preceding

[35] See *Hearings,* pp. 20-21, for similar views expressed by the Comptroller of the Currency.

[36] See Mahlon D. Miller, *Bank Sales Management* (Ronald Press, N. Y., 1929), 298 pages, for good discussion of modern methods of obtaining new business as utilized by large banks.

[37] *Report of the Comptroller of the Currency* (1929), p. 3.

[38] See H. N. Stronck, *Bank Administration* (Rand, McNally & Co., New York, 1929), 230 pages, for a very good discussion of new problems confronting bank administration. Mr. Stronck takes the position that the smaller institution can hold its own in this age of consolidation and combination and endeavors to translate the principles of better bank management being adopted by the largest institutions into the terms of banking on smaller scales. See also the following articles by the same author: "The Small Bank's Chance," *American Bankers Association Journal* (December, 1929), Vol. XXII, No. 6, p. 579; "Profit Producing Policies," *ibid.* (April, 1929), Vol. XXI, No. 10, p. 1011; "An Approach to the Problems of Bank Management," *Commercial and Financial Chronicle* (October 19, 1930), Vol. 129, p. 80.

[39] C. W. Collins, "Nationwide Branch Banking," *The Bankers Magazine* (October, 1928), Vol. CXVII, No. 4, pp. 509ff.

[40] *Recent Economic Changes,* p. 691.

discussion, it would appear that banking institutions in small cities and towns are not only less successful in their banking renditions but far less beneficent, in view of their lack of adjustment to the new economic order, than has been assumed.

Theories and practices of American banking should undergo great change. Only slight progress has been made in adapting our system as a whole to meet modern economic demands. Attention must be devoted to developing safer and better banking. It is necessary to recognize the fact that banks bear risks and suffer losses. It is believed that these losses can be reduced, and the remaining risks borne best, by large units rather than small units. A recognition of the changes that have come about in our banking system, and of the great need for further modification of the banking structure, is necessary. A revamping of theories seems essential. A full knowledge of the advantages associated with group banking and branch banking will go far toward initiating the needed modification. The remainder of the book is devoted to a discussion of these types of banking concentration.

CHAPTER IV

CHAIN AND GROUP BANKING

Introduction

As mentioned above, no domestic banking question has attracted more attention in the past few years among members of the banking fraternity than chain, group and branch banking. From the turn which discussion takes at annual conventions of the American Bankers Association, it is always possible to tell what question is uppermost in the mind of the banking fraternity. The policies of the Federal Reserve Board were not even mentioned in the topics in which the last convention was especially interested. It was quite clear that particular attention was being devoted to chain, group, and branch banking. These concentration forces present a subject of great public interest as well as a subject which is absorbing the attention of the keenest minds in the banking profession and of our State and national law makers. An understanding of group banking is vitally important if the full significance of the movement for an extension of branch banking is to be realized.

Particular difficulties with relation to chain and group phase of seismic banking evolution

The operations of chain and group banking appear at first sight to be singularly complex and difficult of comprehension. This is not due, however, to any mystery of the operations themselves, but is the result of their multiplicity and of the varied conditions under which they take place. The difficulty of a proper study is greatly increased by the fact that the corporate control aspect of the movement, in contrast with that of the individual, is comparatively new and still in the early stages of development.

More complete statistical information is needed regarding the forces that impelled the new developments in banking be-

fore conclusions of permanent value can be arrived at regarding the financial, economic and social effects. However, group banking has already openly developed to an extent that enables one to study its characteristics and possible consequences, and thereby offer at least tentative solutions to some of the knotty questions briefly enumerated below.

Bankers are pondering over many questions as to the purpose of a bank holding company, what it may do, and what it may not do, as well as benefits inuring to the individual member bank by reason of affiliation with such an organization. What solution can be offered to the problem of supervision and control in connection with inter-state organizations that are clearly without the control of a single State? Does a group affiliation result in the displacement of local personnel and absentee control of credit? What seems to be the trend toward size of banks being taken into groups? Assuming a continuance of present conditions, will group organizations continue to extend their contacts so as to encompass New York City and other metropolitan centers, possibly through the acquisition of a New York institution? Or are the large New York institutions more keenly aware of the importance of recent developments than is apparent from their attitude? Are they merely maintaining an indifferent public position because of their dread of the charge of being a financial octopus, and at the same time retaining relations with outside institutions which can later be extended into group or branch banking systems as the conditions of a later time dictate? How will group banking affect the Federal Reserve System? Will one or two groups in a district be able to control the Reserve Bank in that district, as some banking authorities now fear? Furthermore, the question as to whether concentration through affiliations of banks into groups is better adapted to social and economic demands of the nation, than centralization through extensive branch banking is one on which there is a great difference of opinion. Group banking is presenting many such knotty problems.[1]

[1] Bankers who were called upon, in person or by correspondence, to furnish information were, almost without exception, very obliging and helpful in their responses, so that many questions could be answered from this source.

Chain and group banking

Before proceeding further, it seems advisable to consider the question of terminology and indicate the basis upon which the present chapters have been prepared. In past discussions and to some extent at the present time, the terms "chain banking" and "group banking" have been used synonymously and sometimes as opposed to one another. Frequently the phrase "chain or group banking" has been used.

However, the term "chain banking" has predominated and has been more or less generally adopted to describe those groups of independent banks which were brought under a common management by various devices. The Federal Reserve Board has taken this position and defines chain banking as "control exercised principally through stock ownership by an individual or group of individuals, or by a holding company, or investment company, or in some instances by a bank either directly or indirectly through a subsidiary company." [2] The Board has not made any attempt to differentiate between group and chain banking, but believes it might be advisable to differentiate between the terms on the basis of the character of the controlling agency.[3] However, throughout the hearings into chain, group, and branch banking, statistics and information offered by the Board failed to make any distinction.[4]

In a survey of chain and group banking in the fall of 1929, the Economic Policy Commission, American Bankers Association, generalized the terms and established the distinction of purpose and operation as between the independent unit and the multiple unit banking on the basis of a definition which considered "chain banks as those systems in which a centralized administrative control, whether corporate or personal and either rigid or informal, directs the operations of two or more complete working units, not functionally complementary, each working on its own capital and under its own personnel and located in one or more cities or States." [5] The Commission has

[2] *Report of the Federal Reserve Board* (1928), p. 30.

[3] Letter from Director of Research and Statistics, Federal Reserve Board, December 11, 1929.

[4] See *Hearings*, p. 452.

[5] *"A Study of Group and Chain Banking,"* Report of the Economic Policy Commission, American Bankers Association, New York (October, 1929), p. 13.

discussed the question of a differentiation and is of the opinion that a distinction could be made in types of multiple unit banking operations in respect to describing them as group banking or chain banking, but, from a practical point of view, believes that in the banking profession the terms are used interchangeably.[6] If too precise a scientific differentiation were attempted, the Commission believes two things might happen. One is that in general the change might confuse bankers who are used to thinking of the two terms as identical. The second is that those bankers who object to being called chain bankers would find cause for complaint if their operations were described as chain banking, whereas they might consider themselves engaged in group banking. The Economic Policy Commission has therefore adopted the practice of describing multiple unit banking by the double phrase of "group or chain banking" so as to include all types.[7]

At the present time a pronounced tendency exists to differentiate between chain and group banking and give each a distinct meaning. The Comptroller of the Currency has made such a distinction and described chain banking, in contrast with group banking, as a condition in which "a number of banks are owned or controlled by the same individual or by a group of individuals." [8] The term group refers to "the ownership and some element of operating control of several banks through the medium of a bank holding company." [9] This very definite distinction was maintained by the Comptroller throughout the hearings to which reference has been made.

Mr. L. E. Wakefield, President, First Bank Stock Corporation, Minneapolis, Minnesota, likewise differentiates between

Hereafter cited as *A Study of Group and Chain Banking*. Although comprehensive in nature, the definition does not draw a clear distinction which would comprehend many border line cases. This fact is admitted on page 13 of the report.

[6] Letter from Secretary, Economic Policy Commission, American Bankers Association, New York, N. Y., December 3, 1929.

[7] Such individuals as the following also take the same position and are practically in harmony in their definitions: Professor Ray B. Westerfield of Yale University; Craig B. Hazlewood, former President of the American Bankers Association; and W. G. Coapman, Secretary of the Wisconsin Bankers Association.

[8] *Hearings*, p. 26.

[9] *Ibid.*

the terms and emphasizes that group banking is not simply chain banking under another name:

> Group banking is the name that has come into common usage for this step in the evolution of the American banking system, prompted by a need to meet a definite change in economic conditions. Group banking is not simply chain banking under another name. Chains of banks under common ownership or common control, usually of a single individual, have existed for generations, the majority stockholder or stockholders simply exercising that natural right to supervise the operations of all the corporations in which their holdings represented controlling interests. Chain management generally reflected a single dominant individual. Group banking, on the other hand, is the association of a number of corporately independent institutions within a single holding company for mutual advantages, the group being built around one or more large banks of a territorial nature and its management resting in the hands of the banking interests of the territory served.[10]

Mr. George F. Rand, President, Marine Midland Corporation, Buffalo, New York, also contrasts the individual versus the corporate aspect in the following definition:

> Group banking implies the ownership by a holding company managed by bankers of a controlling stock interest in a group of banks or trust companies. It is a banking system whereby a number of corporately independent financial institutions, retaining their own identity, capital, personnel, and management, are coordinated through majority stock control, by a supervising holding company, operated by the banking interests of the territory which it serves. The stock of this holding company is widely distributed among a large number of stockholders.
>
> Chain banking refers to the ownership of stock control of a number of banks, directly or indirectly, by one or more individuals who may be bankers, but are more often business men who have acquired or operate the banks as adjuncts of their business interests. Ultimate stock control is usually lodged in one, or at most, in a very few individuals.[11]

Mr. Frank W. Blair, Chairman of the Board, Guardian Detroit Union Group, Inc., in an address before the annual meeting of the Reserve City Bankers Association, April 28, 1930, pointed out a similar difference but based on the degree

[10] *Hearings*, p. 904.
[11] *Ibid.*, p. 1182.

of control involved. Chain banking is defined as an "arrangement through which an individual or a corporation exercises some control over but owns only a minority interest in the stock of several banks." [12] Group banking, on the other hand, is said to refer only to "the complete ownership and control of the stock of various banks by a holding company,"[13] thereby indicating importance of complete ownership to the Guardian group in contrast with a mere stock control of 51 per cent. The Northwest Bancorporation gives a representative definition of group banking as "a banking system whereby a number of corporately independent financial institutions, retaining their own identity, capital, personnel and management, are coördinated, through majority stock ownership, by a supervising holding company, operated by the banking interests of the territory which it serves." [14]

The Superintendent of Banking of New York likewise emphasizes the difference between holding company and individual stock interest. Group banking is said to cover that class of activities where "a number of banking institutions, while preserving their own identities, and, to a large degree, local autonomy with respect to internal operations, loan and investment policies, are actually in fact controlled through stock ownership by a central holding company operated and under the management of experienced bankers." [15] Whereas, chain banking is the term applied where "an individual or corporation owns 50% or more of the capital stock of two or more banking institutions, or a sufficient part of the stock of such institutions to give to the individual or corporation the controlling voice in fixing the loan and investment policies of such institutions." [16] This definition of chain banking is slightly confusing insofar as the word "corporation" is inserted. Obviously a central holding company must also utilize the corporate form of organization.

[12] F. W. Blair, "Group Banking Fosters Civic Progress," *The Commercial and Financial Chronicle* (May 10, 1930), Vol. 130, pp. 3284-3285.
[13] *Ibid.*
[14] J. E. Neville, "Group Banking in the Northwest," *The Commercial and Financial Chronicle* (February 22, 1930), Vol. 130, p. 1176.
[15] *Report of Superintendent of Banking, New York,* for the year ending December 31, 1929, p. 13.
[16] *Ibid.*

These representative selections give an adequate picture of current conceptions of chain banking as distinguished from group banking.

Throughout the study, chain banking will be considered to exist where an individual or group of individuals, in contrast with a corporation, have established majority control or are in a position through stock ownership, or otherwise, to exercise some control in two or more banks in a restricted geographical area. In a chain system, policies are enforced through interlocking boards of directors and interlocking officers, as well as through stock ownership. For a common chain banking illustration, let us turn to three banks, A, B, and C. The president of A owns 55 per cent of the stock of his bank. He proceeds to purchase more than one-half the stock of each of the other two banks. This accomplished, he owns a controlling portion of the stock of each of three banks, which still retain their corporate identity and to all outward appearances, in name and organization, are still independent banks. They are now members of what may be technically known as a chain.

The term is not entirely satisfactory and acceptable for contemporary developments for the reason that it has been attached in the past to an unsound type of banking expansion by which the funds of one bank, directly or indirectly, were used to establish a second bank and then in turn a third from the funds of the second and so on. This pyramiding process continued as far as unwise judgment dictated, and clearly developed a weak relationship between invested capital and controlled capital. Obviously this form of organization was very unsound. Consequently there is considerable stigma attached to the term chain in some sections.[17] For this reason many bankers very much prefer to use the term group.

The terms, group banking, bank holding company, and bancorporation then have been adopted and applied to corporate activities, in contrast with individual activities, which are fundamentally sounder and do not involve pyramiding. In other words, there has been an evolution in terminology. Another reason for this evolution is the bad reputation which

[17] This statement was made to the writer many times, particularly in the West and South.

chain banking received as a result of the collapse of the chain of 180 Florida and Georgia banks of the Bankers Trust Company of Atlanta in 1926.[18] Furthermore, it would also appear that some distinction between corporate and individual control is necessary in order to secure a correct perspective of the movement on a nationwide basis. It is but a platitude to say that the control of a comparatively small group of country banks is hardly comparable to an organization which stretches over the entire country and literally involves billions in control, such as the Transamerica Corporation.

Group banking then will be said to exist where control is exercised by a holding company, or in some instances by a bank either directly or indirectly through a subsidiary security or affiliate company, whereby a group of stockholders in the controlled banks exchange their shares for a price, or permit them to be placed under a trusteeship, or exchange their shares for shares in another corporation. Insofar as a mutual agreement exists, on one of these bases, among several institutions as a result of which an interbank policy is formulated and maintained, group banking may be said to exist. Although technically each bank in the group is a separate corporation operating with its own capital funds and under the direct supervision of a local board of directors, a certain degree of unity is achieved for the group as a whole.

Branch banking

Chain and group banking are frequently confused with branch banking. Branch banking is a system in which the branches are merely offices of the parent institution, extensions of it, but under its direction, with the same officers, management and corporate existence. All of the units of the organization become merged into a single corporation with a common capital, and the entire resources of the parent bank stand behind the branch. Only one legal entity is existent in a branch system. On the other hand, chain and group banks are separate corporate entities, each with its own name, officers, directors, operated quite independently of all the others in the

[18] Haynes McFadden, "The Chain Bank Crash in Georgia," *American Bankers Association Journal* (September, 1926), Vol. XIX, No. 3, p. 137.

chain, but owned by the same central holding company or individual or group of individuals. Each bank has separate capital and is a distinct organization. Thus the First National Bank of Rochester, Minnesota, is a unit bank. So is the First National Bank of Great Falls, Montana, and the First State Savings Bank of Aberdeen, South Dakota. Each bank has its own charter and its own name but the stock of all these banks belongs to one holding company, the First Bank Stock Corporation, which owns a number of other banks besides.

Moreover, branch and group banking may be found in the same company, such as the Transamerica Corporation, which controls the Bank of America, N. T. & S. A., and Bank of America, N. A., among others, with several hundred branches and also a large number of affiliated banking and business institutions.

A further characteristic of chain and group systems which differentiates them from branch systems is that the former frequently embrace in the same chain or group both national and State institutions, and may also embrace institutions located in two or more States; furthermore, they may extend into a number of different Federal reserve districts.

Bancorporation

In the Northwest the trend toward unification of banks taking the form of a central organization or holding company has been designated by the term "bancorporation." The name is recent coinage. The officers of the Marine Bancorporation with headquarters at Seattle, Washington, claim credit for conceiving and inaugurating its use in 1927. They have made no effort to restrict others from using the term and a number of bank holding corporations now use it as a part of the corporation's name. No dictionary defines bancorporation. It is a coined word and is pronounced, bank corporation.[19]

Legal limitations

Some States prohibit the use of the word bank or any derivative in a corporate name unless the corporation is to

[19] *A Survey of Group Banking in the United States* (October, 1929), p. 32. Compiled by the Research Department of the Marine Bancorporation, Seattle, Washington. Hereafter cited as *A Survey of Group Banking.*

carry on a banking business. Hence there may be some question as to the legality of the use of the term in some States. For example, in Arkansas it has been held that:

> All persons, firms, associations and corporations, except such as discharge the burden of proving their authority under the laws of another State or of the United States . . . or except such as are subject to the supervision of and have authority from the bank commissioner, to engage in the business, or a substantial part thereof, of a bank, trust company, savings bank, . . . are prohibited from using in this State, as a portion of or in connection with, their place of business, their name or title, or in connection with their office or other place of business, or in reference to themselves in their stationery or advertising, any of the words, or phrases, alone or in combination with any other word or phrase, "bank," "banks," "banker," "bankers," "banking," . . . *or any other word or phrase which tends to induce the belief that the party using it is authorized to engage in the business of a bank, trust company, savings bank, . . .*[20]

In Ohio it is provided that "the use of the word 'bank,' 'banker,' or 'banking' . . . or words of similar meaning in any foreign language, as a designation or name, or part of a designation or name, under which business is or may be conducted in this State, is restricted to banks. . . ." [21] This statute might very readily be interpreted to also include "words of similar meaning in the English language." While the statute does not expressly provide that the word bancorporation shall not be used in a corporate name, it seems clear that the meaning of the statute and the intent of the legislature was to prohibit such use. Such a word in the name of a corporation would probably cause the general public to infer that it was doing a banking business within the meaning of the statute.

In an Illinois case during 1929 it was held that, "The word 'bankers,' while not mentioned in the statute, is a derivative of the word 'bank,' the use of which is expressly prohibited. The general public has so closely associated 'bankers' with the idea of State protection that they would be misled in their dealings with a corporation having this word in its

[20] *McKee* vs. *American Trust Co.*, 226 S. W. 293 (Ark. 1924). Italics are the writer's.

[21] *Inglis* vs. *Pontius*, 131 N. E. 509 (Ohio, 1921).

corporate title." [22] It could probably be contended that bancorporation is also a derivative of the word bank and therefore prohibited.

The unrestrained right which corporations of the above type have to use the word bank in even a modified form should be checked. The sooner the law is made so strict that the words "bank" and "bankers" can be used only to signify institutions of deposit under supervision, the sooner the fraud potential in such misuse of this word will be permanently enjoined.

Investment trust

While certain investment trusts, such as the Goldman Sachs Trading Corporation, may have a majority stock interest, or what may be termed a controlling minority interest, in one or more banks, they do not belong to the class of bank holding corporations whose aim is to constitute one large entity and form one large, well-knit organization. Points of difference may be summarized as follows: "The investment trust is interested in investments as such, and as a rule avoids such holdings as might involve responsibility in particular undertakings. The holding company, on the other hand, assumes responsibilities of control, management, and shows profits arising from the enhanced earning power of subsidiary undertakings founded or fostered by the parent company, and from the capitalization of rising dividends therefrom." [23]

Investment trusts usually seek to limit their participation in any one industry or company so that they may at any time quietly withdraw from a given investment position without sacrificing related interests. On the contrary, no matter how widely the securities in its general investment portfolio may be diversified geographically, the bank holding company is closely connected with the success or failure of institutions in which substantial interests have been acquired, whether by purchase of shares, by direct exchange of stock, or by other means. In other words, the latter does not secure as great a

[22] *People* vs. *Stratton*, 167 N. E. 31 (Illinois, 1929).

[23] L. R. Robinson, *Investment Trust Organization and Management* (The Ronald Press Company, New York, 1929), p. 15.

degree of safety by restricting its investments as the former. It has also been said, "The Transamerica Corporation, like innumerable other large corporations, owns sizable general portfolios of investment securities: they follow, however, certain lines of activity, such as acquiring substantial holdings in financial companies, participating in consolidating, reorganizing, and financing them, creating systems of companies under one control, and effecting functional groupings among them, which are wholly alien to the purposes and program of investment trusts." [24]

[24] *Ibid.*, p. 16.

CHAPTER V

TYPES OF CHAIN AND GROUP SYSTEMS

Principal types of banking chains and groups

Today one finds individuals, groups of individuals, bank holding corporations, security affiliates of banks, investment trusts specializing in bank stocks, insurance companies, and investment banking houses accentuating the development of chain and group banking directly or indirectly. Three outstanding types of banking concentration, however, may be distinguished as follows: (1) ownership of substantial or controlling interest in a number of banks by a single individual or group of individuals; (2) control by a non-banking holding corporation which is not subsidiary to any particular bank; (3) control held or exercised by a particular bank through ownership of stock, either by such bank directly, or through its stockholders or directors.

It is difficult in some cases to make a definite classification. In one case, for example, a trust company whose stock is entirely trusteed for the benefit of the stockholders of a national bank, organized an associated holding company and the latter in turn purchased a majority of the stock of a number of national and State banks.

Individual stock ownership

Chains, the control of which is held by an individual or group of individuals, as distinguished from groups where the control rests with a corporation, have very well been classified by the Economic Policy Commission of the American Bankers Association, on the following basis: (1) those headed by a single practical banker who acquires control of a number of banks and personally directs and impresses his banking methods and ideals on them through his individual contacts

with them, rather than through any definitely organized system of control—a type found chiefly in country districts and involving the operations of small banks; (2) those in which the dominating head, with the increase in his multiple banking interests, sets up a special directing and supervisory function, ordinarily in his principal bank, and systematically controls the management of the members of his group; and (3) those in which a centralized management and bookkeeping unit, with standardization of method in detail, is set up by the dominant individual and all members of the group are required to refer loans to this unit—a type that is to all intents and purposes a branch banking system.[1]

By having a controlling interest, the individual or group of individuals concerned, commands a majority of the board of directors and can direct all policies of the administrative staff. Since each bank in a chain system preserves its identity, as far as outward appearances are concerned, it is difficult for an outsider to discover the controlling interests.

Information regarding stock ownership on the part of individuals or the interlocking of bank directorates is not readily obtainable. However, the Bankers' Directory publishes the names of executive officers of banks. A casual examination of the list of bank presidents in four States shows one man serving as president of twelve Michigan banks. In Oklahoma, one man is the head of fifteen banks. A chain of twenty banks in Iowa, Nebraska, and South Dakota all have the same president. Similar chains can be found in other States. There is a chain of twelve banks in Nevada which is of particular interest because, while not an exceptionally large system, it represents over one-third of the entire number of banks in the State. In one chain in Mississippi the same individual is officially connected with ten different institutions, while in another chain an individual is officially mentioned in connection with seven different banks. These illustrations are representative where stock control rests in the hands of a single individual or his immediate associates. Since they are principally noncompeting country banks, interlocking directorates are not forbidden by the Clayton Act, and no special permission is re-

[1] *A Study of Chain and Group Banking, loc. cit.*, p. 12.

quired to enable one man to serve as an officer or director of several banks.[2]

The following table gives the latest available list of the largest chains in the United States:

TABLE XXIII

PRINCIPAL BANKING CHAINS [1]
January, 1930

Controlling Interest	Number of Banks	Loans and Investments
Rogers Caldwell, Nashville, Tennessee [2]	66	$131,932,000
Otto Bremer, St. Paul, Minnesota	71	52,932,000
M. D. Thatcher, et. al., Pueblo, Colorado	8	26,588,000
George Wingfield, Reno, Nevada	12	18,911,000
James F. Toy, Sioux City, Iowa	17	13,056,000
J. M. Kemper, et al., Kansas City, Mo.	8	10,810,000
Judson Rosebush, Milwaukee, Wis	4	9,709,000
A. P. Sleeper, Bad Axe, Michigan	16	5,612,000
Isaac Hazlett, et. al., Minneapolis	19	5,361,000
Thurmond Brothers, Oklahoma City	15	4,664,000
O. S. Hanson, Grand Forks, N. Dakota	14	3,300,000
A. M. Grimsley, Clanton, Alabama	10	2,086,000

[1] Compiled from Federal Reserve Board data presented in *Hearings*, pp. 163-184.
[2] Includes 38 banks formerly reported in A. B Banks chain in Arkansas The Caldwell and A. B Bank chains failed in the latter part of 1930.

An interesting illustration of a chain organization, in which the dominant figure is Mr. Otto Bremer, Chairman of the American National Bank of St. Paul, Minnesota,[3] involves 71 small banks in Michigan, Minnesota, North Dakota, Montana, and Wisconsin. "This individual's holdings are said to be in the nature of personal investment, sometimes constituting control, other times only a substantial interest; he usually, although not always, is on the board or represented there, in the banks in which he is interested, and in some cases serves as a senior officer. He has an auditor who calls upon his banks, but there is no central management. It is said that naturally his leading bank gets the accounts of his other banks, but outside of this benefit he does little in connection with the control of the banks. A public bank official says that the member banks in this chain do not exchange paper with each other and

[2] For complete list of chains, see *Hearings*, pp. 163-184. Officers of banks are not designated in this compilation. The data include all chains in operation on January 1, 1930.
[3] A metropolitan bank with resources of $20,000,000.

the owner never borrows a cent from any of his banks, so they are in no way affiliated." [4] Mr. Bremer disclaims premeditated chain banking motives. He claims he is simply an investor in the stock in a number of banks and the banks in which he is a stockholder or otherwise interested are absolutely independent from the others as to management, loaning policy or otherwise,[5] and that therefore "you would hardly call this chain banking." [6] However, it is quite apparent that this system represents a distinct type of chain banking. It would be inaccurate to group this chain with chains comprising only a few country banks for comparative purposes, since banking standards are doubtless higher than in the average chain. The same logic probably applies to all of the large chains listed in Table XXIII. Nevertheless, branch or group systems are considered more desirable.

Bank holding corporation or bancorporation

The modern expedient to secure control of a group of banks is a bank holding corporation or bancorporation. This method of establishing control is becoming increasingly important and is the most important in existence today. The legal mechanism of the movement is rather simple. It is based, not upon any act of the banks themselves, but rather upon the right of a shareholder of the bank to sell his stock, and the right of a corporation to buy it.[7] Possessing legislative authority to hold stocks of other corporations,[8] the group company proceeds to purchase, either with cash or with its own securities, a majority or all of the shares of the banks which it plans to affiliate. The affiliated banks maintain their separate corporate existence and are nominally independent. Yet, inasmuch as the holding company may elect a controlling number of directors, it probably can effectively control their management, and operate their institutions in accordance with a unified plan.

[4] *A Study of Group and Chain Banking, loc. cit.*, p. 38.
[5] *American Banker* (February 20, 1930), p. 12.
[6] *A Study of Group and Chain Banking, loc. cit*, p. 38.
[7] For further detailed discussion of legal aspects, see chapters dealing with Federal and State legislation.
[8] See broad privileges granted to Transamerica Corporation in this connection, *Hearings*, pp. 1456-1459.

Capital may be raised, in part at least, by cash subscription on the part of the public. Some holding companies, however, are closely held and the public is not permitted to participate. The dominating interests either supply necessary cash or authorize stock exchange. A common method utilized by the holding company is to exchange its shares for shares in banks in the proposed system and to authorize the issuance of shares only for this purpose. In another type of holding corporation, the group of shareholders in controlled banks may exchange their shares for a cash consideration. The holding company is also sometimes closely held by stockholders of a given bank by having the stock trusteed pro rata for their benefit.

The following classification includes the organizations in which a non-banking corporation is the central controlling element: (1) where the holding company, not subsidiary to any particular bank, is the supreme administrative unit and in which all banks belonging to the system are subordinate members, the holding company being closely held; (2) those of this same administrative type in which the authorized capital is issued only through the equitable interchange of the holding company's stock for the stock of banks, under a mutual understanding that a centrally directed chain system is being created; and (3) those in which the capital of the holding company is created by cash subscription open, in part at least, to the public, and is employed to purchase, in the open market, the controlling stock interests in a number of banks.[9]

It is clear, therefore, that all groups are not organized in the same manner, but the general plan is the same. Theoretically, the member banks of the group are the holding company; they form the holding company, are represented in it, and decide what its policies shall be. In reality, it will be found that in every system of importance, a financial group centering in a large city bank exercises the dominating influence.[10]

The following table presents the latest available list of important bank holding corporations:

[9] *A Study of Group and Chain Banking, loc. cit.*, p. 12.
[10] *Hearings*, p. 456.

TABLE XXIV

PRINCIPAL BANK HOLDING CORPORATIONS IN ORDER OF RESOURCES [1]
January, 1930
(Dollar figures in thousands)

CONTROLLING INTEREST	NUMBER OF BANKS	CAPITAL, SURPLUS, UNDIVIDED PROFITS	LOANS AND INVESTMENTS	RESOURCES
Transamerica Corporation, New York City	18	$216,180	$1,418,361	$1,891,201
Detroit Bankers Company, Detroit	21	89,191	605,032	711,006
Manhattan Company, New York	4	97,723	328,789	729,174
Marine Midland Corporation, Buffalo	19	57,760	425,436	520,956
Mellon Group, Pittsburgh	6	102,228	419,936	549,184
Guardian Detroit Union Group	36	66,828	403,966	509,949
Northwest Bancorporation, Minneapolis	92	44,423	339,754	454,141
First Bank Stock Corp., Minneapolis	78	40,993	339,267	433,074
Anglo-National Corp., San Francisco	17	28,536	146,138	277,691
Wisconsin Bankshares Corp.	18	28,265	168,466	243,312
National Republic Bancorporation	8	23,155	193,383	242,603
Associated Banks of Pittsburgh	8	39,805	166,255	216,463
Fourth and First National Group,[2] Nashville, Tenn.	8	23,729	110,421	174,992
First National Associates, Atlanta	7	19,960	110,303	136,248
Southwest Corp., Tulsa, Okla.	21	20,192	77,753	138,000
BancoKentucky Corp., Louisville	6	14,696	97,429	120,710
First Securities Corp., Syracuse	14	12,393	115,559	119,610
First Seattle Dexter Horton Group,[3] Seattle	7	11,267	97,029	109,974
Citizens and Southern Holding Co., Savannah	7	10,159	72,489	80,798
BancOhio Corporation, Columbus	4	10,045	72,245	79,834
Financial Institutions, Portland	10	7,162	65,200	71,500
Federal National Affiliates, Boston	8	4,730	58,007	61,040
First Security Corporation, Ogden	25	5,015	34,723	51,062
Marine Bancorporation, Seattle	10	5,631	35,484	50,185
Old National Corporation, Spokane	22	3,876	32,981	43,890

[1] Compiled from Federal Reserve Board data presented in *Hearings*, pp. 163–184; and *American Banker* (February 20, 1930), pp. 8–12. The Banco-Kentucky Corporation failed in the latter part of 1930, probably due to dishonest or inefficient management.
[2] Purchased by Rogers Caldwell and included in Table XXIII.
[3] Formerly First National Corporation.

The First Security Corporation of Ogden, Utah, is a good example of the first type of bank holding corporation, where the holding company, not subsidiary to any bank, is the supreme administrative unit and all banks belonging to the system are subordinate members, the holding company being

closely held. While the First Security Corporation owns an average of 90 per cent of the stock of 25 banks in Utah, Idaho and Wyoming, and 100 per cent of the First Security Company, an investment organization, there is no bank which the corporation terms as the parent bank in the group. The home office of the corporation is at Ogden, Utah. Its three principal banks are the National Copper Bank of Salt Lake City, First National Bank of Ogden, and the First Security Bank of Boise, Idaho. On account of a branch of the Federal Reserve Bank being in Salt Lake City, the National Copper Bank is the principal bank in the handling of the transit business of the system.[11] The corporation is closely held. The Eccles Investment Company and the J. M. and M. S. Browning Company, the sponsors of the organization, own over 90 per cent of the Class B stock and are also the largest holders of the Class A stock.[12]

The two largest holding corporations in the Northwest, the Northwest Bancorporation and the First Bank Stock Corporation, offer interesting examples of organizations in which a non-banking corporation is the controlling element. The Northwest Bancorporation was started by men at the head of the Northwestern National Bank of Minneapolis. The First Bank Stock Corporation, on the other hand, was organized by two institutions, the First National Bank of Minneapolis and the First National Bank of St. Paul. A substantial majority of the stock in the holding company is held equally by the two banks.[13] In California, in spite of the fact that branch banking is most extensively practiced in that State, the holding company plan has been utilized as a means for extending the scope of operations of some of the leading branch banks. The Bank of America, N. T. & S. A., has developed the most complete system of branches in the country but also is affiliated with the country's most extensive bank holding company, the Transamerica Corporation. The Bank of Manhattan, with its broad charter granted in 1799 that permits it to engage in activities

[11] *American Banker* (February 20, 1930), p. 12.

[12] *First Security Corporation of Ogden* (E. H. Rollins and Sons, Los Angeles, California, May 1, 1930), p. 2.

[13] Letter from A. J. Viegel, Commissioner of Banks of Minnesota, July 22, 1930.

other than banking, transferred its banking business to a new banking unit known as the Bank of Manhattan Trust Company. The original Bank of the Manhattan Company, under the new arrangement, is being utilized as a holding company for a group of banking institutions with the possible thought of extending the scope of the Bank of Manhattan on a national basis, if federal laws make such a move feasible. This statement, of course, is a mere conjecture.

Bases of exchange of stock

A few representative corporations have been selected which afford an adequate illustration of bases of exchange of stock. The Northwest Bancorporation, for example, usually acquires banks by issuing stock of the holding company, except in cases where it is necessary to recapitalize a bank.[14] In such instances, the old capital structure is wiped out by losses or reserves set up for possible losses.[15] The basis for conducting negotiations has been explained as follows:

> All exchanges are made on as uniform a basis as is possible, taking into consideration the capital, surplus and undivided profits, resources in use as capital and net accruals; the foregoing constituting the bank's total invested capital. The total invested capital, the volume of deposits, and the average earnings over a 5-year period to a great extent determine the ratio of exchange. Of course, management and future prospects for growth and strategic location are also taken into consideration.
>
> When an agreement has been reached on the exchange ratio, the bank is examined by our own examiners who make the examination without having in mind the terms of the contract and ultimate consummation of the deal. The examination is unbiased with the end in view of obtaining all information possible regarding the prospective affiliate. Before affiliation is finally brought about, the undesirable assets are eliminated and the bank comes into the group on a clean basis.[16]

This policy is sound except insofar as the period of time is concerned. It would appear that a five year period is an inadequate basis for valuation in an agricultural region subject to unusual business vicissitudes.

[14] *Hearings*, p. 807.
[15] *Ibid.*
[16] *Ibid.*

The Guardian Detroit Group is another example of the same type. The basis of exchange of stock of the group company for that of the banks or trust companies acquired has been stated by Mr. Robert O. Lord, President of the company, as follows:

> In general, the method was to reduce to a parity of actual value both the stock of the holding company and the stock of the bank to be acquired; and earnings of both institutions were also reduced to a parity—both factors being given due consideration in arriving at a basis satisfactory to both parties at interest. In this manner any tendency toward dilution of either actual value of the shares of earning power was minimized.
>
> Actual values were determined by an examination of the assets of the bank with which negotiations were under way; and the bank, through its representatives, in turn, was afforded an opportunity to satisfy itself as to the value of the shares of the group company.[17]

Two criticisms of this valuation policy appear warranted. In the first place, future prospects for growth do not seem to have been considered. Secondly, the method of reducing to a parity of actual value the stocks of the holding company and the bank to be acquired, as well as the earnings of both institutions, calls for certain arbitrary assumptions. Since actual value and book value are considered to be synonymous, an arbitrary valuation of the book value of present loans and investments is necessary. Furthermore, the lack of a uniform procedure for compiling the earning statements of bank holding corporations and banks complicates the procedure of reducing the earnings of both institutions to a parity.

Generally speaking, the policy of the Transamerica Corporation is to acquire its holdings of bank stocks through the issuance of its own stock in exchange therefor, but this policy does not prevent it from using cash for part or all of the purchase price if that means will be helpful in any given case.[18] No details are available as to the basis upon which the exchange of shares takes place.

All of the 3,016, 870 outstanding shares of the First Bank Stock Corporation have been issued in exchange for the stock

[17] *Hearings*, p. 1047.
[18] *Ibid.*, pp. 1343-1345, 1429-1431.

of affiliated banks, with the exception of 200,000 shares sold through the First Minneapolis Company and the First St. Paul Company to the general public at $47.50 per share, and 32,000 shares sold to the officers and employees of the affiliated corporations at $42.50 per share.[19] The stock exchange basis is similar to that described above in connection with the Northwest Bancorporation. A certain amount of similarity is observed in the policies of these two large Northwest concerns. According to Mr. L. E. Wakefield, President:

> In every case a very thorough examination is made before the purchase is completed, and all undesirable assets are either removed from the bank or insured by adequate guaranty. In some cases where undesirable assets are removed, the accepted assets are guaranteed by deposit of a portion of our stock, given to them in exchange for theirs. We require all depositing stockholders to guarantee the validity of their stock, and also require them to sign a guaranty protecting us against any liabilities of the bank existing on the date on which the deal is closed, and now shown on the balance sheet. The number of shares of our stock given in exchange for the stock of affiliating bank or corporation is determined both by the amount of net capital assets which we require, and by the earning power of the bank or corporation over a period of years.[20]

The Marine Midland has a little different plan in that the purchase price usually includes a larger percentage of cash. Over 1,000,000 shares were underwritten and sold to the public at $60 a share when the corporation was first organized. This public sale was made by Stone & Webster and Blodget (Inc.), White, Weld & Co., Chas. D. Barney & Co., Schoellkopf, Hutton & Pomeroy (Inc.), and Marine Union Investors (Inc.), and 75,000 shares underwritten without commission by certain individuals were sold to the management at the same price paid by the public.[21] These transactions gave the corporation nearly $65,000,000 in cash, which constitutes the largest amount of cash available to any bank holding company commencing operations in the United States, with the exception

[19] *Ibid.*, pp. 893-894.
[20] *Ibid.*, p. 893. Occasionally this corporation incorporates new banks and pays in the capital in cash.
[21] *Hearings*, p. 1177.

of the Transamerica Corporation, that has come to the attention of the writer. This situation clearly explains the substantial portion of the purchase price usually paid in cash, even to the acquisition of the Fidelity Trust Company, New York, as a Wall Street connection for the holding company and affiliated banks.

Degree of holding corporation stock ownership

No uniform policy exists regarding the percentage of stock ownership. In the case of the West Coast Bancorporation the established policy requires that control be not less than two-thirds of the bank's stock, but actually this control ranges from eighty-eight per cent up, and in some cases all the stock, except the directors' qualifying shares, is owned by the corporation.[22] In the case of the Northwest Bancorporation, only ownership of sufficient stock to assure control is required, the balance being placed among five or six representative business men so that the institution's local color is not destroyed.[23] Over ninety per cent of the stock of affiliated banks is controlled by the First Bank Stock Corporation.[24] Other examples could be cited but these three bancorporations are sufficiently illustrative of the representative bank holding corporation in this respect. Generally, though not in every instance, the group relationship implies a majority stock interest.[25]

As a result of the wider dissemination of bank stocks to investors of all classes, holding to a large extent for investment purposes, it is probable that extensive stock interests are unnecessary to assure the attainment of desired ends.

Control exercised by a particular bank

Control of a number of banks may be exercised directly or indirectly by a particular bank through a security affiliate as

[22] Letter from Andrew Miller, Secretary, West Coast Bancorporation, October 23, 1929.

[23] Letter from J. F. Millard, Vice-President, Union Investment Company, October 26, 1929. This company is affiliated with and operates under Northwest Bancorporation policies.

[24] *Hearings*, pp. 913-915.

[25] *Federal Reserve Bulletin* (December, 1929), Vol. XV, p. 766.

well as a holding company. In the majority of such cases the stock is owned pro rata by the stockholders of the parent bank, but occasionally it is placed in trust and held in the name of trustees who are directors of the main institution. This trustee device centralizes administration and prevents any transfer of stock of one institution without the other indorsement of ownership usually being made directly on the stock certificates of the parent bank.

Direct, or subsidiary, ownership of a security affiliate or investment company is confined to State banking institutions and is by no means generally allowed even under State law. National banks, and banks organized under the laws of many States, are prohibited from owning stock in this class of corporation. Furthermore, cases in which banks and trust companies directly own controlling stock of other banks are at a minimum due to the fact that, generally speaking, banks do not possess legislative authority to hold the stocks of other banks, or at least sufficient to control. This accounts for the greater number formed under the pro rata type of organization.[26]

In those organizations in which a particular bank is the controlling element, the following types of systems are found: (1) those in which a State bank or trust company owns directly the controlling stock interests in a number of other banks or trust companies whose administration it dictates; (2) those headed by the corporate affiliate of a single State or national bank or a trust company in which stock ownership in the affiliate coincides with stock ownership in the bank; (3) those headed by a holding trust or company whose stock is trusteed pro rata for the benefit of a given bank's stockholders; and (4) those in which directors, interlocking directorates, officers or a group of officers of a bank control and direct other banks.[27]

Examples of banks that fall into this class, on the basis of the latest available information, follow:

[26] H. H. Preston and Allan R. Finlay, "Investment Affiliates Thrive," *American Bankers Association Journal* (May, 1930), Vol. XXII, No. 11, p. 1075. Also see "Era Favors Investment Affiliates" (June, 1930), No. 12, p. 1153, by same authors.

[27] *A Study of Group and Chain Banking, loc. cit.*, pp. 11-12.

TABLE XXV

PRINCIPAL GROUPS CONTROLLED BY ONE METROPOLITAN BANK[1]
January, 1930

(Dollar figures in thousands)

Controlling Interest	No. of Banks	Cap., Surp. Und Prof.	Loans and Investments	Resources
First National Bank, Chicago	7	$55,226	$512,669	$572,663
Union Trust Company, Pittsburgh	7	45,623	458,901	485,723
Peoples Pittsburgh Trust Co ...	7	15,826	167,180	185,326
Commerce Trust Company, Kansas City	5	10,127	98,618	110,723
First National Bank, Atlanta ...	7	10,623	104,954	110,623
First National Bank, Portland, Oregon	4	5,390	42,861	54,795
Atlantic Trust Co., Jacksonville ..	6	3,808	31,938	38,436
Hartford Trust Co., Hartford, Conn.	7	3,712	34,186	38,439
American National Bank, Nashville	15	3,697	32,470	45,983
First National Bank, Miami	6	3,849	26,700	32,390
People's Trust & Guaranty Co., Hackensack	9	3,669	25,427	31,689
Fletcher Savings & Trust, Indianapolis	7	2,896	23,926	30.195
First National Bank, Tampa	8	1,815	21,682	28,996
First National Bank, Dothan, Alabama	8	1,132	8,686	12,174

[1] Compiled from *Hearings*, p 456; and *American Banker* (February 20, 1930), p. 8.

Many of the large banks in Chicago, Detroit, and other important cities have assumed substantial control of smaller outlying institutions by means of the acquisition by individual directors of stock holdings in the latter banks.[28] Control may also be exercised by a given bank through affiliating directorates through an agreement on the part of the officials of the banks concerned to coöperate and divide the business. This amounts to practically the same thing as control. For example, an application for a larger loan than one of the banks is able or cares to handle may be granted through a split-up among the group.

The prestige and reputation of the banks are backing up the affiliated security companies. These concerns may be regarded in a class by themselves, differing on the one hand, from bank holding companies, and on the other, from ordinary companies possessing no established backing at the start.

According to their charters, they have practically unlimited

[28] *Report of the Federal Reserve Bank of Chicago* (1929), pp. 1-2.

powers. They may hold, underwrite, acquire, purchase, sell and generally deal in stocks of other banks, as well as insurance companies and other classes of corporate stocks. They may engage in any transactions of a financial or individual nature authorized by the law of the State under which they are incorporated. A variety of business enterprises may thus be represented in their lists of investments but, since they are private undertakings, these lists are not made public.

It has been alleged that it is unsafe for banks to be united with them in an identity of ownership management since they have within their powers the right to buy and sell or speculate in stocks. It is alleged that the temptation is great at times to use the funds of the bank to finance the speculative operations of the security companies.[29]

Insurance companies

With the growth of insurance companies, especially stock insurance companies, there is a possibility that they may become investment corporations or trusts,[30] and control many banking, industrial, and public utility corporations. By the use of the initial capital and surplus, and premiums collected, the officers may possibly invest the funds for the purpose of controlling other enterprises, and conducting the business of insurance at a loss.[31]

Since the law regulating investments of fire insurance companies is more lenient than for other types of insurance, particularly life,[32] it is likely that fire insurance companies would be more useful for the purpose of securing control of banking institutions. It is interesting to note, in this connection, that the largest insurance company, which the Transamerica Corporation has acquired, is the Pacific National Fire Insurance Company.[33]

Another interesting case is in connection with the so-called National Liberty group of insurance companies. At the time

[29] *Hearings,* pp. 141-143.
[30] S. B. Ackerman, *Insurance* (Ronald Press, New York, 1928), p. 522.
[31] *Ibid.*
[32] *Ibid.* See Chapter XXVIII, pp. 515-528, for complete discussion of investments of insurance companies.
[33] *Hearings,* p. 457.

of its merger with the Goldman Sachs Trading Corporation, the Financial and Industrial Securities Corporation, although independently managed, had an interlocking directorate with the Manufacturers Trust Company, and controlled a group of insurance companies consisting of the National Liberty Insurance Company, Peoples National Fire Insurance Company, and the Baltimore American Insurance Company. Control of these companies, therefore, was automatically transferred to Goldman Sachs interests. Control of this group has been purchased by the Home Fire Security Corporation, affiliated with the Home Insurance Company of New York, from Goldman Sachs interests, thereby associating the latter with an outstanding insurance organization, since Mr. Ralph Jonas continued as a director of each of the three companies and Mr. Henry S. Bowers, of Goldman Sachs and Company, was elected to the board of the Home Fire Insurance Corporation.[34]

In all probability, the combined purchases of two fire insurance companies controlled by Mr. A. B. Banks,[35] President, American Southern Trust Company, Little Rock, Arkansas, facilitated the development of a chain of 38 banks with resources of $40,000,000.[36] As indicated above, this chain failed during the latter part of 1930.

These illustrations of insurance company control of banking institutions are sufficient to indicate the possibilities offered through the medium of interlocking relations of insurance companies in the field of group banking.

Investment corporations

In addition, certain investment corporations not subsidiary or affiliated with any particular bank, are also securing control of banks. The United Founders Corporation is an interesting example. The corporation, a holding company with consolidated assets of about $350,000,000,[37] has formed the In-

[34] *Journal of Commerce* (New York, April 18, 1930), p. 6.
[35] The writer has been unable to secure the names of these companies.
[36] *A Survey of Group Banking, loc. cit.*, p. 6.
[37] The United Founders Corporation owns 77 5 per cent of the American Founders Corporation stock and has smaller holdings in the four other investment companies in the group. These are the International Securities Cor-

vestment Trust Associates, a subsidiary company, to take over interests which United Founders has purchased in important banks in various parts of the country.[38]

The acquisition of the United National Corporation of Spokane, Washington, a holding company controlling seven banks in the Pacific Northwest, is indicative of the expansion of the United Founders Corporation into the field of group banking.[39] Over 145,000 shares of the participating preferred stock and 10,750 shares of the common stock have been purchased.[40] Acquisition of controlling interests in other banks was expected to follow the formation of a bank holding company subsidiary.[41]

No statistics are available as to the extent of the activity of such investment corporations in the banking field throughout the United States but they must be considered as significant in view of the rapid development of organizations similar to the United Founders Corporation during the past decade.

Investment trusts specializing in bank stocks

A survey conducted by the Federal Reserve Board does not include any instances where a substantial amount of bank stock is owned by an investment trust purely as an investment—without any control. Such cases, through the acquisition of additional stock, may of course give rise to actual control over a group of banks in the course of time.[42] There is one group that is perhaps best illustrative of this type, namely, the Goldman Sachs Trading Corporation of New York which formerly controlled three banks in New York, one in California, and one in Pennsylvania, with aggregate loans and investments of $816,000,000.[43]

poration of America, the Second International Securities Corporation, the United States and British International Company, Ltd., and the American and British Securities Corporation. Corporate stocks of all types are purchased. Also see *New York Times* (July 11, 1930), p. 29.

[38] Also see *New York Times* (October 5, 1929), p. 32, and *ibid.* (May 25, 1930), p 9 (Section 2). Capitalization data not available.

[39] *Ibid.* (October 5, 1929), p. 32.

[40] *Ibid.* (July 11, 1930), p. 29.

[41] *Ibid.* (October 5, 1929), p. 32.

[42] *Hearings,* p. 456.

[43] *Ibid.,* p. 177.

Investment banking institutions

Investment banking houses, not structurally affiliated or associated with a commercial bank, are also investing funds in controlling interests of a group of banks. While data relative to such purchases are not available, it requires no great imagination to see that if commercial banks continue to develop investment and security companies in the future as rapidly as in the past, investment banking houses must do something to protect themselves. Kidder, Peabody and Company, of New York, Boston and Chicago, are understood to have been particularly active in this respect in New England. Investment banking organizations will probably become more important factors in banking concentration over the next decade.

Trust estate method

An interesting case came to the writer's attention during an interview with a banker in a large city in Kentucky, which may or may not be of significance. Nevertheless it should be cited as a possibility under certain circumstances, for example, where State law is sufficiently elastic, and sizeable trust estates exist. In this particular instance, a local national bank secured control of another local bank, with resources of $10,000,000, by purchasing stock through its Trust Department in connection with the administration of certain large estates, together with comparatively small purchases by individual officers of the acquiring bank. The bank did not directly own any stock nor were any laws violated. No ulterior motive existed, that portion of the funds of the estates so invested was placed in the stock of a conservative institution, and control was effected.

Fiscal agent method

In this particular method, the controlling group secures its status through performing fiscal agent functions for a number of unit banks. The service is performed for a flat minimum fee basis for a period of years, usually five at least, in connection with the following services: investing surplus, borrowing outside, arranging loans which are too large for the banks to

handle individually, pass on credits, examine periodically, and finally, if necessary, meet with the local board of directors regularly.[44]

The formation of a system on such a basis appears to have become extinct since the disastrous failure of the Bankers Trust Company of Atlanta in July, 1926, and is mentioned only as a matter of historical interest. From the standpoint of the banks in such a system, it possesses relatively few merits and is open to many serious objections which are discussed in the following chapter. The advisory bank or company does not own any of the stock of the banks in the organization, as a rule, but through an agreement purports to improve banking policies and for all intents and purposes has control.[45]

[44] See *Commercial and Financial Chronicle* (September 11, 1926), Vol. 123, pp. 1332-1335

[45] Haynes McFadden, "The Chain Bank Crash in Georgia," *American Bankers Association Journal* (September, 1926), Vol XIX, No. 3, p. 137.

CHAPTER VI

HISTORY OF CHAIN AND GROUP BANKING IN THE UNITED STATES

Origin and early development [1]

The history of chain banking furnishes a most interesting background preliminary to an examination of group organizations. Chain bank systems under the control of one or more individuals are of long standing. Of course, they do not constitute the new element in banking presented by the substantial growth of group banking systems owned by holding companies or dominated by relatively large city banks. While it is difficult to point to a definite beginning of chain systems, available records show that the first banking affiliations probably had their origin simultaneously in the South and Northwest about 1890.

Chain banking in the Northwest prior to 1890

The earliest instance of which record has been found of chain banking in the Northwest was that of Mr. David H. Beecher, who first established a bank at Park River, North Dakota, in 1884, and followed it in 1887 by the organization of a bank at Milton, North Dakota, acting as President of both institutions. In 1890, he was instrumental in the establishment of the Union National Bank of Grand Forks, North Dakota, and in the years that followed, a number of other banks were similarly organized.[2]

[1] Statistics regarding the early development of chain and group banking are very limited. Little attention has been given to the movement in the past. Only two writers have discussed the subject and the most important of these touched only a limited area in the Northwest States.

[2] *Commercial West* (November 1, 1902), p. 23. Also quoted by M. L. Hartsough, *The Twin Cities As A Metropolitan Market* (University of Minnesota Press, 1926), p. 145.

Use of chain banking in the Northwest after 1890

Chain banking in the Northwest developed considerably after 1890, as men in control of a single country bank bought into or organized other banks in neighboring communities. The practice seems to have spread rapidly. In 1901, C. H. Ross, of Minneapolis, and C. H. Davidson, of Carrington, North Dakota, owned a majority of stock in twelve banks, and had also organized the Farm Mortgage Loan and Trust Company at Carrington. In 1902, Mr. Beecher was operating seven banks of which he was chief officer.[3] While the development aroused considerable comment, it did not apparently give rise to much opposition. However, there would not have been much cause for it, for the individuals responsible were men of capital who were furnishing banking facilities where they had not existed before, and who had no more ulterior motive than the making of additional profits by the furnishing of these services.[4] Investments of additional capital were made by a diffusion of banking establishments in agricultural communities, because that procedure offered more profits, as well as more benefits, than the building up of a large institution in any one center. There was no apparent motive or concentration of control. It is worthy of notice, as bearing on this point, that the earliest instances of community of interests were all in North Dakota, a purely agricultural district which was just being settled, where banking facilities were scantily distributed and where the capital with which to increase them was mostly in the hands of a few men.[5]

Early chains in the Pacific Northwest

Evidence has also been found of chain banking in the days of pioneer banking in the Pacific Northwest. It occurred in several cases where stockholders of Portland, Oregon, banks were owners of majority interests in other banks located in outlying regions within the State.[6] Detailed information as to dates and individuals involved is not available.

[3] Hartsough, *op. cit.*, p. 145.
[4] *Ibid.*
[5] *Ibid.*, p. 146.
[6] Editorial, "As To Chain Banking," *Oregon Voter* (December, 1928), p. 6.

Origin of chain systems in the South

However, the originator of extensive chain systems in this country was Mr. William S. Witham, who organized what was known as the Witham chain in the South in 1889. Beginning with one bank and a capital of only $5,000, the organization grew slowly at first, and in later years more rapidly, until 1911 when the chain comprised 125 banks. Subsequently Mr. Witham was superseded by one W. D. Manley, and the chain was operated under the direction of the latter until it was forced out of existence in 1926, chiefly as a result of the collapse of the Florida land boom and unwise management. The following account of Mr. Witham's enterprise was told by one who was actively identified with his organization for many years:

About 1889 William S. Witham returned to Georgia his native State, with $5,000 and an idea. He got both the $5,000 and the idea in New York. It was Mr. Witham's idea to supply banking service to numerous small towns in Georgia. Many towns, at that time, had no banking facilities whatever; Georgia was still suffering from the influence of the Civil War.

Mr. Witham organized his first small bank. He became its cashier. He invested his $5,000. His personality and abounding energy brought almost instant success to his little bank. He soon had two banks, then it was the same old story of success. He bought another one and another one and so on. Compared with present day ideas in finance, some of Witham's ideas seem crude, but it must be remembered that he was a pioneer. He also had little time to study.

After acquiring a few banks, he had himself appointed fiscal agent of his affiliated banks. For this service he received a small salary from each bank. As fiscal agent, he shaped the policy of his member banks, and actually appointed most of the cashiers, though of course the final authority rested with the directors. The fact is, however, that banks usually accepted the cashiers of his choice and through the cashier he had practical control of banks where he did not have stock control.

After a period of prosperity, Mr. Witham organized the Bankers Finance Company. He soon had more than fifty banks under control. He conceived the idea of guaranteeing deposits. Presumably there was actually a fund provided for this purpose. At any rate it was so advertised and it was influential in drawing deposits into the Witham banks.

About 1905 the Witham organization secured control of several

small banks around New York City. These banks at that time had more deposits than they could lend profitably. The Witham organization devised a plan that operated more or less like the call money market in New York. Banks that had surplus funds, particularly, the eastern institutions, deposited them with the Banker's Finance Company, which in turn loaned these funds to banks in the South that were not able to meet demands out of their own deposits. These funds were placed on call and borrowing banks paid 6 per cent for them.

In the latter part of 1911 there were about 125 banks in the Witham chain. With few exceptions each member bank was paying $750 to the Witham organization for acting as "fiscal agent."

At this time the capital was increased and the name changed to the Bankers Trust Company of Georgia. Mr. Witham was superseded by W. D. Manley. Manley had been trained under Witham but he failed to follow Witham's conservative course. His management, however, was aggressive and the number of banks in the chain rapidly increased. Expansion took place chiefly in Florida. When the land boom in Florida collapsed, Manley's Florida banks, that is, a large number of them, closed their doors. Manley went down with his banks.

The Witham system was interesting in many ways. It was a pioneer in its field. This chain had more banks, though they were small, than any one holding company had ever controlled. It had many sound features. For instance, each member bank was required to send to the central office a detailed statement twice each week. In addition the Witham system had its own auditors who made exhaustive reports on each bank several times a year. The call money arrangement was good in principle and enabled banks in the East to get a better rate for their funds than they could get in their own locality. At the same time borrowing bankers were able to obtain funds quickly at a reasonable rate.[7]

Shortly after the failure of this chain of banks the Secretary of the Georgia Bankers Association pointed out a number of causes which contributed to the failure of the system.[8] He showed that the funds syphoned out of these banks were not employed in pursuit of commercial banking purposes, but were diverted into highly speculative real estate promotions and other adventures in finance, calculated neither to serve the needs of the communities involved, nor to advance their

[7] Editorial, "Group or Chain Banking Grows," *Wall Street Journal* (October 18, 1929), p. 16.

[8] Haynes McFadden, "The Chain Bank Crash in Georgia," *American Bankers Association Journal* (September, 1926), Vol. XIX, No. 3, p. 137.

growth and development. All of those which closed were in one chain. This does not imply that the country banks in the chain were guilty of intentional wrong. In no instance that has come to light may the fault be traced to bad local loans of the country banks. Investments submitted by the head of the system were not placed under ordinary scrutiny by the affiliated banks. They were taken on faith. There accumulated little by little, but in ever increasing volume, investments, loans, and participating certificates that swamped the country bank portfolios with worthless paper. This paper was floated in behalf of corporations owned, controlled, or directed by W. D. Manley and his associates. At the time of the crash, this class of paper amounted to more than twelve million dollars. The following reference is quoted from the receiver's report:

> The Bankers Trust Company has participating certificates outstanding in a sum approximately $1,000,000. In addition to all other liabilities the Bankers Trust Company has sold notes of others amounting to approximately $11,750,000. We are advised that the Bankers Trust Company guaranteed the payment of them. The amount that they guaranteed and the amount of the notes that they may have matured and may have been paid by the makers is undetermined.
>
> It appears from the records examined that the principal items of participating certificates and notes sold were executed by officers, affiliated companies, and companies in which officers are interested or identified. The plan of issuing these certificates may be briefly stated as follows: The loan would be executed in a given amount payable to the order of "ourselves." The Bankers Trust Company would then issue participating certificates to equal the amount of the note and sell the certificates to various banks and others. Upon some of the participating certificates, which were issued the payment is guaranteed by the Bankers Trust Company. It is this paper, almost without exception, which in our opinion has caused the closing of the banks in Georgia and Florida associated with this company.[9]

Neither the Bankers Trust Company in Georgia nor the Bankers Finance Company in Florida were under bank supervision nor did either possess a bank charter. They were simply corporations operating as fiscal agents of some 60 Florida

[9] *Ibid.*

banks, 120 Georgia banks, and a few scattered Eastern institutions. There was no limit or restraint upon the use which this alliance could and did make of the loanable funds of the banks in both States for which the respective corporations acted as fiscal agents.[10]

Irregularities and questionable practices were not discovered sooner because the banks were scattered over two States subject to different supervising authorities, and no simultaneous examination had ever been made. Moreover, the head office which exercised control over all of these banks was itself not under the supervision of the banking department because, theoretically at least, it did no banking business and did not accept any deposits.[11]

This failure is perhaps the most significant reason for the element of disfavor which the term chain carries with it. It should be cited as the outstanding example of the dangers associated with such systems.[12]

Chain banking in New York City in 1907

Alexander Noyes has described the activities of a speculative financier in New York City which serves as a typical illustration of methods utilized in early chains. This instance presents a striking contrast with the operations of bank holding corporations or group systems today. In the first place, stock of a so-called foundation bank was collateralled for loans. The proceeds of the loans so obtained were then used to purchase stock control of other banks which it was desired to bring into the chain. Since the plan consisted of nothing more than pyramiding, it was not very successful. While prosperity reigned, it appeared to be successful. When a period of depression arrived, however, the entire chain collapsed through the failure of one of the member banks. The activities of this speculator have been described as follows:

[10] *Ibid.*

[11] R. S. Hecht, *Our Unit Banking System,* State Bank Division, American Bankers Association, New York (1929), p. 9.

[12] For further detailed facts in connection with this failure, see *Commercial and Financial Chronicle* (September 11, 1926), Vol. 123, pp. 1332-1335; *ibid.* (July 24, 1926), Vol. 123, pp. 411-412; and *ibid.* (July 17, 1926), Vol. 123, pp. 285-286.

One of the characteristic incidents of the era of speculation, watched by the financiers with much uneasiness, had been what was called "chain banking." In New York City, half a dozen banking institutions of the second rank had been bought up by a speculating financier. He had used his stock in one institution as collateral on which to borrow money; the proceeds he had used to buy stock in another bank, repeating the process with each new acquisition. Controlling his "chain of banks" on such a tenure, he has used the whole of them to promote his personal speculations. This had been going on during half a dozen years. On Wednesday, October 16, 1907, one of these institutions, The Mercantile National of New York City, a bank with $11,500,000 deposits, applied to the other banks of the Clearing House for help.[13]

Early chain systems in Wisconsin

The Commissioner of Banking of Wisconsin in his 1922 Report described the experience the Wisconsin Banking Department had with some of the early chains as follows:

It was in January, 1919, I believe, that one chain system met with disaster in Minnesota, resulting in the banking department of that state closing fourteen banks of the chain in one day. It was found that all of the banks were loaded to the limit with the same class of paper. Officers of the corporation and several officers of the bank were sent to the penitentiary as the result of this crash.

The Wisconsin Banking Department has had experience with the efforts of promoters to gain control of Wisconsin banks. Within the past two years a North Dakota citizen who owned several banks in that state, in Minnesota, in Illinois and Indiana sought to purchase control of several Wisconsin banks. His method was to pay for the stock out of the assets of the bank, substituting North Dakota paper for the good Wisconsin paper which he turned over to the shareholders in payment for their shares. Fortunately the department learned of his efforts and prevented the carrying out of his plans. He is now under indictment in other states and four of his banks have been closed.

This chain system might not be objectionable if the management of the controlling corporation was always conservative and their total investment in paper limited to a very small amount. This policy is not always followed by the controlling corporation.[14]

[13] Alexander Noyes, *Forty Years of American Finance* (Houghton, Mifflin Co., Boston, 1923), p. 365.

[14] *Annual Report of the Commissioner of Banking of Wisconsin* (1922), pp. xvii and xviii.

Disadvantages of chain banking

One may readily see from the foregoing illustrations the many potential dangers that attended the grouping of control of a number of financial institutions under the supervision and administration of one or more individuals. Unscrupulous individuals frequently loaded the banks with paper from the agricultural or industrial enterprises or speculations in which they were interested instead of diversifying their risk in accordance with the sound, fundamental principles of banking.

These chains were situated very largely in the rural districts, and the member banks of the chain were principally small country banks. This condition was and still is quite prevalent in the agricultural regions of the West and South. Many of these chains have come to disaster through the failure of all of the banks which constituted them.[15] During the many years this type of bank ownership has been in existence it has not been considered as a trend toward a fundamental change in our banking system, nor has it related itself to the question of branch banking.[16]

Experience has taught that a chain under the absolute control of one individual is not ordinarily successful and in the interest of banking business as a whole.[17]

As has been stated above, one reason for the use of the word "group" is merely to get around the aversion which has clung to the word "chain" due to the failures of such a large number of these chains. Particularly since the failure of the Manley chain, the term chain banking has carried with it an element of disfavor.[18]

[15] No information is available as to chain failures except insofar as it is known that many failed during the panic of 1907 and the years immediately following, and the economic depression of 1920-1921. During the panic of 1907, monetary stringency fell with particular force on country banks. By reason of inter-relation of stock interests, the trouble of one institution was conveyed to others of the system, resulting in widespread collapses. See Hartsough, *op. cit.*, pp. 150-152.

[16] *Hearings*, p. 26.

[17] Letter from John A. Reed, State Commissioner of Banking, Wyoming, July 26, 1929, emphasized this point in connection with chain systems in Wyoming.

[18] *Hearings*, p. 26.

Early development of bank holding corporations

Beginning about 1900, a new phase of development showed itself. The first chains had been the work of individual men, who had gradually built up their interests on the basis of personal credit and capital. Once the practice was well established, and its advantages apparent, companies began to be formed for the main purpose of holding stock in country banks. These holding companies frequently capitalized the personal influence of one man, and at the same time increased the scope of operations by raising money through the use of the corporate form of business organization, which permitted the sale of stock to the public.

The first company organized for holding stocks of banks for the purpose of control, of which the writer has record, was the Adam Hannah Company, which was formed by Adam Hannah in 1900 in Minnesota. He had become associated with country banks through the farm loan business, which he had begun about fifteen years previously in the Northwest, and which he had built up by the use of capital furnished by Scottish investors. The bank holding company funds were secured almost entirely from the same source, some of the capital being used to enlarge the scope of the original business but much of it being invested in the stock of country banks.[19] Another company was formed in 1903 by F. H. Wellcome, who had become interested in a number of banks, and who with his associates, organized the Union Investment Company, with a capital of $100,000, for the purpose of organizing and acquiring an interest in country banks. This company affiliated with the Northwest Bancorporation in 1929.[20]

Texas furnishes an interesting example of a group of banks, the members of which were established as branches of a special charter bank. Under the general banking law of 1905, branch banking was prohibited. One of the earlier banking commissioners desiring to bring existing institutions as far as possible into conformity with the new law persuaded the owners of one special charter institution to incorporate its several

[19] Hartsough, *op. cit.*, p. 146.

[20] "Organization, Policies, Aims," Pamphlet issued by *Union Investment Company* (1929), p. 2.

branches as separate banks. This was done, a trust company in Fort Worth at first serving as a holding company. Unified control still exists, but the form has been modified and some changes have been made in the banks included in the group.[21]

The Union Securities Company of Spokane, Washington, has operated continuously since 1909. During that period it has controlled as high as twenty-five country banks in Washington and northern Idaho.[22]

An interesting statement was found in the Report of the Commissioner of Banking of Wisconsin for the year 1909:

> A new feature of banking has manifested itself of late which if permitted to go unhindered will eventually result in a monopoly control of the banking business. I refer to the so-called holding companies which are increasing with alarming rapidity in various states of the country. One of these companies, with headquarters in Minneapolis, owns a controlling interest in more than fifty banks in Minnesota, Iowa, Wisconsin and the Dakotas. In Wisconsin eight or nine are now controlled by this company, though other companies have recently been organized in Minneapolis for the purpose of getting control of banks either by buying up a majority interest in banks now in existence, or by organizing new banks.[23]

The Continental Securities Company was established in 1910 by M. S. Helgerson, who had been a banker in North Dakota for some years. With him were associated a banker from Renville, Minnesota, one from Havre, Montana, and several other North Dakota bankers.[24] The Grandin Investment Company, organized in 1914, had among its officers two men interested in country banks in Minnesota.[25] The principal figure in the Bankers Holding and Investment Company, organized in 1917, was Leon M. Bolter, President of two banks in Minnesota and three in Montana and a man who had been active in country banking circles in the Northwest for twenty-two years.[26] The Ulland-Mealey-Carley Company

[21] H. H. Preston, "The Trend to Chain Banking," *American Bankers Association Journal* (April, 1928), Vol. 20, No. 4, pp. 761-762.
[22] *Ibid.*
[23] *Report of the Commissioner of Banking of Wisconsin* (1909), p. 16.
[24] *Commercial West* (November 26, 1910), p. 17. Quoted by Hartsough, *op. cit.*, p. 146.
[25] *Ibid.* (May 16, 1914), p. 10. Quoted by Hartsough, *ibid.*
[26] *Ibid.* (May 12, 1917), p. 16. Quoted by Hartsough, *ibid.*

was organized in 1919, by J. S. Ulland, who was President of the Fergus Falls National Bank, and was interested in other Northwestern financial institutions as treasurer.[27] The John W. Black Company was also formed in 1919.

Since 1900 the development of bank holding companies in the Northwest has been steady and quite rapid. It is certain that corporations as well as individuals, have continued to buy into one bank after another,[28] although it is usually impossible to discover to what extent this has been done. By 1920 ten or twelve major lines of banks were in operation, each controlling from ten to thirty-five banks,[29] and at least thirty or forty smaller ones, controlling from two to ten banks each. A majority of the banks controlled were State institutions, but many national banks were included. Most of the systems were confined to one or two States, but some concerns had banks in three or even four. A number of cases are on record where individuals acquired control of entire chains. W. H. Schafer, through a major interest in the Mortgage Securities Co., a holding company, got control of a chain of 14 banks in 1918.[30] It was the estimate of a banker in the head office of one holding company that not more than fifty per cent of the banks in the Northwest in 1925 were entirely independent institutions. However, the opinion has been expressed that this statement overstates the fact.[31] The development in this region by 1920 has been described as follows:

> The Ross-Davidson interests, which in 1904 controlled thirteen banks, had increased their number by 1910 to twenty-two and other companies experienced a similar growth. By 1916 it was their

[27] *Ibid.* (October 11, 1919), p. 11. Quoted by Hartsough, *ibid.*

[28] For instance, a letter in the Houlton Papers, 1900 and following (in the possession of the Minnesota Historical Society), dated March 23, 1909, from Charles Keith, of Princeton, Minnesota, contains this statement: "All six of the banks I am interested in clear at the 1st Natnl Mpls and Hanover Natnl in New York. Of these 1st Natnl of Mora carries an c/o in St. Paul and one in Chicago." Also quoted by Hartsough, *op. cit.*, p. 146.

[29] Among the best known of the major groups were those of the Union Investment Company, the Bankers Investment Company (the former Ross-Davidson Interests), Isaac Hazlett, Sheldon Brothers, Adam Hannah Company, and the Ulland-Mealey-Carley Company.

[30] *Commercial West* (May 24, 1919), pp. 7-8. Also quoted by Hartsough, *op. cit.*, p. 152.

[31] Hartsough, op. cit., p. 145.

claim that over 300 banks were included in chains which were operated with Minneapolis as headquarters.

The first chains were mainly restricted to North Dakota, but that is no longer the case. Banks in Minnesota, in South Dakota, in Montana, and even in Wisconsin, Iowa and Michigan are included in chains which are controlled from the Twin Cities. In fact by far the largest number of banks included in northwestern chains is now in Minnesota with North Dakota and Montana following in importance. Not all of the interests which control these chains operate from the Twin Cities. Some of these bankers later moved to the Twin Cities, but many of them still live in towns throughout Minnesota, Dakota and Montana. The corporations which control most of the larger chains, generally have their headquarters in Minneapolis or St. Paul.

There are companies now located in the Twin Cities which make it a part of their business to act as agents in the purchase or sale of country bank stocks, and advertisements sometimes appear in trade journals of companies who are in the market for these stocks on their own account, or for their clients.[32]

These early holding companies experienced considerable opposition. It was alleged that holding company control withdrew funds from the local community, restricted the freedom of the local bank to initiate new business, redistributed deposits unequally, failed to make loans proportionate to acquired deposits, favored one locality at the expense of another and distorted the whole system of reserves.[33]

Extent of development of chain and group banking by 1925

The data presented in the following table indicate that some 134 chains controlling upwards of 900 banks had developed by the year 1925. There were, no doubt, a number of chains and groups in operation at the time which were not included. Moreover it is not believed that in each case a full list of banks comprising each chain or group could have been included due to the difficulty of securing precise data. These figures are probably an under-estimation rather than an overstatement of the number of chains and banks involved.[34]

[32] *Ibid.*, p. 147. It will be noted that the terms chain and group are used synonymously.

[33] "Local Banks and Holding Companies," *The Commercial and Financial Chronicle* (October 15, 1927), Vol. 125, p. 2027.

[34] H. P. Willis *et al.*, *Survey of Banking in the United States* (1926), Chapter XIV, p. 12.

TABLE XXVI

BANKING CHAINS AND AFFILIATIONS IN THE UNITED STATES DURING THE YEAR 1925 [1]

State	Number of Chains	Banks		
		National	State	Total
Arkansas	2	7	17	24
Arizona	4	1	14	15
California	20	43	23	66
Colorado	(two or three reported—bank failed)			
Florida	1	5	49	54
Georgia	2	..	163 [2]	163
Idaho	18	36	37	73
Illinois	3	..	18	18
Iowa	8	21	24	45
Massachusetts	1 (reported for an earlier date in Boston)			
Minnesota	5	..	103 [2]	103
Mississippi	2	1	16	17
Missouri	1	3	3	6
Montana	(some reported—number not given)			
Nebraska	2	2	9	11
Nevada	1	2	7	9
New Jersey	8	11	15	26
New Mexico	2	2	6	8
New York	10	23	12	35
North Dakota	(some reported—number not given)			
Oklahoma	6	22	23	45
Oregon	6	7	15	22
Pennsylvania	2	3	13	16
South Dakota	1	..	6	6
Texas	2	6	23	28
Utah	9	21	31	52
Washington	16	32	37	69
Wisconsin	2	..	14	14
Wyoming	1	5	3	8
	134	252	681	933

[1] H. P. Willis *et al.*, *Survey of Banking in the United States* (1926), Chapter XIV, p. 12.
[2] Data not available to make an accurate separation, doubtless some were national banks.

However, it is believed that the larger and more important chains existing in the year 1925 were included. A majority of the banks controlled were State institutions, but many national banks were included. Most of the groups were confined to one or two States, but some concerns had banks in three or even four States and covered several Federal reserve districts.[35] The number of chains and groups within the different States likewise lacked uniformity. None was reported for twenty States. The reports for other States showed that there were two or three, as in Colorado, but most of them had failed

[35] *Ibid.*, p. 13. For example, one investing company in Minneapolis was reported to be interested in banks in Illinois, Minnesota, Montana and North Dakota.

or gone out of business.[36] The largest number of banks included in chain and group systems were in the States of California, Minnesota, Florida, Georgia, Idaho, Oklahoma, Utah and Washington, while the States having the largest number of chains and groups were California, Idaho, New York and Washington. The number of banks within a single system varied considerably, ranging from five or less to 175 or more.[37] Estimates in 1926 placed the total membership of one system at 200 or more. As early as 1921 the Federal Reserve Board had stated that the largest chain system included 175 small banks.[38] This organization was probably the Witham chain and was the largest in existence at that time. It was reported that there were several affiliations or groups in Illinois that operated three or four banks each. In Minnesota, the number of organizations was reported to be much larger, and varied from five or six up to 25 or 30 banks, while in Oklahoma the number was as high as 14 or 15.[39]

Origin of the contemporary bank holding corporation movement

The interesting thing about the present form of group banking is that it did not originate in the financial centers of the East. Wall Street had nothing to do with its establishment. The first definite group of banks was brought together in Ogden, Utah. Beginning in 1925 Mr. M. S. Eccles and associates were developing and operating their group banking plan under the name of Eccles-Browning Affiliated Banks, the Eccles and Browning interests acquiring such banks as they were able to advantageously operate as a group banking system in connection with banks which they already controlled until such time as the number of banks and volume of business were of sufficient size to justify the organization of the holding company. However, it was not until June 15, 1928, that the First Security Corporation was organized.[40]

[36] *Ibid.*
[37] *Ibid.*, p 14
[38] *Report of the Federal Reserve Board* (1921), p. 6.
[39] H. P. Willis *et. al., op. cit.*, p. 14.
[40] Letter to writer from M. S. Eccles, President, First Security Corporation, July 16, 1929. Also see *Annual Statement of the First Security Corporation* (December 31, 1928), p. 4.

The first independently capitalized bank holding corporation, organized primarily for that purpose, which accepted full responsibility for its member banks, and protected the depositing public by ample paid in capital to cover its contingent liability resulting from such ownership, was formed in Seattle during the summer of 1927 by the Marine Bancorporation under the direction of Andrew Price.[41] This fact modifies the statement made in the chain, group and branch banking Hearings by the Comptroller of the Currency that the formation of group banking is less than two years old.[42]

Credit for origination of the movement, however, can be given to these two organizations only insofar as the recent group banking trend is concerned. It must be kept in mind that there were definite organizations of this type thirty years ago, the essential difference being in distribution of stockholders of the parent company. The older companies were closely held. Most of the present day companies endeavor to get their stock widely distributed. The Marine Bancorporation and other substantial corporations are unlike the older companies in that full responsibility for member banks is accepted and provided for. The magnitude of operations of recent group organizations is also another differentiating characteristic.

Not the least significant of the differences is that today the highest type of banker is found among those launching the new group enterprises.[43] Quite unlike the typical bank chains of a generation or a dozen years ago, which were rarely conducted by good bankers and were often a dumping ground for the paper of poorly conducted industries, those now being formed, while naturally designed for profit, are the result of a local necessity and directed for general good of the community they serve.

[41] "The First Regional Bank Group," *American Banker* (February 20, 1930), p. 11. Also see R. T. Kennedy, "Marine Bancorporation Starts Merger Wave," *Coast Investor and Industrial Review* (May, 1928), Vol. X, No. 5, p. 3; A. H. Norton, 'How Seattle Was Won Over To The Chain System Of Bank Business," *Seattle Star* (May 8 and 9, 1928), pp. 1-2; and A. H. Allen, "Provides Funds for State's Bank Merger," *The Washingtonian* (September, 1928), Vol XX, No. 9, pp. 15-16.

[42] *Hearings*, p. 70.

[43] *Report of the Comptroller of the Currency* (1929), p. 5.

Secrecy

The development at first took place in more or less secrecy in an endeavor to avoid public criticism and adverse legislation inasmuch as it followed shortly after the passage of the McFadden Act in 1927 placing limitations on branch banking. It would have been unwise to stir up the opposition again which was smouldering from the recent fight staged against branch banking. So the organization of these new group systems was effected in secrecy to avoid unfavorable comment, to wait until public opinion developed a more tolerant and responsive attitude, and also to enable the organizers to buy up bank stocks under more moderate terms. To have openly stated that they intended to buy control in a number of banks would have caused the particular stocks concerned to rise in price.

Nevertheless, the financial press was not slow to discover that the idea of group banking was under way, and that attention was being particularly devoted to the plan of building systems through stockholding concerns. In March, 1927, the Commercial and Financial Chronicle contained the following statement:

> In other parts of the country . . . notably in the East, attention is being paid more particularly to the plan of building up extensive bank connections through stockholding concerns. These connections do not necessarily mean actual stock control of the various banks. It has been found in such operations that effective influence can be exercised by careful purchase of minority stock in coöperation with other important holders.
>
> Whether these proposed banking connections through stock holding concerns will mark an improvement over the usual chain systems that have been established from time to time in certain parts of the South and West remains to be seen.[44]

In recent years much of the secrecy has been done away with and bank holding companies have come out into the open more and more with their operations until at the present time there are quite a number openly advertising that they are

[44] "Possible Manner of Bank Expansion," *Commercial and Financial Chronicle* (March 26, 1927), Vol. 124, p. 1771.

operating a group of banks.[45] All of the group organizations listed in Table XXIV are advertising that they are carrying on a group banking business.

First Notice by Federal Reserve Board

The first time the Federal Reserve Board made any extensive reference to the new group banking movement was in its annual report in 1927. The following statement was issued:

> During the past few years the expanding operations of financial companies specializing in the purchase of bank stock have presented special problems to Federal and State officials charged with the responsibilities of bank supervision. Such companies have been organized in increasing numbers to operate extensively in the field of banking, not simply as investment agencies but specifically in individual instances to acquire control of corporately independent banking institutions, through stock ownership, and to exercise this centralized control in effecting bank mergers; in extending identical or virtually single corporate control over companies operated as subsidiaries in special fields of banking; in building up branch systems in states which permit branch banking; and in building up in these and in other states—but particularly in states which do not permit branch banking—chain systems, embracing in individual instances banking institutions operating under national and state charters in several states. Since such companies are not directly engaged in the business of banking as defined in Federal or state statutes, they have not been subject to supervision or regular examination by banking authorities. In some respects the control exercised through stock ownership over a group of banks operated as a system is similar to that exercised by a parent bank over its branch offices. The character of the financial company brings it clearly within the field of banking activities, and banking officials have been urged to subject developments of this character to careful scrutiny.[46]

It may be inferred from this statement that the Board realized the importance of the problem and the extent to which it might expand and was issuing a warning.

[45] "New Force in Multi-Unit Bank Management," *American Banker* (February 20, 1930), p. 7.

[46] *Annual Report of the Federal Reserve Board* (1927), p. 31. It has been noted above that the terms chain and group are used synonymously by the Federal Reserve Board.

CHAPTER VII

HISTORY OF CHAIN AND GROUP BANKING IN THE UNITED STATES (*Continued*)

Survey of the Marine Bancorporation

The first comprehensive survey of the extent to which unit banks have been absorbed into chain and group systems was made by the Marine Bancorporation of Seattle, Washington, and published in October, 1929. It showed 1,190 banks and $6,197,000,000 in banking resources held by chains and groups.[1] With 26,000 banks in the country at the time and with aggregate banking resources of some $72,000,000,000, it would appear from this survey that 4.6 per cent of the banks and 8.6 per cent of their resources were under group and chain control.

Chains and groups were found in all States except Connecticut, Delaware, Kansas, Maryland, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, Rhode Island, Vermont, Virginia, and West Virginia.[2]

Survey of the Economic Policy Commission, American Bankers Association, October, 1929

Another survey was made about the same time as that mentioned above by the Economic Policy Commission of the American Bankers Association. This study disclosed a considerably higher proportion, both as to number and as to resources: 1,858 banks and $13,275,390,000 in resources under chain and group control (see Table XXVII).

The American Bankers Association found chain and group systems in all but nine States, while the Marine Bancorporation survey showed thirteen in which there was no evidence

[1] *A Survey of Group Banking in the United States, loc. cit.*, p. 4.
[2] *Ibid.*

TABLE XXVII

EXTENT OF CHAIN AND GROUP BANKING, BY GEOGRAPHICAL SECTIONS AND STATES

October, 1929

STATES	CHAINS AND GROUPS	NO OF BANKS	CHAIN AND GROUP BANKING[1]	ALL BANKING[2]		PER CENT CHAIN AND GROUP BANKING OF ALL BANKING	
			Resources (000 Omitted)	No of Banks	Total Resources (000 Omitted)	No of Banks	Resources
New England							
Maine	1	5	$69,222	133	480,011	3.7%	14.3%
New Hampshire	..			124	329,044		..
Vermont				105	278,482		
Massachusetts	4	34	684,260	680	5,260,028	5 0%	13 0%
Rhode Island	1	3	173,650	53	585,589	9.0%	29 4%
Connecticut				251	1,472,203		
Total	6	42	927,130	1,326	8,405,387	4.4	14.2
Eastern States							
New York	17	117	4,206,790	1,139	19,522,144	10 3	21 5
New Jersey	14	53	371,500	571	2,850,946	9 3	13.0
Pennsylvania	15	52	890,300	1,843	6,913,910	2 8	12 9
Delaware				59	175,429		
Maryland	.		.	236	971,458		..
District Columbia			.	12	173,822		.
Total	46	222	5,468,590	4,060	30,707,709	5.7	15.8
Southern States							
Virginia			.. .	486	683,123	.	..
West Virginia	.			317	445,125	.	. .
North Carolina				500	516,351		
South Carolina	2	7	65,490	264	229,662	2.6	28 3
Georgia	6	24	221,180	426	462,312	5.6	47.9
Florida	4	20	106,520	263	435,200	7 6	24 3
Alabama	6	31	21,840	356	363,200	8.7	5 8
Mississippi	1	5	6,920	337	289,560	1.5	2 4
Louisiana	1	6	18,850	225	555,161	2.7	3 2
Texas	13	51	136,110	332	1,437,501	3 8	9 4
Arkansas	4	82	101,820	422	262,670	19.1	38 0
Kentucky	2	9	57,180	577	640,464	1.6	8.7
Tennessee	5	14	115,970	490	576,363	2.8	19.9
Total	44	249	851,880	5,995	6,896,722	5 7	18.8

[1] Data taken from *A Study of Group and Chain Banking*, Economic Policy Commission, American Bankers Association (October, 1929), pp 10–11.

[2] Data compiled from *The Report of the Comptroller of the Currency* (1929), pp. 700–701, for national banks, as of June 29, 1929, and *State Bank Resources*, as of March 27, 1929, compiled by R. N. Sims, Secretary-Treasurer of the National Association of State Banks.

TABLE XXVII (*Continued*)

EXTENT OF CHAIN AND GROUP BANKING, BY GEOGRAPHICAL SECTIONS AND STATES

October, 1929

STATES	CHAINS AND GROUPS	NO OF BANKS	CHAIN AND GROUP BANKING[1]	ALL BANKING[2]		PER CENT CHAIN AND GROUP BANKING OF ALL BANKING	
			Resources (000 Omitted)	No of Banks	Total Resources (000 Omitted)	No of Banks	Resources
Middle West							
Ohio				1,032	3,308,394		..
Indiana	2	10	38,970	1,005	1,233,671	1.0%	3.2%
Illinois	11	86	1,050,860	1,802	4,962,598	4.8	21.2
Michigan	14	96	1,153,310	746	2,431,786	12 9	47.9
Wisconsin	6	33	256,640	964	1,155,056	33 5	22.8
Minnesota	34	435	995,350	1,085	1,133,332	39 9	87.6
Iowa	12	90	85,150	1,289	1,013,989	7.0	8.3
Missouri	3	29	201,200	1,324	1,486,258	2 2	13.5
Total	82	779	3,781,480	9,267	16,725,084	10.1	29.2
Western States							
North Dakota	8	62	27,150	462	156,696	13 4	17.3
South Dakota	4	23	13,680	400	179,003	5 7	7.6
Nebraska	9	63	31,970	869	534,246	7.2	5.9
Kansas	10	55	41,070	1,087	539,736	5.1	7.6
Montana	1	8	5,940	197	190,739	4 0	3.0
Wyoming	2	10	14,050	87	74,588	11.4	18.8
Colorado	2	14	104,870	289	348,526	5.0	30.1
New Mexico	4	13	18,600	58	51,281	22.0	35.3
Oklahoma	8	58	169,940	646	539,423	8.9	31.3
Total	48	306	427,270	4,095	2,614,238	9.2	17.4
Pacific States							
Washington	18	77	203,630	343	566,526	22 3	35.8
Oregon	6	32	94,050	237	334,271	13.5	28.1
California	12	58	1,350,530	458	4,450,089	12 6	33.0
Idaho	3	23	30,890	138	93,030	16 6	32.3
Utah	5	50	92,380	105	193,817	47.6	48.0
Nevada	2	14	26,000	35	65,512	40.0	39.9
Arizona	1	6	21,560	45	105,511	13.0	20.1
Total	47	260	1,819,040	1,361	5,808,756	23.7	33.9
United States	273	1,858	13,275,390	26,104	71,157,896	9.8[3]	21.4[3]

[1] *Ibid.* [2] *Ibid.*

[3] It should be noted that this data is only approximate and intended to give only a general impression, due to the difference in dates when the statistics were compiled, and due to the fact that data on chains and groups are necessarily incomplete because of research limitations.

of chain or group banking. Whether the discrepancy is due to some difference in the use of the terms chain and group, and the classification resulting therefrom, is not apparent. However, it is significant that the Marine Bancorporation employed the term group exclusively, while both terms were used interchangeably by the American Bankers Association. The difference may also be explained in part by the omission from the summary compiled by the Marine Bancorporation of groups in New York City and Long Island. Furthermore, the Commission probably had superior facilities for gathering such information.

Table XXVII combines data collected by the American Bankers Association with certain national and State bank statistics and gives a more comprehensive picture of the development of chain and group banking by October, 1929, than that presented by the Marine Bancorporation.

These figures indicate that 9.8 per cent of the banks and 21.4 per cent of the banking resources were in chain and group systems by October, 1929. Considering the movement with respect to the various geographical sections of the country it is evident that the Pacific States had taken the lead, with nearly 24 per cent of total banks and 34 per cent of aggregate banking resources in this area under chain and group control. Second in importance were the Middle Western States with 10 per cent in number and 29 per cent in banking resources, while the Southern States ranked third in point of banking resources, but fourth in number of banks involved. There was apparently less development in the Eastern States and in New England. It is further evident that the movement had reached its greatest proportions in sections largely dependent upon agricultural conditions and where reverses encountered by unit banks had been the most pronounced.

Comparison of groups and chains

The table on page 103 shows chain and group banks as of October, 1929, segregated on the basis of the controlling element.

It would appear that systems controlled by particular banks represented the largest proportion of all chain and group

TABLE XXVIII

CONTROLLING ELEMENT [1]

(Resource data are in millions of dollars)

SECTIONS	BANKS			HOLDING COMPANIES			INDIVIDUALS		
	Systems	Banks	Resources	Systems	Banks	Resources	Systems	Banks	Resources
New England	4	33	844	1	5	69	1	4	15
Eastern States	27	110	1,410	6	63	3,803	13	49	254
Southern States	26	125	646	.			18	124	206
Middle West	10	81	2,083	8	195	1,116	64	503	582
Western States	3	10	141	.			45	296	287
Pacific States	8	48	1,349	13	117	346	26	95	124
Total . .	78	407	6,473	28	380	5,334	167	1,071	1,468

[1] Compiled from data in *A Study of Group and Chain Banking, loc. cit.*

banking with organizations controlled by holding companies second in importance. While the number of chains in which individuals are the controlling element represented over 60 per cent of the total, and the number of banks included in this class nearly 58 per cent, it is evident that only a small proportion or about 11 per cent of chain and group banking resources were controlled by individuals. This is very significant and may offer another reason why the term group has recently tended to supercede the term chain.

In point of banking resources involved, group systems of the type in which a particular bank is the dominant element were most prevalent in New England and in the Southern, Middle Western and Pacific States. The holding company form of organization controlled the majority of group banking resources in the Eastern States, particularly in New York, while in the Western States, the largest proportion of banking resources were found in chain organizations controlled by individuals. From the viewpoint of the number of banks included, those systems controlled by banks represented the largest proportion in the Eastern and Southern States; the holding company type occupied the foremost position in the Pacific States and chains under individual control lead in the Middle Western and Western States. It will be observed that there were no systems headed by holding com-

panies in either the Southern or Western sections of the country.

Attitude of the American Bankers Association

The following branch banking resolution was proposed before the general convention of the Association, October 1, 1930, at Cleveland, Ohio, by the resolutions committee, and after prolonged discussion was adopted:

The American system of unit banking, as contrasted with the banking system of other countries, has been peculiarly adapted to the highly diversified community life of the United States. The future demands the continued growth and service of the unit bank in areas economically able to support sound, independent banking of this type, especially as a protection against undue centralization of banking power. Modern transportation and other economic changes, both in large centers and country districts, make necessary some readjustment of banking facilities.

In view of these facts this Association, while reaffirming its belief in the unit bank, recognizes that a modification of its former resolutions condemning branch banking in any form is advisable. The Association believes in the economic desirability of community-wide branch banking in metropolitan areas and county-wide branch banking in rural districts where economically justified.

The Association supports in every respect the autonomy of the laws of the separate states in respect to banking. No class of banks in the several states should enjoy greater rights in respect to the establishment of branches than banks chartered under the state laws.[3]

Federal Reserve Board statistics [4]

The first survey made by the Federal Reserve Agents for the Federal Reserve Board was in December, 1922, the second in June, 1926, the third in June, 1928, and the fourth in connection with the chain, group and branch banking Hearings.[5] The data collected prior to 1928 are not sufficiently complete to make it possible to compare the present situation with that which existed in earlier years.[6]

[3] *Proceedings of the American Bankers Association* (1930).

[4] All data given by the Board are based on loans and investments. No statistics of resources are available.

[5] *Hearings*, p. 454.

[6] *Ibid.*

The report of the Board for the year 1928 contained some significant information on the subject. This information can be correlated to a certain degree with the data given in the following tables. The report stated:

> In New Jersey and New York affiliations of two to four banks are not uncommon, and four instances of chains embracing six to eight banks were specifically enumerated. Individually controlled groups of banking institutions in Michigan included one chain of 16, one of 9, and two of 5 banks, and a number of affiliations probably embracing a smaller number of banks. . . .
>
> Instances listed for other States included, in addition to some smaller groups, for Arkansas 1 chain of 33 banks and 4 of 5 to 12 banks each; for Illinois 8 chains of 4 to 11 banks each; for Iowa 7 chains of 5 to 17 banks each, 1 including Iowa banks in affiliation with banks outside the State; for Nebraska 7, of 5 to 10 banks; and for Utah 4, of 6 to 17 banks. For Minnesota the State in which chain banking seems to have developed most extensively, 1 chain of 81 banks, 1 of 35, 1 of 21, and over 30 smaller chains of 5 to 14 banks each were listed.
>
> In North and South Dakota, Kansas, and Oklahoma . . . some 28 instances of chain affiliations of 5 to 17 banks each are noted, as well as a number of smaller groups, no association of this character being listed for either New Hampshire or Vermont.[7]

Number and loans and investments, in the aggregate, of chains and groups by January, 1930 [8]

At the beginning of 1930, all the banks in the country had loans and investments of approximately $58,500,000,000. Branch, chain and group banking systems had total loans and investments of approximately $30,000,000,000 or more than one-half of the total. The branch banking systems, taken alone, had 822 banks and 3,547 branches, with aggregate loans and investments of $25,100,000,000, but these figures include 119 banks with 1,415 branches with loans and investments of $6,300,000,000 that also belonged to banking groups or chains. Including this group of 119 banks, there were 287 chains or group banking systems in existence at the beginning of 1930, embracing 2,103 banks, with loans and investments of

[7] *Report of the Federal Reserve Board* (1928), p. 31. As stated above, the Board makes no distinction between chain and group banking.

[8] See *Hearings*, pp. 163-184, for detailed list of the 2,103 chains and groups in the United States at that time.

TABLE XXIX

NUMBER AND LOANS AND INVESTMENTS OF BANKS OPERATING IN CHAINS OR GROUPS [1]

June, 1929–January, 1930

CLASS OF BANK	NUMBER OF BANKS			LOANS AND INVESTMENTS		
	June, 1929, 275 Chains	January, 1930, 287 Chains	Increase or Decrease (−)	June, 1929, 275 Chains	January, 1930, 287 Chains	Increase or Decrease (−)
All Banks:						
Total	25,110	24,630	−480	58,474	58,417	−57
In chains or groups	1,821	2,103	282	8,300	11,177	2,877
Not in chains or groups	23,289	22,527	−762	50,171	47,240	−2,934
Member Banks:						
Total	8,707	8,522	−185	35,711	35,934	223
In chains or groups	756	938	182	6,668	9,305	2,637
Not in chains or groups	7,951	7,584	−367	29,043	26,629	−2,414
National:						
Total	7,530	7,403	−127	21,457	21,584	127
In chains or groups	645	802	154	4,159	5,908	1,749
Not in chains or groups	6,885	6,601	−284	17,298	15,676	−1,622
State:						
Total	1,177	1,119	−58	14,254	14,350	96
In chains or groups	111	136	25	2,509	3,397	888
Not in chains or groups	1,066	983	−83	11,745	10,953	−792
Non-member Banks:						
Total	16,403	16,108	−295	22,763	22,483	−280
In chains or groups	1,065	1,165	100	1,632	1,872	240
Not in chains or groups	15,338	14,943	−395	21,131	20,611	−520

[1] *Annual Report of the Federal Reserve Board.*

$11,200,000,000 or approximately one-fifth of total loans and investments of all banks in the country.[9]

Comparison of figures for June with those for January indicates a considerable extension of chain and group banking during the second half of 1929. The number of banks operating in chains or groups increased by 282, while the number of banks not in chains or groups decreased by 762. Loans and investments of chain and group system banks were larger by some $2,877,000,000 at the end than at the beginning of the period, and for other banks smaller by some $2,900,000,000.

[9] *Hearings*, p. 450.

Banks operating in chain or group systems included 802 national, 136 State member, and 1,165 non-member banks. Changes in the aggregate during the period are summarized in Table XXIX.

Number and loans and investments of chains and groups by States, June, 1929—January, 1930

The extension during the last half of 1929 was largely confined to nine States, and represented in large measure the rapid expansion of a few groups, notably the Northwest Bancorporation of Minneapolis, which increased from 20 banks in June to 92 in January; the First Bank Stock Corporation, of Minneapolis, from 12 to 78; and the Guardian Detroit-Union Group, of Detroit, which was not in existence in June

TABLE XXX

PRINCIPAL INCREASE IN CHAIN AND GROUP BANKS BY STATES [1]

June, 1929-January, 1930

STATE	NUMBER OF BANKS OPERATING IN CHAINS AND GROUPS		
	January, 1930	June, 1929	Increase
Total	2,103	1,821	282
Minnesota	308	261	47
Michigan	135	86	49
North Dakota	114	100	14
New York	102	81	21
Washington	75	59	16
Arkansas	72	55	17
Montana	45	32	13
Massachusetts	45	33	12
Kentucky	16	4	12
Other States	1,191	1,110	81

[1] *Federal Reserve Bulletin* (April, 1930), p. 149.

but comprised 35 banks in January.[10] Banks operating in chains and groups increased in Minnesota from 261 in June to 308 in January; in Michigan from 86 to 135; and in North Dakota from 100 to 114. In each of these three States more than one-half of total loans and investments of all banks in the State were held by banks operating in chain and group

[10] *Hearings*, p. 454.

systems. More than one-third of the loans and investments of California's 437 banks were held by the 49 banks operating in chains and groups, and nearly one-third of the loans and investments of the 1,765 banks in Illinois were controlled by 84 members of chain and group systems.[11] Changes from June, 1929, to January, 1930, for the nine States showing the principal increases are given in Table XXX.

The table on page 109 shows the increase in number and loans and investments by States from June, 1929, to January, 1930.

Area of chain and group banking

According to Federal Reserve Board data, chain and group banking have reached their greatest development in the Middle Western, Western and Northwestern States, but they embrace a considerable number of banks and a relatively large proportion of the banking resources in many other States. There were, as a matter of fact, 25 States at the beginning of 1930 in which chain and group banks constituted a substantial part of the number of banks or of the banking resources, as indicated in the table on page 110.

As early as 1928 the Federal Reserve Board referred to Minnesota as the State in which chain banking seems to have developed most extensively, as regards percentage of all banks and all loans.[12] This statement may be verified for 1930 since the above figures indicate that nearly 30 per cent of all banks and 65 per cent of all loans and investments in the State are found in chain and group systems. Other States wherein the movement has reached a high degree of development, ranked in the order of their importance as regards the proportionate amount of loans and investments involved, are: Michigan, Florida, Georgia, California, Idaho, South Dakota, Washington, Illinois, Utah and Oklahoma. The largest number of chain and group banks in relation to total banks is found in Idaho with over 30 per cent. From this aspect other States rank as follows: Minnesota, Washington, North Dakota, Idaho, Utah, and Montana.

[11] *Annual Report of the Federal Reserve Board* (1929), p. 27.
[12] *Ibid.* (1928), p. 31.

TABLE XXXI

CHAIN AND GROUP BANKING BY STATES AND CLASSES OF BANKS, SHOWING NUMBER AND LOANS AND INVESTMENTS [1]

June, 1929–January, 1930

STATE	NUMBER OF BANKS		LOANS AND INVESTMENTS	
	January, 1930	June, 1929	January, 1930	June, 1929
Alabama	22	19	32	7
Arizona	6	6	18	18
Arkansas	72	55	50	41
California	49	51	1,528	1,476
Colorado	16	16	30	30
Connecticut	8	...	37	...
Delaware	3	3	1	1
District of Columbia	...	...	...	...
Florida	40	43	134	129
Georgia	22	20	166	157
Idaho	41	41	37	37
Illinois	84	79	1,212	996
Indiana	17	10	41	30
Iowa	87	83	90	73
Kansas	88	85	46	44
Kentucky	16	4	124	8
Louisiana	10	10	33	33
Maine	12	5	70	53
Maryland	...	...	...	...
Massachusetts	45	33	871	530
Michigan	135	86	1,262	428
Minnesota	308	261	584	269
Mississippi	21	21	15	15
Missouri	36	34	158	157
Montana	45	32	81	45
Nebraska	73	68	62	27
Nevada	13	16	20	23
New Hampshire	...	...	...	...
New Jersey	60	56	396	358
New Mexico	9	8	3	3
New York	102	81	2,011	1,571
North Carolina	...	...	...	...
North Dakota	114	100	58	44
Ohio	6	...	86	...
Oklahoma	85	82	103	96
Oregon	36	33	82	82
Pennsylvania	48	48	803	782
Rhode Island	3	3	153	153
South Carolina	2	2	8	8
South Dakota	61	54	47	39
Tennessee	32	23	149	92
Texas	84	79	104	89
Utah	26	27	50	50
Vermont	1	...	1	...
Virginia	...	...	...	...
Washington	75	59	189	79
West Virginia	...	...	...	...
Wisconsin	58	53	212	205
Wyoming	32	32	22	22
United States	2,103	1,821	11,177	8,300

[1] *Hearings*, p. 469.

TABLE XXXII

PRINCIPAL CHAIN AND GROUP BANKING STATES[1]
January, 1930

	Number of Banks		Loans and Investments (In Millions of Dollars)	
	Total	Members of Groups and Chains	Of All Banks	Of Members of Groups and Chains
Minnesota	1,046	308	901	584
Michigan	743	135	2,021	1,262
North Dakota	412	114	112	58
New York	1,127	102	17,222	2,011
Kansas	1,069	88	404	46
Iowa	1,257	87	782	90
Illinois	1,765	84	3,802	1,212
Oklahoma	617	85	401	103
Texas	1,308	84	1,036	104
Washington	340	75	460	189
Nebraska	804	73	359	62
South Dakota	387	61	137	47
New Jersey	568	60	2,388	396
Wisconsin	960	58	917	212
Arkansas	415	72	198	50
California	437	49	3,420	1,528
Massachusetts	450	45	4,225	871
Montana	195	45	144	81
Pennsylvania	1,566	48	5,703	803
Florida	235	40	258	134
Idaho	137	41	81	37
Oregon	234	36	260	82
Missouri	1,277	36	1,199	158
Utah	104	26	162	50
Georgia	405	22	334	166
All other States	6,787	229	11,535	841
Total	24,645	2,103	58,461	11,177

[1] *Hearings*, p. 453.

Size and type of banking chains and groups

The number of chains and groups controlling four to six banks represent the largest proportion of the total on a basis of size with organizations controlling three banks and seven to ten banks second and third, respectively, in importance.

However, as mentioned above, some of the large holding companies, such as the Northwest Bancorporation and First Bank Stock Corporation, comprise from 50 to 115 banks, both State and national, and extend over State boundary lines in numerous cases.

There are at present chains and groups operating entirely within a Federal reserve district, while others extend over

TABLE XXXIII

NUMBER OF CHAIN AND GROUP BANKING SYSTEMS IN EACH STATE DISTRIBUTED ACCORDING TO SIZE AND TYPE OF GROUP [1]

January, 1930

	TOTAL SYSTEMS	NUMBER OF SYSTEMS CONTROLLING					NUMBER OF SYSTEMS CONTROLLED BY		
		3 Banks	4 to 6 Banks	7 to 10 Banks	11 to 20 Banks	Over 20 Banks	Holding Co.'s	Banks	Individuals
New England									
Maine	2	1	..	1	..	.	1	1	..
Massachusetts	5		3	1	1		3	1	1
Rhode Island	1	1	..	..			..		1
Connecticut	1	.	1	..			.	1	..
Total	9	2	4	2	1		4	3	2
Eastern States									
New York	20	7	8	2	3	.	12	2	6
New Jersey	15	10	3	2	..	..	1	10	4
Pennsylvania	12	7	4	1	..	..	1	7	4
Delaware	1	1			..	..	..	..	1
Total	48	25	15	5	3	..	14	19	15
Southern States									
Georgia	5	2	1	2	..	..	1	1	3
Florida	6		3	3	.	..	1	5	..
Alabama	4	1	1	2	.	..	1	2	1
Mississippi	3		1	2	..	..	..	1	2
Louisiana	2	..	2		..	.	..	2	..
Texas	16	4	8	3	1	..	1	1	14
Arkansas	3	.	1	1	1	..	.	..	3
Kentucky	3		2	1			2	1	..
Tennessee	4	2	.	.	1	1	..	3	1
Total	46	9	19	14	3	1	6	16	24
Middle West									
Ohio	2	..	2	.	..	..	1	..	1
Indiana	3	1	..	2	..	..	1	1	1
Illinois	12	1	5	4	2	.	.	3	9
Michigan	11	1	4	1	3	2	3	..	8
Wisconsin	6	1	4	..	1	..	1	..	5
Minnesota	37	1	20	9	4	3	3	..	34
Iowa	12	2	5	1	4	.	..	..	12
Missouri	37	1	3	3	.	1	..	..	6
Total	90	8	43	20	14	5	10	4	76

[1] Compiled from data in *Hearings*, p. 471.

TABLE XXXIII (*Continued*)

NUMBER OF CHAIN AND GROUP BANKING SYSTEMS IN EACH STATE DISTRIBUTED ACCORDING TO SIZE AND TYPE OF GROUP [1]

January, 1930

	TOTAL SYSTEMS	NUMBER OF SYSTEMS CONTROLLING					NUMBER OF SYSTEMS CONTROLLED BY		
		3 Banks	4 to 6 Banks	7 to 10 Banks	11 to 20 Banks	Over 20 Banks	Holding Co.'s	Banks	Individuals
Western States									
North Dakota	6	1	2	1	2	..	..	.	6
South Dakota	5	..	4	1	..	.	..	.	5
Nebraska	10	..	6	4	..	..	..	..	10
Kansas	19	4	13	2	..	..	..	..	19
Montana	2	..	1	1	..	..	..	..	2
Wyoming	5	1	4	..	..	..	..	..	5
Colorado	3	1	1	1	..	..	..	..	3
New Mexico	2	1	1	..	..	..	1	..	1
Oklahoma	8	1	3	2	1	1	1	..	7
Total	60	9	35	12	3	1	2	..	56
Pacific States									
Washington	12	5	4	2	..	1	7	.	5
Oregon	7	4	1	2	..	..	5	..	2
California	5	1	3	.	1	..	3	..	2
Idaho	3	1	..	2	..	..	1		2
Utah	5	..	2	2	..	1	1	1	3
Nevada	1	..	..	..	1	..	..	..	1
Arizona	1	..	1	.	..	..			1
Total	34	11	11	8	2	2	17	1	16
United States	287	64	127	61	26	9	53	44	190

[1] *Ibid.*

two or more Federal reserve districts. There may be reasons for suspecting that some of the holding companies have already obtained footholds in strategic situations in many sections, but to date no greater area is covered by any single group than parts of four Federal reserve districts.[13]

In contrast with the data collected by the American Bankers Association as of October, 1929, which indicated that systems controlled by particular banks represented the largest proportion of all chain and group banking, it appears from

[13] The Northwest Bancorporation operates primarily in the Minneapolis district, but also has established affiliations with banks in the Chicago, Kansas City, and San Francisco districts.

Federal Reserve Board statistics, as of January, 1930, that the holding company form of organization predominates, from the viewpoint of the number of banks included. Those systems in which a holding company is the dominant element represent the largest proportion in the Pacific, Eastern and Middle Western States, while those controlled by particular banks predominate in the East and South. It appears that there are no systems directed by banks in the Western States and only one in the Pacific States, and only two systems headed by holding companies in the Western States.

While the number of systems controlled by individuals constitute nearly 70% of the total, it is evident from preceding data that systems directed by holding companies and particular banks control the largest proportion of resources.[14]

Systems in which the dominant element is a holding company appeared in 23 States; those directed by a particular bank in 17 States and those controlled by individuals in 35 States.

Chains and groups with loans and investments in excess of $50,000,000

In view of the financial position of New York, it is to be expected that a larger volume of loans and investment would be controlled from this city than any other city in the country. Aggregate loans and investments controlled from New York exceed $2,562,764,000. Next in importance from this standpoint is Chicago with $915,717,000. Detroit follows with $766,733,000. Other leading cities rank as follows: Minneapolis, $679,021,000; Pittsburgh, $626,081,000; Boston, $624,097,000; and Buffalo, $557,913,000. The following table gives data pertaining to chain and group systems with loans and investments in excess of $50,000,000, as well as total number of banks.

[14] A compilation as of January, 1930, similar to that given in Table XXVIII, cannot be assembled in view of the fact that the Federal Reserve Board has not presented comparable data according to type of group.

TABLE XXXIV

CHAINS AND GROUPS WITH LOANS AND INVESTMENTS IN EXCESS OF $50,000,000 [1]

January, 1930

Rank by Loans and investments and location of controlling agency	Loans and investments in thousands of dollars:	Total banks
1. New York City:		
Total	$2,562,764	23
New York	1,158,112	4
California	1,364,951	18
Pennsylvania	39,701	1
2. Chicago:		
Total	915,717	29
3. Detroit:		
Total	766,733	69
4. Minneapolis:		
Total	679,021	170
Minnesota	460,965	82
Montana	68,612	20
North Dakota	29,253	24
South Dakota	31,940	21
Nebraska	35,358	8
Iowa	24,338	4
Wisconsin	8,973	7
Washington	10,701	1
Michigan	8,881	3
5. Pittsburgh:		
Pennsylvania	626,081	13
6. Boston:		
Massachusetts	624,097	34
7. Buffalo:		
New York	557,913	22
8. Milwaukee:		
Wisconsin	168,466	18
9. Providence:		
Rhode Island	153,331	3
10. San Francisco:		
Total	146,138	17
California	145,066	16
Washington	1,072	1
11. Nashville:		
Total	131,308	66
Tennessee	97,028	11
Arkansas	34,280	55
12. Syracuse:		
New York	115,559	14
13. Atlanta:		
Georgia	104,954	7
14. Louisville:		
Total	97,429	5
Kentucky	72,341	3
Ohio	25,088	2
15. Jersey City:		
New Jersey	94,382	3

[1] *Federal Reserve Bulletin* (April, 1930), Vol. XVI, p. 149. Latest available data.

TABLE XXXIV—*Continued*

Rank by Loans and investments and location of controlling agency	Loans and Investments in thousands of dollars:	Total banks
16. Kansas City:		
Missouri	82,025	5
17. Seattle:		
Washington	78,298	7
18. Tulsa:		
Total	77,753	21
Oklahoma	76,181	19
Kansas	915	1
Texas	657	1
19. Savannah:		
Total	67,683	7
Georgia	59,951	5
South Carolina	7,732	2
20. Columbus:		
Ohio	61,302	4
21. Augusta:		
Maine	59,576	9
22. St. Paul:		
Total	52,932	71
Minnesota	32,919	30
Montana	1,893	1
North Dakota	15,233	32
Wisconsin	2,887	8

Survey of the Economic Policy Commission, American Bankers Association, May, 1930

The Economic Policy Commission, American Bankers Association, again surveyed the movement in May, 1930, and reported the data given in Table XXXV.

There was a more rapid increase in the volume of banking resources in group and chain systems than in the number of systems or of affiliated banks during the eight month period from October, 1929, to May, 1930. The figures, furthermore, do not show any substantial difference in geographical distribution, either as to the number of chains and groups of banks in each State or the resources they represent, except that in May there were only six States and the District of Columbia where no chain and groups existed,[15] whereas in October nine were reported (see Table XXVII).

[15] New Hampshire, Vermont, Maryland, Virginia, West Virginia and North Carolina. The Federal Reserve Board reports one system in Vermont (see Table XXXI).

TABLE XXXV

GROUP AND CHAIN BANK SYSTEMS [1]

May, 1930

State	Number of groups	Number of banks	Resources
Alabama	5	30	$ 50,450,000
Arizona	1	5	20,870,000
Arkansas	4	82	81,625,000
California	10	53	1,438,360,000
Colorado	2	12	37,120,000
Connecticut	1	7	39,970,000
Delaware	1	3	10,260,000
District of Columbia	..	..	.....
Florida	4	22	108,710,000
Georgia	5	22	228,090,000
Idaho	3	23	28,870,000
Illinois	11	89	1,417,260,000
Indiana	2	10	38,830,000
Iowa	10	70	76,300,000
Kansas	19	92	78,310,000
Kentucky	3	16	181,300,000
Louisville	2	9	41,460,000
Maine	1	10	68,040,000
Maryland	..	..	.....
Massachusetts	5	43	1,248,450,000
Michigan	12	110	1,351,150,000
Minnesota	29	451	1,088,490,000
Mississippi	1	4	7,010,000
Missouri	6	21	141,180,000
Montana	1	8	5,100,000
Nebraska	8	51	30,170,000
Nevada	2	12	29,490,000
New Hampshire	..	..	.....
New Jersey	13	48	376,850,000
New Mexico	1	5	2,730,000
New York	16	96	4,565,170,000
North Carolina	..	..	.....
North Dakota	7	57	29,025,000
Ohio	1	4	79,920,000
Oklahoma	9	58	184,630,000
Oregon	6	33	104,660,000
Pennsylvania	13	47	894,860,000
Rhode Island	1	3	174,420,000
South Carolina	2	7	64,920,000
South Dakota	4	24	13,070,000
Tennessee	8	42	225,230,000
Texas	17	81	186,430,000
Utah	4	42	90,410,000
Vermont	..	..	.....
Virginia	..	..	.....
Washington	9	59	136,760,000
West Virginia	..	..	.....
Wisconsin	5	39	286,190,000
Wyoming	5	22	22,960,000
Totals	269	1,922	$15,285,100,000

[1] *A Survey of Recent Developments in Group, Chain, and Branch Banking, An Analysis of Proposals to Grant Member Banks Larger Participations in Federal Reserve Bank Earnings, and A Study of Suggestions for Liberalizing the Rules Governing Paper Eligible for Rediscount at the Federal Reserve Banks,* Report of the Economic Policy Commission, American Bankers Association (May, 1930), pp. 7-8. No further chain and group data are given in the report.

Minnesota with 29 systems leads in point of number of chains and groups in operation. Kansas follows with 19 systems and Texas ranks third with 17 systems. New York has 16, New Jersey and Pennsylvania each has 13, Michigan has 12, Illinois has 11, California and Iowa each has 10, and Washington and Oklahoma follow with 9.

With a substantial portion of the banking resources centered in New York, it is to be expected that this State would show by far the largest volume of resources controlled by chains and groups. Aggregate resources of chain or group systems in New York exceed four and a half billion dollars. Next in importance from this standpoint is California with approximately $1,438,000,000. Illinois follows with $1,417,260,000. Other States rank as follows: Michigan, $1,351,150; Massachusetts, $1,248,450,000; Minnesota, $1,088,490,000; and Pennsylvania, $894,860,000.[16]

The extension throughout the country of group banking has been remarkable. Since receiving its impetus on the West Coast in 1927, it has already spread into practically every part of the country. More and more groups are of unusual importance from the standpoint of resources and prestige of institutions involved.

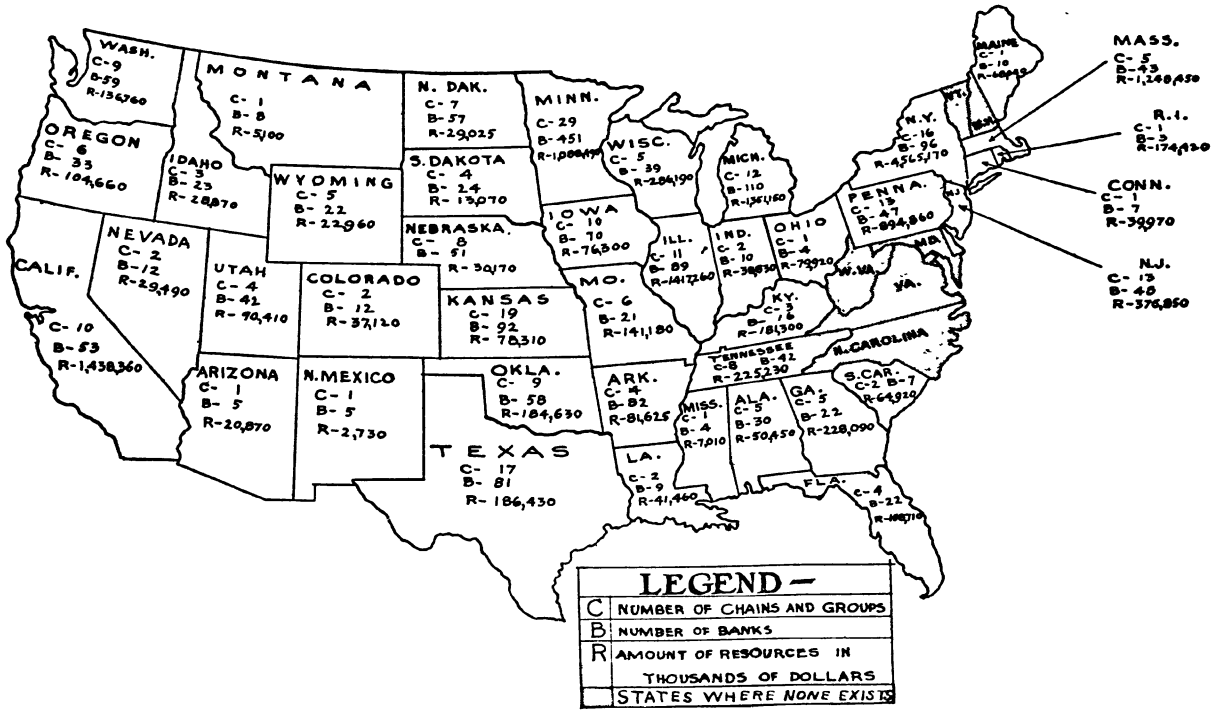
When the investment trust movement began in the United States several years ago there were many skeptics in high offices who predicted that it was a fad and would not become an established financial institution in this country. It was not long, however, before it was generally admitted that the investment trust was here to stay. The leading trusts now control and manage many hundreds of millions of dollars. This movement grew without special laws permitting or regulating it and may be taken as an example of how changing economic conditions are met without waiting for the lawmakers to act.

Group banking would probably have developed more rapidly during 1930 had it not been retarded by two factors. One was the business recession which obviously affected all capital enterprises. The other was the probability of legislation arising out of the House Committee on Banking and

[16] No later chain and group data is available at the present time.

CHART I

EXTENT OF CHAIN AND GROUP BANKING IN THE UNITED STATES[1]



[1] Data taken from *A Survey of Recent Developments in Group, Chain and Branch Banking*. Report of the Eco-

Currency hearings relative to this matter. Group officials and leaders undoubtedly wished to maintain their status quo until they could determine what governmental action might have been contemplated.

CHAPTER VIII

FACTORS RESPONSIBLE FOR THE DEVELOPMENT OF GROUP BANKING

At the outset, certain negative considerations may be dismissed. Group banking is not designed to establish a banking monopoly in various parts of the country; it is not a stock jobbing movement intended primarily to foster speculation in bank stocks; and it is not part of a fad or fashion. The economic interpretation of the movement may be reduced to several categories. In the first place a most significant motive for the increase in the number and activities of bank holding corporations is the desire to circumvent the limitations of Federal and State law in order to be in a position when the necessary laws have been passed to convert into branch banking systems. As profits and position are the reward for promoters and entrepreneurs, it follows that such forces must be reckoned with as basic causes for organizing and directing any form of business or banking unit. Keen competition among group systems has also been a factor. And finally, holding corporations have been organized for the purpose of securing financial independence of Eastern financial centers.

Circumvent restrictive branch banking statutes

Some difference of opinion has been observed as regards the effect of legal restrictions imposed upon branch banking in relation to the growth of group banking systems. It has been generally assumed that such developments are in anticipation of extensive legalized branch banking,[1] and are a reac-

[1] In answer to those who believe that groups have been formed because of the impression that branch banking will eventually be sanctioned by law all over the country, Mr. Craig B. Hazlewood, former President of the American Bankers Association, has said that: "I disagree entirely with those who assert group banking necessarily leads to branch banking or that it is merely an in-

tion against statutory provisions pertaining to branch banking under State laws and under the McFadden Act, which forbids the further expansion of branch banking outside city limits by national banks and by State banks which are members of the Federal Reserve System.[2] Undoubtedly such factors are the most significant motives for group developments, but the table on pages 122 and 123 shows that the whole movement cannot be fully explained by the obstacles encountered in various instances by branch banking.

The greatest number of chains and groups are found in the States of California, Massachusetts, New Jersey, New York, Pennsylvania, Michigan, North Dakota, Oklahoma, South Dakota, Arkansas, Illinois, Iowa, Kansas, Minnesota, Nebraska, Montana, Texas, Washington and Wisconsin. In the first five of these States the establishment of branch banks is permitted or only slightly restricted; in the next four there is no provision regarding it, while in the remaining ten it is prohibited.

While 80 per cent of the number of chains and groups are found in the States where branch banking is prohibited or not provided for, 56 per cent of the loans and investments of such organizations are found in States where extensive branch banking is permitted or merely restricted as to location. The table shows that chain and group banking, on the basis of loans and investments, are most highly developed in the States of New York, California and Michigan, in none of which extensive restrictions as to branch banking are imposed. A substantial amount of loans and investments is also found in Massachusetts and Pennsylvania, which permit the establishment of home-community branches, and in Illinois, Minnesota, Missouri, Washington and Wisconsin, where the establishment of branch banks is prohibited. On the other hand, while loans and investments substantially increased, during the last half

termediate step to countrywide branch banking. On the contrary, I believe that group banking will develop further in this country, that there will be standards involved for its handling which will make it a permanent and sound business without any thought of evolution into branch banking." See C. B. Hazlewood, "Prefers Chain Rather Than Branch Banking," *The Ohio Banker* (July, 1929), p. 6.

[2] *McFadden Branch Banking Bill, Sec. 7, an Amendment to Section 5155 of the Revised Statutes of the United States.*

of 1929, where branches are slightly restricted or unprovided for, there was only a slight increase in States prohibiting branches.

TABLE XXXVI

NUMBER AND LOANS AND INVESTMENTS OF CHAIN AND GROUP BANKS CLASSIFIED ON THE BASIS OF BRANCH BANKING LAWS [1]

January, 1930–June, 1929

STATES	NUMBER OF BANKS		LOANS AND INVESTMENTS (in millions)	
	TOTAL		TOTAL	
	January, 1930	June, 1929	January, 1930	June, 1929
United States	2,103	1,821	11,177	8,300
Statewide branch banking permitted (9):				
Total	64	65	1,609	2,056
Arizona	6	6	18	18
California	49	51	...	.
Delaware	33	3	1	1
Maryland	...	..	.	..
North Carolina		..		...
Rhode Island	33	3	153	153
South Carolina	27	2	8	8
Vermont	7	..	.	...
Virginia	...	..	...	...
Branches restricted as to location (10):				
Total	338	297	4,600	2,591
Georgia	22	20	166	157
Louisiana	10	10	33	33
Maine	12	5	70	53
Massachusetts	45	33	871	530
Mississippi	21	21	15	15
New Jersey	60	56	396	358
New York	102	81	2,011	1,571
Ohio	6		86	.
Pennsylvania	48	48	803	782
Tennessee	32	23	149	92

[1] Compiled from data collected by the Federal Reserve Board (see Table XXXI above), and "Digest of State Laws Relating to Branch Banking," *Federal Reserve Bulletin* (April, 1930), Vol. XVI, p. 258. The above chain and group data cannot be segregated on the basis of chains or groups. While statistics have been collected by the Economic Policy Commission, American Bankers Association, as of May, 1930, Federal Reserve Board statistics are considered more official and have therefore been utilized in this table.

TABLE XXXVI (*Continued*)

NUMBER AND LOANS AND INVESTMENTS OF CHAIN AND GROUP BANKS CLASSIFIED ON THE BASIS OF BRANCH BANKING LAWS [1]

January, 1930–June, 1929

STATES	NUMBER OF BANKS		LOANS AND INVESTMENTS (in millions)	
	TOTAL		TOTAL	
	January, 1930	June, 1929	January, 1930	June, 1929
States having no provision (7):				
Total	443	358	1,616	637
Kentucky	16	4	124	8
Michigan	135	86	1,262	428
New Hampshire	..	.	.	...
North Dakota	114	100	58	44
Oklahoma	85	82	103	96
South Dakota	61	54	47	39
Wyoming	32	32	22	22
Branch banking prohibited by law (22):				
Total	1,258	1,101	3,252	3,016
Alabama	22	19	32	7
Arkansas	72	55	50	41
Colorado	16	16	30	30
Connecticut	8	...	37	.
Florida	40	43	134	129
Idaho	41	41	37	37
Illinois	84	79	1,212	996
Indiana	17	10	41	30
Iowa	87	83	90	73
Kansas	88	85	46	44
Minnesota	308	261	584	269
Missouri	36	34	158	157
Montana	45	32	81	45
Nebraska	73	68	62	27
Nevada	13	16	20	23
New Mexico	9	8	3	3
Oregon	36	33	82	82
Texas	84	79	104	89
Utah	26	27	50	50
Washington	75	59	189	79
West Virginia	...	...	...	...
Wisconsin	58	53	212	205

[1] *Ibid.*

The following table affords a comparison of the extent of chain and group banking and all banking as between the four general groups of States, classified as to the legal status of branch banking.

TABLE XXXVII

COMPARISON OF CHAIN AND GROUP BANKING AND ALL BANKING ON BASIS OF LEGAL STATUS OF BRANCH BANKING [1]

(Loans and investments in millions of dollars)

LEGAL STATUS	CHAIN AND GROUP BANKING		ALL BANKING		PER CENT CHAIN AND GROUP — TOTAL	
	No. Banks	Loans and Investments	No. Banks	Loans and Investments	No Banks	Loans and Investments
Permitted	64	1,609	2,056	3,856	3.1	41.7
Restricted	338	4,608	6,373	28,075	5.3	16.4
Prohibited	1,258	3,252	12,939	11,042	9.8	29.5
No Provision	443	1,616	2,881	3,026	15.3	53.0
Total	2,103	11,177	24,249	45,999	8.4	35.2

[1] Compiled from data in Table XXXV; *Abstract of Reports of Conditions of National Banks*, Office of the Comptroller of the Currency (March 27, 1930), p. 2; and *Aggregate Resources, etc., of All Banking Institutions Under State Control*, by R. N. Sims, National Association of Supervisors of State Banks (March 27, 1930).

This table also indicates that chain and group banks represent the largest proportion of all banks where branch banking is prohibited or not provided for, and that the largest proportion of loans and investments of all banking institutions are held where branches are permitted or not provided for.

However, California accounts for 77 per cent of the total number and 71 per cent of the loans and investments of chains and groups where branches are permitted. The Transamerica Corporation accounts for a large proportion of the total in this State but involves a certain amount of duplication with branch banks since it includes the Giannini branch systems. Michigan, with 70 per cent of the chain and group loans and investments, where no branch bank statutes exist, likewise includes duplications through the 287 branches of the Guardian Detroit-Union Group and the First National-Peoples Wayne Group.

The following table, showing the principal groups in States which permit State-wide or restricted branches or have no branch banking statutes, indicates the relatively large amount of loans and investments found in such areas.

TABLE XXXVIII

PRINCIPAL GROUPS IN STATES WHICH PERMIT STATE-WIDE OR RESTRICTED BRANCH BANKING[1]

January, 1930

Name and address of management or controlling interest	Banks in chain or group	Loans and investments	Branches of banks in chain or group
State-Wide Branch Banking Permitted			
California:[2]	Number		Number
Trans-American Corporation,[3] N. Y. C.	17	$1,139,879,000	448
Goldman Sachs Trading Corp.,[3] N. Y. C.	1	225,072,000	94
Anglo-National Corporation,[3] San Francisco	16	145,066,000	1
Branches Permitted but Restricted as to Location			
Georgia: First National Bank, Atlanta	7	104,954,000	10
Kentucky: First National Corporation, Louisville	9	43,823,000	6
Louisiana: Calcasieu National Bank, Lake Charles	6	14,644,000	8
Maine: Financial Institutions (Inc.), Augusta	20	568,312,000	31
Michigan:[4]			
Guardian Detroit-Union Group (Inc.), Detroit	35	403,996,000	74
First National-Peoples Wayne Group, Detroit	21	705,032,000	213
New Jersey: Peoples Trust & Guaranty Co., Hackensack	9	25,427,000	...
New York:			
Marine Midland Corporation, Buffalo	19	425,436,000	46
First Securities Corporation, Syracuse	14	115,559,000	13
Ohio: Banc Ohio Corporation, Columbus	4	61,302,000	13
Pennsylvania:			
Peoples-Pittsburgh Trust Co., Pittsburgh	7	167,180,000	1
Union Trust Co., Pittsburgh	6	458,901,000	...
Tennessee: American National Bank, Nashville	15	35,470,000	5

[1] *Hearings*, p. 610.

[2] The other States which permit State-wide branch banking are Arizona, Delaware, Maryland, North Carolina, Rhode Island, South Carolina, Vermont and Virginia, but no chains or groups whatever were reported in three of these States and only small chains or groups in the 5 other States.

[3] No provision in State law, but branches or additional offices are operated under court decisions.

[4] No provision in State law, but State banking department has made no objection to establishment of local branches.

According to the Federal Reserve Agent of the Federal Reserve Bank of San Francisco, "Legislative restrictions upon branch banking appear to have been an important influence, although not the sole influence, leading to the growth of chain banking. Some banking groups, seeking the same ends as the branch banking systems, prefer the chain banking relationship, and have demonstrated this preference even in states such as California, where the banking laws are most friendly to branch banking." [3]

While the Federal Reserve Board, as early as 1921, stated that, "In the absence of laws permitting branch banking there has been in certain sections a considerable development of so-called chain banks, banks owned or controlled in groups by individuals or by holding companies," [4] this position was somewhat altered by statements in the 1928 and 1929 Reports. For example, in the 1928 Report the Board stated that " . . . it would appear that outside of California and a few other States of the branch banking area, the more considerable development of chain banking has been generally in certain of the States which prohibit the establishment of branch offices by banks. In States which permit the establishment of such offices, an alternative to chain banking is presented in the possibility of developing branch systems, but even within what has been defined as the branch banking area some development of chain banking has occurred." [5]

In view of the mixed factors noted, the Economic Policy Commission of the American Bankers Association has taken the same position as the writer and believe it unsafe to generalize as to what bearing branch banking laws have on group developments. The following statement, which appeared in

[3] *Fifteenth Annual Report to the Federal Reserve Board by the Federal Reserve Agent,* Federal Reserve Bank, San Francisco (December 31, 1929), p. 25. The terms chain and group are used synonymously.

[4] *Annual Report of the Federal Reserve Board* (1921), p. 6. The terms chain and group are used synonymously.

[5] *Ibid.* (1928), p. 31. Also see *ibid.* (1929), pp. 24-26; and *Federal Reserve Bulletin* (December, 1929), p. 771. For similar views see R. S. Hecht, "Fate of Unit Banking System Lies in the Balance," Trust Companies (October, 1928), Vol. XXXV, No. 10, pp. 447-449; Howard Whipple, "Why the Rush to Chain Banking," *American Bankers Association Journal* (August, 1929), Vol. XXII, No. 2, p. 99; and Andrew Price, "Group Banking," *Commercial and Financial Chronicle* (October, 1929), Vol. 129, p. 70.

their report, also indicates possible advantages of the group method in branch bank territory:

> It has been assumed by some that the rapid development of chain banking was in the nature of a reaction against restrictions imposed upon multiple office banking of the branch banking form by anti-branch banking laws. Our observations do not wholly confirm this theory, since we find chain banking prevalent in states where virtually no restriction is imposed on branch banking, as well as in states where the establishment of branch banks is prohibited. However, the facts do show that anti-branch banking laws have been a factor in some cases, and probably in some sections, in the spread of chain banking.
>
> Some cases have come to our attention where expansion along bank lines has been carried out by state banks whose expansion along branch lines was stopped by the passing of state law prohibiting further branches. Yet whether in those states in the northwest where chain and group banking developments have been especially active, notably Minnesota and other states in the 9th Federal Reserve district, expansion would have been along branch bank lines if the laws had imposed no barriers, it is impossible to say. There is obviously a well developed banking opinion in that territory that the chain bank method brings to outlying banks the strength and efficiency of a big organization without depriving them of their local individuality and sympathies. It might therefore have been that a large part of the expansion comprised in the chain bank movement there would have been along these lines even if the laws had permitted branch banking extensions.[6]

Competition among bank holding corporations

Keen competition, either to increase or preserve prestige, has also been a factor of no small importance in the rapidity of group developments in certain areas. Whatever views one has regarding group banking, it must be conceded that the factor of competition has caused developments which might not otherwise have occurred, at least with such rapidity.

For example, in order to counteract the efforts of rapidly growing groups in the Northwest, the First Wisconsin National Bank organized its own group, the Wisconsin Bancorporation. It would have been surprising if the activities of the Northwest Bancorporation and the First Bank Stock Cor-

[6] *A Study of Group and Chain Banking, loc. cit.*, p. 14. The terms chain and group are used synonymously.

poration left the premier bank in Wisconsin indifferent to their significance. The implication could very readily be made that these organizations would make efforts to secure control of Wisconsin banks. Counteraction was necessary in order to at least prevent the loss of any correspondent banks.[7] However, "Whether the First Wisconsin will be able to shut out the St. Paul and Minneapolis competitors by the counterweight of local support and interest and community pride, remains to be seen. We have no doubt that the Minnesotans are effective bargainers, and no doubt either about the ability of the First Wisconsin to match them. And it may turn out that the domestic rather than the foreign wooer will win the prize. Really, with the pot now boiling at such furious temper in the Northwest, one begins to wonder whether the leading banking lights in that section of the country have much time to think of anything else. We shall watch with interest the progress that the First Wisconsin enrollment will make against the acquisitive giants of the farther Northwest." [8]

One definite deduction can be drawn from the experience in Wisconsin, namely, that the fear of losing correspondent banks to large group competitors is probably one of the compelling motives behind any grouping of banks where a development similar to that in Wisconsin has taken place.

According to interpretations in some quarters, one reason for the First National Bank of St. Paul and the First National Bank of Minneapolis jointly organizing the First Bank Stock Corporation was because of the formation of the Northwest Bancorporation by the Northwestern National Bank group of Minneapolis.[9] Bankers in Chicago are adopting the same policy of self-protection. For example, at the time of the formation of the National Republic Bancorporation in Chicago with a capitalization of $250,000,000, it was stated by the organizers that ". . . in considering this step, the bankers

[7] Editorial, *American Banker* (September 24, 1929), p. 4.

[8] *Ibid.*

[9] "Banks Linked in Northwest," *Wall Street Journal* (April 2, 1929), p. 1. One of the reasons which led to the organization of this Northwest Bancorporation was the apprehension that outside foreign combinations were on the point of extending their interests on a large scale to include the Northwest. Letter from J. C. Thomson, Vice-President Northwest Bancorporation, July 24, 1929.

have in mind the steady increase in banking chains in Chicago after the manner of the Bain institutions. . . ." [10]

If many groups were not established for some such purpose, which required quick action, one would be inclined to wonder why so many have been organized within the past few years, particularly before the business recession set in and interfered with such operations. It looks rather as if the powers behind these movements were most desirous of keeping others out of their territory.

During the branch, chain, and group banking hearings, Mr. Robert Fleming, President of the Riggs National Bank, Washington, D. C., made the following statement, which further emphasizes the factor of competition as a motivating force toward group banking: "I may say, that the Riggs National Bank does not now contemplate an entry into group banking. In this connection, however, I wish to direct the attention of the Committee to the existence of a large number of small local banks situated in the 19 little towns mentioned making a fringe around the City of Washington. There exists the possibility in the modern development of group banking that some group operating outside of Washington might begin to pick up these banks, thus bringing into the metropolitan area of Washington the competition of outside banking. In such a case it would no doubt be necessary for their own protection for Washington banks to resort also to group banking." [11]

Competition has probably forced many enterprising bankers to establish branches or group holding corporations in order to be able to reach into every nook and cranny for business and not be injured by competition. At the 1929 Mississippi Valley Conference, Mr. Rudolf S. Hecht, President, Hibernia Bank and Trust Company, New Orleans, La., and Chairman, Economic Policy Commission, American Bankers Association, referred to the influence of the competitive factor

[10] "Rumor Chicago Independent Banks on Threshold of Advancement," *American Banker* (May 24, 1929), p. 7.

Many other instances could be quoted but will be omitted since they merely substantiate those cited and contribute nothing original to the point at issue.

[11] *Hearings*, p. 1730.

as follows: "The institution over which I happen to preside has gone on for fifty years doing its business in its main office and nowhere else, but during the last ten years, forced by competition and the action of our neighbors, we have been forced to establish nine branch offices in our city; and I am not sure that, notwithstanding the views that I may hold myself, I may not yet find myself at the head of a chain banking system in our section of the country." [12]

Many banking organizations are probably deliberating moves to bring about alliances which will offset the size and scope of larger bank holding corporations. In California, for example, the feeling probably exists that if present tendencies and influences are to continue without counter movement that banking in that State will be thoroughly and indisputably dominated by the Bank of America-Transamerica interests.

Relation of group banking and regional independence

There is another and very important cause for group banking, with particular reference to the Northwest, which has to do with the development of a regional consciousness. The latter is based upon climatic, productive, industrial, and social differences between groups of States which develop some consciousness of the position of that group of States in relation to the United States as a whole.

Because New England has had a heritage of financial, industrial, educational, religious, and social prestige there has come to be a New England consciousness. Until recently it might have been said that a man from Fargo or Sioux Falls in New York or Boston was just a man from Fargo or Sioux Falls without relation to anything else in particular, but a man from Providence, New Haven, Hartford, or Bangor in the West was a New Englander and brought with him some consciousness of the position of that group of States in relation to the United States as a whole.

The decision to create the Ninth Federal reserve district comprising Minnesota and the two Dakotas, Montana, North-

[12] *Proceedings of the Mississippi Valley Conference* (March, 1929), p. 61, "Group and Chain Banking." The terms chain and group are used synonymously.

ern Michigan and the Northern counties of Wisconsin, and the establishing of the Federal Reserve Bank in Minneapolis in 1914 created the first realization of a regional consciousness in that part of the country. There has developed very rapidly lately a feeling that this group of Northwest States regarded as a unit has distinctive economic and social characteristics. The citizen of the Twin Cities and contiguous territory is beginning to think of himself more as a citizen of this region and to associate the prosperity of his business with the prosperity of the region as a unit.

In order to maintain this unity, as well as accomplish other purposes, the Northwest Bancorporation and the First Bank Stock Corporation were organized. They serve the Northwest territory solely and exclusively. According to Mr. E. H. Pillsbury, a director of the corporation, and President of the Pillsbury Flour Mills: "The tendency of New York to enter the financial field in the Northwest has been apparent for some time. We are doing this ourselves, at home, and with an organization directed by life-time residents of Minnesota, North Dakota, South Dakota, and Montana—men whose interests are here and who are familiar with the needs of these States and are intensely desirous that agriculture have greater stability and the Northwest continue to grow in population, strength and general business prosperity." [13]

Mr. Lyman Wakefield, President of the First National Bank in Minneapolis and Vice-President of the First Bank Stock Corporation, said that: "In concluding, to organize the corporation, the only motives were the development of the best facility for taking care of the present business and the future growth of the Ninth Federal Reserve district. There has never been any consideration given to the possibility of branch banking or of nation-wide chains becoming interested in the movement. We will always be vitally interested in the soundness and adequacy of the banking facilities of this district." [14]

Mr. Edward W. Decker, President of the Northwest Ban-

[13] *Wall Street Journal* (January 15, 1929), p. 1.

[14] *"A Study of Group and Chain Banking,"* Report of the Economic Policy Commission, American Bankers Association (1929), p. 38. Also see *American Banker* (September 14, 1929), p. 1, for detailed memorandum issued by Mr. Wakefield at the time of the organization of the holding company.

corporation, has made it clear that what is going on with Minneapolis as the center of operation would have been witnessed in one form or another in any event and that the difference would have been that the initiative would have been taken by the larger financial groups in the East if Minneapolis, as the natural and logical financial center of the Ninth Federal reserve district, had not begun it.[15] Mr. Decker also stated that the group did not intend to become a part of a national system; that it is designed to serve the Northwest territory exclusively; and that the distribution of its stock in small units over the Northwest makes it unlikely that control could ever pass to outside hands. The only motives that have been discussed have been what is the best way to facilitate and advance the present business and future growth of the Ninth Federal reserve district, and make it independent of Eastern financial centers.[16]

In no other section of the United States, where group banking exists, is it possible to find such an unusual regional consciousness as a basic motive.

The desire for profits and position

On the whole, the desire for profits and position is a psychological as well as an economic motive; it is a motive incident to the struggle for achievement. It arises out of two preconceptions: first, that there is increased strength in increased size; and second, the bigger the resources controlled, the bigger the man. The banking executive, like any other business executive, likes to be somebody and to occupy a prominent place in his profession.

It is the writer's belief that the vast majority of men who plan to organize and develop group systems are actuated primarily by the impulse to make more money. They probably place this motive uppermost when, for example, they present their plans to directors and stockholders. Since profits have so obvious and direct an appeal, and since no other motive

[15] See *Hearings*, pp. 821-822.

[16] *Ibid.*, pp. 826-829. Also see T. O. Hammond, "Group Banking Activities in the Northwest," *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, p. 67-68.

can sufficiently justify the investment of other people's money, directly or indirectly, in the holding company, it is natural to place the motive of profits foremost. And it probably appears foremost in every promoter's or entrepreneur's mind when he attempts to justify a policy which in the first instance may have been prompted by other motives.

It is perhaps logical to infer that the profitable results of certain existing bank holding corporations may have caused bankers to study their financial structure and methods of operation with the idea of launching similar organizations. The success of the Bank of Italy, for example, in building up an extensive group banking system through the Transamerica Corporation has doubtless created widespread interest in banking circles and caused many bankers to interest themselves in such organizations. As a matter of fact, the charter powers and financial structure of the Transamerica Corporation have quite generally been copied by other bank holding corporations.[17]

Another motivating force, in this connection, exists in the form of promotion profits. Assume that a bank holding corporation is incorporated with a $5,000,000 common stock issue authorization. An organization fee, payable to the promoters or organizers, of approximately 3 per cent is not unreasonable. Therefore, $150,000 is paid immediately to the parties concerned. A promotion fee of 2 to 3 points is not considered excessive.[18] Obviously, the larger the organization the larger the promotion fee.

Personal considerations enter into all deals and are as different as the different instances of group organizations. It would be a mistake to push this point further. However, no criticism is justified if the financial position of affiliated banks is strengthened.

[17] See *Hearings*, pp. 838-848, 894-912, 1058-1066, 1185-1196, 1265-1275, 1443-1463.

[18] Interview with Mr. Charles W. Collins, former Deputy Comptroller of the Currency, July 21, 1929.

CHAPTER IX

TRANSAMERICA CORPORATION

Origin

The Transamerica Corporation, from the viewpoint of resources controlled, is the largest financial holding organization in the world.[1] In view of its outstanding activities in connection with the bank holding corporation movement, a survey of the history and development of the corporation is significant. It engages chiefly in the ownership and active management of financial institutions, and within the group of banks controlled is found the most extensive branch banking enterprise in the country, the Bank of America National Trust and Savings Association, which was formed in November, 1930, as a consolidation of the Bank of Italy, N.T. & S.A., with the Bank of America of California.

The foundation for this tremendous enterprise, which at the present time controls resources of almost $3,000,000,000, was established in the Italian quarter of San Francisco, known as "North Beach," and the dominant human element so closely identified with its progress is Mr. A. P. Giannini, the son of an immigrant fruit peddler.[2] Mr. Giannini, by virtue of his relationship with the Transamerica organization, may be characterized as the outstanding personality connected with the development of the modern bank holding corporation.

Formation of the Bank of Italy

Until thirty-one years of age, Mr. Giannini had been engaged in the fruit business with his step-father, but observing the need for banking facilities to serve the Italians of San Francisco, Mr. Giannini and his brother, Dr. A. H. Giannini,

[1] See Table XXIV.
[2] *Hearings*, p. 340.

opened a small bank in 1904. The bank was originally capitalized at $150,000,[3] and offers an interesting contrast with the present capital of the Transamerica Corporation, $621,-187,100.[4] The San Francisco earthquake brought devastation and ruin to the city and to most of the other banks, but fortunately for the Giannini's' their resources were untouched and they were consequently in a position to loan money at a time when it was badly needed. In the course of time their bank, known as the Bank of Italy, outgrew the environment for which it was created and developed into an outstanding banking institution.

Growth of the Bank of Italy [5]

One of the most important developments in the history of the Bank of Italy was the acquisition in 1927 of the Liberty Bank of America with $175,000,000 in deposits. This institution had been formed through the consolidation of the Liberty Bank of San Francisco, Commercial National Trust & Savings Bank of Los Angeles, Bank of America of Los Angeles, and Southern Trust & Commerce Bank of San Diego. A substantial interest in the San Francisco institution and the two Los Angeles banks had been held by the Bancitaly Corporation. All four banks had operated branches and with the subsequent addition of several other smaller units, the Liberty Bank of America, at the time of its amalgamation with Bank of Italy, had 136 branches. The effect of this consolidation was to create in the new Bank of Italy, with 270 branches and resources of $765,000,000 approximately, one of the largest institutions in the country outside of New York City. After the enactment of the McFadden Bill, which prevented the extension of branches by State member banks beyond the limits of the community in which the head office was situated, the Bank of Italy, with total resources of $765,188,976, deposits of $600,-

[3] *Ibid.*

[4] *Report of the Transamerica Corporation* (December 31, 1930), p. 11.

[5] For a more detailed account of the growth of the Bank of Italy, as well as interesting points in connection with Mr. A. P. Giannini's life and business methods, see the following: *Hearings*, pp. 1339-1350, 1429-1432; and I. B. Cross, "History of the Bank of Italy in California," *The Journal of Economic and Business History* (February, 1930), Vol. 2, pp. 271-298.

312,761, and capital, surplus and undivided profits of $37,500,000, obtained a national charter.[6] By December 31, 1930, the Bank of America, N.T. & S.A., the new consolidated institution, maintained 438 branches in 263 California cities and towns, and had 1,500,000 depositors.[7] The growth of the Bank of Italy is indicated in the following table.

TABLE XXXIX

GROWTH OF CAPITAL AND RESOURCES OF THE BANK OF ITALY [1]
(2,000,000 shares, par value $25 each)

Date	Capital	Surplus and Undiv. Prof.	Total Resources
Dec. 31, 1904.....	$ 150,000 00	$ 1,023 70	$ 285,436.97
Dec. 31, 1907.....	500,000.00	46,945.14	2,221,347.35
Dec. 31, 1910.....	1,000,000 00	150,000 00	6,539,861.47
Dec. 31, 1913.....	1,250,000.00	330,389.73	15,882,911.61
Dec. 31, 1916.....	2,000,000.00	691,452 39	39,805,995.24
Dec. 31, 1919.....	6,000,000.00	2,500,000 00	137,900,700 30
Dec. 31, 1922.....	15,000,000.00	5,533,057.07	254,282,289 52
Dec. 31, 1925.....	17,500,000.00	10,789,225.20	422,838,587 01
Dec. 31, 1928.....	50,000,000.00	55,756,632 41	847,910,538 60
Dec. 31, 1929.....	50,000,000.00	58,251,158 52	1,055,113,373 09
Dec. 31, 1930.....	50,000,000.00	54,136,574 30	1,150,285,727 07 [2]

[1] *Hearings*, p 1351 Also see *Report of the Transamerica Corporation* (December 31, 1930), p 16
[2] Bank of America, N T. and S A , the new consolidated institution.

Formation of the Bancitaly Corporation

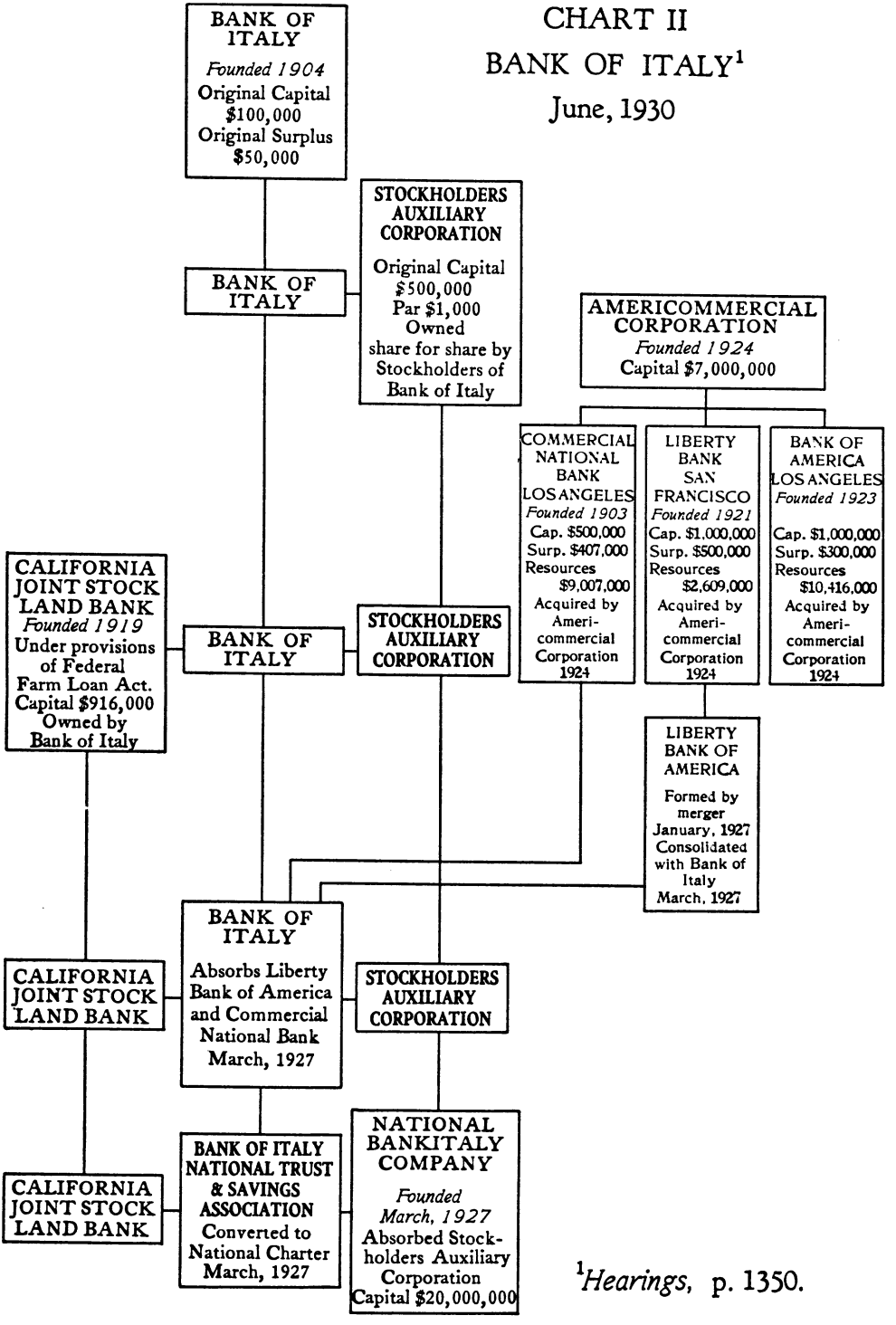
With the unusual success which attended their branch banking operations in California, it was only natural that the Gianninis' would endeavor to extend their activities beyond the State lines. Since inter-State branch banking was not legal, this purpose was accomplished through the formation of the Bancitaly Corporation, a holding company, in 1919. It seems that in 1911 Mr. A. P. Giannini was approached by the Italian Chamber of Commerce of New York to reorganize and direct the activities of a small New York banking institution. The offer was not accepted at first due to the fact that Mr. Giannini would not agree to moving East and acting in the capacity of president himself. However, from this incident developed the roots of the Bancitaly Corporation. Negotiations were continued for several years until finally in 1918 an agreement

[6] *Report of the Transamerica Corporation* (July 12, 1930), p. 1.
[7] *Ibid.* (December 31, 1930), p. 4.

CHART II

BANK OF ITALY[1]

June, 1930



[1] *Hearings*, p. 1350.

was reached whereby the East River National Bank was acquired and Dr. A. H. Giannini was made its president. Capital to the amount of $1,500,000 was raised to form the Bancitaly Corporation, which in turn acquired control of the East River National Bank, an institution with about $3,500,000 in resources at that time.[8]

Development of the Bancitaly Corporation

While the Bancitaly Corporation secured a foothold in the commercial banking field in the East in 1919, by acquiring a New York bank, important developments did not take place until 1926.[9] As the result of an expansion policy inaugurated early in that year, the East River National Bank absorbed the Bowery Bank and took the name of the Bowery East River National Bank. Then followed the acquisition of the Richmond Borough National Bank of Stapleton, Staten Island, and in February, 1927, the Discount National Bank was taken over. As a result of these amalgamations, the Bowery East River National Bank developed into an institution with resources of $100,000,000.

Meanwhile, a second commercial bank had been created in New York; the Commercial Exchange Bank, which was formed in October, 1926, as successor to the private banking business of Lionello Perera & Co., catering exclusively to Italian people, and with resources of $18,000,000. In April, 1927, the Commercial Exchange Bank took over the business of Anthony Sessa & Son, of Brooklyn, with resources of $5,000,000.

Activities of the Bancitaly Corporation were apparently varied to suit the purposes of its founders. At the hearings on the McFadden Bill in 1926, the following chart of its holdings was presented which showed it essentially to be a bank holding company and primarily engaged in bringing about a unification of California banks. It owned a substantial block of Bank of Italy stock, practically all of the stock of the Liberty Bank of San Francisco, a large interest in the Americommercial Corporation, which in turn owned the Bank

[8] "Innovations in Bank Expansion," *Barron's* (October 24, 1927), p. 10.

[9] However, the Commercial Trust Company with resources of $13,510,000 was acquired in 1924.

of America of Los Angeles and the Commercial National Bank of Los Angeles, both branch banking institutions. It was also a stockholder in sixty-seven other domestic banks in the principal cities of the country, and foreign holdings included fifty-nine banks in sixteen different countries.

In other words, the development of Bancitaly Corporation interests went forward with the same rapid progress which appeared to characterize all Giannini enterprises. From an initial capital of $1,500,000, the capital investment grew to $15,538,362 at the close of 1924,[10] and $217,377,813 by July, 1927.[11] The portfolio, as of this date, contained twenty-eight domestic bank and insurance company stocks and eighty-nine representative stocks of domestic rail and industrial corporations. Foreign stocks comprised holdings in ninety-one banks and industrial concerns, including such shares as Bank of England, Midland Bank, Suez Canal, and many others. Bond holdings comprised thirty-nine issues and were divided between American rails, public utilities, foreign governments, and municipalities. The list did not include any domestic stocks in amounts of less than $100,000.[12]

The next important acquisition of Bancitaly Corporation interests was that of the Bank of America National Association, New York, in February, 1928.[13] This acquisition marked the entry of the Giannini interests into Wall Street. Control of this Wall Street institution, with resources of $200,000,000, was acquired through the purchase from Mr. Ralph Jonas, and associated interests, of 35,000 shares out of its 65,000 shares of outstanding capital stock at a price of $510 per share.[14] This acquisition followed closely upon the settlement of litigation and a prolonged controversy which arose upon the formation of a voting trust designed to restrain Mr. Ralph Jonas and his associates from superseding the Delafield in-

[10] *Report of the Bancitaly Corporation* (1924), p. 6.
[11] *Ibid.* (1927), p. 5.
[12] *Ibid.*
[13] It may be of historical interest to note in passing that the Bank of America, New York, is claimed to be a direct successor of the First Bank of the United States, founded in 1791.
[14] This price represented a handsome profit for the Financial and Industrial Securities Corporation, representing Mr. Jonas and Manufacturers Trust interests, who, according to reports, had been accumulating the stock at much lower prices over a period of years.

BANCITALY CORPORATION[1]

February, 1926

Owns stock in 67 domestic banks, one or more leading banks in the following principal cities:

Atlanta	1	New York	22
Baltimore	2	Philadelphia	2
Boston	3	St. Louis	4
Buffalo	1	Washington, D.C.	2
Chicago	6	Los Angeles	3
Cleveland	3	Oakland	1
Kansas City	1	San Francisco	6
Minneapolis	1	Etc.	
New Orleans	1		

BANCITALY CORPORATION

Authorized $50,000,000 Par $100
* Outstanding 300,000 shares
Dividends $9 regular;
3$ Christmas extra 1925
* Capital, surplus and undivided profits, $52,000,000
* as of April 3, 1926

Owns stock in 59 foreign banks, one or more leading banks in the large cities in the following countries:

Argentine	China	Germany
Austria	Denmark	Holland
Belgium	England	Ireland
Canada	France	Italy
Norway	Sweden	
Scotland	Switzerland	

STATEMENT

Value of Stocks held in domestic banks listed	$ 20,918,922
Value of Stocks held in foreign banks listed	5,735,989
Value of Stocks held in domestic banks miscellaneous	1,935,278
Other unlisted domestic securities	47,226
Other listed domestic securities	3,710,446
Domestic bonds	167,368
Foreign bonds	591,489
Foreign stocks	194,334
Real Estate, etc.	3,215,433

BANK OF ITALY

Authorized $25,000,000 Par $100
* Outstanding 200,000 shares
Dividend $15 regular to be placed on $16 basis
* Capital, surplus and undivided profits $37,000,000 approximately.
* as of March 15, 1926
* 20747 shares owned by B. I. C.

Owns 98 branches

STOCKHOLDERS AUXILIARY CORPORATION

Capital shares owned by Bank of Italy stockholders share for share.
* Capital, surplus and undivided profits $11,500,000 approximately.
* as of March 15, 1926

LIBERTY BANK

Authorized $2,000,000 Par $100
* Outstanding 18,500 shares Dividend $6.
* Capital, surplus and undivided profits $2,638,447
* as of December 7, 1925
* 18,000 shares owned by B. I. C.

Owns 30 branches in Northern California

AMERICOMMERCIAL CORPORATION

Authorized $10,000,000 Par $100
* Outstanding 60,000 shares Dividend $7.
* Capital, surplus and undivided profits $9,500,000 approximately
* as of January 2, 1926
* 11,131 shares owned by B. I. C.

Owns Bank of America

Has 13 branches

Owns merged Commercial National Trust and Savings Bank and Continental National Bank L. A.

Has 11 branches

[1] *Hearings before a subcommittee of the Committee on Banking and Currency,* United States Senate on S.1782 and H. R. 2 (February 16, 17, 18 and 24, 1926), p. 305.

terests in control of the bank. Shortly thereafter the Bowery East River National Bank, with resources of $100,000,000 and ten branches in operation in Greater New York, was absorbed by the Bank of America. The Commercial Exchange National Bank was also absorbed and the consolidated institution took out a national charter, its title then becoming Bank of America National Association. To carry on its investment business, the Bancamerica Corporation was then formed as the security affiliate.

Further substantial growth took place in the period that followed as indicated by the fact that by July 19, 1928, the investment account of the Bancitaly Corporation was valued at $294,943,950.[15] The Bancitaly Corporation was dissolved in the fall of 1928, the Bankitaly Company of America acquiring all of its assets. It is significant that, at that time, the Bancitaly Corporation was the only important bank holding and investment company which made public its investments.

Organization of the Transamerica Corporation

The Transamerica Corporation was incorporated under Delaware laws in October, 1928,[16] to bring together the two principal Giannini enterprises then existing; the Bank of Italy, with resources of $840,000,000, and the Bancitaly Corporation, together with its subsidiary, Capital Co., having aggregate resources of $300,000,000. As originally chartered, the Transamerica organization had an authorized capital of $250,000,000, represented by 10,000,000 shares of $25 par each.[17] The Bank of Italy was capitalized at 2,000,000 $25 par value shares and Bancitaly Corporation at 5,200,000 $25 par value shares. For each share of Bank of Italy stock, there was issued in exchange one and three-quarter shares of Transamerica Corporation, whereas Bancitaly Corporation stock was exchanged share for share, so that the new corporation began business in the fall of 1928, only about two and a half years

[15] *Commercial and Financial Chronicle* (December 22, 1928), Vol. 127, p. 3488.

[16] *Hearings*, p. 1432.

[17] Certificate of Incorporation of Transamerica Corporation, *ibid.*, p. 1459.

ago, with an outstanding capitalization of 8,700,000 shares, or $217,500,000.[18]

Formation of an enterprise having the magnitude and wide-spread ramifications of the Transamerica Corporation naturally required a considerable amount of corporate action. After bringing the Bank of Italy and Bancitaly Corporation under direct control through an exchange of stock, a new corporation was formed in December, 1928, under the name of the Bankitaly Company of America. As stated, above, this institution then absorbed the Bancitaly Corporation, through an exchange of stocks, and acquired the security and real estate holdings of the National Bankitaly Company, the securities affiliate of the Bank of Italy. The Bancitaly Corporation was then dissolved, and the National Bankitaly Company took over the bond and security business of the Bank of Italy. All affiliated institutions of the Bank of Italy then became direct subsidiaries of the Transamerica Corporation.

At the time of the formation of the Transamerica Corporation, Mr. A. P. Giannini stated that the reasons underlying its organization were as follows:

> First, consolidation, with resulting saving in operation, into one organization of the control of not only Bank of Italy and Bancitaly Corporation, but of their affiliations as well, namely, National Bankitaly Co., California Joint Stock Land Bank, Bankitaly Agricultural Credit Corporation, Bankitaly Mortgage Co., Americommercial Corporation, Pacific National Fire Insurance Co., and Capital Co.; second, advantages of operation under the favorable corporations laws of Delaware; third, removal of the stock of the Bank of Italy and Bancitaly Corporation from the various exchanges, leaving Transamerica Corporation stock alone to be dealt in on the open market, thus eliminating from the operation of the controlled institutions themselves any concern regarding stock-market fluctuations; fourth, a wide listing of Transamerica Corporation stock on the various stock exchanges, thus insuring a broader and more stable market.[19]

Holdings of Transamerica Corporation, December 31, 1928

The following table shows capital, surplus, and undivided profits, together with total resources of the various units orig-

[18] *Ibid.*, p. 1432.
[19] *Ibid.*

inally brought under control of the Transamerica Corporation, as of December 31, 1928:

TABLE XL

HOLDINGS OF TRANSAMERICA CORPORATION [1]

December 31, 1928

	Capital, Surplus and Undivided Profits	Total Resources
Bank of Italy, N. T. & S. A.	$105,756,632	$847,910,538
Bankitaly Mortgage Company	1,983,817	24,951,704
California Joint Stock Land Bank	1,399,050	17,374,600
Bankitaly Agricultural Credit Co.	1,006,620	1,332,058
Pacific National Fire Insurance Co.	3,000,000	3,000,000
Bankitaly Company of America	400,000,000	400,000,000
	$513,146,119	$1,294,568,900

[1] *Commercial and Financial Chronicle* (March 16, 1929), Vol. 127, p. 1751.

Bank of America of California

In the meantime a new bank of considerable importance was being formed under the auspices of the Giannini interests. This was the Bank of America of California (Los Angeles), incorporated in December, 1928, as a consolidation of the Merchants National Trust and Savings Bank of Los Angeles and the United Security Bank and Trust Company of San Francisco, each of which had been growing rapidly through mergers and acquisitions of smaller units. The consolidated bank had 145 branches and total resources of $410,000,000, and invested capital of $50,000,000. Its affiliate, Corporation of America, which succeeded the merged French American Corporation and the Merchants National Company in January, 1929, assumed control of nine other smaller banking institutions.[20] It also controlled the Merchants National Realty Corporation of Los Angeles, a real estate holding and operating concern.

[20] To facilitate the bringing together of the various banking and other financial institutions controlled by Giannini and his associates, the capital of Transamerica Corporation was increased in February, 1929, to an authorized amount of $1,250,000,000, to be represented by 50,000,000 shares.

On December 31, 1930, 24,224,519 shares were outstanding. See *Report of the Transamerica Corporation* (December 31, 1930), p. 11.

Formation of the Bancamerica-Blair Corporation

A very important development which followed and one which is unique in the annals of American finance was the consolidation in May, 1929, of the international investment house of Blair & Company and Bancamerica Corporation, with the new company taking the name of Bancamerica-Blair Corporation. Under the leadership of its president, Mr. Elisha Walker, and his associates, Blair & Company had become one of the foremost private banking firms in the country with activities of world-wide proportions and representation in the directorates of more than 100 American and foreign corporations. Besides financing many of the important railroads and industrial concerns of the United States, as well as arranging loans for a number of foreign governments, Blair & Company, a short time before its amalgamation with the Bank of America affiliate, had formed the Petroleum Corporation of America, a $55,000,000 investment trust. As a result of the consolidation, Mr. Walker became president of the new corporation and also chairman of the executive committee of the Bank of America, N. A. Dr. A. H. Giannini remained as chairman of the Board of Directors of the bank, and Mr. Delafield continued as its president.

The combined institutions, Bank of America, and Bancamerica-Blair Corporation, had capital and surplus of $127,000,000 and aggregate resources exceeding $500,000,000. The position of the Giannini interests in the Eastern banking field were considerably strengthened by this consolidation. In addition to the benefit derived by the Bank of America by the enlargement of its facilities, particularly with respect to the depository and trust departments, the way was opened to many new syndicate participations which might not have been available to the Bancamerica Corporation as it existed.

At the time this consolidation was effected, the Traders National Bank of Brooklyn also was absorbed and subsequently in June, 1929, the Nassau National Bank of Brooklyn was merged into the Bank of America, N. A. A few months later, the Interstate Equities Corporation was organized under the sponsorship of Bancamerica-Blair Corporation as an in-

vestment trust of the discretionary type. This corporation began business with initial resources of $25,000,000.[21]

Extent of Corporate Powers

Corporate powers of Transamerica Corporation are so broad, that it is difficult to conceive of any important activity within the scope of finance that could not be undertaken by the corporation or by one of its subsidiary or affiliated units. Charter provisions of the corporation permit it to acquire and hold stocks, bonds, deal in and with real estate and personal property, assist in financing corporations, act as fiscal agent, guarantee the payment of dividends on stocks or interest on bonds, to act as insurance agent and to conduct a financial business in general.[22]

Each of the five banks within the system, the Bank of America, N. T. & S. A., the Bank of America, N. A., the Bank of America of California, the First National Bank of Portland, Oregon, and Banca d'America e d'Italia conducts a general banking business and operates commercial, savings and trust departments and each has an investment affiliate. In addition, Bank of America, National Association, operates a foreign department, while the Bank of America, N. T. & S. A., whose activities are especially diverse, maintains travel and character loan departments. The Intercoast Trading Company (now merged with Inter-Continental Corporation) is engaged primarily in trading in and dealing in securities, while Interstate Equities Corporation is essentially an investment trust and Americommercial Corporation functions as a brokerage concern. Those institutions whose activities center around real estate and real estate mortgages are Capital Company, California Joint Stock Land Bank, Bankitaly Mortgage Company and Corporation of America. Operations in the insurance field

[21] At the time of its offering, the stock was said to have been oversubscribed, a condition apparently brought about by the eagerness of the investing public for investment trust stocks, and also because neither management contracts nor options to the organizers were involved. Edward R. Tinker, formerly president of the Chase Securities Corporation, and for a number of years actively identified with the financing and underwriting of several important industrial enterprises, was made president of the Interstate Equities Corporation.

[22] See *Hearings*, pp. 1456-1459, for complete statement of corporate powers.

are carried on by America and Security Insurance Corporation, the Pacific National Fire Insurance Company and the Occidental Life Insurance Company. Bankitaly Agricultural Credit Corporation conducts a financing business in connection with agricultural and dairy products as well as cattle and sheep raising. Thus, from a study of the various functions of the constituent units in this network of financial enterprises, some idea may be gained of the widely diversified business carried on under the direction of the Transamerica Corporation.

Corporate Structure of the Corporation, June 30, 1930.

By June, 1930, the Transamerica Corporation owned or controlled twenty-five subsidiaries, as shown in the table on page 145.

Chart IV depicts in graphic form the relationship of the principal subsidiary and affiliated units of the Transamerica system as constituted in June, 1930.

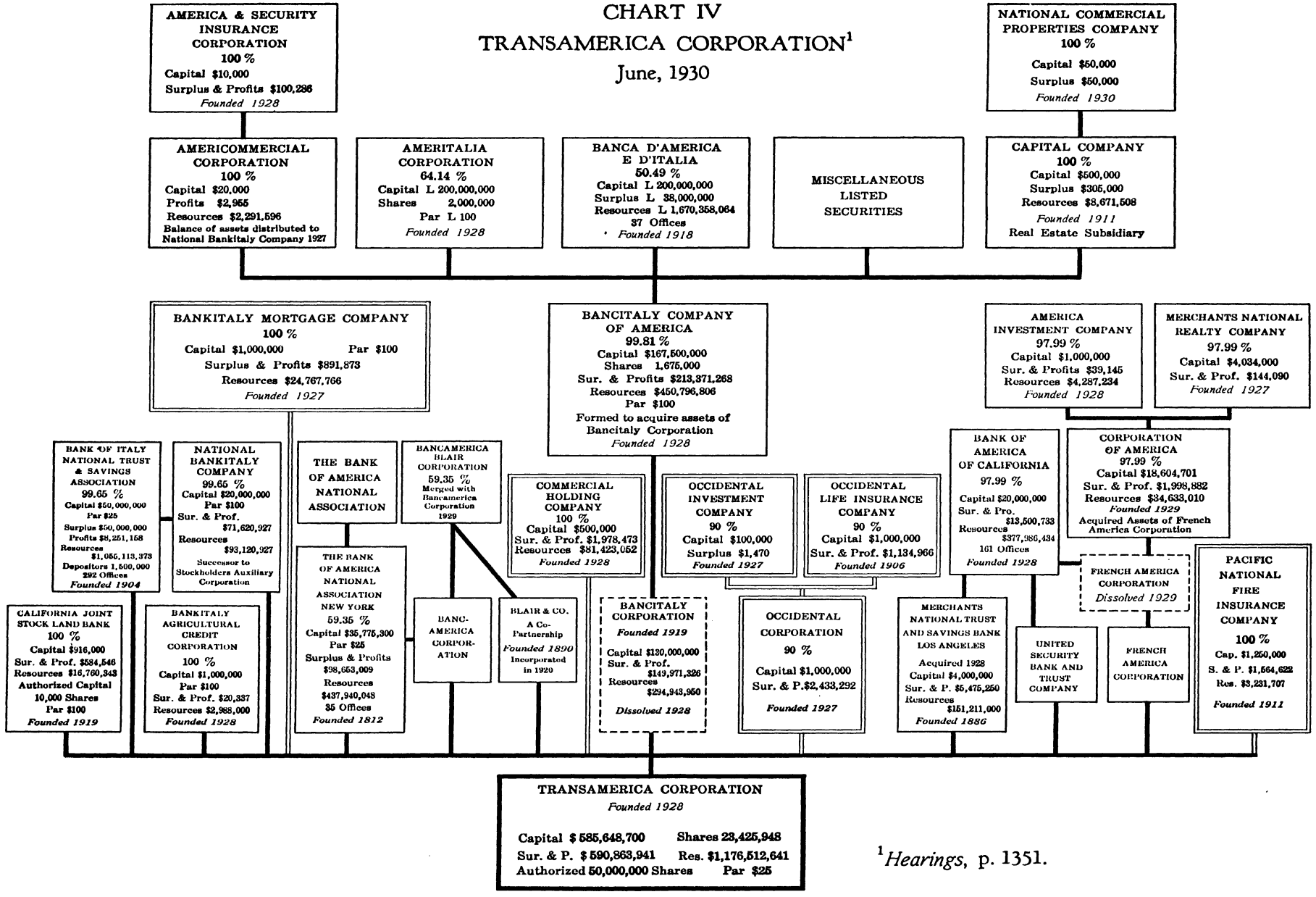
Bank of America National Trust and Savings Association

In November, 1930, the Bank of Italy and the Bank of America of California were consolidated as the Bank of America National Trust and Savings Association. The consolidated institution, with its affiliate, a State chartered institution, known as the Bank of America, has 438 branches in 263 cities in California. Its combined resources as of December 31, 1930, were $1,225,035,477.

The consolidation plan involved three major steps: consolidation of branches of the Bank of Italy and the Bank of America of California in territory they jointly occupy; incorporation of the State-chartered affiliate to include branches outside and certain branches within that joint territory; and reassignment of personnel to care for work of both national and State banks.

As a result of the scope of the consolidation movement and the existence within the Transamerica Corporation of such a large number of active subsidiaries, it was possible to accommodate all the personnel of the consolidating banks. The consolidation itself has greatly enlarged many agencies of

CHART IV
TRANSAMERICA CORPORATION[1]
June, 1930



[1] *Hearings*, p. 1351.

TABLE XLI

THE TRANSAMERICA CORPORATION [1]

June, 1930

NAME	BUSINESS	PER CENT OWNERSHIP	CAPITAL AND SURPLUS	RESOURCES
Bank of Italy, N T & S A.	Banking, 292 offices	99 66	$108,251,158	$1,055,113,373
Bank of America, N A	Banking, 35 offices	59 35	74,434,309	432,940,048
Bankitaly Co of America	Securities, etc	99 81	382,096,268	450,796,806
Bank of America of Calif	Banking, 161 offices	97 99	33,500,733	377,986,434
National Bankitaly Co	Investments, Bank of Italy, N T S A	99 65	41,620,927	93,120,927
Commercial Holding Co	Securities	100 00	2,478,173	81,423,052
Banca d'America e d'Italia	Banking, 37 offices	57 02	23,100,000	70,000,000
Bancamerica-Blair Corp	Investment banking, 31 offices	59 35	53,000,000	53,000,000
Corporation of America	Real Estate holding company	97 99	20,603,583	34,633,010
Intercoast Trading Co.	Trading in stocks	30 00	31,500,000	31,500,000
Interstate Equities Corp	Investment Trust	(2)	25,000,000	25,000,000
Bancitaly Mortgage Co	Real Estate mortgages	100 00	1,891,873	24,767,766
California Joint Stock Land Bank	Farm Loans	100 00	1,500,546	16,760,342
Capital Company	Real Estate	100 00	805,000	8,671,508
America Investment Corp	Investments	100 00	1,033,145	4,287,234
Pacific National Fire Insurance Co	Fire Insurance	100 00	2,814,622	2,231,707
Bankitaly Agricultural Credit Corporation	Farm Loans	100 00	1,020,337	2,988,000
Americommercial Co	Brokerage	100 00	22,955	2,291,596
America & Security Insurance Corporation	Insurance	100 00	110,286	(3)
Ameritalia Corporation	Investments	69.79	20,000,000	(3)
Merchants National Realty Company	Real Estate Holding Company	97 99	4,178,090	(3)
Occidental Investment Co.	Holding Company	90 00	3,133,292	(3)
Occidental Life Insurance Company	Insurance	90 00	2,134,966	(3)
Occidental Investment Co	Investments	90 00	101,470	(3)
National Commercial Properties Company	Real Estate loans	100 00	100,000	(3)
Total	. . . . .	. .	$831,732,033	$2,768,411,803

[1] Compiled from *Hearings*, p 1350
[2] Stock interest, but not control, held by Bancamerica-Blair Corporation.
[3] Not available.

service within the institution, creating opportunities for the bank workers which did not exist before, and widening the field, proportionately, for all types of banking talent. The consolidation was accomplished, therefore, not only without decrease of personnel, but with enlarged opportunities for the employees involved.

The new bank is the fourth largest banking organization in the United States. Administrative offices are maintained in San Francisco and Los Angeles, the board of directors holding monthly meetings alternately in each city. Headquarters of the newly chartered State bank is in Los Angeles, and its

administrative work in San Francisco is carried on in what was the head office of the Bank of Italy, which, under the consolidation, is now the San Francisco main office of the Bank of America, N. T. & S. A.

A double interpretation may be read into this rearrangement of Transamerica's two great California branch bank institutions, the one under a national charter and the other under State charter. In the first place it caused the famous but local name of Bank of Italy to disappear. Bank of America as a name for units outside of California is far more acceptable than Bank of Italy. As Bank of America, the fame of this huge California institution will probably be expected to lay a foundation of good will, by inference, throughout the rest of the country for the Transamerica enterprises. In the second place, the adoption of a national charter evidently indicates that the Giannini organization likes the national banking system with its unique nation-wide scope. If the opportunity for nation-wide branch banking does come along, a national bank would obviously be in a better position than a State organization.[23] The adoption of a national charter also indicates that the Transamerica interests are through adding branches in California (which was the purpose of organizing the present Bank of America under State charter), which is hardly thinkable, or that they foresee legislation in Congress which will give national banks State-wide branch banking privileges, at least where State laws do not interfere. The consolidation also seems to indicate that economies could be effected through concentration of overhead and policy. Centralization of advertising, publicity, and so forth for full strength against competition appears as another possible motive for the unification.[24]

The Corporation of America has been formed as the securities affiliate of the Bank of America, N. T. & S. A. This organization, representing a consolidation of the capital, surplus and undivided profits of the Bank of America of California, the former Corporation of America, which was an affiliation of the Bank of America of California, and the National Bankitaly Company, has a capital investment of ap-

[23] See *American Banker* (October 10, 1930), p. 4.
[24] *Ibid.*

proximately $125,000,000. A new wholly owned securities company has been formed under the title of Bankamerica Company. However, the name of the former securities affiliate of the Bank of Italy has been preserved by establishing a new company known as National Bankitaly Company. The Corporation of America is identical in ownership and operation with the Bank of America, N. T. & S. A., and is under the same management.

Acquisitions in 1930

A number of important additions to the holdings of the Transamerica Corporation and its subsidiaries were made during 1930. Among these were the acquisition of additional shares of The Bank of America N. A. (New York) and Bancamerica-Blair Corporation; the acquisition of all the stock of Occidental Life Insurance Company; the securing of control of The First National Bank of Portland (Oregon), the first institution chartered west of the Rocky Mountains under the provisions of the National Banking Act, and having, at December 31, 1930,—with its affiliated Security Savings and Trust Company—total resources of upwards of fifty millions; the merger of Italo Britannica Banking Corporation, a branch banking system with headquarters in Milan, Italy, into Transamerica's subsidiary, Banca d'America e d'Italia in connection with which consolidation a minority holding of shares in the latter bank was acquired by important British interests; the acquisition of additional shares of Banca d'America e d'Italia and of its affiliated Ameritalia Corporation, giving Transamerica more than 79% of the stock of the former and approximately 94% of the latter; and arrangements resulting in the taking over early in 1931 of the premises, business and organization of the British Italian Banking Corporation and its conversion into the initial foreign branch of the Bank of America, N. T. & S. A., in London (see *Report,* p. 5).

It entered the international telephone field with the formation, in conjunction with Theodore Gary and Company, of the General Telephone and Electric Corporation. A substantial interest in the stock of General Foods Corporation was also purchased.

Simplification of the corporate structure

A program for the simplification of the inter-corporate ownership relations of the various companies has been carried out by the management looking toward the logical grouping in a limited number of subsidiary holding companies of (1) bank stocks, (2) stocks of investment companies, (3) stocks of industrial companies, (4) insurance stocks, (5) foreign investments, (6) stocks of trading companies, etc. Chart V shows the present ownership relations.

Eight 100 per cent owned subsidiary holding companies have been formed. These are the Transamerica Realty Holding Company, the Transamerica Mortgage Holding Company, the Transamerica Commercial and Industrial Holding Company, the Transamerica Insurance Holding Company, the Transamerica International Corporation, the Transamerica Bank Holding Company, and the Inter-Continental Corporation. Another company has been formed as the Transamerica Service Corporation to perform various services in relation to the other holding company subsidiaries. The Transamerica Public Utilities Holding Company also has been formed to hold investments in domestic public utilities.

The investments of the Transamerica Bank Holding Company on December 31, 1930, carried at cost, in controlled banks and corporations, amounted to $682,942,616. This sum included $551,417,634 as the cost price for Bank of America, N. T. & S. A., and Corporation of America stock; $112,951,652 in stock of the Bank of America, N. A., and Bancamerica-Blair Corporation; and $18,573,329 in stock of the Banca d'America e d'Italia and Ameritalia Corporation. The $112,-951,652 figure for Bank of America, N. A., and Bancamerica-Blair includes 158,000 shares loaned to Intercontinental Corporation on December 31, 1930. Additional shares of the Bank of America are also owned by Corporation of America and Inter-Continental Corporation.[25]

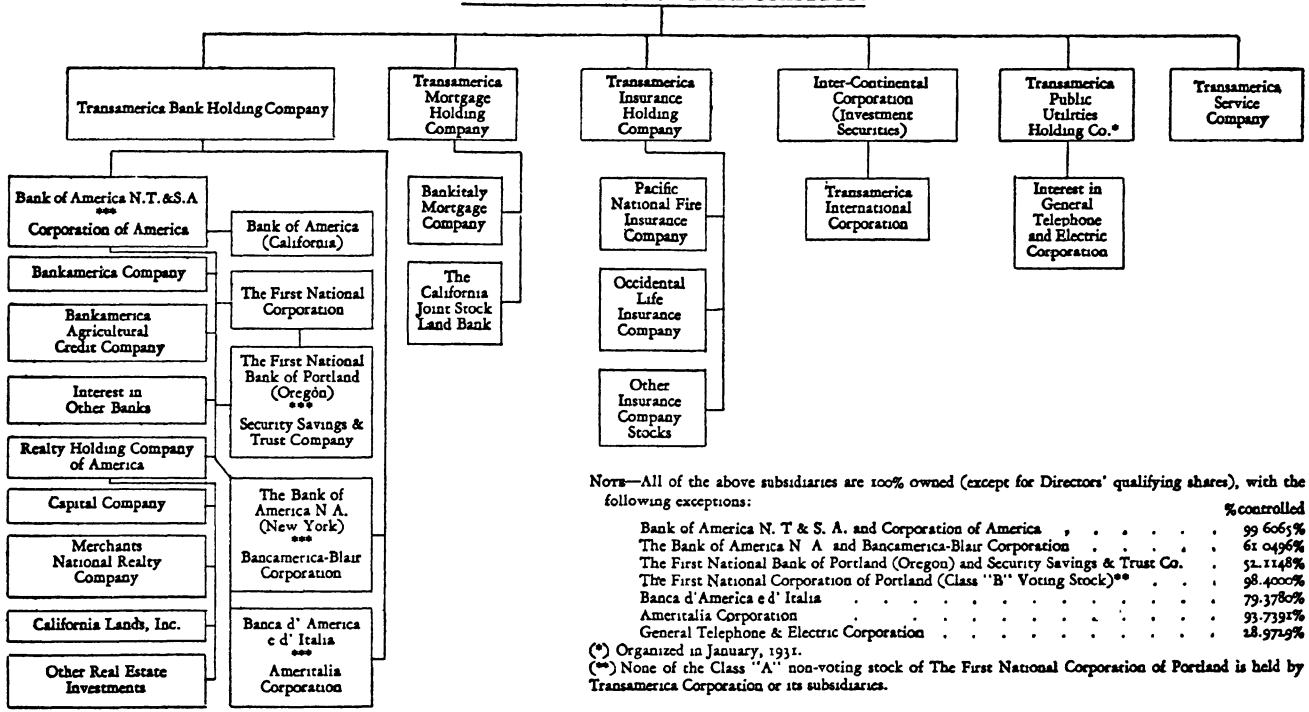
Earnings

As a result of business and other conditions, consolidated net profits for the year 1930 were reported at $18,537,369,

[25] *American Banker* (March 14, 1931), p. 5.

CHART V

TRANSAMERICA CORPORATION[1]



NOTE—All of the above subsidiaries are 100% owned (except for Directors' qualifying shares), with the following exceptions:

	% controlled
Bank of America N. T & S. A. and Corporation of America	99.6065%
The Bank of America N. A. and Bancamerica-Blair Corporation	61.0496%
The First National Bank of Portland (Oregon) and Security Savings & Trust Co.	52.1148%
The First National Corporation of Portland (Class "B" Voting Stock)**	98.4000%
Banca d'America e d' Italia	79.3780%
Ameritalia Corporation	93.7392%
General Telephone & Electric Corporation	28.9719%

(*) Organized in January, 1931.

(**) None of the Class "A" non-voting stock of The First National Corporation of Portland is held by Transamerica Corporation or its subsidiaries.

[1] *Report of the Transamerica Corporation* (December 31, 1930), p. 29.

equivalent to about 79 cents a share on 23,688,000 shares, the average number of shares outstanding during the year. This compares with consolidated net earnings of the constituent units of $67,316,309 in 1929 and $70,629,148 in 1928.[26] Prior to the 1930 and 1929 reports, complete earnings were not included for all units, and in some instances earnings were represented only by dividends paid by the controlled corporations.

Operations of the principal Giannini enterprises in years prior to the formation of Transamerica Corporation, however, have been accompanied by a satisfactory degree of stability in earning power and a generally upward trend of profits. Among the banks, remarkable operating efficiency has been exhibited in the case of Bank of Italy in particular, with the result that profits have been unusually high in proportion to total capital funds. During 1928, the Bank of Italy, together with its subsidiary and affiliated units, earned over $11,603,687, while Bancitaly Corporation earned approximately $70,000,000. Combined earnings of the two institutions in that year represented a return of approximately 19% on aggregate invested capital. During 1929, the Bank of Italy earned $14,277,151,[27] or almost 30 per cent on invested capital.

In connection with the income statement of Transamerica Corporation it should be observed that with an institution of this kind whose stock in trade is investments, the portfolio, by reason of market fluctuations, may be subject to sudden and violent changes in value. This being the case, it is often possible for the corporation to report a profit, assuming the profit arose from interest and dividends received and from the sale of securities, whereas the market depreciation of its investment list may be so great as to offset the "profit" entirely and result in an effective loss.

However, with the continued application of Giannini methods and management as well as closer co-ordination expected to result from a more unified corporate relationship, it seems reasonable to suppose that earnings in the future will follow an upward trend.

[26] *Report of the Transamerica Corporation* (July 12, 1930), p. 4. Earnings for the years 1927 and 1928 reported for Bancitaly Corporation.

[27] *Report of the Transamerica Corporation* (July 12, 1930), p. 4. Also see *Hearings*, p. 1427.

Balance Sheet

Some idea of the changes effected and the progress made by Transamerica Corporation during the first two years of its operation may be gained from a comparison of condensed balance sheets as of December 31, 1930, and December 31, 1928:

Assets	*Dec. 31, 1930* [1]	*Dec. 31, 1928* [2]
Cash, Dividends Receivable, and Miscellaneous	$16,096,512	$1,941,713
Investments	1,101,095,102	1,091,507,537
Total Assets	$1,117,191,644	$1,093,449,250
Liabilities		
Capital Stock	$595,585,325	$218,689,850
Surplus and Undivided Profits	521,606,319	874,759,400
Total Liabilities	$1,117,191,644	$1,093,449,250

[1] *Report of the Transamerica Corporation* (December 31, 1930), p 11
[2] *Statement of Condition of Transamerica Corporation* (December 31, 1928), p 2.

Cash and cash items including dividends receivable, on December 31, 1930, amounted to $16,096,542, and represented an increase of over $14,000,000 over the cash account for the previous year. Investments, comprising holdings in controlled or affiliated banks and corporations together with other investments, showed an increase of only about $10,000,000. This was undoubtedly due to business and investment conditions during the twelve months' period.

Capital stock account had grown from $218,689,850, represented by 8,747,594 shares to $595,585,325, represented by 23,688,000 shares, while surplus and undivided profits were reduced by $353,153,081. The marked increase in Capital Stock account was due to three factors, namely, the payment of a 150% stock dividend on October 25, 1929, the payment of regular dividends in stock, stock exchanges, and the sale of additional shares by means of rights and public offering. Upon payment of the 150% stock dividend it was necessary to transfer an amount in excess of $300,000,000 from surplus to capital thereby causing a substantial reduction in the surplus account.

The book value of the stock as indicated by the balance sheet of December 31, 1930, was about $47.17 per share which compares with a book value of approximately $50 per share on

December 31, 1928, after giving effect to the 150% stock dividend. An accurate evaluation of the equity behind the shares is practically impossible. Because of the fact that such important units as the Bank of America, N. T. & S. A., are virtually wholly owned, no market exists for the stock and there is therefore no means by which to arrive at its actual value. For this reason, as well as several others, the actual liquidating value of the shares is largely a matter of conjecture.

Dividends

Dividends have been paid regularly on the shares since incorporation. Prior to the payment of the 150% extra stock dividend the annual rate was $4 per share in cash plus 4% in stock. Cash dividends of $1.60 per share per annum and 4% annually in stock were initiated on the "new" shares in September, 1929, the same month in which the 150 per cent stock dividend was declared.[28] The "new" shares represented the "old" shares plus the 150% stock dividend. In other words each "new" share was equivalent to ⅖ of an "old" share.

In view of current market conditions and the generally prevailing economic situation during the summer of 1930, the quarterly dividend was reduced from 40 cents to 25 cents.[29] Furthermore, the policy has been adopted of declaring extra stock dividends in round amounts only at such times as the directors deem advisable instead of quarterly.[30]

Rights

Upon organization of Intercoast Trading Company in August, 1929, Transamerica Corporation offered its stockholders the right to buy, at $17.50 per share, one share of the new company for each nine shares of Transamerica Corporation stock held. These rights sold as high as $1.30.[31] Shareholders of record on November 5, 1929 were again given the right to subscribe, to 1,000,000 shares, this time to stock of Transamerica Corporation at $55 per share, in the ratio of one additional share for each 25 held.[32] But owing to the

[28] *Report of the Transamerica Corporation* (July 12, 1930), p. 5.
[29] *Ibid.*
[30] *Ibid.*
[31] *Hearings*, pp. 1416-1417.
[32] *Ibid.*

precipitous decline in security values at the time, Transamerica stock had fallen below the offering price and throughout the rest of the year the rights had only a negligible speculative value.[33]

Market price and yield

The price range of Transamerica Corporation stock from the time of organization until December 31, 1928, was 131⅞ high; 125 low.[34] This was equivalent to a high of 52¾ and a low of 50 in terms of the "new" stock. During 1929 the "old" shares ranged between a high of 168⅜ and a low of 125, and the "new" shares between a high of 67⅜ and a low of 20¼,[35] so that the price range for the year was identical with that given for the "new" shares. During 1930 the new shares had a high of 25¾ and a low of 10⅜.[36] On the basis of $1 per annum regular dividends in cash and an average market price of about $15 during March, 1931, the income return on the shares is about 6.6 per cent.

Investments in institutions under Giannini management have, as a rule, been highly profitable to investors. For instance, it can be shown that the purchaser of 100 shares of Bancitaly Corporation on June 30, 1919, at a price of $10,000, as of January 25, 1930, would have the equivalent of 11,069 shares of Transamerica Corporation representing a market value of $487,036 at a total cost of $135,070 through the exercise of rights. Added to the principal value of his investment would be $48,878 paid in dividends during the decade, bringing total profit and income to $400,844, equivalent to approximately 34 per cent per annum on the total investment.[37] It should be noted in this connection, also, that the market value as of January 25, 1930, gave effect to the drastic decline in security values which came with the "market crash" of October and November, from which Transamerica Corporation stock was by no means exempted.[38]

[33] A high of 10 cents and a low of 1 cent. Information furnished by the Standard Statistics Company.

[34] *Ibid.*

[35] *Ibid.*

[36] *Ibid.*

[37] *Hearings*, pp. 1416-1417.

[38] Total listing now authorized by the Committee on Stock List, New York Stock Exchange, is 24,847,484 shares, $25 par value (voting). Only six

Some conclusions

A definite conclusion as to the ultimate proportions attainable by this holding company is obviously impossible. The future course of legislative action will naturally have an important bearing on the question. There exists little doubt, however, of the ultimate goal of the Giannini interests.

If their aspirations are fully or even partially realized through the lifting of existing legal restrictions against interstate branch banking, it is readily conceivable that Bank of America in New York, by reason of its historic background and Wall Street location, may be made the head office for a system of branch banks extending from coast to coast. With extensive facilities for procuring the necessary additional capital and the expressed intention of bringing 500,000 stockholders into the Transamerica Corporation this does not seem at all illogical.[39] It is quite obvious that "those behind the Bank of Italy are restless and ambitious spirits." [40]

corporations have listed on the Exchange a volume of shares in excess of twenty millions. The other five, in addition to Transamerica, are the General Electric Company, General Motors Corporation, Commonwealth and Southern Corporation, United Gas Improvement Company, and Standard Oil Company of New Jersey.

[39] The Transamerica Corporation has stockholders in every corner of the globe, according to a tabulation contained in the 1930 report of the company. Altogether 39 separate countries, extending from the United States to the Samoan Islands, Dutch East Indies, Alaska, China, Palestine, New Zealand and South Africa, are represented

The countries in which the 217,567 shareholders of the company are located follow: Alaska, Australia, Azores, Belgium, Brazil, Canada, China, Czechoslovakia, Denmark, Dutch East Indies, East Indies, England, France, Greece, Germany, Hawaii, Holland, India, Ireland, Italy, Japan, Mexico, New Zealand, Panama Canal Zone, Palestine, Philippine Islands, Peru, Poland, Porto Rico, Portugal, Roumania, Samoan Islands, Scotland, South Africa, Sweden, Switzerland, Spain, United States and West Indies.

The growth in number of stockholders has also kept pace with the company's expansion. This growth is indicated in the following tabulation:

July, 1923 (Bancitaly Corp.)	2,205	July, 1927	42,000
January, 1924	5,621	January, 1928	74,267
July, 1924	5,737	July, 1928	93,311
January, 1925	7,848	January, 1929	97,775
July, 1925	7,643	July, 1929 (Transamerica Corp.)	129,492
January, 1926	9,192	January, 1930	165,900
July, 1926	18,549	July, 1930	179,425
January, 1927	21,823	January, 1931	217,567

[40] *Commercial and Financial Chronicle* (March 26, 1927), Vol. 124, p. 1726.

CHAPTER X

ACCOUNTING ASPECTS OF THE BANK HOLDING CORPORATION [1]

The writer, in this chapter, will endeavor to present an outline of the general accounting principles peculiar to bank holding corporations, although in many cases there are special considerations to be met, which demand special treatment. The accountancy work involved in the consolidation of two or more independent banks is frequently quite difficult, but when such consolidations are effected by an exchange of stocks through the medium of a holding company, the accounting difficulties are considerably simplified since the absorbed banks continue business as distinct legal entities.

The analysis presented in this chapter is limited because of the incompleteness or lack of comparability of much of the published data. Further segregation of balance sheet data as well as income and expense accounts is desirable. If further detail were available, a more satisfactory examination of the operating performances of the various banking groups would be possible.

Significant balance sheet problems with relation to the capital stock and investment accounts

As stated in Chapter V, one of the first things that holding companies must do is to issue at least part of their authorized capital stock. This stock may be issued for cash or in exchange for stock of a bank it desires to acquire.[2] If the stock is issued

[1] Certain of the accounting practices discussed in this chapter are debatable. No uniformity exists at the present time. The writer's statements, therefore, should be considered merely as his personal opinion as to what is desirable and practical. The present chapter is not intended to be an exhaustive analysis of bank holding corporation accountancy. No previous study of a similar nature has come to the writer's attention.

[2] It should be noted that the ownership of the stock of a bank, or of any other corporation, does not render the stockholding company the direct owner of the property or income.

for cash at par, the operation in brief is simply a cash entry crediting capital stock,[3] but if the stock is issued at a premium, the amount of the premium will be credited to the paid-in or capital surplus account.[4] Should the stock have no par value, and be issued for cash, the entire amount received will be credited to the capital account.

If stock is issued in exchange for the stock of a bank and cash does not enter into the transaction, the capital account may be credited with the total par value of the stock issued, and a suitable account such as "investment in stocks of subsidiary banks" or "investment in affiliated banks" will be charged or debited for a like amount.

However, it is preferable to set up the stock thus acquired at its break-up or book value, and charge the difference between this value and the par value of the newly issued stock to a goodwill account. While this is the more conservative way of handling the transaction, it does not seem to find much favor in practice, and consequently the consolidated balance sheet is usually advocated. Banks, of course, do not set up goodwill accounts among their assets because of conservatism and custom, but there is no reason why a holding company should not include this item of goodwill if it has been purchased.[5] As this method cannot be readily applied in all cases with consistency, it will not be elaborated further, but in any case the highly inflated values that are sometimes applied to acquired stocks cannot be regarded favorably.

Now if the stock which the holding company is to exchange is without par value, the question arises as to what amount should be credited to its capital account to represent the value of its investment. While some alternatives are available, it is believed desirable to value the acquired stock on a net worth basis, as disclosed by the balance sheet of the acquired bank at the date of acquisition.[6]

[3] An elementary knowledge of accounting is assumed, i.e., the meaning of credit, debit, etc.

[4] In contrast with the earned surplus account.

[5] In other words, where a company has paid an amount in excess of the tangible or break-up value of the stock, it is buying something in addition to the actual tangible assets. This something may be designated as goodwill.

[6] This procedure is seldom adopted in actual practice, although it is sound theoretically.

To illustrate these points, assume that a given holding company acquires the entire capital stock of a small bank and that the balance sheet on the day of acquisition is as follows:

ASSETS	
Loans and discounts	$300,000.
U. S. bonds and other securities	225,000.
Banking house and equipment	68,000.
Accrued interest	4,000.
Cash and with banks	40,000.
	$637,000.
LIABILITIES	
Capital stock	$100,000.
Surplus	50,000.
Undivided profits	24,000.
Reserve for interest, taxes, etc.	13,000
Deposits	450,000.
	$637,000.

The holding company will be assumed to issue 2,000 shares of its no par capital stock in exchange for the entire capital stock of the above bank. It would then credit its capital account with $174,000 and debit its investment in affiliated banks account with a like amount, comprising the capital, surplus and undivided profits of the affiliated bank. On the other hand, if the holding company issues 2,000 shares of $100 par value, the capital account of the holding company would be credited with $200,000 and the bank stocks or bank investments account would be charged for a similar amount, which, of course, would represent the cost of the acquired stock. So far as the holding company is concerned, it will be seen that this gives the same final result as if it had sold 2,000 of its shares to the public at par and then with the proceeds had purchased the 1,000 shares of the bank at a price of $200 a share.

It will be noted that while it may be desirable to carry the stock holdings at cost, the cost may vary considerably from the actual book value of the assets acquired and in most cases will greatly exceed it. Having regard to the facts which may lie behind the figure of cost, it would appear that the cost method, in many cases, is not as satisfactory a method of valuing stock holdings as might be desired. However, it is dif-

ficult to conceive of any other basis which would be of use in all cases.

Outstanding income statement problems

The ordinary holding company, or investment trust, in most cases purchases its holdings in the market and may carry them at cost or revalue them at periodic intervals in accordance with the ruling market values. All cash dividends received from them are taken up in the profit and loss statement. This is not, or should not be, the case with the bank holding company. Since acquisitions are primarily the result of special deals, the stocks of affiliated banks should not be subjected to such revaluations. While cost value, in relation to the income statement, may possibly be subjected to adjustment in special circumstances, it should be handled in a different manner, which is discussed subsequently in conjunction with the undivided profits statement of the Bank Holding Corporation "Y."

When the holding company purchases the entire capital stock of a bank, it acquires the whole of the reserves, surplus, and undivided profits. Insofar as a dividend is declared out of the reserves and undivided profits in existence at the date of acquisition by the holding company, they are not income but capital in the hands of the latter and should be so handled,[7] either by writing down the cost of the acquired stock, or by creating a capital reserve.[8] For purpose of illustration, the above balance is suitable. Undivided profits at the date of acquisition by the holding company amounted to $24,000. Assume that the bank then declares a dividend of 10% on its capital stock, or $10,000, out of these undivided profits. This dividend cannot, in the writer's opinion, be correctly considered as income or profit in the hands of the holding company, but rather as a reduction of the cost value of the unit bank's stock. The holding company should only consider as income dividends declared out of profits

[7] Capital as distinguished from income.

[8] By capital reserve is meant reserves which are set up to offset overvaluations of investments. This account could be shown in the asset side of the balance sheet as a deduction from the investment in stocks-of-affiliated-banks account or on the liability side as capital reserve.

earned by the affiliated or subsidiary banks subsequent to the date of acquisition. While this rule is possibly more respected theoretically than practically, it is sound, conservative accounting practice and therefore is to be recommended.

With hypothetical figures, it is of course difficult to go into anything approaching full details, but it is hoped that the main line of reasoning has been shown in the outstanding balance sheet and income accounts which have been considered.

Financial statements of bank holding corporations

In considering the published statements of bank holding companies, it should be remembered that they are issued with the alleged purpose of giving information to the stockholders. How far they answer this purpose may be determined by examining specific statements.[9] However, it should be said at the outset that frequently the trend of affairs in some concerns during the period between the publication of successive statements is obscure. The position revealed by some statements is not quite clear, if not oftentimes actually misleading. Probably bank holding companies' balance sheets in practice are not subjected to adjustment or manipulation to any greater extent than balance sheets of other organizations.[10] However, there is little doubt that such possibilities exist in the case of the former to a greater extent than is generally supposed. Furthermore, where holding company balance sheets are being adjusted or manipulated, it is difficult for the outsider to trace it.

There is, of course, no single remedy for this condition, but much can be accomplished by a demand on the part of stockholders for more details, and by a general knowledge of the outstanding features of bank holding company accountancy. Those investors in group systems, who wish to keep informed as to the actual value of their investment, should endeavor to familiarize themselves with the particular method of presentation of accounts followed by their corporations. In cases where the holding company owns outright or has a substantial

[9] Particularly with reference to those of outstanding and representative holding corporations.

[10] No derogatory inferences are implied by the use of the word manipulation.

majority control, two balance sheets should be submitted; first, its own balance sheet as shown by the books; [11] and second, a consolidated balance sheet of the holding company and its subsidiaries, prepared in the generally accepted manner for preparing consolidated balance sheets,[12] both statements having due regard for the seven points enumerated at the end of this chapter.

Bank Holding Corporation "A"

The following balance sheet and income statement of this corporation are a very good example, in the opinion of the writer, of how such statements should not be presented.

TOTAL RESOURCES AND LIABILITIES OF AFFILIATED BANKS AND TRUST COMPANIES

ASSETS	
Loans and discounts	$35,643,964
Bonds and securities	7,986,521
Real estate mortgages	8,633,969
Cash and due from banks	6,604,101
Advances to trusts	435,819
Customers' liability letters of credit and acceptances	42,901
Customers' securities	1,625,043
First mortgage bonds—trust fund	863,129
Banking house equipment, etc.	1,905,969
Other resources	36,744
	$63,778,163
LIABILITIES	
Capital stock	$4,975,634
Surplus	5,143,965
Undivided profits	1,796,758
Reserves	349,672
Total invested capital	$12,266,029
Bills payable	5,584,624
Letters of credit and acceptances	31,697
Customers' securities—safekeeping	1,900,760
Mortgage bonds	603,931
Repurchase agreements	350,900
Circulation	701,692
Other liabilities	641,340
Deposits	41,697,190
	$63,778,163

[11] In other words, a balance sheet made up of figures taken from the general ledger.

[12] See Robert H. Montgomery, *Auditing Theory and Practice* (Ronald Press, New York, 1927), Fourth Edition, Chapter 19, "Consolidated Balance Sheets and Income Accounts," pp. 386-406.

INCOME STATEMENT

Aggregate gross earnings of the units of the group amounted to	$5,906,431
From which all expenses (including taxes of all kinds and depreciation of buildings and equipment) were paid to the amount of	4,790,584
Leaving net earnings from operations (after writing off known losses) in the amount of	1,115,847
Or at the rate of 22.4% on outstanding capital stock of 248,782 shares of $20 par value	.....
Of this amount there was set aside reserves for unforeseen contingencies in the amount of	140,367
Leaving available for dividends	975,480
(Or at the rate of 19.5% on outstanding capital stock of 248,782 shares of $20 par value)	
Of this amount there was paid out in dividends during the year by the group or by the member banks prior to affiliation with the group	470,609
Leaving for additions to surplus or undivided profits	504,871

Certain points in connection with these statements might lend themselves to unfavorable interpretation in connection with the accounting policy of the group. While the statement of resources and liabilities of affiliated banks and trust companies presents substantial figures, it is not the type of statement which can be readily analyzed by stockholders. Since it merely totals the respective accounts and presents aggregates for all the banks in the group, certain calculations in connection with the stock of the holding company itself are practically impossible. The statement showing income should similarly be criticized and may even be said to be misleading.[13] It represents as profits and income to the stockholders in the holding company a figure which actually represents only partly income, the remaining portion being assets or capital, which the holding company bought and paid for. No correct basis is given, therefore, on which to base analyses. The asset value behind each share of stock, for example, cannot be calculated on a correct basis. Neither is it possible to accurately determine what the corporation earned per share.

An elaborate report of thirty-five pages is given, which, it would appear, fails in the purpose it purports to serve. A more satisfactory balance sheet as well as profit and loss statement for the holding company, both as shown by the books of the

[13] Not with intent to deceive, however. It has evidently been drawn up in accordance with what the corporation considers good accounting practice.

company, should be prepared as outlined above in the first three sections of this chapter, and in accordance with the seven general rules, listed at the end of the chapter. Furthermore, these statements should be supplemented by a consolidated balance sheet of the group, prepared in accordance with the recognized practice of preparing consolidated statements, and not merely a general statement of total resources and liabilities. Earnings per share, asset value per share, etc., could then be determined on the basis of the holding company stock.

Bank Holding Corporation "B"

The following statement has its good points and may give a good picture of the financial condition of the corporation even though it is not taken from the books of the company. Another objection is that the corporation simply incorporates the surplus and profits of the subsidiary banks with its own surplus and undivided profits. The facts do not justify such a procedure.[14] Inasmuch as the banks controlled are corporately independent institutions, retaining their own identity, their earnings should become part of the income of the holding company only when they have been declared and paid as a dividend on its stock and when such earnings are from operations subsequent to the acquisition of the bank. Furthermore, the surplus should be segregated, showing the paid-in surplus and the earned surplus, or undivided profits, separately. The corporation does not follow the desired policy of submitting a profit and loss statement.

RESOURCES

Book value of capital, surplus, and undivided profits of Bank Holding Corporation "B's" banks.....	$7,612,793	
Less minority interest therein (including directors qualifying shares)	145,640	
Bank Holding Corporation "B's" ownership therein.....		$7,467,153
Other receivables and assets, net.....		29,300
Cash in banks and in transit		6,670,080
Total resources		$14,166,533

[14] In other words, as stated above, the ownership of the stock of a subsidiary bank does not render the holding company the owner of the property of the bank.

LIABILITIES

Capital stock outstanding (809,468 shares)	8,094,680
Surplus and undivided profits (dividend of $242,840.40 paid Dec. 31, 1929)	6,071,853
Total liabilities	$14,166,533 [1]

[1] This report also gives a combined statement of the seventeen banks of the group, which will be omitted since it is unnecessary for present purposes

Bank Holding Corporation "C"

The balance sheet of Bank Holding Corporation "C" appears to have been taken from the books of the corporation, and for this reason it is preferred to the previous two. Furthermore, it is drawn up in the generally accepted accounting manner.[15]

BALANCE SHEET

ASSETS

Cash and call loans	$4,853,390
Stocks and bonds, at lower of cost or market	2,393,150
Dividends, notes and accounts receivable	3,619,510
Investment in stocks of banks and subsidiary companies, at cost	123,800,460
Total	$134,666,510

LIABILITIES

Dividend payable January 2nd, 1930	1,434,960
Capital and surplus: Represented by 22,316 shares of initial non par value stock and 803,904 shares of fully participating non par value stock	133,231,558
	$134,666,510

The paid-in-capital and the earned surplus should be segregated and not grouped in a single item. It would also be interesting to learn how the cost of investments in subsidiaries was arrived at, in view of the fact that the stock is without par value and was issued, it may be presumed, largely in exchange for the stock of the subsidiaries.[16] On referring to the combined statement of condition of banks owned, it appears that the total of the capital stock, surplus and undivided profits of the subsidiaries amounts to $65,139,469, as against an investment in stocks of banks and subsidiary companies of $123,800,460. This indicates that stock which has a book or

[15] This statement has been prepared by a reputable accounting firm. It appears that statements audited by public accountants tend to conform to practices recommended in this chapter.

[16] Such an explanation, of course, need not be incorporated in a balance sheet.

break-up value of the former figure is carried at the latter. As stated above, in a properly prepared consolidated statement of the holding corporation and subsidiaries, the difference should be carried as goodwill.

This corporation does not present an independent income statement but gives a combined summary of income, in which, for present purposes, we are not interested since it is not indicative of the position of the holding corporation itself.

Bank Holding Corporation "D"

The data given in the annual report of this company are quite sufficient and require little comment. The following commendable statement appears in the report: "We have obtained from each bank in the group an earnings statement for the entire year of 1929, and where the bank was not in operation for the full year, its income has been carefully estimated. Based on these figures, the annual net operating profit accruing to the Corporation, after deducting all expenses and taxes, will amount to $7,282,652.04 or $4.73 per share of our stock. It is not to be understood that these earnings have actually been received by the Corporation; nor will they be received hereafter. It is the policy of your officers to ask dividends from the several banks only sufficient to meet our own dividend requirements, and to allow the excess earnings to remain in the several banks in the form of surplus or reserves, thus continuously strengthening the component parts of the entire organization." It is stated that the item stocks represents the valuation at the time of the purchase of equities in affiliated corporations.

BALANCE SHEET[1]

RESOURCES

Cash on hand	$976,343	
Bonds and commercial paper	2,167,930	
Bills receivable	1,430,094	
Accounts receivable	95,640	
Total quick assets		$4,670,007
Furniture and fixtures		4,340
Stocks		55,894,709
Accrued interest (net)		3,110
		$60,572,166

[1] This is a statement of the holding company itself independent of subsidiaries.

LIABILITIES

Capital [2]	38,500,614
Surplus and undivided profits	21,730,546
Dividend payable, January 1, 1930	341,006
	$60,572,166

[2] The report states that there was outstanding a total of 1,540,024 56 shares of an authorized capitalization of 5,000,000 shares of a par value of $25 on December 31st, 1930.

Bank Holding Corporation "X"

The following statement is fairly typical of the statements rendered by bank holding corporations. It appears to have been accurately taken from the books of the corporation and to have been submitted in the usual condensed form.

RESOURCES

Commercial paper, call loans, and cash	$2,147,240
Notes receivable (secured)	3,614,227
Bonds	1,876,125
Accounts receivable	19,800
Stock of affiliated companies	43,006,840
Total Resources	$50,664,232

LIABILITIES

Capital	40,174,850
Surplus	8,500,000
Reserve for contingencies	700,000
Reserve for dividends	1,289,382
	$50,664,232

The annual report states that the corporation had outstanding 803,497 shares of capital stock with a par value of $50.00 per share, thereby giving desired data regarding the capital account. While the combined financial statement of affiliated institutions discloses capital stock, surplus and undivided profits aggregating $24,763,940 as of December 31st, 1929, according to the balance sheet, it appears that stocks of affiliated companies are carried at $43,006,840, or practically double the tangible or break-up value of these stocks as disclosed by the combined financial statement of affiliated institutions. The corporation does not give its own statement of earnings but instead gives the combined statement of the earnings of the group. As stated before, the latter gives no indication whatsoever of what will be considered as income by the holding company.

Bank Holding Corporation "Y"

The following accounts present to stockholders in proper form all the required information. In this case the holding company does not own outright any of its subsidiaries and consequently no consolidated balance sheet is called for. Nevertheless, the balance sheet containing the account bank stocks at cost should state the market value of these stocks since it is information that should be given to stockholders. However, the main account, which attention should be drawn to, is the adjustment of cost of bank stock account in the undivided profits statement. This indicates that out of the dividends received, $8,653 was earned prior to acquisition by the holding company, and that this amount has now been properly applied to reduce the cost of bank stocks. This company is the only one which has come to the writer's attention to date, that has incorporated such an account in financial statements.

BALANCE SHEET

ASSETS

Bank Stocks, at Cost		$12,490,687
U. S. Government and Municipal Bonds at Cost		834,767
Other Investments, at Cost		65,040
Cash in Banks and on Call		1,106,293
Accrued Interest Receivable		45,676
		$14,542,463

LIABILITIES

Provision for Federal and Other Taxes		$75,000
Dividends Payable, January 2nd, 1930		267,000
Capital Shares:—		
200,000 shares no par value, amount paid thereon	$14,000,000	
Undivided Profits	200,463	14,200,463
		$14,542,463

INCOME ACCOUNT [1]

INCOME:		
Dividends		$435,610
Interest		263,900
Miscellaneous		1,004
		$700,514
Less:		
Expenses paid, including compensation for services...	$90,000	
Fees	1,200	91,200
		$609,314
Provision for Federal and Other Taxes		35,004
Net Income		$574,310

[1] Incidentally in this case also the accounts were prepared by a reputable accounting firm.

UNDIVIDED PROFITS

Balance, December 31st, 1928	$32,506
Deduct: Adjustment of Cost of Bank Stock	8,653
	$23,853
Add: Net Income for the year ended December 31st, 1929	574,310
	$598,163
Deduct: Dividends Paid	450,000
Undivided Profits	$148,163

Bank Holding Corporation "Z"

The following balance sheet is significant not only in that it gives practically all desired information, but because it is the statement of one of the largest bank holding corporations.

BALANCE SHEET

December 31, 1929

ASSETS

Investments:		
Bank of A, and A Company	$120,001,091 [1]	
B Company of America	225,324,640 [1]	
Bank of B, and B Corporation	6,124,965 [1]	
Bank of C, and C Corporation	4,306,701 [1]	
D Company	600,000 [1]	
E Fire Insurance Company	1,410,603 [1]	
F Mortgage Company	250,000	
G Agricultural Credit Corporation	325,000	
The H Joint Stock Land Bank	742,000	
K Holding Company (now M Corporation)	200,000	359,285,000 [2]
Cash:		
On Deposit and Due from Banks		2,100,000
Receivables:		
Declared Dividends—D Company	50,000	
Advances—B Company	5,640,000	5,690,000
		$367,075,000

[1] Additional holdings included in the investments of A Company, B Company or M Corporation.

[2] Taking (1) book cost of stocks of banks and their affiliates, wherever owned, (2) asset value of subsidiaries in which marketable securities, except stocks of banks and their affiliates, have been reduced to market value and in the case of certain securities at appraised values ($85,000,000), (3) market value for securities owned directly by Bank Holding Corporation "Z" other than stocks of subsidiaries, the above investments aggregated, at December 31, 1929 (after eliminating from the computation all shares of stock held in the group), approximately $250,000 000

LIABILITIES

Dividend Payable January 25, 1930:			
In Cash			$ 3,000,000 [a]
Accrued:			
State Corporate Taxes, etc. (not payable until after date of Balance Sheet)			25,000
Capital Stock and Surplus:			
Authorized 20,000,000 Shares	$100,000,000	$	
Less:			
Unissued 12,000,000 Shares	240,000,000		
Issued and Outstanding 8,000,000 Shares	160,000,000		
Fractional Share Scrip 37,500 Shares	750,000	160,750,000	
Paid-in Surplus:			
From Sales and Exchanges of Stock	300,000,000		
Less: Stock Dividend Paid (100%)	100,000,000	200,000,000	
Profit and Loss Surplus:			
Consolidated Net Profit for the year ended December 31, 1929	20,300,000		
Less: Earnings for year of companies included in above but not taken into income of Bank Holding Corporation "Z"	1,200,000		
	$ 19,100,000		
Deduct:			
Dividends Paid and Declared:			
Cash	$12,300,000		
Stock	3,500,000	15,800,000	3,300,000 364,050,000
			$367,075,000

[a] In addition to the cash dividend shown above, payable January 25, 1930, the company had also declared an additional dividend of 1% payable in capital stock on the same date

It will be noted that the desired elaboration in connection with the capital stock and surplus accounts, along lines indicated above, has been given, as well as some indication as to how the value of investments was ascertained.

Justification for contemporary practices

After presenting and criticizing a number of the published statements of important bank holding companies, it might be advisable to consider possible reasons why some of these statements are prepared in such a way. In the first place banks are placed in a somewhat different position than most business organizations, in that they have a large number of depositors to consider and have of necessity to produce accounts which all may understand. They enjoy a reputation of being very conservative in their business, and cannot afford to be radical even in the method of presentation of accounts. The

continuation of a method of presentation which is well understood is calculated to preserve that confidence which is so essential to the life of a bank. Therefore, bankers, when they organize a holding company, endeavor to present its accounts in the form they have been long accustomed to, and with which they are thoroughly familiar. This tendency, of course, will gradually diminish when it is fully recognized that it is a large number of stockholders and not depositors which the holding company has to consider.

Fortunately, however, many holding companies have now realized that it is with the investing public that they, as holding companies, are primarily concerned, and accordingly they present their accounts in the accepted form. Their example will no doubt be followed sooner or later by all the others, leaving the individual or even the combined banks to issue statements independently for the benefit of depositors.

Many of the holding companies whose accounts have been considered had just been recently organized and therefore were presenting their first annual report, and adopted the combined form since they are desirous of submitting a good statement. This obviated the necessity of their having to disclose inconvenient facts and gives them a full operating period of six months or a year to put their house in order. During this time they will also have the opportunity of studying the reports of their contemporaries.

The tendency has been noticed of the holding company to give a combined balance sheet of its various subsidiary banks, together with a combined profit and loss account, supplemented by the various balance sheets of the individual banks. This method of presentation of accounts is applicable to branch banking, where a parent operating bank controls a number of branches, and is particularly applicable in such cases inasmuch as it shows the depositors all the facts in a way they can quickly and easily understand, but should not be used in connection with group banking, for reasons stated above.

The writer understands that the Economic Policy Commission of the American Bankers Association is endeavoring to develop a proper method of preparation and presentation of financial statements.

Summary of recommended accounting policies for bank holding corporations

A brief and general discussion of certain outstanding bank holding corporation accounts has been presented. While many more examples might be given, the same general principles apply, and indicate the advisability of a conservative but thorough statement. In order to accomplish this purpose, the following points should be stressed: (1) give such particulars as will disclose the general nature of the assets and liabilities and how the values have been arrived at; (2) organization expenses and goodwill, if any, should be separately stated; (3) investments in banks held for the purpose of control should not be combined with other investments; (4) loans to or from affiliated banks should be stated separately in the aggregate; (5) loans and investments should not be combined; (6) a complete summary of the capital stock should be given; and (7) expense and income accounts should be made available in considerable detail.

Balance sheet data are stressed because certain leeway exists and certain arbitrary figures could be set up. Furthermore, sundry assets can be combined in such a manner as to conceal their identity. On the other hand, in connection with the profit and loss statement, the various accounts which enter into it are simply the balances of such accounts as shown by the books. While some arbitrary grouping may take place, the net result is not affected.

CHAPTER XI

FEDERAL LEGISLATION

The problem of Federal supervision

The group banking movement has created a problem in the field of public supervision which bank supervisory authorities are unable to cope with at the present time. The component banks in a group system may be subject to supervision as individual corporations, but to date there is no way by which the organization as a whole can be brought under the jurisdiction either of the national or the State banking authorities. Bank holding companies have been exempt from banking examination, and even when a bank acts as a parent in a group of banks, it is subject to supervision only to the extent of its own banking operations. Groups often contain both State and national banks and State banks in several States, and both members and non-members of the Federal Reserve System. Therefore, there is no direct or indirect way by which the group as a whole can be examined in its total operations by either Federal or State authorities.

Inasmuch as one State cannot examine and supervise banks in another State, even if the banks in question are a part of the same group, the power to conduct such examinations must be brought under the jurisdiction of the Federal government.

The problem, then, resolves itself into the question: Does the Federal government have the power to pass a national law, that would be constitutional, to bring all group systems which extend across State boundaries and are therefore beyond State control, under Federal jurisdiction for regulation and examination?

(a) These groups may contain only State banks, *or*
(b) They may contain both national and State banks.

This chapter is devoted to a discussion of certain negative aspects of the problem, but the following chapter makes constructive suggestions.

The commerce clause of the Constitution

It is not possible, under the commerce clause of the Constitution, to find powers authorizing Federal supervision and regulation of group banking, since the banking business is not commerce.[1]

It is well established that the element of transportation is essential to commerce, or constitutes commerce itself.[2] It is also essential that the subject of the transportation be a commodity. In a case where a broker dealt in foreign bills of exchange, the court said that he was not engaged in commerce but in supplying the instruments of commerce, and that a State tax upon a money and exchange-broker was not void as a regulation of commerce.[3]

Commerce involves an exchange of goods.[4] The courts have decided that one is engaged in interstate commerce when he carries goods in his own wagon from one State to another for sale at their destination," [5] or "when he pipes oil from his well in one State to his refinery in another for ultimate disposition in the second State," [6] or "when he buys goods in one State and carries them into another on his own person for his own use." [7]

It has also been held that the lending of money by a citizen of one State to a citizen of another does not constitute inter-

[1] The judicial interpretation of the commerce clause began in 1824 with the significant opinion of Chief Justice Marshall in the case of *Gibbons* vs. *Ogden*, wherein a grant of the State of New York, for the exclusive right to navigate the waters of New York, with boats propelled by fire or steam, was held void as repugnant to the commerce clause of the Constitution, in view of the fact that it prohibited vessels licensed by the laws of the United States from carrying on the coast trade through navigating the said waters by fire or steam. The broad and comprehensive construction of the term "commerce," in this opinion, is the basis of all subsequent decisions construing the commerce clause and is the recognized source of authority. See *Gibbons* vs. *Ogden*, 9 Wheaton 1 (1824).

[2] *Railway Co.* vs. *Husen*, 95 U. S. 465 (1877).

[3] *Nathan* vs. *Louisiana*, 8 Howard 3 (1870).

[4] *Gibbons* vs. *Ogden*, 9 Wheaton 1 (1824).

[5] *Kirmeyer* vs. *Kansas*, 236 U. S. 568 (1915).

[6] *The Pipe Line Cases*, 234 U. S. 548 (1914).

[7] *U. S.* vs. *Hills*, 248 U. S. 420 (1919).

state commerce,[8] and under the Fourteenth Amendment all the privileges and immunities enjoyed by individuals are likewise applicable to corporations.

It has also been held that interstate insurance transactions are not interstate commerce, since commodities are not involved. This was first decided in 1868 with regard to fire insurance. The court said: "The contracts are not articles of commerce in any proper meaning of the word. They are not subjects of trade and barter offered in the market as something having an existence and value independent of the parties to them. They are not commodities to be shipped or forwarded from one State to another, and then put up for sale. They are like other personal contracts between parties which are completed by their signature and the transfer of the consideration. Such contracts are not interstate transactions, though the parties may be domiciled in different states." [9] The business of life insurance was also held not to constitute commerce.[10]

Similarly it has been held that, "The business of banking is not interstate commerce, and a State statute regulating the same is not in violation of the commerce clause of the constitution." [11]

Therefore, since the banking business is not interstate commerce, Congress cannot, under the commerce clause, pass any legislation regulating banking groups.

Federal taxing power

The Federal government under its broad taxing power may tax group banking out of existence but is powerless to regulate

[8] *Nelms* vs. *Mortgage Co.*, 92 Ala. 157 (1890).

[9] *Paul* vs. *Virginia*, 8 Wallace 168 (1868). Also see *Hooper* vs. *California*, 155 U. S. 655 (1894).

[10] *N. Y. Life Ins. Co.* vs. *Cravens*, 178 U. S. 399 (1899). Also see *Northwestern Mutual Life Ins. Co.* vs. *State of Wisconsin*, 38 Supreme Court Reporter 444 (1917), and *Lunceford* vs. *Commercial Travelers Mutual Assn of America*, 129 U. S. 805 (1888). Among the reasons given for the decisions that insurance is a matter for State concern only is the immediate fact that if it were held that insurance companies chartered in one State but operating in many States were engaged in interstate commerce, the absence of any device of the Federal government to control them would leave their activities quite unrestricted. See D. M. Keezer and S. May, *The Public Control of Business* (Harper & Bros., New York and London, 1930), pp. 213-21.

[11] *Engel* vs. *O'Malley*, 219 U. S. 128, 182 Fed. 365 (1910). It has also been held that, "Private banking is not commerce, even though the business may involve the receipt of bailments from other states." See Frederick N. Judson, *Interstate Commerce*, 3d ed., (1916), Sec. 8.

or supervise it. The Constitution of the United States, while restraining expressly and by implication the taxing power of the States, grants certain taxing powers to Congress. As the Federal government, under the Constitution, is one of delegated powers, the taxing powers must be found in the express or implied powers of the Constitution.[12] The source of the taxing power of Congress is found in Article 1, Section 8, of the Constitution, wherein it is stated that, "The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States. . . ." Thus the only express limitation upon the taxing power is that it shall be for the payment of debts and to provide for the common defense and general welfare of the United States.[13]

In the famous case of *McCulloch* vs. *Maryland,* Chief Justice Marshall stated the basis of the taxing power and the security against its abuse as follows:

> The power of taxing the people and their property is essential to the very existence of government, and may be legitimately exercised on the subjects to which it is applicable to the utmost extent to which the government may choose to carry it. The only security against the abuse of the power is found in the structure of the government itself. In imposing a tax the legislature acts upon its constituents. This is in general a sufficient security against erroneous and oppressive taxation. The people of a state, therefore, give to their government a right of taxing themselves and their property, and as the exigencies of government can not be limited they prescribe no limits to the exercise of the right, resting confidently on the interest of the legislature and on the influence of the constituents over their representative in guarding them against its abuse. The power to tax extends to persons, property, and occupation; it touches property in every shape, in its natural condition, in its

[12] See *Martin* vs. *Hunter,* 4 Wheaton 304 (1816), wherein it is stated that, "The government of the United States can claim no powers which are not granted to it by the Constitution, and the powers which are actually granted must be such as are expressly given, or given by necessary implication."

[13] Implied limitations of the taxing powers are found in the construction of the "due process clause." Thus it has been held that, "The proceeds of a tax must be used for public purposes only." See *Cole* vs. *La Grange,* 113 U.S. 1 (1884). Also see *Loan Association* vs. *Topeka,* 20 Wall 655 (1885), in which a statute of Kansas was held invalid because by its provisions the property of the citizens under the guise of taxation could be taken in aid of private enterprise, which was a perversion of the taxing power under Article 1, Section 8, of the Constitution.

manufactured state, and in its various transmutations; it may reach business in almost infinite forms in which it is conducted, in professions, in commerce, in manufactures and in transportations.[14]

Therefore, it is quite evident that Congress, under its broad power of taxation, could levy a tax which would force the holding corporations engaged in the purchase of bank stock out of business, just as the power of taxation was invoked with no purpose of revenue in view, but solely to destroy and tax out of existence bank notes issued by State banks.[15]

However, it is not the prohibition of group banking that is being sought, but rather its regulation and supervision. It is well settled that where a tax has for its sole purpose the regulation of a business it is unconstitutional.[16] Thus it would appear that the taxing power of Congress cannot be used for the regulation and supervision of group banking.

Clayton Act and interlocking directorates

The Clayton Act of 1914, which in general prohibits interlocking directorates or interlocking of executive officers, is ineffective in preventing the expansion of group banking. This is due to the fact that the restrictions contained in the Clayton Act apply only to the interlocking of directorates or executive officers between large banks or banks in cities over 200,000 in population and only to national banks.

The provisions of the Clayton Act pertaining to the interlocking of certain banking directorates as provided for in Section 8, may be briefly stated as follows:

1. No person who is a director or other officer or employee of a national bank having resources aggregating more than $5,000,000 can legally serve at the same time as director, officer, or employee of any other national bank, regardless of its location.
2. No person, who is a director in a State bank or trust company having resources aggregating more than $5,000,000 can legally

[14] *McCulloch* vs. *Maryland,* 4 Wheaton U.S. 316 (1819). In this case the Chief Justice used the famous expression, so often quoted, that, "The power to tax involves the power to destroy." Also see *Hogan* vs. *Reclamation District,* 111 U.S. 701 (1883), and *State Tax on Foreign Held Bonds,* 15 Wall 319 (1872).

[15] *Veazie National Bank* vs. *Fenno,* 8 Wall 533 (1869).

[16] See *Bailey* vs. *Drexel Furniture Co.,* 42 Supreme Court Report 449 (1922), for a representative case.

serve at the same time as director of any national bank, regardless of its location.

3. No person can legally be a director, officer, or employee of a national bank located in a city of more than 200,000 inhabitants who is at the same time a private banker in the same city, or a director, officer, or employee of any other bank (State or national) located in the same city, regardless of the size of such bank.

The same section of the Act provides certain exceptions. The most important provisions of this nature are:

1. There is no prohibition that a person cannot be at the same time a director, officer or employee of a national bank and not more than one other national bank, State bank or trust company, where the entire capital stock of one is owned by the stockholders of the other.
2. There is no prohibition that a person cannot be at the same time a Class A director of a Federal Reserve Bank and also an officer or director, or both an officer and director in one member bank.

The Act clearly prohibits the interlocking of directorates between State and national banks under the same conditions as between national banks. But the Federal authorities have, in case of any disobedience, no choice as to whether they wish to remove the disobedient person from the board of the national bank or from the board of the State bank. They can only remove him from the board of the national bank. In other words, if, in this respect, the Act makes reference to State banks, it does not mean that any Federal legislation is imposed upon them. It is possible that the Act may also forbid the interlocking of directorates among State banks because it speaks of "banks organized or operating under the laws of the United States." [17] The fundamental principle with regard to this matter, however, has been laid down by the Attorney-General of the United States with the general statement that, "Neither State member nor non-member banks can be said to be organized or operating under the laws of the United States within the meaning of the Clayton Act." [18] From this it fol-

[17] Clayton Act, Section 8.

[18] *Federal Reserve Bulletin* (November, 1917), p. 744. Also *ibid.* (October, 1916), p. 526, and *Digest of Clayton Act* (100), p. 98, and (203), p. 99.

lows that State banks and trust companies may have officers and directors in common with other State banks and trust companies that are members of the Federal Reserve System.

The matter became further complicated by the Kern Amendment of 1916, which afforded a somewhat greater latitude of action than under the Clayton Act. The amendment itself authorized any officer, director, or employee of a member bank to serve as officer, director, or employee of not more than two other banks, banking associations, or trust companies, when organized under the laws of the United States or any State, if such other bank, banking association, or trust company should not be in substantial competition with such member bank.[19] It was necessary, however, to obtain the consent of the Federal Reserve Board in order to continue this kind of relationship with other banks.[20] In this way it became necessary for the Board to investigate the facts bearing upon the question of competition. After a careful study the Board decided not to revoke permits where interlocking directorates resulted in the growth of competition.[21] The McFadden Act also added to the discretion of the Board in this respect.

It would appear, therefore, that inasmuch as the Clayton Act and its amendments do not affect member or non-member State banks, and since national banks may readily circumvent the provisions of the Act by holding such directorates in other banks through dummy directors or officers or directors of its investments affiliate, who do not act upon the board of directors of a national bank, the provision regarding interlocking directorates does not prevent the development of group systems.

Shareholdings by national banks

In considering the matter of Federal regulation, it should be remembered that national banks cannot invest in the shares of other national banks, State banks or trust companies.[22] The National Bank Act of 1864 and all its revisions, as well as the

[19] Kern Amendment to the Clayton Act (May 15, 1916).
[20] *Ibid.*
[21] *Report of the Federal Reserve Board* (1923), p. 51.
[22] Exceptions are made for stock in Federal reserve banks, institutions financing foreign trade, and agricultural credit corporations.

Federal Reserve Act, are silent on this question, but the United States Supreme Court has held in various decisions that national banks cannot invest in stocks of any kind, except as noted above. However, these rulings serve to restrict group banking from a Federal point of view only insofar as national banks may endeavor to directly purchase bank stocks.

Limitations upon the powers of national banks in this respect were pointed out in the case of *California National Bank* vs. *Kennedy,* when the United States Supreme Court held that, "The power to purchase or deal in stock of another corporation, is not expressly conferred on national banks, nor is it an act which may be exercised as incidental to the powers expressly conferred. A dealing in stocks is consequently an *ultra vires* act." [23] This decision is based on old authority, since previously in 1823 the United States Supreme Court held with reference to the old United States Bank, that, "Dealing in stocks is not expressly prohibited, but such a prohibition is implied from the failure to grant the power." [24] It was further held that a prohibition against trading and dealing was nothing more than a prohibition against engaging in the ordinary business of buying and selling for profit.[25]

In *California National Bank* vs. *Kennedy* it was also held by the United States Supreme Court that a national bank cannot be a shareholder in a savings bank.[26] Such an investment would constitute an *ultra vires* act. Another case, which specifically forbids national banks from buying shares of other national banks, is that of the *Concord First National Bank* vs. *Hawkins,* in which the following decision was rendered: "The provision, forbidding a national bank to own and hold shares of its own capital stock, would in effect be defeated, if one national bank were permitted to own and hold a controlling interest in the capital stock of another." [27]

[23] *California National Bank* vs. *Kennedy,* 167 U.S. 366 (1897).

[24] *Fleckner* vs. *President, Directors and Co., of the Bank of the United States,* 8 U.S. 338 (1823).

[25] *Ibid.*

[26] *California National Bank* vs. *Kennedy,* 167 U.S. 366 (1897).

[27] *Concord First National Bank* vs. *Hawkins,* 174 U.S. 369 (1899). In *National Bank* vs. *Carse,* 99 U.S. 628 (1878), the Supreme Court also held that, "No express power to acquire the stock of another corporation is conferred upon a national bank, but it has been held that as incidental to the power to loan money on personal security, a bank may in the usual course

While it can be clearly seen from these decisions that a national bank cannot directly buy or sell the shares of other banks, holding corporations, or any other corporations,[28] no existing Federal regulations can stop the officials of national banks, or their representatives, from organizing bank holding corporations and purchasing or exchanging the stock of national banks, or having the shares of a national bank and an investment affiliate evidenced by a combined share certificate on a pro rata basis.

It appears, therefore, that the Federal government is unable to cope with the problem of supervision of group banking by resorting to the powers so frequently utilized which have been granted under the commerce clause, the Clayton Act and the broad taxing provisions of the Constitution.

of doing such business accept stock of another corporation as collateral and by the enforcement of its rights as pledgee it may become the owner of the collateral and be subject to the liability as other stockholders." The same court also stated in *First National Bank* vs. *Exchange National Bank,* 96 U.S 122 (1877), that, "A national bank may be conceded to possess the incidental power of accepting in good faith stock of another corporation as security for previous indebtedness. It is clear, however, that a national bank does not possess the power to deal in stocks. This prohibition is implied from the failure to grant the power."

[28] The McFadden Act has not altered the previous regulations so far as dealing in shares is concerned. Section 5136 of the National Bank Act in its revised text now grants power to national banks to conduct certain investment operations, all of which, however, are confined to marketable obligations evidencing indebtedness.

CHAPTER XII

FEDERAL LEGISLATION (*Continued*)

The problem with which Congress is now called upon to deal is, legally, one of the most difficult and technical questions to be found today in the realm of jurisprudence. If the matter is to be a subject of Federal regulation, as necessarily it must be if it is to be effectively curbed and guided, then it is necessary, as a preliminary step, to ascertain where, if at all, in the Federal Constitution the general regulatory power of Congress may be found.

Implied powers clause of the Constitution

It might be held that the right of Congress to supervise group banking would arise from the right of Congress to establish and regulate national banks and other members of the Federal Reserve System. But the right to establish national banks and the Federal Reserve System arises from the "implied powers" clause of the Constitution. It has been clearly expounded by Chief Justice Marshall:

> The government of the United States, then, though limited in its powers, is supreme; and its laws, when made in pursuance of the Constitution, form the supreme law of the land, "anything in the Constitution or laws of any State to the contrary notwithstanding."
>
> Among the enumerated powers, we do not find that of establishing a bank or creating a corporation. But there is no phrase in the instrument which, like the articles of confederation, excludes incidental or implied powers; or which requires that everything granted shall be expressly and minutely described. . . .
>
> Although, among the enumerated powers of government, we do not find the word "bank" or "incorporation," we find the great powers to lay and collect taxes; to borrow money; to regulate commerce; to declare and conduct a war; and to raise and support armies and navies. . . . It can never be pretended that these vast powers draw . . . others of inferior importance, merely because

they are inferior. Such an idea can never be advanced. But it may with great reason be contended, that a government, intrusted with such ample powers, on the due execution of which the happiness and prosperity of the nation so vitally depends, must also be intrusted with ample means for their execution. . . .

The government which has a right to do an act, and has imposed on it the duty of performing that act, must, according to the dictates of reason, be allowed to select the means. . . .[1]

Therefore, it appears that the power to establish the national banks and the Federal Reserve System is derived from the "implied powers" clause of the Constitution.[2]

The Currency Clause

The modern conception would probably be to consider the currency clause of the Constitution as a second source of regulatory power,[3] and construing the implied powers clause and the currency clause together, lend to the Federal government a strong control over currency and moneyed corporations. According to the court in the case of *Veazie Bank* vs. *Fenno,* "It cannot be doubted that under the Constitution the power to provide a circulation of coin is given to Congress. And it is settled by the uniform practice of the government and by repeated decisions, that Congress may constitutionally authorize the emission of bills of credit. It is not important, here, to decide whether the quality of legal tender, in payment of debts, can be constitutionally imparted to these bills; it is enough to say, that there can be no question of the power of the government to emit them; to make them receivable in payment of debts due to itself; to fit them for use by those who see fit to use them in all the transactions of commerce;

[1] *McCulloch* vs. *State of Maryland,* 4 Wheaton 316, 4 L. Ed. 576 (1818).

[2] U.S. Constitution, Art. 1, Sec. 8. "Congress shall have the Power . . . To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof."

[3] U.S. Constitution, Art. 1, Sec. 8, "Congress shall have the Power . . . To coin money, regulate the Value thereof, and of Foreign Coin, and fix the Standard of Weights and Measures."

Art. 1, Sec. 10, "No State Shall . . . coin Money; emit Bills of credit; make any Thing but gold and silver Coin a Tender in Payment of Debts. . . ."

to provide for their redemption; to make them a currency, uniform in value and description, and convenient and useful for circulation. *These powers, until recently, were only partially and occasionally exercised.* Lately, however, they have been called into full activity, and Congress has undertaken to supply a currency for the entire country. . . .

"Having thus, in the exercise of undisputed constitutional powers, undertaken to provide a currency for the whole country, it cannot be questioned that Congress may, constitutionally, secure the benefit of it to the people by appropriate legislation. . . . Without this power, indeed, its attempts to secure a sound and uniform currency for the country must be futile." [4] This case, decided in 1869, just fifty years after the decision in *McCulloch* vs. *Maryland,* shows the trend of judicial opinion toward a stronger, more powerful central government. By imperceptible steps Congress has assumed ever greater control over the banking business, until today there is little doubt that any legislative action, no matter how radical, would be attacked from a practical viewpoint rather than a legal one. It seems possible that Congress, should it so desire, could even put out of existence all banks not under national control, through the exercise of the taxing power and the broad provisions of the currency clause.[5]

Nature of a banking corporation

Future legislation affecting banks and their conduct must take into consideration the fact that banking is fundamentally a business, and as such has certain legal rights as well as obligations in common with other individual and incorporated commercial enterprises.[6]

Banks should be subject to governmental control to such an extent as involves the public welfare. Supervision in the interest of safety is clearly within the normal scope of govern-

[4] *Veazie Bank* vs. *Fenno,* 8 Wallace 533, 19 L. Ed. 482 (1869). Italics are the writer's.

[5] The Comptroller of the Currency has also said: "There is no question in my mind that Congress could eliminate the State banks." See *Hearings,* p. 268.

[6] See *Osborn* vs. *Bank of United States,* 9 Wheaton 738, 6 L. Ed. 204 (1824), for further details on this point.

ment; included in this is the right to charter, to enter, and to examine. Beyond this, however, the right of the government to intervene and control is, theoretically at least, insupportable. The government does not own any banks, except the Federal Intermediate Credit banks; its interest in banking is no greater than its interest in manufacturing or in agriculture. It is the peculiar function of the government to supervise and regulate, but only to such an extent as will make banking safe, for to that extent the public is vitally interested. Too great a freedom tends to make the banking situation worse rather than better. However, the law cannot cure by statutory action the ills inherent in every kind of management. Its province is fundamentally ministerial, even though it may be directorial.[7]

There is no escaping the fact that banks are quasi-public institutions. In law the relationship between a bank and its depositor is treated as that of debtor and creditor. But this relationship is only so construed as between the immediate parties. As far as the public generally is concerned, banks are public institutions, although managed by private individuals for private profit. Banks differ from the ordinary private corporation, however, because of their quasi-public attributes. For this reason they are subjected to strict supervision and rigid scrutiny by governmental authorities. Since bank holding corporations control the operations of affiliated banks through stock ownership, it is also clear that they possess quasi-public attributes, because of the nature of their business, and accordingly should be subjected to effective governmental regulation.

Present state of control

Some conception of the difficulties of control of the large group systems may be obtained from the discussion of the Transamerica Corporation in Chapter IX which illustrates the tremendous power which these holding companies, with the combined financial resources of their subsidiaries, can exert.

Despite this fact, the Comptroller of the Currency has no

[7] *Reed* vs. *Home Savings Bank,* 130 Mass. 443, 39 Amer. Rep. 468 (1879); *Ladd* vs. *Androscoggin County Savings Bank,* 96 Me. 520, 52 Atl. 1016 (1902).

power of supervision or regulation over these holding companies since no such power has been given him by Congress.[8]

Former Governor Crissinger of the Federal Reserve Board also has insisted that the Federal Reserve Board is powerless under the law to take action because there is no provision of statute which confers upon the Board any authority to regulate or prohibit the holding of the stock of State member banks by any group or corporation, and has stated that inasmuch as the existing law contains no provision designed to check or control group banking, the remedy lies with Congress.[9]

The remainder of the discussion will be approached from three angles:

1. Authority of the State and Federal governments.
2. Authority over stockholders in banking corporations.
3. Extension of supervision to railroad holding corporations.

Authority of State and Federal governments

The years following the adoption of the Constitution of the United States were difficult ones for the United States Supreme Court. A government had been created, confined and limited to certain definite clearly stated powers. At the time the distinction between State and Federal powers seemed too obvious to admit of question. It was only because of an overzealous desire to guard State rights from usurpation that the Tenth Amendment was adopted, stating that, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." It was not long, however, before dissension arose, and the Supreme Court, presided over by the illustrious Chief Justice John Marshall, almost invariably supported the Federal government in its claims.

[8] *Report of the Comptroller of the Currency* (1929), p. 9.

[9] "Governor Crissinger of Federal Reserve Board in Answer to Representative McFadden Concerning Spread of Chain Banking Says Remedy Lies with Congress," *Commercial and Financial Chronicle* (May 11, 1929), Vol. 24, No. 3392, p. 3011.

One of the bitterest fights was waged over the incorporation and subsequent spread and development of the national bank. In *McCulloch* vs. *Maryland* the court sustained the power of Congress in establishing a national bank, under the theory that such power was to be implied from the powers specifically granted.[10] In *Osborn* vs. *Bank of the United States* the Court held that the corporation was a legal entity and therefore had a right to bring suit in its own name in the Federal courts.[11] The case of *Veazie Bank* vs. *Fenno,* half a century later, shows how the trend of judicial thought had already solidified. It holds that Congress has full authority over currency and, in the plenary exercise of this authority, could tax State bank notes out of existence.[12] This decision was rendered in spite of the well known dictum that the power to tax involves the power to destroy.[13] By 1875 the supremacy of Congress in the banking field was beyond question. In that year Mr. Justice Swayne, speaking for the unanimous court, stated the law to be as follows: [14]

> The constitutionality of the act of 1864 is not questioned. It rests upon the same principle as the act creating the Second Bank of the United States. The reasoning of Secretary Hamilton and of this court in *McCulloch* vs. *Maryland and in Osborn* vs. *Bank of the United States,* therefore, applies. The national banks organized under the act are designed to be used to aid the government in the administration of an important branch of the public service. They are means appropriate to that end. Of the degree of the necessity which existed for creating them Congress is the sole judge.
>
> Being such means, brought into existence for this purpose, and intended to be so employed, the States can exercise no control over them, nor in any wise affect their operation, except in so far as Congress may see proper to permit. Anything beyond this is "an abuse, because it is the usurpation of power which a single State cannot give." Against the national will the "States have no power, by taxation *or otherwise, to retard, impede, burthen, or in any manner control, the operation of the Constitutional laws enacted by Congress to carry into execution the powers vested in the General*

[10] *McCulloch* vs. *Maryland,* 4 Wheaton 316, 4 L. Ed. 576 (1818).
[11] *Osborn* vs. *Bank of the United States,* 9 Wheaton 738, 6 L. Ed. 204 (1824).
[12] *Veazie Bank* vs. *Fenno,* 8 Wallace 533, 19 L. Ed. 482 (1869).
[13] *McCulloch* vs. *Maryland,* 4 Wheaton 316, 4 L. Ed. 576 (1818).
[14] *Farmers and Mechanics National Bank* vs. *Dearing,* 91 U.S. 29, 23 L. Ed. 196 (1875).

Government." The power to create carries with it the power to preserve. The latter is a corollary from the former.[15]

This final paragraph is the keynote of judicial thought in banking cases. As has already been indicated, the affiliated banks can only be protected from possible exploitation by holding companies if proper supervisory control is obtained. It seems clear that should the Federal government seek to regulate bank holding companies the Federal courts will give it their support.

Yet the matter is not one to be dismissed thus lightly. These holding corporations are created under State laws, and are not answerable to the Federal authorities for all of their activities. It is only in a case where the banking system of the country is threatened with potential dangers that State autonomy will be curbed so as to permit Federal control.

Jurisdiction over bank stockholders

There is nothing new in the proposition that the Federal authorities should supervise bank holding companies. A holding company is nothing more or less than a stockholder in a bank. Both the States and Congress have always imposed upon bank stockholders a liability for corporate obligations far in excess of any ever interposed on shareholders in other commercial enterprises. Stockholders in national banking associations are, by statute, held legally liable to the extent of the par value of their holdings, in addition to the amount already invested.[16] Stockholders, then, may be held responsible for obligations of the banking corporation.[17] The laws make no legal distinction between a stockholder and a corporation, even though it be a corporation organized under State laws and under ordinary circumstances amenable only to State jurisdiction.

[15] *Osborne* vs. *Bank of the United States,* 9 Wheaton 738, 6 L. Ed. 204 (1824). Italics are the writer's.

[16] Rev. Stat., Sec. 5151 (U. S.).

[17] "That the various provisions of the national bank act are a part of the contract of the charter of a national bank, and when a party becomes a stockholder therein he necessarily submits himself to the provisions of the law under which the bank is authorized to transact business." *Young* vs. *Wempe,* 46 Fed. 354 (1891). See also *Hobart* vs. *Johnson,* 8 Fed. 493 (1881), *Aldrich* vs. *Skinner,* 98 Fed. 375 (1889).

If the safety of a bank requires that stockholders be held responsible for the bank's deficiencies, it would not seem unreasonable to extend the reasoning a bit further and to say that the safety of the bank requires that the stockholders themselves be regulated. Ordinarily this would be a mere superfluous gesture. But when the stockholder has control of the bank's policies through majority ownership of its stock, with the power to exercise this control at will for good or evil, it would be no more than another step in the right direction to assume a regulatory attitude toward the stockholder. In this way no proper manipulation of bank finances would be hindered and no common law rights of the stockholder would be violated, yet at the same time the interests of the public generally would be safeguarded. This is no chimerical fancy, as past experience in exactly the same sort of situation has shown. A brief reference may be made at this point to the body of legal reasoning which has developed in the case of railroad holding corporations.

Extension of Federal supervision to railroad holding corporations

It is not a new principle for a holding corporation to be supervised and regulated because the public interest so demands, where such a corporation, by virtue of its business and potentialities, is quasi-public in nature. Thus, it has been held that a holding corporation owning a controlling interest in the stock of railroads operating throughout six States is responsible to the public for any default in the operation and maintenance of the operating roads. The case is analogous inasmuch as the court held that a holding company owning stock in a business affected with the public interest could be supervised.[18] In the case of *Venner* vs. *New York Central and Hudson River Railroad Company,* the court stated that:

> The New York Central and Hudson River Railroad Company is a railroad company organized under the laws of New York . . . and it is the owner and controls a majority of the capital stock of the Lake Shore and Michigan Southern Railroad Company, and the

[18] While this is a State case, it is offered because of the line of reasoning involved.

Michigan Central Railroad Company. As such owner of a majority of the capital stock of these two corporations it becomes responsible, through the boards of directors which it chooses, for the operation of these two corporations. It owes a duty to exercise the franchises of these corporations primarily to the public, and then to its own stockholders, for the majority interest in the properties belongs in equity to the owners of the stock of the New York Central and Hudson River Railroad Company, and their holdings in the parent company depend for their value upon the value of the stocks of the two corporations mentioned in a very large degree, not only as abstract property but as feeders of the New York Central Railroad proper between Buffalo and tidewater. . . . It will thus be seen that the New York Central and Hudson River Railroad Company . . . is the equitable owner of a controlling interest in all of the defendant railroads, covering a considerable portion of the great States of New York, Pennsylvania, Ohio, Indiana, Michigan, and Illinois, and in active competition with the Pennsylvania railroad, the Erie railroad, and the Wabash and Grand Trunk lines . . . and each one of these corporations so owned and controlled by the New York Central and Hudson River Railroad Company must to retain its franchises and its value to the owning company be equipped and operated to its highest or at least its minimum of efficiency. It is the business of the New York Central and Hudson River Railroad Company, as the ultimate owner of the controlling interest in the stocks of these various corporations, to equip and to operate these roads in such a manner as to produce the public purposes contemplated in their construction and to contribute to the value of the stocks in the possession of the parent company and to foster its own carrying trade to and from the seaboard. . . . There is no limit to which one stock corporation may purchase and hold the stock of another stock corporation, no limit to the extent to which the corporation as such stockholder may intrude its officers into the directorate of the company whose stock is thus purchased, and this is an entirely reasonable provision of law, for the stockholders are the equitable owners of the corporation, and where one corporation purchases a majority of the stock of another such purchasing corporation (it) would naturally be entitled to control the affairs of the corporation in which it had become the owner; but such control would have to be consistent with the purposes for which the corporation was created (*Central Transportation Co.* vs. *Pullman's Car Co.*, 139 U.S. 24, 50, 51, and authorities there cited). . . . If the New York Central and Hudson River Railroad Company was merely authorized to purchase the stock as an investment it would have no other rights, but when the statute adds to the power of purchase the right to actively participate in the choice of directors, and make the officers of the purchasing company eligible to the board of directors, without limitation, it necessarily imposes upon

the purchasing corporation the duty of maintaining the company thus surrendered to its care in a position to discharge its duties to the public, and, as the purchasing company's resources are increased to the value of the stock thus purchased, it is in duty bound to make use of its resources, where necessary, to perform the obligations of the company whose stock it holds, this being dictated by the welfare of the purchasing company, in harmony with the duty suggested.[19]

This reasoning is so in line with that thus far advanced, and so similarly does the situation presented by the court harmonize with the present banking situation, that it may be stated almost positively that, were the Transamerica Corporation, the First Bank Stock Corporation, or the Northwest Bancorporation to be placed in the position of the New York Central in the foregoing decision, the decision would be similar. Once the matter is squarely presented to the courts, there is almost no doubt that a decision will be reached favorable to Federal regulation of State holding companies.

It is noteworthy at this point to remark that in all Congressional discussion of the situation, thus far, the question of the constitutionality of Federal supervision has not arisen.

Proposed Federal legislation

There are, at the present time, four bills before the House of Representatives directed at bank holding corporations. Each is popularly known by the name of the sponsoring congressman. They are the McFadden, the Goldsborough, the Strong and the Beedy bills.

McFadden bill

The bill introduced by Representative McFadden seeks to regulate all holding companies, with which member banks are affiliated, subjecting each affiliated bank to examination and supervision by the Comptroller of the Currency, and transferring to him some of the functions of examination now held

[19] *Venner* vs. *New York Central*, 160 App. Div. (N.Y.) 127, 145 N. Y. Supp. 725 (1914), affirmed 217 N. Y. 615, 111 N.E. 487 (1916). This case might lead one to infer that the States could and should regulate bank holding corporations. However, it must be remembered that inasmuch as one State cannot examine and supervise banks in another State, even if the banks in question are a part of the same group, the power to conduct such examinations must be brought under the jurisdiction of the Federal government.

by the Federal Reserve Board. The relevant features of the bill may be summarized as follows:

1. It concentrates in the office of the Comptroller of the Currency the function of examination and of requiring reports with scope of examination and supervision extended to Federal Reserve banks, member banks, and affiliated corporations, removing such functions from the Federal Reserve Board and providing that the expense of examinations shall be borne by the Federal Reserve Bank in the district where made.

2. It defines "affiliated corporation" as any corporation within an affiliated group of corporations of which at least one is a member bank and defines "affiliated group" as one or more chains or corporations connected through stock ownership with a parent corporation if (1) at least 25 per cent of the stock of each of the corporations (except the common parent corporation) is owned or controlled by one or more of the other corporations and (2) the common parent corporation owns or controls at least 25 per cent of the stock of at least one of the other corporations. The term "stock" is not to include non-voting stock which is limited and preferred as to dividends.[20]

Goldsborough bill

The Goldsborough bill would (1) take away the voting power from all shares of stock in a national bank owned by or held in trust or otherwise for the benefit of any corporation, making an attempt to vote such stock a misdemeanor; (2) prohibit (under penalty of punishment as for a misdemeanor) any State member bank from voting or permitting the stock to be voted, with a similar prohibition and penalty upon any corporation which owns stock in a State member bank, and forfeiting membership of any State bank member should stock owned by a corporation be voted; and (3) impose a tax of 2 cents per $100 upon any bank check drawn upon any bank which hereafter establishes a bank, or more than 25 per cent of whose stock is owned by any corporation; with severe penalties to any drawer or payer for willful noncompliance.[21]

[20] *House of Representatives,* Bill 7966, January 6, 1930.
[21] *House of Representatives,* Bill 8363, January 2, 1930.

Strong bill

The measure sponsored by Mr. Strong defines group banking as one or more chains connected by means of stock ownership to common parent bank or corporation if at least 25 per cent of the stock of each bank (except the parent bank or corporation) is owned directly by one or more of the other banks, and if the parent bank or corporation owns at least 25 per cent of the stock of at least one of the other banks. The word "stock" is not to include non-voting preferred stock. The bill further provides, as a penalty for group membership, for forfeiture of a national bank's charter, surrender by a State member bank of its stock in the Federal Reserve Bank, and denial of the privileges of the Federal Reserve System to a non-member of a group. Other penalties include denial of the use of the mails and of using the telegraph or express systems in interstate or foreign commerce.[22]

Beedy bill

The Beedy bill provides that every corporation which may own or control the majority of the stock of more than one national or State member bank shall be subject to the visitorial and supervisory powers of the Comptroller of the Currency.[23]

Adaptability of proposed legislation

These bills constitute the proposed legislation on the question of holding company regulation now pending before the House of Representatives. A review of their salient provisions is enough to convince one of their failure to cover the full potentialities of the situation with which they purport to deal.

The Goldsborough bill prohibits any corporation, whether a holding corporation or not, from exercising the rights associated with the ownership of voting stock, while the Strong bill provides unduly harsh penalties for affiliation with a group. Both bills proceed on the erroneous assumption that the best way to deal with the problem is to wipe it out of existence under penalty of severe punishment.

[22] *House of Representatives,* Bill 8367, January 9, 1930.
[23] *House of Representatives,* Bill 8005, January 6, 1930.

The other two bills adopt a more sensible and more effective way of handling the problem. Both seek to promote supervision; the McFadden bill by examining the affiliated banks and the Beedy bill by examining the holding company directly. Of the two, the Beedy bill would appear to be preferable. The banks themselves are already subject to supervision, either by Federal or State examiners, or both, whereas it is the holding company which must be subjected to examination.

However, the Beedy bill appears too mild to deal with the situation. It does not seem to reach into the heart of the problem of the group banking movement. While it provides a basis for control, it does not extend far enough.

Group banking is here, and may be here to stay. Enormous sums have been invested in holding companies, and the powers thereby attained are not likely to be relinquished without a struggle. Yet such a struggle is hardly advisable. These companies, while they may be powerful, are not thereby *ipso facto* inimical to public welfare. They may control a great deal of wealth, but this is not so serious a proposition as it would have been considered fifty years ago. We no longer fight trusts and huge combines, Don Quixote fashion. As will be pointed out in Chapters XIV and XV, these concerns are undoubtedly capable of as much good as harm. At the same time, because of their potential capacity for harm, they must be kept in firm check, lest occasional transgressions operate in subversion of the public welfare. Strict regulation and supervision are one thing, but prohibition is another. Legislation must be promulgated tending to control the activities of bank holding companies but not prohibit them altogether. There is no reason why the benefits likely to accrue from group banking should be denied, merely because potential dangers are associated with it.

Desirable features to incorporate in proposed bill

A measure could be framed which would give the Federal authorities sufficient power to meet present and future exigencies. Such a bill, as finally drafted, should include in its scope every corporation, whatever its nature, which owns or controls, or for which is held in trust, 25 per cent of the voting

stock of one or more member banks of the Federal Reserve System or of two or more banks in two or more States. The Comptroller of the Currency should be given authority to exempt from the provisions of the act any corporation which, after a proper hearing, proves to his satisfaction that it is not a bank holding corporation, as that term is ordinarily used, and does not seek to control the bank's internal policies, except as would any ordinary stockholder. The burden of proving that it is not a holding company within the meaning of the statute shall be placed upon the corporation. This right of exemption after hearing should not apply to a corporation holding a 25 per cent stock interest in two or more banks in two or more States, or to a corporation holding a 25 per cent stock interest in more than one bank, provided one of the banks be a member bank. Where a corporation is found to be a holder of stock in a member bank or in two or more banks in two or more States as above, it should thereby become subject to the scrutiny and control of the Comptroller of the Currency as hereafter described. If a holding company should become subject to the provisions of this act by virtue of holding stock in a member bank, or in two or more banks in two or more States, this subjection is not to be defeated because the corporation owns stock in non-member State banks or non-banking corporations as well, and the supervisory powers of the Comptroller shall extend to all the activities and ramifications of the holding corporation, whether directly involving banks or not. The interrelations and interdealings between affiliated subsidiaries and between subsidiaries and the parent corporation should be subject to strict scrutiny, and any checks or restraints should be imposed which in the opinion of the Comptroller might be advisable to protect the interests of the public. Any order, decision, or regulation by the Comptroller should be appealable to the Federal courts, but until a final judicial determination such order should continue in full force and effect, and, except in cases of obvious malfeasance or lack of jurisdiction in the Comptroller, no injunction directed to him should be issued.

The Comptroller should be authorized, on the basis of his investigations, to make any order or impose any regulation

which in his opinion (in which he shall consider any suggestions of the Federal Reserve Board, subject to judicial approval) should be necessary, proper, or advisable to protect the interests of the public as a whole and prevent exploitation of American banks for private gain. Beyond this the holding companies should be free to operate and expand, insofar as they do not conflict with the provisions of the Sherman and Clayton Acts and any other appropriate anti-monopoly laws which do not come within the scope of this chapter. A statute incorporating some such provisions as the foregoing will not hamper the legitimate activities of group systems.

The inactivity of Congress, whether due to its laissez faire policy or its temerity of enacting unconstitutional legislation, has resulted to date in the failure to enact the necessary legislation.

CHAPTER XIII

STATE LEGISLATION

Origin

In some States chain and group banking legislation has been enacted by placing restrictions on the individual banking institutions. This type of legislation resulted from an early practice of chain bankers, which was described by the New York Special Commission on Banks in 1907 as follows:

> A method of a certain class of promoters, well illustrated by the recent developments in certain embarrassed financial institutions, is to buy stocks of a bank or trust company, and by using that as collateral borrow money with which to buy stock of another banking institution. By repeating this process and by claiming the indulgence due to a stockholder in the matter of extending credit in other directions, it is possible for adroit and unscrupulous men to acquire the nominal ownership of a very considerable amount of stock in a number of institutions, which will enable the promoters to utilize their credit and obtain funds to carry on their various enterprises.[1]

Upon recommendation by the Commission and the New York Superintendent of Banks, a restriction was enacted into the New York laws in 1908, whereby banks and trust companies were forbidden to loan on the stock of any "monied corporation" an amount exceeding in the aggregate 10 per cent of the capital of the corporation whose stock was offered as collateral.[2]

A few other States, of which California, New Hampshire, Texas and Wisconsin offer the best typical examples, have also enacted similar legislation. California law provides that no bank shall loan more than 25 per cent of the capital of the

[1] George E. Barnett, *State Banks and Trust Companies Since The Passage Of The National Bank Act, National Monetary Commission,* 61st Congress, 2nd Session, Senate Doc. No. 659 (Washington, 1911), p. 142.

[2] *Ibid.*

bank whose stock is offered as collateral. The law, on this point, reads as follows: "No bank shall hereafter make a loan secured by the stock of another bank, if by making such loan the total stock of such other bank held by such loaning bank as collateral will exceed in the aggregate twenty-five per centum of the capital stock of such other bank." [3] It should be observed, however, that the power to pledge one-fourth of the stock of the bank which is being purchased is not a negligible factor in an aggressive expansion policy.

In New Hampshire the banking law forbids a bank or trust company from holding as security for a loan the stock of any corporation in excess of 10 per cent of the capital of the loaning bank.[4] The Texas law forbids a bank or trust company to hold as security for loans more than 10 per cent of the stock of another bank or trust company.[5] Wisconsin statutes place the aggregate limit at 10 per cent of the capital of the bank whose stock is offered as collateral.[6] Obviously, this type of legislation does not effectively prevent chain and group banking.

States prohibiting purchase of bank stocks by banks and trust companies

In a number of States the laws specifically prohibit the ownership by banks and trust companies of shares in other banks. This provision is contained in the statutes of Florida,[7] Mississippi,[8] Oregon,[9] Ohio,[10] South Dakota [11] and Washington.[12] While there does not appear to be any States having legislation prohibiting trust companies alone from purchasing bank stocks, the following States prohibit such purchases on

[3] *General Laws*, 1923, Act No. 652; *Bank Act*, 1929, Sec. 44.
[4] *Public Laws, Ch. 265*, Sec. 37; *Banking Laws*, 1929, Sec. 37, p. 42.
[5] *Rev. Stat.*, 1925, Art. 513; *Banking Laws*, 1925, Art. 513, p. 44.
[6] *Wisconsin Stat.*, 1929, Sec. 222.13; *Banking Laws*, 1925, Sec. 222.13, p. 52.
[7] *Compiled General Laws of Florida*, 1930 Supplement, Sec. 6084.
[8] *Laws of Mississippi*, 1922, Ch. 172, Sec. 49; *Brown's 1925 Mississippi and Federal Statutes Pertaining to Banks and Banking*, p. 71. Prohibition is only against purchase of bank stocks.
[9] *Laws of 1925*, Ch. 207, Sec. 81, p. 336; *Banking Laws*, 1925, Sec. 81, p. 28.
[10] *Throckmorton's Code of 1929*, Sec. 710; *Banking Laws*, 1928, Sec. 710, p. 64.
[11] *Banking Laws*, 1927, Sec. 8983, p. 27, and Sec. 9050, p. 68.
[12] *Laws of 1929*, Sec. 5, p. 100.

the part of commercial banks proper: Colorado,[13] Georgia,[14] Idaho,[15] Kansas,[16] Montana,[17] Nebraska,[18] Nevada,[19] North Dakota,[20] Oklahoma,[21] Pennsylvania,[22] Wisconsin,[23] and Wyoming.[24]

States permitting purchase of bank stocks

Certain States have merely placed limited restrictions on stock ownership in other banks. Both banks and trust companies are permitted to hold bank stocks in Arizona,[25] Connecticut,[26] Delaware,[27] Louisiana,[28] New Jersey,[29] Pennsylvania,[30] Tennessee,[31] Texas [32] and Utah.[33] Only banks proper are permitted to make such purchases in Alabama,[34] California,[35] Florida,[36] Massachusetts,[37] New Hampshire,[38] North

[13] *Banking Laws*, 1928, Sec. 33, p. 19.
[14] *Georgia Code*, 1930 Supplement, Sec. 2366 (169).
[15] *Bank Code*, 1925, Sec. 29, p. 18. Against purchase of bank stock only.
[16] *Banking Laws*, 1929, Sec. 11, p. 6.
[17] *Banking Laws*, 1927, Sec. 39, p. 32.
[18] *Banking Laws*, 1929, Sec. 8006, p. 12.
[19] *Banking Laws*, 1927, Sec. 13, p. 7.
[20] *Banking Laws*, 1929, p. 25.
[21] *Constitution of Oklahoma*, Article 9, Sec. 41.
[22] *West's Pennsylvania Statutes*, 1920, Sec. 1363. However, Sec. 5785 permits corporations organized for profit to purchase stocks. Some conflict is therefore apparent.
[23] *Banking Laws*, 1925, Sec. 222.13, p. 52. No prohibitions regarding banks proper and trust companies. Applicable only to mutual savings banks.
[24] *Banking Laws*, 1927, Sec. 32, p. 18.
[25] *Banking Laws*, 1922, Sec. 20, p. 17.
[26] *Banking Laws*, 1929, Sec. 3955, p. 9. Not to exceed ten per cent.
[27] *Banking Laws*, 1929, O. 26. Not more than 25 per cent of total capital, surplus, and undivided profits of investing corporation.
[28] *Banking Laws*, 1928, Sec. 1 (2), p. 26.
[29] *Banking Laws*, 1928, Sec. 10, p. 54.
[30] *West's Pennsylvania Statutes*, 1920, Sec. 1363.
[31] Act approved March 31, 1923.
[32] *Banking Laws*, 1925, Art. 513, p. 44. Not to exceed ten per cent.
[33] *Banking Laws*, 1927, Sec. 986, p. 8.
[34] *Combined Banking Laws of Alabama*, 1928, Sec. 6355, p. 25. Only permitted to purchase bank stock if not in excess of 25 per cent of purchasing bank's capital and 10 per cent of other bank's capital.
[35] *Bank Act*, 1929, Sec 37, p. 36 Stock of only one trust company may be purchased and amount limited to 25 per cent of capital and surplus of purchasing bank.
[36] *Compiled General Laws of Florida*, 1930, *loc. cit.*, Savings banks only may purchase stocks.
[37] *General Laws*, Ch. 168, Sec. 54 (7th), as amended by Acts of 1929, Ch. 315, Sec. 1. Savings banks only may purchase stocks in trust companies and national banks within certain limitations.
[38] *Banking Laws*, 1929, Sec. 16, p. 7; also Secs. 1-15. Savings banks only in other banking institutions subject to certain limitations.

Carolina,[39] Ohio,[40] Rhode Island, [41] South Carolina,[42] Vermont,[43] Virginia,[44] West Virginia, [45] and only trust companies in Arkansas,[46] Colorado,[47] Florida,[48] Georgia,[49] Kansas,[50] Maryland,[51] Massachusetts,[52] Missouri,[53] Montana,[54] Nebraska,[55] New Hampshire,[56] New York,[57] Ohio,[58] Oklahoma,[59] Rhode Island,[60] and West Virginia.[61]

In spite of the fact that the list of States permitting purchases of bank stocks appears unusually long, it must be remembered that in many cases, which have been covered at length in the footnotes, savings banks are the only type of banking institutions permitted to make such purchases.

While it may be contended that basing the restriction on the investment in another institution on the size of the capital funds of the investing bank represents a sufficient restriction, it is believed that further restrictions might be effected by taking into consideration the size of the institution in which

[39] *Banking Laws,* 1927, Sec. 220, pp. 20-21. Purchase restricted to "central reserve bank" and corporation owning land or building used by bank.

[40] *Laws of 1929,* Sec. 710-140 (b). Savings banks only may purchase stock of certain companies, but not bank or trust company stock.

[41] *Banking Laws,* Sec. 1, Clause IV, VII, XIV, and XV. Savings banks may purchase bank, trust company stocks.

[42] *Banking Laws,* 1928, Sec. 62, p. 29.

[43] *General Laws,* Sec. 5363, as amended by Acts of 1929, Oct. No. 90, Sec. 5. Investment limited to 5 per cent of its assets, or 10 per cent, of other bank stock.

[44] *Banking Laws,* 1929, Sec. 4149 (13), p. 30.

[45] *Acts of 1929,* Ch. 23, Sec. 9. May invest in bank stocks.

[46] *Banking Laws,* 1929, Sec. 135 (9), p. 102.

[47] *Banking Laws,* 1928, Sec. 128, p. 66.

[48] *Compiled General Laws of Florida,* 1930, *loc. cit.*

[49] *Trust Company Act of 1927,* Sec. 5 A.

[50] *Banking Laws,* 1929, Sec. 2, pp. 38 and 39.

[51] *Banking Laws,* 1927, Sec. 46 (9), p. 23.

[52] *Trust Company Laws,* Sec. 33, p. 21. Limited to 10 per cent.

[53] *Revised Statutes of Missouri,* 1919, as amended by Laws of 1927, p. 241. Limited to 15 per cent.

[54] *Banking Laws,* 1927, Sec. 4 (c) (8) and Sec. 26.

[55] *Laws of 1927,* Sec. 8008.

[56] *Banking Laws,* 1929, *loc. cit.*

[57] *Banking Law,* Sec. 185 (9). Limited to 10 per cent of capital and surplus of such purchasing trust company.

[58] *Banking Laws,* 1928, Sec. 710-166, p. 64. Other than bank stocks.

[59] *Constitution of Oklahoma, loc. cit.* Except bank and trust company stocks.

[60] *Banking Laws,* 1929, Sec. 4, p. 16. Authorized by implication to purchase stocks.

[61] *Acts of 1929, loc. cit.* May purchase limited amount in business corporations and may purchase bank stocks for investment.

such investment is made. In other words, prohibit banks from purchasing more than 10 per cent of the stock of any other bank. A similar suggestion was made by the New York Special Commission on Banks and in 1908 this provision was incorporated in the New York banking laws, but only made applicable to trust companies.[62]

States having no specific provisions

In various other States there are no specific provisions on the subject. The statutes of Illinois, Indiana, Michigan and Minnesota contain no provisions authorizing or prohibiting banks or trust companies from purchasing bank stocks. However, the laws of the following States refer to the fact that no statutory provisions exist: Iowa,[63] Kentucky,[64] Maine,[65] New Mexico,[66] and Wisconsin.[67]

Effectiveness of laws

This review of existing statutes relating to the purchase of bank stocks by banks and trust companies indicates that they are not an effective preventative against group systems dominated by a particular bank. According to the data in Table XXXII, Chapter VII, the movement has developed further in those States where the purchase of bank stocks by banks and trust companies is prohibited. Such restrictions on operating banks are easily circumvented by the use of a holding company.

Furthermore, permissive legislation is unimportant in view of the fact, as indicated above, that it pertains largely to savings banks.

State laws regarding ownership of bank stock by holding corporations

The remainder of the chapter is devoted to an analysis of existing State laws affecting the ownership of the stocks of

[62] George E. Barnett, *op. cit.*
[63] *Banking Laws,* 1929, Sec. 9284 (5), p. 47.
[64] *Carroll's Kentucky Statutes,* 1930, Secs. 606 and 614.
[65] *Banking Laws,* 1927, Sec. 61, p. 41.
[66] *Bank Code,* 1929, Sec. 60 (7), p. 22.
[67] *Banking Laws,* 1925, *loc. cit.*

banks and trust companies by holding corporations. In view of the lack of similarity of existing statutes, it is impossible to present the material on any other basis than by States. In most of the States having some sort of regulatory statutes, regulations are still in a tentative stage.

Wisconsin

Wisconsin is the first State, at least in the Middle West, to have made any attempt at controlling these rapidly growing organizations. In this State an Act was enacted in August, 1929, the relevant provisions of which may be summarized briefly as follows:

(1) No corporation organized under the laws of Wisconsin is permitted to hold more than 10% of the stock of any bank or trust company, unless 75% of the stockholders of both corporations vote in favor thereof at a meeting especially called for that purpose.

(2) No State bank or trust company may vote to authorize a foreign corporation to purchase stock in such State bank or trust company, unless such foreign corporation shall have qualified to do business in Wisconsin.

(3) Whenever the ownership or control of a majority of the stock of any State or national bank doing business in Wisconsin is held by any foreign corporation which has not qualified to do business in the State, such bank shall be disqualified to act as a depository for any public funds of the State or any subdivision thereof, or as a depository for reserve funds of State banks until such foreign corporations shall have qualified to do business in the State.

(4) Any Wisconsin corporation, investment trust or other similar organization, also any non-Wisconsin organization authorized to do business in the State, holding control of a State bank or trust company, shall be deemed engaged in the business of banking and will be subject to the supervision of the State banking department.

(5) Domestic corporations and foreign corporations authorized to do business in the State which own or control the stock of a State bank or trust company shall be held liable for any assessment made against the stockholders of such bank or trust company to the par value of the stock so owned or controlled; and such holding corporations are required to deposit with the State Treasurer securities equal to fifty per cent of the par value of the stocks of State banks or trust companies owned or controlled by such holding companies, except that the aggregate amount of such securities

shall not exceed the largest amount required to be deposited by Wisconsin trust companies.

(6) If the stockholders' liability of any such holding company is not fully paid, the stockholders of such holding company are liable for an assessment sufficient to cover the deficit.[68]

While the Legislature, in this statute, appears to have firmly linked the holding company with the provisions of the banking act, it apparently is the public policy of the State not to interfere with the growth of bank holding corporations, since none of these provisions appears to offer insuperable difficulties in the way of their development. The law merely regulates and states conditions of operation.

Most peculiar of all these regulations is the one that in case the holding company defaults in liability assessments, its own shareholders are held responsible for the incurred liability. It is believed, however, that only against shareholders of the holding company, living in Wisconsin, could the double liability in consequence of such an unsuccessful assessment be enforced.

Investment trusts, or other corporations, not providing in their by-laws for the double liability of shareholders, if they wished to acquire Wisconsin bank stocks, would have to alter their legal structure.

By these regulations bank holding companies are placed on equal footing with banks operating under the Wisconsin law and the acquisition of any shares by outside interests is thoroughly discouraged. However, it should be remembered that the effectiveness of the law has not yet been tested.

New Jersey

In 1928 a law was passed in New Jersey prohibiting a holding corporation from owning more than 10 per cent of the shares in more than one banking institution, whether State bank, trust company, or a national bank doing business in the State. The statute does not require corporations to dispose of

[68] *Wisconsin Laws of 1929,* Chapter 445, amending Subsection (9) of Section 182.01 and creating Subsection (6) of Section 14.44 and Section 221.56. The above outstanding features of the Act will probably attract the attention of bankers in many other States.

any bank stock that they may have owned before the law became effective, but ". . . prohibits those that own more than ten per cent of the stock of any bank or trust company in New Jersey from purchasing after the date the statute became effective more than ten per cent of the stock of any other bank or trust company doing business in the State." Provision was made against the possibility of ownership entered in names other than that of the title of the corporation and also against the voting of stocks so held. The banks were given ". . . the right to obtain from any corporation by affidavit of the president or other officer of the corporation, under seal, a statement as to the holdings of the corporation in any bank or banks." Banks were ". . . prohibited from transferring stocks to any corporation holding greater than the above percentage and also prohibited from paying dividends to any corporations holding more than the above percentage on penalty of a misdemeanor." [69]

This law aims at both domestic and foreign corporations. "Any direct or indirect violation or misrepresentation regarding the holding of bank shares under this law renders a domestic corporation liable to revocation of charter and a foreign corporation liable to cancellation of its authorization to do business in the State." The act, however, specifically ". . . exempts from its provisions State banks and trust companies and national banks doing business in the State, also all banks and trust companies there holding bank stocks while acting in a fiduciary capacity, and any corporation whose entire capital stock is owned by or held in trust for the shareholders of a State bank, trust company, or national bank doing business in the State, in proportion to their stock holdings in the parent banking institutions." The effect of the law, therefore, is simply to prohibit the operation of bank holding corporations except where they are banking institutions or their affiliates.[70]

It will be very interesting to see how effective this law, with its strict regulations as to the method of registering and voting bank stocks, will prove.

Under the laws of this State, stockholders of commercial

[69] *Laws of New Jersey*, 1928, Chapter 273, Section 3.
[70] *Ibid.*

banks and trust companies are not subject to a double liability, as are stockholders of national banks and of banks and trust companies in other States. Nor do the laws impose such liability upon stockholders of holding corporations.

Minnesota

There are no laws dealing specifically with this question. However, holding corporations organized in other States may acquire the stock of Minnesota State banks, and are not subject to control by the Minnesota Commissioner of Banks, according to an opinion of W. H. Gurnee, Assistant Attorney General. The foreign corporation is not such a financial corporation as comes under the supervision of the Commissioner. Mr. Gurnee's ruling follows:

(1) If a foreign corporation is authorized to hold the stock of other corporations and such foreign corporation is authorized to do business in this State, there is no existing law which prevents such a corporation from acquiring stock in a State bank or trust company.

(2) The foreign corporation holding bank stock in a State bank is subject as a corporation to constitutional liability as a stockholder. The law does not prohibit a corporation organized under the laws of a State wherein there is no so-called stockholders' double liability from owning stock of a State bank.

(3) By Mason's Statutes, Section 5323, the commissioner of banks is vested with authority to exercise constant supervision over and empowered to examine into, the books and affairs "of State banks, savings banks, trust companies, building and loan associations, and other financial corporations doing business within the State." He is required to visit such corporations at least twice each year and inspect and verify the assets and liabilities of each, investigate the methods of operation and conduct of said corporations and their systems of accounting, to ascertain whether such methods and systems are in accordance with law and sound banking principles. He may examine the officers of such corporations under oath and issue subpoenaes requiring their attendance before him.

The question arises as to what is meant by the expression "other financial corporations."

As long ago as December 4, 1912, in an opinion to the then superintendent of banks, this office ruled that the expression "other financial corporations" means corporations similar to banks, trust companies, and building and loan associations. Under the familiar

rules of construction it was held that the expression "other financial corporations" should be confined to corporations *ejusdem generis* with those enumerated. The conclusion was arrived at that the commissioner of banks had no authority to examine into the affairs of corporations unless they fell within the classes enumerated, namely, banks, trust companies, building and loan associations and other financial corporations of the same character.

If the articles of incorporation of these foreign holding companies go no further than to authorize such corporations, among other things, to hold the stock of other corporations, we can see no theory upon which it can be successfully claimed that such holding corporations are financial corporations within the meaning of the statute.

We understand that this has been the practical construction of the statute long followed by all departments of the state. This in itself is entitled to some weight, although of course it is not conclusive.[71]

The holding company is subject as a corporation to the stockholders' double liability, even though the stock of the holding company itself carries no liability, due to the fact that under an article of the Minnesota Constitution, each stockholder in any corporation organized or doing business under the laws of Minnesota, except those organized for the purpose of carrying on a manufacturing or mechanical business, is liable to the amount of the stock held or owned by him.[72]

Michigan

None of the laws in this State deal directly with this question. However, ". . . corporations organized for pecuniary profit may purchase and hold shares of stock in other corporations organized for purposes similar to those of such corporations." [73] This might be held to affect the right of holding corporations to own stock in banks, depending upon whether or not banks are organized for *similar purposes.*

The following opinion has been rendered by Attorney General Wilbur M. Brucker of Michigan as his interpretation of the Michigan law:

[71] Opinion submitted by W. H. Gurnee, Assistant Attorney General, in letter to A. J. Viegel, Commissioner of Banks, February 25, 1930.

[72] *Minnesota Constitution,* Section 3, Article 10.

[73] *Session Laws of 1925,* No. 363, p. 692.

1. A holding company may organize under the general corporation laws of Michigan and may, if its charter is broad enough, purchase, own and hold shares of stock in State banks.

2. The ownership and exercise of incidents of ownership of stock in a holding company owning all but qualifying shares in several banks is not legally doing a banking business in the State, in violation of law.

3. It is only when the practices of a holding company become such as to usurp the functions of the bank in fact and in reality, so that a banking business is being done by the holding company that intervention can be sustained.

4. A holding company can, by expression in its charter, meet the double indemnity of statutory liability under the banking act.

5. It is the banking department's duty to continue to treat individual banks concerned in stock purchased by a holding company, in all respects as individual units for examination and all other purposes; and also to scrutinize the operation of such banks in their factual relationship with the holding company.[74]

West Virginia

In West Virginia the 1929 session of the Legislature enacted a new banking code in which group banking is specifically prohibited by the following provisions: "(1) It shall be unlawful for any firm, association or corporation to purchase and hold stock in any banking institution organized or authorized to transact business hereunder for the purpose of selling, negotiating or trading participation in the ownership thereof either for the purpose of perfecting control of one or more such banking institutions or for the purpose of inducing other persons, firms or corporations or the general public to become participating owners therein; (2) Nothing herein shall prevent the ownership of stocks in any such banking institution by any corporation for investment purposes." [75]

With reference to the liability imposed upon stockholders in banks, it is provided that ". . . each stockholder of any *banking* institution organized under the laws of this State, in addition to the liability imposed upon him as stockholder of a corporation under the provisions of the general corporation laws, shall be liable to the creditors of the banking institution,

[74] "Michigan Permits Holding Companies to Buy and Own Stock in State Banks," *U. S. Daily* (October 28, 1929), p. 11.

[75] *Acts of 1929,* Chapter 23, Section 9. Act passed on February 28, 1929.

on obligations accruing while he is a shareholder, to an amount equal to the par value of the shares of stock held by him." [76]

Massachusetts

A measure was introduced in the 1929 session of the Legislature of Massachusetts, but failed of passage, providing for the creation of a commission for the purpose of, "Investigating the ownership or control of the capital stock of trust companies with a view to ascertaining to what extent such capital stock is owned or controlled directly or indirectly by other trust company, bank or banking association or by any corporation, association or trust, directly or indirectly owned, controlled or affiliated with such other trust company, bank or bank association, and to report recommendations for legislation which would correct this situation." [77]

Oklahoma

There are no laws in Oklahoma dealing specifically with this question. However, it may be held that bank holding corporations can purchase bank stocks. One section of the Compiled Statutes provides that: "All corporations authorized by this section shall have the power to own and hold stock of other corporations, except as prohibited by the Constitution of the State." [78] An article of the Constitution relative to the point involved ". . . forbids corporations to own or hold stock in other *competitive* corporations engaged in the *same* kind of business and banks or trust companies to own or hold stock in other banks or trust companies, except in those cases where such corporations or banks or trust companies have acquired such stock to secure or satisfy a bona fide indebtedness, and in such cases the stock must be disposed of within twelve months." [79] Another section of the Compiled Statutes makes it ". . . unlawful for corporations to combine to place the control of these corporations in the hands of a trustee or a holding

[76] *Ibid.*
[77] *Journal of the House,* Commonwealth of Massachusetts (April 16, 1929), p. 73.
[78] *Oklahoma Compiled Statutes,* 1921, Section 5301.
[79] *Constitution of Oklahoma,* Article 9, Section 41.

corporation if the intent and purpose of such combination is to restrict or restrain trade." [80]

Since the provisions of the statute granting to corporations *the power to hold or own stock in other corporations* is rather general, and that neither the prohibition of the Constitution nor the provisions of the last quoted section appear to be specifically applicable, it is possible that bank holding corporations may purchase bank stock. This contention appears sound since Article 9 of the Constitution prevents only banks or trust companies from having stock in other banks or trust companies and does not prevent corporations from buying or holding stock *in other corporations,* if the latter are not carrying on the same type of business, and are not competing with the former. Furthermore, Section 11029 of the Compiled Statutes only applies to combinations in restraint of trade.

Texas

No statutes in Texas deal directly with the question and it is doubtful whether holding companies may purchase bank stocks. Banks or trust companies ". . . cannot own more than ten per cent of the capital stock of any other banking corporation, unless the ownership of such excess stock shall be necessary to prevent loss upon a debt previously contracted in good faith, and in such cases the stock must not be owned for a longer period than six months." [81]

However, ". . . corporations are permitted to purchase, hold, or own shares of capital stock of foreign or domestic corporations *not competing with each other in the same line of business,* providing this authority shall in no way affect any provision of the anti-trust laws." [82]

A trust is defined as "a combination of capital, by two or more persons, firms, corporations for two purposes: (1) to create, or which may tend to create, or carry out restrictions in trade or commerce, or (2) to create or carry out restrictions in the free pursuit of any business authorized or permitted by law, or (3) to prevent or lessen competition in aids to com-

[80] *Oklahoma Compiled Statutes,* 1921, Section 11029.
[81] *Revised Statutes,* 1925, Article 513.
[82] *Ibid.,* Article 1302.

merce." [83] Still another article states that, "A monopoly exists when two or more corporations combine or consolidate to bring the direction of the affairs of such corporations under the same management or control for the purpose of producing, or where such common management or control tends to create a trust, or where any corporation acquires the shares of stock of any other corporation or corporations, for the purpose of preventing or lessening, or where the effect of such acquisition tends to affect or lessen competition, whether such acquisition is accomplished directly or through the instrumentality of trustees or otherwise." [84]

In view of these sections of the revised statutes, it is doubtful if group corporations may acquire bank stock in Texas.

Oregon

According to certain provisions enacted into law during 1929, any corporation ". . . organized in Oregon, or licensed to do business in this State, may own, hold or control the stock of any bank or trust company." [85] Such corporations are subject to the following restrictions: "(1) it shall not borrow money or otherwise secure credit directly or indirectly, from such bank or trust company, unless the loan or credit is adequately secured by collateral other than stock of evidences of indebtedness of any corporation which it controls; (2) it shall not sell any stock, securities or other evidences of indebtedness of any other corporation which it controls or through the bank or trust company in which it owns or holds stock, nor can it use such bank or trust company as any agent for the purpose of selling or otherwise disposing of such stock, securities or other evidences of indebtedness without first obtaining permission from the Oregon Corporation Commissioner; and (3) it shall not carry as an asset any expenses incident to organization or to the sale of stock after organization." [86]

Corporations or their officers or employees violating the provisions of the Act are subject to various penalties. Stock-

[83] *Ibid.*, Article 7426.
[84] *Ibid.*, Article 7427.
[85] *General Laws of Oregon*, 1929, Chapter 444. This Act was approved March 9, 1929.
[86] *Ibid.*

holders of Oregon corporations owning stock in banks or trust companies are not subject to the liability imposed upon the stockholders of such banks or trust companies.[87]

Pennsylvania

There are no provisions in the statutes of this State directly concerned with the purchase of bank stock. Under certain amendments to the Act of July 2, 1901, it may be held that corporations are permitted to utilize this power. The latter, as amended by an Act of April, 1929, provides that ". . . any corporation created by general or special laws, may purchase, hold . . . the shares of the capital stock of any other corporation or corporations of this or any other State, and while the owner of said stock may exercise all the rights, powers and privileges of ownership. . . ." [88] Furthermore, Section XX of West's Pennsylvania Statutes, 1920, permits a company to be organized "for any lawful purpose not specifically designated by law, as to the purpose for which a corporation may be formed." [89]

No statute definitely states that stockholders of companies holding stock in banks are liable for the same stockholder's liability as is imposed upon the stockholders of banks. While a double liability is placed upon the latter,[90] it has been held that stockholders of trust companies are not liable for double liability.[91]

New Mexico

While no statutes of New Mexico are concerned directly with this problem, certain sections of the statutes may be interpreted as permitting corporations to purchase stock in banks and trust companies.

One section "authorizes corporations unrestrictedly to purchase, and hold the capital stock of, . . . any other corporation or corporations, of this or any other territory or

[87] *Ibid.*
[88] Act of July 2, 1901, *Public Laws*, p. 603 (Section I), as amended by an Act of April 18, 1929.
[89] *West's Pennsylvania Statutes*, 1920, Section 5598, Section XX.
[90] *Pennsylvania Statutes*, Section 1184.
[91] See *DeHaven* vs. *Pratt*, 72 Atl. 1068, 223 Penn. 633 (1909).

state, . . ." [92] and ". . . no limitation is placed upon the amount of such stock that may be so purchased or held." [93] However, ". . . banks are prohibited from purchasing or holding the capital stock of 'any other incorporated' company unless the acquisition of such stock is necessary to prevent loss upon a debt previously contracted and stock so acquired must be disposed of within six months if possible." [94]

Since the only direct prohibition in the law of this State against the acquisition of stock in other corporations is that contained in Section 395, which only prohibits *banks,* and since corporations unrestrictedly have the broad power in Section 1019, ". . . to purchase, and hold stock of any other corporation or corporations," it is believed that banks come within the latter clause and that, consequently, corporations can acquire stock in banks.

Arizona

According to Arizona law ". . . a bank, loan or trust company or association may purchase and hold stock of any other bank, loan or trust company or association or other corporation, if such purchase is authorized by the executive committee or approved by the board of directors." [95] However, ". . . if bank stock is purchased the approval of the Superintendent of Banks must also be obtained." [96] It would appear that the word association may refer to bank holding corporations. Such purchases, however, must have the sanction of the Superintendent of Banks and therein exist problems which will not be solved until circumstances necessitate such a solution.

Illinois

The General Corporation Law states that ". . . corporations organized thereunder may own, purchase, or otherwise acquire stocks of any corporation, domestic or foreign." While

[92] *Annotated Statutes of New Mexico,* 1915, Section 1019.
[93] *Ibid.*
[94] *Ibid.,* Section 395.
[95] *Session Laws of Arizona,* 1922, Section 20, Chapter 31. The law has not been changed in this respect since that date.
[96] *Ibid.*

the statute contains some restrictions, such as ". . . forbidding the holding of stock in a building corporation," there is no definite restriction upon a company to have bank stock, although it is quite possible that such an implication may exist.[97] One of the sections of the Banking Act makes reference to stockholders of banks, by the use of the pronouns "he" or "she," and consequently gives the impression that it was the intention of the law that individuals owning stock in banks should be natural and not artificial persons.[98] Insofar as a bank holding corporation is an artificial entity or person, the section appears restrictive in nature.

Iowa

In view of certain provisions in the Iowa statutes, it is questionable whether group corporations may own bank stock. One section of the Iowa Code authorizes ". . . corporations to hold stock in railway corporations," [99] and another recognizes ". . . the right of holding corporations to own stock in a public utility," [100] but no reference is made to purchases of bank stock by corporations. The liability of stockholders of banks applies to stockholders, who are referred to by the pronouns "he" or "she," giving the impression that stockholders in banks must be natural and not artificial persons.[101]

Kentucky

No Kentucky statutes limit the power of corporations to hold bank stock unless it be the following statute: "Nor shall any corporation directly or indirectly, engage in or carry on in any way the business of banking, or insurance of any kind, unless it has become organized under the laws relating to banking and insurance." [102] If this statute refers to bank holding corporations, it could only be so applied by interpretations which would consider the latter to be engaged in the business of banking.

[97] See *Central Life Securities Company* vs. *Smith,* 236 Fed. 170 (1910).
[98] *Illinois Banking Act,* Section 6.
[99] *Iowa Code,* 1927, Section 7940; *Banking Laws,* 1929, Section 7940.
[100] *Ibid.,* Section 8434.
[101] *Iowa Constitution,* Article VIII, Section 9.
[102] *Carroll's Kentucky Statutes,* 1930, Section 595.

Louisiana

There are no laws in Louisiana directly applicable to bank holding corporations. While one subdivision of the 1928 Acts ". . . permits corporations to acquire, and to hold, shares of any other corporation, domestic or foreign," [103] it seems uncertain if this subdivision permits group corporations to own shares in view of certain other restrictive subdivisions.[104]

Vermont

None of the statutes in this State directly restrict the ownership by bank holding corporations of the stock of *banks* but there is a section prohibiting such corporations from acquiring stock in other *corporations*. The section containing this prohibition reads as follows: "A corporation shall not be permitted to acquire or hold stock in other corporations to such an extent that its primary business is the holding of such stock. A violation of this provision shall be cause for the dissolution under the provisions of Section 4944." [105] The status of a bank holding company in this State appears questionable for the reason that the holding of bank stock constitutes their 'primary business.'

No existing laws place upon stockholders of bank holding corporations a liability similar to that placed upon holders of stock in banking institutions.

Washington

None of the statutes in this State deal directly with group corporations. During the 1929 regular session of the Legislature a bill was proposed to limit the ownership of bank or trust company stock by corporations to 20 per cent of the capital stock of such bank or trust company,[106] but failed to pass.

[103] *Acts of the Louisiana Regular Session*, 1928, Act No. 250, Section 12, Subdiv. II, p. 417.

[104] *Ibid.*, Section I, p. 409; II, p. 411. See *Constitution and Statutes of Louisiana*, 1920, Volume 2, Section I, p. 1196, and V. P. 1203.

[105] *General Laws*, 1917, Section 4925.

[106] *Substitute House Bill No. 72*, Washington, 1929.

Legality of the bank holding corporation in Nebraska

In a large number of States the question as to whether or not a corporation can be lawfully organized to conduct the business of buying, owning, selling or otherwise dealing in the capital stock of banking corporations is uncertain. Nebraska has been selected as a representative State in which the legal status of such companies has not been definitely determined. A review of certain decisions of the Nebraska Supreme Court indicates very typically the uncertain legal status of such companies in many States at the present time.

While it was held in *Herrick* vs. *Humphrey* that, "The powers of a corporation in effecting its objects are as broad and comprehensive as those of an individual, when not expressly prohibited," [107] there are two or three decisions of the Supreme Court which have taken the opposite viewpoint.

In *Nebraska Shirt Co.* vs. *Horton,* suit was brought by an exposition company on a subscription to its capital stock by defendant, a manufacturing corporation. The court, speaking through Commissioner Pound, said: "We are at a loss to see how this action can be maintained in the face of the pleadings. Corporations have quite enough power without allowing them to incorporate themselves in new companies. Unless authorized by statute, a corporation has no power to subscribe to the capital stock of another corporation and such a subscription is not binding." [108] This case was cited in the *State* vs. *Lincoln Traction Company* case which involved the power of the traction company to subscribe to the stock of a local light and power company. In this case the court said:

> In Nebraska Shirt Co. v. Horton, 3 Neb. (Unof.) 888, we held that, unless authorized by statute a corporation has no power to subscribe to the capital stock of another corporation. And the rule is applied to a banking corporation in Bank of Commerce v. Hart, 37 Neb. 197, Sec. 9, Art. VII, Chapt. 72, Compiled Statutes of Nebraska, 1907, which authorizes street railway companies to subscribe to the stock of another street railway company whose lines of railway connect with those of the subscribing company, but we have not been cited to any statute authorizing street railway cor-

[107] *Herrick* vs. *Humphrey Hardware Co.,* 73 Neb. 809, 103 N.W. 685 (1898).

[108] *Nebraska Shirt Company* vs. *Horton,* 3 Neb. 888, 93 N.W. 225 (1910).

porations to subscribe to the stock of corporations organized for the purpose of transacting business other than a street railway.[109]

In *Bank of Commerce* vs. *Hart*, it was held that, "A banking corporation organized under the laws of this State, had not power to become a stockholder in an insurance company, and had this charter expressly provided that the corporation might invest its funds in stock of insurance companies and deal generally in the stocks of other corporations, such a provision would have been contrary to the laws of the State and void." [110]

While the court has recognized a certain difference and has distinguished between the subscription to shares of new corporations and purchase of stock of old corporations, the rule in both cases is practically the same. In *Folts* vs. *Globe Life Insurance Company,* decided in the Nebraska Supreme Court in January, 1929, a distinction was recognized between an investment in stocks of going corporations and subscriptions to stock in new corporations, but the court held that, "Even though it be said that stocks of a going corporation may be the subject of investment, the following authorities justify the conclusion that subscriptions for stock in the organization of a new corporation, cannot be regarded as an investment." [111] (Citing *Neb. Shirt Co.* vs. *Horton.*)

This matter should be specifically decided in each State at the earliest possible time so that there will be no doubt one way or another as to the legality of the bank holding companies.

Conclusions regarding State legislation

It will be very interesting to see how effective existing laws will prove. However, in view of the many indirect ways by which corporations often accomplish what the law does not permit directly it seems rather doubtful whether existing legislation will stop the development of group systems.

Restrictive legislation might inconvenience boards of di-

[109] *State* vs. *Lincoln Traction Co.,* 90 Neb. 535, 134 N.W. 278 (1915).
[110] *Bank of Commerce* vs. *Hart,* 37 Neb. 197, 55 N.W. 631 (1919).
[111] *Folts* vs. *Globe Life Insurance Co.,* 223 N.W. 797 (1929).

rectors which have put funds within their control into bank stocks with no other thought than sound investment. In small communities there are banks which are necessarily more or less dependent on capital furnished through sale of their shares to corporate interests in these communities. But these are minor objections. If the major good would be subserved, no great difficulty should be encountered in providing for proper exceptions to the general mandate where it may be expedient on practical grounds to afford relief from absolute inhibition.

In many States no effort has been made to attach double liability to the shares of bank holding corporations. No provisions have been incorporated in existing laws for the protection of minority stockholders of a bank, through a requirement that prices paid for bank stock should be uniform and not discriminatory as between majority and minority stock holding groups, or change of control should not be permitted without notice to minority stockholders. No effort has been made to restrict powers acquired by holding corporations under articles of incorporation, powers that can extend from holding of control of banks to the owning and operation of public utilities or mercantile establishments.

CHAPTER XIV

THE ADVANTAGES OF GROUP BANKING

In engaging in a discussion of the relative advantages and disadvantages of group banking the writer wishes to draw attention, at the outset, to the fact that there is no established body of reliable facts to guide in arriving at mature conclusions. The views of bankers generally, pertaining to this subject, find expression in a multiplicity of newspaper items, discussions and articles in banking journals, all of which had to be culled out and used to arrive at what might be termed a working basis for this discussion. Considerable general information was secured through personal interviews. It should also be remembered that it is impossible to secure extensive statistics relative to advantages and disadvantages, either from a general point of view or in connection with specific bank holding corporations. It is quite obvious that an outsider would experience unusual difficulties attempting to collect such data. Moreover, circumstances vary in every case and what applies to one group of banks may not be applicable to another.

Inasmuch as the success of group systems depends upon (a) the services rendered to member banks, (b) to the communities served, and (c) to their stockholders, consideration of the subject is approached largely from these three viewpoints.[1]

A. Advantages to affiliated banks. Retention of personnel

The group plan does not result in a substantial displacement of executive officers.[2] Under the typical plan of organ-

[1] In connection with Chapter XVI, these methods of approach were not applicable.

[2] President, Vice-Presidents, Secretary, Treasurer, and personal assistants to those officials who are given direct authority.

ization, each bank continues to operate as a separate unit, under the management of its local officers and directors.

The central management or central advisory board or committee usually maintains contacts between the member banks of the group and the central bank or holding company by having at least one officer of the parent bank on the board of each affiliate bank, and one vice-president assigned exclusively as a contact agent with the local management of each bank. This official supervises operating methods and obtains for each affiliate the aid of any department of the parent organization. The central office also exercises its supervision through periodical reports of condition, regular examinations and the adoption of proven standards.

The above facts are presented as a result of the survey, conducted by the writer, of fifty of the largest groups controlling resources of about $6,400,000,000. If this survey may be assumed to be representative, less than three per cent of the executive officers of affiliated banks have been released subsequent to acquisition. The average period of service of the group released however, was unusually long, and in practically every case was over 10 years. Furthermore, very few restrictions are placed on executives, who leave voluntarily or involuntarily after the affiliation, reëntering the banking business and opening a competitive institution. In view of the confidential nature of the survey, the policies of specific organizations regarding personnel problems cannot be disclosed.

While it may be alleged that the time will come when there will arise a conflict in judgment between the central office and the officials of the local unit, which may result in the displacement of the latter, it must be remembered that such action would not be advisable unless the officials concerned were very inefficient. The group organizations are anxious to retain the coöperation of the people and keep the personal contacts with local officers so business will not be lost to some other bank. A wholesale displacement of personnel, particularly in small communities where the personal relationship is stressed, would obviously be suicidal.

By the broad dissemination of its stock through the communities which the group serves it also preserves local inter-

est and substantial local ownership. This form of organization is peculiarly adapted to American conditions, in lieu of extensive legalized branch banking, as it offers the advantage of maintaining local independence and local contacts through the maintenance of the individuality of all the constituent banks and their separate boards of directors, and at the same time, provides the strength, and supplementary facilities afforded through the holding corporation. The latter appears to be entirely supplementary; it does not supplant.

Centralized administration

The advantages of centralized administration are brought about in five ways: (a) by superior credit facilities; (b) by improvement of investment policy; (c) by expansion of security distributing business; (d) by improved fiduciary services; and (e) by economy of operation.

Line of credit

By means of group banking sufficient financial resources are brought together to serve adequately the largest industrial and business requirements. A new stability to banking has been brought about by unit banks joining together to better serve the demands for credit of modern business men whose needs are no longer limited by city and county or even State lines. Through the broader contacts of the central organization, the local bank can extend lines of credit commensurate with the financial responsibility of the borrowers, but oftentimes in excess of statutory limitations as to the individual institution. Large concerns which formerly were forced to do the major portion of their business in the larger cities, notwithstanding the fact that their paper is a satisfactory investment, can under the group system be adequately served in their own towns.[3]

The Northwest Bancorporation, for example, has made it possible for local industries such as Pillsbury, Archer-Daniels, Cream of Wheat, Munsingwear, and Honeywell to secure loans at home instead of in the East, to the advantage of both

[3] See *Hearings*, pp. 887, 1050 and 1184.

bankers and the business concerns interested.[4] Concerning credit facilities, Mr. Andrew Price, President of the Marine Bancorporation, Seattle, Washington, says: "Through the medium of bank holding companies, greater mobility of commercial banking funds can with safety and propriety be provided. Desirable loans, too large for an individual bank, can be handled by division with the holding company and other members of the group. Excess funds of one member bank can be employed by other member banks, with profit to both and benefit to large worthy borrowers." [5]

Seasonal needs of various industries vary widely, but each division has a period of peak load. The diversification existing behind each individual unit will enable it to meet more adequately the seasonal needs of its customers and district.

There is no danger of restriction of local credit. The holding company is not a bank, and its success is dependent upon the growth and success of its units. Naturally it must look to the development of each affiliated bank wherever located for its own profit and assist in the development with every means at its command. To do otherwise would be contrary to its own self-interest.

If the affiliated bank does not serve its community equally well or better than the independent unit, competition will arise at the first opportunity. The group bank has no exclusive form of franchise, and it must provide an improved service to exist.

Centralization of reserves

In a group system it is important that the central organization should manage the reserve policy. Through such operation the group constitutes practically a small Federal Reserve System within itself, with mobile reserves, and the amount of reserves can be greatly reduced because the funds may be easily transferred from one bank to another, if the reserves of a member fall too low. Thus, as indicated above, a larger volume of business is permitted. However, if ulterior motives

[4] *Ibid.*, p. 792.
[5] Andrew Price, "Group Banking," *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, p. 70.

govern the actions of the controlling board, this particular advantage constitutes a serious danger. Members of the group can be weakened financially by taking advantage of the reserve laws of the most lenient State and national laws, where the latter are lower in a given State than State law prescribes. For example, Idaho enjoys only Federal reserve requirements, while Montana on the East requires 15 per cent and Colorado on the South 25 per cent, Oklahoma 25 per cent, Louisiana 20 per cent, Alabama 15 per cent, and Tennessee 10 per cent. Uniformity of State reserve requirements would be a desirable stabilizing influence.

The pyramiding of reserves is often referred to as a criticism of group banking. One rather unusual statement was to the effect that the members of a group banking organization would keep their reserves with a central institution and, assuming that such units are required to maintain a 7% reserve against demand deposits and the central institution a 10% reserve, that the system as a whole would have a reserve of 10% of 7%, or in other words, only 70¢ for each $100. of demand deposits. As a matter of fact, in some of the present extensive group organizations the central bank or banks have heretofore been the reserve points for the outlying banks when the business of such institutions was being operated separately and independently. This criticism as to reserves is theoretical and not practical. Assuming that the reserves are completely pyramided and that the various units operate through the bank accounts of the central institution, it is still necessary for that central institution to maintain reserves and bank balances sufficient to care for the transactions of the group, and it has been found that those practical requirements will develop, as has been ascertained by actual analysis and observation, as adequate net reserves separate and apart from the group, as any branch banking organization might be expected to carry.[6]

Concerning concentration of reserve balances Mr. Andrew Price states that: "An advantage of unquestioned profit, but not unquestionable economic soundness is the concentration of

[6] E. G. Bennett, "Group Banking Best Adapted to Agricultural Needs," *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, p. 108.

reserve balances of member banks with the key bank of the group. It would seem wise for holding companies not to press this advantage too far, as a pyramiding of reserves in times of stress would be unwholesome. This can largely be avoided by the retention of membership in the Federal Reserve System by each member bank or by the principal members of the group. Balances maintained in important distant cities may, however, with profit be concentrated and in fact reduced through common drawing privileges being arranged through the key bank of the group." [7]

Large cash assets should be kept in addition to the investment in bank stocks. This reserve strength would then be behind each of the institutions owned and would inevitably result in the greater stability of the affiliated banks. It would also afford added protection and security to the depositors. The bank holding corporation, if its business is conducted in conformity with sound business principles, would then be in a position to bring the whole weight of its resources to bear in any direction in which help is necessary. Mr. L. E. Wakefield, President of the First Bank Stock Corporation, has described the situation as follows:

> If, through some disastrous happening such as a serious conversion of a bank's funds, its structure should be impaired, the holding company must reestablish it from the central reserve of the group. It would be suicidal to permit any single unit in the group to fail no matter what the cause.
>
> The individual bank now is supported not only by its own capital and reserve structure, but also by that of the corporation. The holding company's legal responsibility is no greater than was the individual stockholder's but its moral liability goes to the nth power
>
> We are building up a double reserve—in the banks themselves, and a central reserve in the First Bank Stock Corporation. Actually, the entire capital and surplus of the corporation is a reserve of its units.[8]

Investment policy

In the average unit bank the personnel or statistical facilities are not sufficiently extensive to scientifically select invest-

[7] Andrew Price, *loc. cit.*, p. 70.
[8] *Hearings*, p. 888.

ments. This deficiency in turn militates against customers requesting investment advice. Connection with a group places the services of the investment department of the central organization at the disposal of the affiliated bank. As the size of the group increases the quality and number of investment experts increases, which offers closer contact with market activities which the local banker would probably fail to analyze.

An investment which is good today may not be tomorrow and even high-grade bonds purchased today should be sold tomorrow if conditions change. This policy of switching, while often criticized, must be followed in order to avoid the losses arising from changes in the business cycle and in the money market.

Diversified bonds and other securities for sound and profitable investment are more accessible to the banks in a group system. Private or leased wires may be available which connect with the principal markets of the world, enabling such banks to buy or sell securities without delay.

However, certain dangers may result from initiated issues of securities, so-called junior financing, through the investment department of the central organization. With the influence which the central organization wields over the affiliated institutions it can easily be brought about that these will be directed to absorb unseasoned investments. Hence the caliber of the men in control of the central organization is a very important factor for consideration in connection with group banking.

Security distribution

A field in which investment bankers heretofore enjoyed a practical monopoly, viz., the sale and distribution of securities, is open to the operations of group systems. Financial powers granted group companies by their corporate charters are sufficiently broad to permit their engaging in the buying and selling of securities for a profit.[9]

With the combined buying power of the affiliated banks each organization should be able to underwrite and distribute

[9] See *Hearings,* pp. 839-841, 894-896, 1058, 1185-1186, 1264-1265, and 1456-1459.

entire issues of bonds and other securities for the development of public utilities and other local business enterprises, and for the city, State or country needs.

That group organizations recognize the opportunities presented in this regard is demonstrated by the extensive formation of security companies in connection with bank holding corporations. In the latter part of December, 1929, the First Bank Stock Corporation announced the formation of a new major subsidiary, the First Securities Corporation, for the purpose of extending an investment service throughout the Ninth Federal Reserve District. In announcing the formation of the new corporation, it was pointed out that: "The distribution of securities, in this organization will make possible a more intensive development of the territory, and will warrant the opening of branches in localities which would not support separate offices. By developing agencies through the affiliated banks in the smaller cities, we will be able to offer the business man and investor at those points an investment service that hitherto they have lacked. Such a service should be able to direct the investment power of the northwest into sound, conservative and profitable channels. Our capital of $7,500,000 and our extensive distribution, will enable the First Securities Corporation to carry a much broader list of investment offerings and will make the company the largest distributor of securities in the Ninth Federal Reserve District. Our buying and distributing power will mean that even the largest industries in the northwest will have at their door a securities organization capable of underwriting investment issues of a size which in the past have had to seek a New York or Chicago market." [10]

Shortly after January 1, 1930, the Northwest Bancorporation announced the formation of the Banc Northwest Com-

[10] *American Banker* (December 28, 1929), p. 1. The First Bank Stock Corporation has also extended its activities into the commercial financing field. It has purchased the Lumbermen's Acceptance Corporation of Chicago, which has been operating nationally, and has changed its name to First Acceptance Corporation, and has moved the executive offices from Chicago to St. Paul. This new subsidiary supplements the services extended by the group of banks controlled by the holding company. See "Minnesota Bank Stock Group Purchases Acceptance Corporation," *The American Banker* (December 14, 1929), p. 1.

pany which was organized to engage in the underwriting and distribution of investment securities. The Banc Northwest Company is affiliated with the banks or investment organizations that comprise the Northwest Bancorporation group.[11] The Marine Bancorporation has organized the Marine National Company with resources of $2,000,000,[12] "to engage extensively in the underwriting and origination of high grade investment securities. Its distributing organization accords it a place among the principal investment banking organizations on the Pacific Coast. The facilities of this company's complete organization and Statistical Department are at the disposal of its clients and all customers of Marine Banks." [13] However, as early as 1928, it was known that the West Coast Bancorporation intended to actively develop a security selling business. At that time its officers organized a new corporation with securities of a form suitable for retail distribution.[14]

In many communities banks do not have the necessary qualifications for the successful distribution of securities. It is within the power of the central organization to provide the needed mechanical and technical equipment for serving the investors of the communities in which it is interested, with the same degree of efficiency as the investment departments of banks in the larger cities. Collectively, this service may be carried on with satisfactory results. Intelligent investment service by the member banks should induce the flow of investment business to them to a very large extent. The banks should furnish to investors only the highest type of securities. The parent company assists each member bank, in the handling of its investment funds, and the funds of its investor clients to receive the same advantages in buying and selling and trading as possessed by metropolitan institutions.

With these centralized groups going into the origination of securities, the investment banker is deprived at once of his source of supply and his outlet. The attitude of investment

[11] *Commercial and Financial Chronicle* (January 11, 1930), Vol. 129, p. 239.
[12] *Report of Marine Bancorporation* (December 31, 1929), p. 8.
[13] *Ibid.*, p. 34.
[14] Andrew Miller, "Benefits from Banc Control," *Oregon Voter* (November 3, 1928), Vol. 54, No. 7, p. 55.

bankers in this connection is expressed by Mr. Andrew Price, as follows:

> One of the most significant factors entering into the development of group banking through holding companies, is the interest of investment bankers in the movement. The reasons for this are quite apparent. They are experts in setting up and financing holding companies. As in other types of mergers, they can and likely will exert a great influence upon the development of bank holding companies. Through the great investment companies whose destinies they control, they are in a favorable position to take an active part in the extension of group banking. There is nothing formidable to them in mere size, nor have they the same concern as to the various personnel and many other operating questions which loom large in the minds of commercial bankers. Moreover, they recognize the great possibilities of security distribution through the agency of a group of banks with hundreds of thousands of customers. They have already felt the contracting effects upon their business caused by the centralized buying and selling of securities through branch and group bank organizations. Some are alarmed as to the ill effect on their own business this movement holds in store for them.[15]

These developments suffice to create interesting conjectures. Obviously officials have access to all the records of the banks that the holding company controls, including names, addresses and usually some credit information on commercial customers and savings depositors. With such a list of security-buying prospects, salesmen representing the bank corporation are in a position where they can bring a new kind of pressure to bear on potential investors whom they attempt to interest in the bank corporation's offerings. If a bank corporation develops its bond and stock selling department with energy, the question may arise as to what the public's attitude will be toward the group company that underwrites or distributes securities of properties owned or controlled by the same corporation. As stated above, there may be a danger on the part of the bank corporation of distributing unseasoned and perhaps speculative securities, and it will require strong determination on the part of conservative and determined men to depend for profit on legitimate banking operations and not on the easier money to be made through the sale of the common garden variety of stocks and bonds to its customers.

[15] Andrew Price, *loc. cit.*, p. 71.

Fiduciary services

More and more attention is being paid to the development of fiduciary services within member banks of group banking systems. Banks beyond the metropolitan centers are well aware of the fact that Americans are daily becoming more estate-minded.[16] Insofar as membership in a group develops the trust business, it is a distinct advantage to member banks of an associated group, and one which should be regarded in other than a light manner.

Group banking makes available improved and complete facilities for the management of estates and trusts and does not limit this service to large cities. As a consequence it may be expected that fiduciary services will be made available to the smaller cities and towns to serve all needs of this nature.[17] This fact was well brought out by the hearings into branch, chain and group banking, which have been referred to above.

It has been said in connection with the smaller communities that as a result of group banking, "Perpetual and continuous management is assured for men and women who wish to provide trust company management for their estates." [18]

Furthermore, in cases where a community is entirely too small to warrant such a department in the local member bank, a department or regional trust office might be opened to serve not one but a group of nearby communities.[19]

The functions of a group management in connection with fiduciary services may be summarized as follows: (1) it establishes investment funds suitable to the purposes of a large number of conservative investors and endeavors to gather together an organization of specialists capable of managing; (2) it determines from time to time, and in view of industrial and economic conditions, what proportion of the fund under supervision shall be in common stocks and what proportion in bonds or other maturing obligations; (3) it analyzes any changes in these conditions and modifies the above propor-

[16] Particularly well indicated by articles appearing in the Trust Company magazine during 1928, 1929, and 1930.

[17] *Hearings*, p. 793.

[18] J. E. Neville, *loc. cit.*

[19] Gilbert T. Stephenson, "The Handling of Trust Business," *American Banker* (September 30, 1929), p. 18.

tions in accordance with such changes; (4) it studies current conditions in various industries and groups of industries and determines which upon reliable data appear to be the more promising; (5) it analyzes the management and financial structure of the leading companies in these industries; (6) it watches for changes both in the condition of industries and of individual corporations and changes the investment in accord with careful analysis of the latest available information; and (7) it secures diversification as a basic and important principle but restricts the number of securities held to an extent which guarantees satisfactory management. The extent of the discussion of this particular phase of group banking is limited because of the incompleteness or lack of comparability of much of the published data. If further detail were available, a thorough and satisfactory examination of the trust business of various banking groups would be possible.

CHAPTER XV

THE ADVANTAGES OF GROUP BANKING (*Continued*)

Advantages to affiliated banks (Continued). Economy of operation

One of the most critical problems confronting bankers today is the greatly increased cost of doing business. Analyses made in Chapter III indicate a much higher expense ratio than existed a few years ago. This condition is one of the chief motives for bank affiliations in order to bring about more efficient and economical operation. The survey conducted by the writer, which has been mentioned above, indicates that economies resulting from the close coöperation of a group of banks are becoming more evident and will be reflected in increased profits in the future.[1] Economies of this nature naturally make for greater earning power than the same volume would in the aggregate produce for unit banks and add thereby to the strength and stability of operation.

There was considerable difference of opinion as to what per cent the administrative expenses of member banks could be reduced as a result of the installation of a central organization. As an approximation, it was generally estimated that the reduction would be not less than ten per cent after effecting certain changes which would render improved service to customers.

Mr. George F. Rand, President, Marine Midland Corporation, has discussed the question of economies in management involving various size banks in this group as follows:

> Perhaps if I give a case involving one of our larger banks, a bank of some $70,000,000, where we are able to effect a great many economics, it will serve to illustrate what I have in mind.
>
> Those economies are to be made, first, in the rentals that bank

[1] See *Hearings*, pp. 1052, 1184 and 1207-1208. Also see *Report of the Superintendent of Banks of New York* (December 31, 1929), p. 13.

has been paying for space. That bank had several unnecessary offices. It had 11 branches, I believe, and we are able to show them how they can eliminate two or three of those branches.

In the second case—that same bank—in connection with the amount of cash that that bank carried in its own vault, we have been able to save that bank forty or fifty thousand dollars a year, by showing how similar banks, in our group, operate with less cash in their vault. In other words, it does not matter to a local bank whether it carries cash in its vaults or on deposit with the Federal reserve bank. The tellers were doing business with fifteen or eighteen thousand dollars in their cages, and we were able to show those tellers that in another bank of the same size, the teller could do the same amount of business with $4,000 in his cage, if he would use his head a little. We were able to cut down the cash requirements in that bank and give the same service to the customer, I think almost to the extent of $1,000,000, in the aggregate. Now, if you figure 5 per cent on $1,000,000, it is $50,000 a year.

We have done that in all our banks, and the saving has not been so much in the smaller banks, but in the larger banks it is quite a great deal. We have done the same thing in purchasing.

Most of the little banks, and larger ones, are the prey of every salesman that goes into their town. They will buy adding machines; they will buy typewriters; they will buy ledgers, and a little bank, with three or four million dollars in resources, will spend sometimes three or four thousand dollars a year unnecessarily in doodads that people come in and sell them. The savings we have made in that connection are remarkable.

We are also showing these smaller banks, and larger ones, too, that are in our group, that, through certain physical changes in their setup of their bank inside, in the way they handle their collections and handle their items, they can cut down the number of their employees. We are trying to increase the salaries of our employees and at the same time increase their efficiency and cut down on the total salaries.[2]

Concentrated purchasing power

With security purchasing power centralized in the hands of an executive committee of the board of directors of group systems in financial centers, the group's management is able to purchase bonds and short term commercial paper to better advantage for distribution among the various members of the group. Buying in large quantities brings better prices; desirable blocks of high grade municipal bonds, eligible as security

[2] *Hearings*, pp. 1207-1208.

for State and other funds, are more readily available to large buyers in the city than they would be likely to be to the country or small city banks when these institutions are operated independently. Almost two years ago, Mr. Andrew Miller, Secretary of the West Coast Bancorporation, expressed the opinion that, "Because of the volume of bond purchases for a group organization, various concessions would be obtained at times and in the course of a year these would add appreciably to the net earnings from outside investments." [3] Since 1903, the date of its establishment, the Union Investment Company has regularly effected considerable saving to the individual member banks because of wholesale purchases on bonds and other investments.[4]

It is likely that some advantages would accrue to banks in a group if all paper supplies and printing were taken care of by a central purchasing agent since quantity purchases make for better prices. Furthermore, if printed forms in a group of banks were standardized and kept in a central warehouse awaiting the call of the various banks, such forms could be imprinted with the name of the particular bank as needed. It would appear that consolidation of buying, close attention to standardization of forms and centralization of efforts would save banks making up groups many thousands of dollars. A former superintendent of Oregon banks referred to the fact that when a Portland State bank was liquidated several years ago, five tons of printed forms and supplies were carted away —a striking example of gross over-purchase.[5]

Advertising

Certain very definite advantages arise from centralized control of advertising space instead of purchase of such space by individual banks. Pooling the advertising budget of several banks enables the group to employ better advertising managers or agencies, with a corresponding improvement in

[3] Andrew Miller, "Benefits from Banc Control," *Oregon Voter* (November 3, 1928), Vol. 54, No. 7, p. 51.

[4] Letter from J. F. Millard, Vice-President, Union Investment Company (October 26, 1929). This company is now affiliated with Northwest Bancorporation.

[5] *Oregon Voter* (July 21, 1928), Vol. 54, No. 3, p. 31.

quality and effectiveness of its publicity. This policy might disappoint advertising managers of newspapers in cities where the group banks operate but stockholders will feel the effect in the reduction of expenses.[6]

Uniform accounting methods

That accounting procedure in the various banks in a group could be facilitated by standardization of accounting methods cannot be doubted. Through central direction of accounting operations better internal control through employment of specialists may be made available to banks in the group. By prescribing a standard classification of accounts and methods, systematic auditing could be accomplished periodically with dispatch. Frequent audits would naturally tend to eliminate any irregularities that might otherwise creep in.

Insurance and bonding

Insurance of all kinds and the bonding of employees constitutes a significant item of expense incurred by banks. By centralized provisions for such items and obtaining blanket insurance and bonding contracts on the entire group of banks, substantial savings can be effected.[7] Every person employed in the banks that comprise the Northwest Bancorporation group is under bond of $250,000. This large individual coverage has been obtained at less cost than the inadequate coverage formerly carried.[8] The following statement appeared in the 1929 Marine Bancorporation report:

> As an added protection to the depositors of your banks, and safeguard of the stockholders' interests, your Board recently approved a new blanket surety bond in the minimum amount of half a million dollars covering every employee in the organization, and also insuring the corporation and its banks from burglary, holdup, misplacement, etc. This presents an interesting side light on the advantages to be obtained from the Marine's Regional Group plan. Heretofore it would have been impossible for the smaller members

[6] *Report of the First Security Corporation of Ogden* (December 31, 1928), p. 3.

[7] *Ibid.*

[8] J. E. Neville, "Group Banking in the Northwest," *Commercial and Financial Chronicle* (February 22, 1930), Vol. 130, p. 1178.

of the Group to have obtained such great surety bond protection at any reasonable cost. But by virtue of the group coverage, not only has their protection been vastly increased, but the aggregate cost has been substantially reduced.[9]

Consolidated reports

Recent combined reports of bank holding corporations and of all of the banks controlled by the group indicate what might become a familiar practice with the spread of group banking.[10] Savings probably could be effected by means of consolidated reports to stockholders and to financial and regulating agencies.

While there is some difference of opinion among bankers, as stated above, as to the real import and significance of savings that might result from the foregoing items, it is true that since the World War we have learned that great savings, both in materials and costs, may be achieved as a result of combinations. With such arguments being employed to justify groupings in other fields, it is reasonable to assume that similar advantages would accrue to group banks.

While the writer has touched on the most significant operating advantages possible by banks working together through a central organization, none of them appears to be as important as the real benefits of the group system as manifested by its own financial strength.

B. Advantages to the community

The trend toward group and branch banking is in response to a demand on the part of the public for safe banks following the numerous failures and liquidations that have taken place during the past decade. Popular demand is for soundness and stability in banks. People must use banks and they have a right to insist on safety first. The old form of individual unit banking was supplemented in 1914 by the Federal reserve banks with their system of centralized reserves and rediscount privileges. Member banks continued to function as previously but were required to maintain this central credit

[9] *Report of the Marine Bancorporation* (December 31, 1929), *loc. cit.*, p. 9.

[10] For example, see *Report of the Guardian Detroit Group* (December 31, 1929), pp. 1-40.

reserve, thereby mobilizing reserve funds and strengthening the entire banking structure of the Nation. Admittedly an experiment when first organized, the Federal Reserve System has demonstrated the practicability of branch operation through the twelve regional Federal reserve banks under the supervision of the central Federal Reserve Board. The similarity in principle between the accomplishments of the Federal Reserve System on a national scale and what might be expected from a system of group banking operating in a smaller area through the medium of the bank holding corporation, is striking, and is at once apparent. As a result, greater safety, stability, and a general strengthening of the banking structure may be expected.

There are, however, certain conflicting opinions in this regard. Against the claim that group banking strengthens the banking structure, it is sometimes alleged that only large banks are desired by the controlling interests of the group systems.[11] It has also been stated that "group banking cannot afford to attempt to operate a local bank with resources of less than $1,000,000." [12]

Such statements are not in accordance with the facts, as the following table and chart shows 53 per cent of the 1,470 banks covered by the compilation have resources of less than $1,000,000.

The group bank movement is primarily a movement which is bringing relatively small banks together. The data also show some correlation in size between the banks that have gone into this form of banking concentration, and the small banks that have been failing.

Considering the movement with respect to the various geographical sections of the country it is evident that the largest percentage of relatively small banks in such systems is found in the Western States. Over 70 per cent of the banks covered by the compilation for this region have resources of less than $1,000,000. Other sections rank as follows: Southern

[11] B. M. Anderson, "Branch Banking Throughout Federal Reserve Districts," *Chase Economic Bulletin* (May 8, 1930), Vol. X, No. 2, pp. 4-5. Also see L. L. Lunenschloss, "Good Banking Depends on Good Management," *Mid-Western Banker* (February, 1930), Vol. XXX, No. 2, p. 22.

[12] *Hearings*, p. 1261.

CHART VI

BANKS BELONGING TO GROUPS

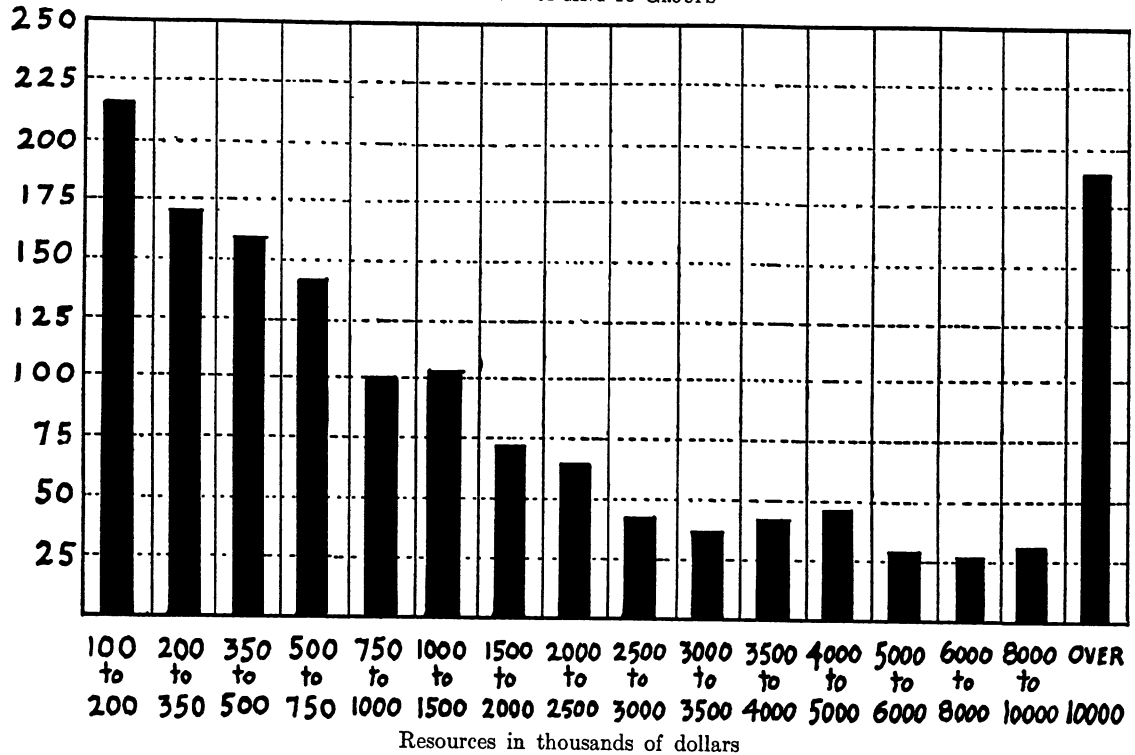


TABLE XLII

SIZE OF BANKS BELONGING TO GROUPS[1]

(Resources are based largely on December 31,1929 figures and are in thousands of dollars).

LOCATION	No. of Banks	100 to 200	200 to 350	350 to 500	500 to 750	750 to 1000	1000 to 1500	1500 to 2000	2000 to 2500	2500 to 3000	3000 to 3500	3500 to 4000	4000 to 5000	5000 to 6000	6000 to 8000	8000 to 10000	Over 10000
Maine	6			1			1				1				1		2
New Hampshire	0																
Vermont	1						1										
Massachusetts	40		1				3	5	2	9	2	4	5	2	1		6
Rhode Island	3											1			1		1
Connecticut	4	1					1					1			1		
Total New England States	54	1	1	1			6	5	2	9	3	6	5	2	4		9
New York	60		1	1	3	2	3		6	4	3	4	1	3	2	3	24
New Jersey	41	1		3		2	7	6	3	1	2	2	2	1	1	3	7
Pennsylvania	48	1	2		2	3		2	3	1	3	1	4	2	1		23
Delaware	2								1		1						
Maryland	0																
Washington, D. C.	0																
Total Eastern States	151	2	3	4	5	7	10	8	13	6	9	7	7	6	4	6	54
Virginia	0																
West Virginia	0																
North Carolina	0																
South Carolina	2									1							1
Georgia	22	5	1	2	1			3					4	1	1		4
Florida	20	1		4	6	1	2	1		1		1	1				2
Alabama	10	1	1	1	2		1		1							2	1
Mississippi	9	2		1			1					1	3		1		
Louisiana	8		2	2		1			1				1				1
Texas	55	20	9	4	4	3	3	2	2	1	1	1	1		1		3
Arkansas	67	28	16	9	5	3	3				1						2
Kentucky	12								2		1		1				8
Tennessee	25														2	2	15
Total Southern States	230	57	29	23	21	9	12	6	6	3	3	3	11	1	5	4	37
[illegible]	6	1						2									3
Indiana	14		1	2	3			2				1					5
Illinois	50	4	5	5	2	4	2	3	3	2	2	2	1	2	2	2	9
Michigan	83	4	3	5	3	5	5	4	4	2	4	3	3	3	3	9	23
Wisconsin	60	5	6	7	6	6	3	3	3	2	2	3	2	1	2	3	6
Minnesota	204	29	33	29	25	21	24	8	7	4	4	3	2	2	2	2	9
Iowa	81	16	10	13	17	7	1	4	3	2	1				2	2	3
Missouri	30	3	4	3	2	2	3	1	2	2	1			3			4
Total Middle Western States	528	62	62	64	58	45	38	27	22	14	14	12	8	11	11	18	62
North Dakota	57	11	11	8	6	6	6	3	1		1		3			1	
South Dakota	37	3	6	6	5	5	3	1	3	1	1	2			1		
Nebraska	34	8	7	5	4	1	2	1	2				1	1			2
Kansas	34	8	4	4	3	4	2	4		1		1	1				2
Montana	36	4		3	6	1	3	2	1	1	2	3	4	2			3
Wyoming	22	5	3	5	1	1	1	1	2		1		1	1			
Colorado	12	3	1	1	1	2	1		1		2						
New Mexico	9	3	1	2		2	1										
Oklahoma	45	15	12	7	3	2	1	1	1		1						2
Total Western States	286	60	46	41	29	24	20	13	11	3	8	6	10	4	1	1	9
Washington	72	13	10	7	10	6	4	2	6	1		1	1	2	1		8
Oregon	36	4	5	2	4	3	4	5	3	1		2				1	2
California	28	2	3	1	2	1	4	3		3		1		1	1		6
Idaho	41	5	6	6	10	2	3	2	1			2	1	1	1	1	
Utah	26	4	3	4	3	2	2	2	1	1		1				1	2
Nevada	12	2	2	3			1		1				1	1		1	
Arizona	6	2		2		1								1			
Total Pacific States	221	32	29	25	29	15	18	14	12	6		7	3	6	3	4	18
TOTAL UNITED STATES	1470	214	170	158	142	100	104	73	66	41	37	41	44	30	28	33	189

[1]Compiled from *A Survey of Group Banking in the United States,* Marine Bancorporation, *loc. cit.,* pp. 1—32, and *Leading Bank Groups in the United States, American Banker,* February 20, 1930, pp. 7—11, where specific data is available, and *Hearings,* pp. 164—184, where approximate figures are obtainable.

States—60 per cent; Pacific States—58 per cent; and Middle Western States—55 per cent. The development in this respect is less noticeable in the Eastern and New England States where banking is already supported by relatively greater capital accumulation.

It is further evident that the grouping of relatively small banks has reached substantial proportions in sections largely dependent upon agricultural conditions and where reverses encountered by unit banks have been the most pronounced (see Table VIII).

The relatively large proportion of banks with resources over $10,000,000 affiliated with groups is due to the fact that every system of importance is associated with at least one large metropolitan bank. With respect to the various States, it appears that the largest percentage of small banks in group systems is found in Oklahoma. Over 82 per cent of such banks have resources under $1,000,000. Other States rank as follows; on a percentage basis: Iowa—78; North Dakota—74; Texas—72; South Dakota—70; Kansas—69; and Minnesota—67. The large percentage shown for Minnesota is very significant since, as is indicated above, this State not only has the largest number of group systems in the country but is also the center of operations for the Northwest Bancorporation and the First Bank Stock Corporation, two of the largest bank holding corporations operating at the present time (Table XXIV).

The following statement taken from an address by Mr. Edgar H. Sensenich, President of the West Coast Corporation, is quite typical of the general opinion that the public will be receptive to group banking, providing stronger banking facilities will result:

> The record of American banking during the past ten years has not been above criticism. The public record is bad enough but you and I know that plenty of the story is hidden in the files of our various banking departments. This is a matter I dislike to even refer to but it is a contributing factor of importance in the present trend of banking. The many failures that have occurred have impressed the people, especially those who have directly felt the consequences of these failures, with the thought that a change in banking methods and standards is due, and there is general demand for better and stronger banking. I am of the opinion that when the

average person thinks of a stronger bank he has in mind a larger one, that he is more greatly impressed by size than management. At any rate, and so far as I can learn, in communities served by branch or group banking organizations, the people have shown no antagonism toward them; and, as a matter of fact, the recent announcements of new group organizations have been received with considerable favor in the communities most directly affected. There is little doubt in my mind that the public is ready for larger and more efficiently directed aggregations of banking capital.[13]

By the creation of a group, a wider diversification of resources is accomplished than is possible in a single unit. Many groups include not only a great variety of agricultural depositories but also many of the commercial banks of both the metropolitan and secondary cities.[14] Regarding greater safety from the depositor's viewpoint, Mr. Trevor O. Hammond makes the following comment:

> From the depositor's viewpoint, the larger capital structure, the larger diversification of business over the territory served by the group as against the local bank, will make for greater security. He will have a sense that the group will not let the individual bank unit fail, and he will be justified in this, for there will necessarily be a more thorough, more intelligent examination and supervision of the loans and practices of the unit bank by the group managers than is had by the governmental system of examination and supervision. There will be, under the group plan, far less likelihood of the bank loading up with a bad line as a result of some peculiar slant of its managing officers. Credit accommodations will be extended more on the careful analysis of the borrower's statement than on the enthusiasm of the president, or other officers, in some local boom.[15]

It is noticeable that the agricultural sections of the country are most active in the development of group organizations. These sections have suffered most in the collapse of banks, during the decade since the World War and now appear to be turning to group banking as a means of assuring the safety of their institutions and their prospects for profits. Certain

[13] Report of the National Bank Division, American Bankers Association, Edgar H. Sensenich, *Commercial and Financial Chronicle* (October 19, 1929), Vol. 130, p. 99.

[14] *Hearings*, p. 887.

[15] T. O. Hammond, "Group Banking in the Northwest," *Commercial and Financial Chronicle* (October 19, 1929), Vol. 130, p. 69.

groups employ an agricultural expert, for instance, to work with their farmer customers, advising on crop diversification and better methods of operation.[16]

The rural customer seldom has any strong affiliation with his bank such as affects the urban business man. He will withdraw his deposit on the slightest rumor of trouble and many failures of the past several years have no doubt resulted from reports that caused silent runs, eventually draining the bank of all of its working capital. With group banks there would be a central reservoir from which local losses might be replenished.

While group systems are not being operated for philanthropical motives, they are nevertheless performing splendid work in the reconstruction of local banks where such banks had been in difficulties. This is very well illustrated in an article by Mr. J. E. Neville of the Northwest Bancorporation. Mr. Neville says:

> Many illustrations of reconstructive work are available. To take one that is typical—Moorehead, Minnesota, has 6,000 people and is the county seat of Clay County in the Red River Valley where the river divides Minnesota and North Dakota. The First Moorehead National Bank, one of the oldest in that part of the State, with deposits $2,200,000 closed its doors December 22, 1928. Northwest Bancorporation organized a new bank which opened March 25, 1929, giving immediate facilities and on May 2, 1929, in accordance with agreement in the organization plan, the new bank paid one million dollars to depositors of the closed bank. These deposits had been made by people scattered over the country and when the new bank announced that the $1,000,000 was available, notwithstanding the fact that funds having been tied up, many old depositors found it absolutely necessary to draw cash, more than $750,000 remained in the new bank. Moreover, money received in the interim for sale of farm produce and hoarded because of timidity was deposited in the new bank following restoration of confidence. The new bank paid dollar for dollar for all assets which were acquired, leaving all the balance of the assets in the hands of the receivers to collect as possible. No advantage was taken of the liquidating bank which was left in position to proceed with its collections of assets without jeopardizing the position of the depositors' interest in the old bank.[17]

[16] *Hearings*, p. 1204.
[17] J. E. Neville, *loc. cit.*, p. 1174.

Another interesting case in point was that of the $20,000,000 failure of Forshay Company which resulted in the closing of three banks. The Northwest Bancorporation acquired one of the three closed banks, while First Bank Stock Corporation acquired another, and none of the depositors in either of these institutions lost a single cent. This certainly should go a long way in winning the confidence of the residents of the Twin Cities.[18] According to Mr. Decker, President of the Northwest Bancorporation:

> The Northwest Bancorporation has put into the banks in its group in the last 12 months, in cash, over $4,000,000 and taken out of those banks undesirable if not bad paper, and to secure us against this advance which was made through the medium of loaning to a separate corporation organized for that purpose, we took over the assets charged off and in addition held out a sufficient amount of stock in the Northwest Bancorporation which is the holding company, to secure us, as that stock was to be given and will eventually be given to the shareholders of the old bank when their loan is paid, which is evidence that we have been willing to put in money to clean up the situation.[19]

The groups that have been organized in Michigan have voluntarily thrown around their organizations, through their articles of association and by-laws, all possible protective provisions from the standpoint of the depositor that might have been suggested by the office of the Comptroller of the Currency or the State Commissioner of Banking and have provided further that these safeguards are subject to change only with the consent of the supervising authority. They have also made available to the examining authorities the records of all their affiliated corporations. If group banking could be confined to groups such as these, no anxiety should be felt either by the public or the supervising authorities.[20]

C. Advantages to stockholders

The following discussion of the advantages to stockholders of group corporations is brief due to the fact that adequate

[18] *American Banker* (November 4, 1929), p. 1.
[19] *Hearings*, p. 791.
[20] *Ibid.*, pp. 1619-1620.

data are not forthcoming. This, of necessity, also makes it necessary to treat in general terms the various considerations involved.

Safety of investment

Investment in the stock of strong bank holding corporations owning a large number of banks has the advantage of safety through diversification of risk. The value of stock in an isolated unit bank, on the other hand, is subject to depreciation, which might come from a business depression affecting that particular community or even from a single credit loss.

A change in management necessitated perhaps through the death of the chief executive of a small country bank might be detrimental to the value of stock in such a single institution. On the other hand, under group banking, continuity of good management in any single bank is more readily assured.

Furthermore, as a result of the financial strength and experience placed behind member banks, the failure of such banks becomes less likely. Even where difficulties have been encountered by group banks, little loss has been suffered from the closing of such institutions relative to aggregate unit bank failures.[21] Thus these organizations should not only appeal to investors in general but also to the owners of desirable banks, holding out to them assurances of greater financial strength that may come from group banking affiliations, as well as opportunities for making diversified personal investments.

Marketability

Stock in the largest group companies is listed on one or more metropolitan Stock Exchanges so that investors may purchase or dispose of such stocks at any time without difficulty.[22]

In many cases this probably holds the greatest appeal to

[21] See section on suspension of group banks in Chapter XVI.

[22] See *Hearings*, pp. 1185 and 1430; and *Mid-Western Banker* (February, 1930), Vol. XXIV, No. 2, p. 125.

the unit banker to join a bank holding company. It arises not solely out of the desire to increase the value of the stock belonging to himself and his stockholders, but out of a thoroughly wholesome desire to protect himself and his stockholders, and perhaps even his bank, from the consequences of a limited market for its stock. This is probably especially true of one-man controlled banks.

Earnings

As stated above, economies in operation and greater efficiency in management go hand in hand with group banking. Group banking also furnishes opportunities for increased earnings through the ability to extend trust and investment facilities to a greater number of people. Furthermore, the scope of business possible under the charters granted to bank holding corporations is much broader than that generally done by banks, as has been discussed fully in Chapter IX in connection with the activities of the Transamerica Corporation. As indicated above, benefits also accrue to the member banks of an associated group as a result of mutual business relations which naturally develop between all institutions affiliated with the central company. They have established a community of interest and it follows as a matter of course that there is an exchange of business between the various banks through reciprocal accounts, collections and the customary bank channels.

CHAPTER XVI

DISADVANTAGES OF GROUP BANKING

Supervision and examination [1]

Perhaps the most serious indictment of group banking, as contrasted with branch banking lies in the difficulties surrounding proper and adequate supervision and examination. It is evident that to examine a group of banks in the right way is no small task. Take, for example, a group composed of both national and State banks in several States and even in different Federal reserve districts. When the national bank examiner comes to examine the head bank of the group his examination, to be comprehensive and complete, must at the same time include examination of every bank in the group. To accomplish such a thorough examination it would be necessary for the Federal bank examiners to examine State banks and to go from one Federal reserve district into another Federal reserve district in order to examine all banks in the group.[2] Furthermore, in order that a thorough examination be made it would be necessary for examiners to appear simultaneously in each bank of the group. Where a holding corporation like the Transamerica Corporation exists, which extends through States from New York to California, and others almost as extensive, the difficulty of simultaneous examination is obvious. It can be readily seen that even if such an examination were possible, it would be extremely expensive.

The Comptroller of the Currency, in his statement before the Committee on Banking and Currency of the House of Representatives, stated the problem, as it exists at the present time, in the following manner:

[1] See Chapters XI-XIII for a more elaborate analysis of this problem.

[2] Assuming the Federal Government is given jurisdiction of all groups containing at least one member bank or two or more banks in two or more States.

Where a group is composed of both State and national banks, as well as of other types of financial institutions, it becomes practically impossible for any supervising government officials to ascertain authoritatively and accurately the financial condition of the group as a whole. Each corporation in the group is an independent legal entity, some responsible to State governments, and some, that is the national banks, to the national government, while other State bank members of the Federal Reserve System are responsible to both State and national government, and this creates a situation in which the public is not sufficiently protected, insofar as it can be protected by governmental authority. If the holding company were placed under the visitorial powers of the Comptroller of the Currency it would be possible, although difficult, to supervise the operations of the group. I may say, however, that if the Comptroller of Currency be given visitorial powers over bank holding companies engaged in group banking, the government would be in a position to obtain information as to their operations and would be in a better position to regulate and control them by subsequent legislation should such action be deemed expedient.[3]

Without regulation there would probably be groups organized and managed unsoundly. A dishonest or inexperienced management could manipulate the assets and liabilities of any particular bank through the medium of the assets and liabilities of another of its affiliated banks outside of a given State,[4] or Federal reserve district.

However, it is not at all unlikely that the time will come when Federal and State authorities will have adequate reports regarding group corporations.

Inflexibility

Under the type of affiliation between a bank holding corporation and the members of a group it is conceivable that smooth operation would not be as easily achieved as it may be claimed. This point is brought out clearly by the Comptroller of the Currency who expresses himself in this regard as follows:

[3] *Hearings*, p. 27. Also see Federal Reserve Board, Section VI, Regulation H, Series of 1924.

[4] Haynes McFadden, *loc. cit.*, p. 137. Also see Roy L. Bone, "Could National Branch Banking be Properly Regulated," *American Bankers Association Journal* (August, 1929), Vol. XXII, No. 2, p. 130.

There appear to be, however, certain inherent weaknesses in a system of group banking. From an operating standpoint it is necessarily unwieldy. Each member of the group is a separate and distinct corporation. It must operate as a separate corporation under its own capital and resources and under distinct limitations placed upon its activities by law.

The central management can enforce its policies only by indirection, by inducing local boards to accept voluntarily its policies and, in case of refusal, to set up at the next annual election a new board. It is also necessary to carry a full complement of overhead of personnel for each bank.

Compared with branch banking, group banking from an operating standpoint seems to lack the flexibility . . . which carry the services of the central bank directly to the public served by each branch. . . .

The corporate set-up, therefore, of a group system is necessarily complicated, whereas under a system of branches each branch is the bank itself, with the full power of the bank in each place where it does business whether at head office or at branches. Disregarding for the moment the question of public policy, the branch system is, in operation, incomparably simpler than the group system.[5]

While the group system has much to offer its membership, it is largely of an advisory character. So far as management from a central office is concerned it must of legal necessity be one of indirection.

Assistance and reciprocity not obligatory

In connection with assistance and reciprocity between banks a contrast at this point between branch banking and group banking brings out the fact that the main bank in a branch system cannot morally or legally repudiate any liabilities incurred by any branch since the branches as a whole comprise the bank itself. In case of emergency a branch of a large bank has the entire resources of the institution behind it. Quite the contrary, however, is possible in a group banking system where each bank is a separate legal entity. While it is true that members of a group may come to the assistance of another member in difficulty, from a legal point of view no member bank has the right to call upon the resources of the other members of the group nor is there any legal obli-

[5] *Hearings*, pp. 1020-1021.

gation on the remaining banks of the system to render such assistance.[6]

It must also be remembered that the corporation itself may repudiate responsibility for any of the members of the group should such a policy be found expedient to the furthering of its own ends even at the expense of one of its member banks. Furthermore, if in a group system it is found that some of the banks of the system are going to fail, the central organization has the power of strengthening some and making a selection as to which ones will fail and which will survive. In other words, they are able to determine what communities will suffer the loss and what ones will gain.[7]

While it is quite likely that a group could not permit any of its members to fail without endangering them all, it is possible that the group plan might be a matter of convenience to the strong and result in disadvantage to the weak, not only to the banks but to the communities which they serve.

Suspension of chain and group banks [8]

A comparison was recently made of the Federal Reserve Board's record of all banks suspended during the period 1921-1930 with lists of bank chains and groups submitted as of December, 1922, June, 1926, June, 1928, and June, 1929, and monthly supplements since June, 1929. Due to the difficulty of obtaining definite information on chain or group banking, particularly for the earlier years, such a comparison may not show all of the suspended banks that were members of so-called groups and chains, and on the other hand, it may include some suspended banks which were reported as belonging to chains and groups, though the management may have operated them entirely independently of the other banks under the same control.

On the basis of the best information available, however, it appears that a total of 226 banks with deposits of

[6] *Hearings*, p. 1021.
[7] *Ibid.*, pp. 69-70.
[8] As stated above, the terms chain and group are used synonymously by the Federal Reserve Board.

$102,000,000 belonging to 50 different chains, suspended operations during the ten year period. Of this number 61 banks with deposits of $35,000,000 subsequently reopened.[9] This compares with a total of 6,987 banks suspended during the ten year period with deposits of $2,586,000,000 as indicated above. In other words the chain and group banks that suspended operations represented only about 3.3 per cent of the total number of suspensions, 3.8 per cent of the total deposits of all suspended banks, and about 11 per cent of all the banks belonging to chains and groups.

Double liability obligation and the bank holding corporation

With the formation of bank holding corporations another potential danger appears in connection with the double liability obligation that rests with holders of bank stocks in the event of liquidation or collapse of the bank in which such stockholders are part owners. This liability, designed for the protection of depositors, may be practically nullified in the case of a weak bank holding corporation owning stocks of banks that get into difficulties, and the depositors may find themselves unable to secure anything from the double liability attaching to stocks in the hands of corporations that have little or no other assets. The problem, it should be clearly understood, is not concerned with strong corporations.

When a holding company exchanges its stock for that of the unit banks, the holding company is doubly liable but the individual shareholders of the holding company who have transferred their bank stock in exchange for shares in the holding company escape all liability. Therefore double liability is destroyed unless the holding company acquires negotiable securities equal to the par value of all bank stocks they own. This has been done only by some of the best class of holding companies.[10] Holding companies with no assets other than bank stock will not furnish assurance of meeting the stockholders' liability of their banks in case of liquidation.[11]

[9] *Hearings*, p. 457. No later available data.
[10] See *Hearings*, pp. 34, 888 and 1181.
[11] *Ibid.*, p. 34.

There is no provision in the laws of New Jersey, Oregon, Pennsylvania, and Vermont, imposing upon the stockholders of corporations owning or holding stock in banks or trust companies, the liability imposed upon the stockholders of such banks or trust companies.[12] However in Wisconsin, Minnesota, and Michigan, the stockholders of such corporations must meet the double indemnity of statutory liability.[13]

More of the legislatures should take the question under consideration. Bank holding corporations should be compelled to create a liquid reserve fund that will bear some proportionate relationship to the double liability on bank stocks held. Since it is almost axiomatic that business, which in this case constitutes the bank holding company, moves along faster than the law, it seems that several serious events will have to occur before the average legislature will pass the necessary legislation.

Superintendent Wood of the California Banking Department refers in his 1928 report to the danger of weak holding companies acquiring bank stock and says the liability feature of the law may be entirely defeated by the holding company method. He also points out the ineffectiveness of the stockholders' indemnity provisions for failed banks when the stock is owned by an insolvent corporation. According to Mr. Wood: "The beneficial results of the law depend, quite naturally, upon the solvency of the individual stockholders of the bank. The law has demonstrated the fact that majority ownership of bank stock by a corporation will defeat the purpose of the statute, for the reason that the bank will not be permitted to fail by the holding corporation until the holding corporation is itself insolvent, at which time no benefits can accrue under the law to the creditors." [14]

An interesting decision regarding double liability of bank stockholders was handed down by the Supreme Court of Iowa in 1929. The laws of Iowa provide that every stockholder in a banking corporation or institution shall be individually responsible and liable to its creditors, over and above

[12] See discussions of law of each State in Chapter XIII.
[13] *Ibid.*
[14] *Report of Department of Banking, California* (1928), p. 16.

the amount of stock by him or her held, to an amount equal to his or her respective shares so held, for all the liabilities accruing while he or she remains such stockholders. However, the Court held that when a stockholder has the word "trustee" after his name on the books of a corporation, this is not considered merely as a description of the person, but as an effective notice to all parties that his interests are only conditional, since the stock is held by him merely as a trustee, it necessarily follows that he is not a stockholder within the meaning of the statute creating a liability against stockholders.[15] This decision is interesting since it suggests the possibility of using the "trustee" method of escaping stockholders' indemnity when the stock is actually owned by group interests.

In some quarters it has been advocated that the banking laws be amended so as to provide that when a share of stock in a bank is sold to a corporation, before such transfer may be legal, the corporation shall satisfy the superintendent of banks that it is financially able to meet stockholders' liability.[16] This suggestion meets the opposition that it will entirely destroy the now accepted right of personal property ownership. The problem might be solved by limiting the percentage of capital stock of a bank which may be owned by any one corporation the same as has been done in relation to one insurance company holding the capital stock of another company, but this would not hinder another holding company from acquiring the controlling stock of the holding companies holding the shares of stock in the bank.

As stated above, in order to remedy this whole tendency toward evasion of double liability certain statutes should be enacted, among which are that stockholders of the bank holding corporations themselves be made subject to double liability, and that the holding company be required to hold other assets equal in amount to the par value of the bank stocks owned. The following quotation taken from an editorial states the issue very well:

[15] *Andrew, Sup't* vs. *City Commercial Savings Bank of Mason City,* 217 N. W. Rep. 431 (1929).

[16] Editorial, *American Banker* (October 22, 1929), p. 4.

What effective alternatives may be substituted for the old forfeiture clauses in bank stock ownership? The field is open to thinking bankers, and we invite their suggestions. Can the indemnity provisions be given a cutting edge that will penetrate through to the shareholders in the holding corporation? Can such holding corporations be required to carry a liquid reserve equal to the liability figure? Or is the whole indemnity feature one that is swiftly being relegated to the dusty files of the past, along with a lot of other banking theories, practices, laws, etc., in the rapid seepage of new ideas into modern business? [17]

Inexperienced or dishonest management

That a group system may be subjected to serious dangers is not at all improbable in the case of a weak holding corporation controlled by inexperienced men, entirely unfamiliar with the banking business but able to sell stock because of the "stock mindedness" of the American people. Inexperienced or dishonest management of a group of banks would prove a greater hazard than similar forces at work in a unit system because of the ever impending danger of collapse of the entire group.

Furthermore, where the controlling interests are not conservative, there is great possibility of manipulation in their own interests, to the injury of the general community. For example, in 1918, a certain man in Minneapolis bought control of the Mortgage Securities Company, a holding company for fourteen banks. He also took steps to secure control of one or two other investment companies in Minneapolis.[18] Almost immediately he began to drain the banks of their capital, securing it through the giving of personal notes, most of which were worthless, being signed by dummies who acted as his tools. Within a year, his group had become unsound, and the State Banking Department had begun an examination of his methods. In 1919, he was summoned before the grand jury on the charges of securing money on worthless notes and receiving deposits in his banks when he knew they were insolvent.[19] He pleaded guilty to this charge, his banks

[17] *Ibid.* (January 30, 1929), p. 4.
[18] *Commercial West* (May 24, 1919), pp. 7-8. Also quoted by Hartsough, *op. cit.*, pp. 152-153.
[19] *Ibid.* (March 8, 1919), p. 11.

were all closed, and it was estimated by the State Banking Department that the depositors would suffer a loss of about fifty cents on the dollar.[20]

The diversion of funds for speculative and other than commercial banking purposes is a grave danger if engaged in by a group management. As indicated above, the failure of the Manley group of banks in 1926 was because of mismanagement from the central office which diverted loans from legitimate purposes to unsafe credits sponsored by the Bankers Trust Company.

The failure of the H. A. McCauley group of banks in northeastern Oklahoma in December, 1929, involving twelve banks was precipitated by the policy of the group feeding outside paper to the members of the group rather than notes made by local business men and farmers. Local business conditions, furthermore, were comparatively good at the time. The following brief account by the *American Banker* of the failure indicates potential danger in the group system where control is under dishonest or inexperienced men:

> Prevailing agricultural, industrial and mercantile conditions in no way contributed to the failure of the 12 banks, who closed their doors, Wednesday, November 27, on the death of their principal stockholder, H. A. McCauley. In each of 11 of the 12 communities involved, all, including depositors, assert that the local bank would be open today if there had been no outside paper in the bank or McCauley connection.
>
> The fact that the banks at Oilton, Terlton, Avant, Davenport, Kellyville and in towns once the center of oil operations suggests that the banks were the victims of the passing of the oil industry, but merchants and farmers say that this is not the case, and that the closing of the banks was wholly due to the presence of outside paper in the banks. In nearly all of the banks the bank commissioner found paper and notes signed by persons who did not live in the communities where the banks were located, the notes often being of questionable if of any value.
>
> Cashiers of the local banks say that McCauley placed the outside notes in the banks and withdrew the money equivalent, in some instances keeping the banks drained of surplus funds to protect his interests in other communities. In each of the 11 communities where the titular banks were located, all, including depositors, assert that the local bank would not have failed if there had been

[20] *Ibid.* (May 24, 1919), pp. 7-8.

no notes in the bank except notes made by local business men and farmers.[21]

Instances have occurred in which the central controlling individuals have transferred doubtful assets from other members of the group to the faltering member, thereby hastening its failure but at the same time strengthening the position of the remaining members of the group. In one case in the West ten units were saved but the eleventh failed because all the bad paper of the others had been placed in the portfolio.[22]

It must not, of course, be assumed that such illustrations are representative of the modern group systems. They illustrate the point, however, that where one or more men control a group system, the opportunities for fraudulent operations are greatly increased. The possibilities arising out of the interrelationships of banks are, as was pointed out above, one of the advantages of group banking but they may also constitute a serious weakness. It is wholly a question of management. When conservatively operated the group system has an undoubted advantage in this respect.

Relation of group banking and speculation

The advent of group banking has precipitated much animated discussion on another point. It is alleged that the movement has resulted in a tremendous speculation in bank stocks,[23] and that the responsibility for much speculative manipulation in securing control of banks has been traced to the willingness of some bankers to relinquish their stocks to speculative groups at fancy figures.[24] It is also claimed that group banking has introduced definitely the promotional theory into banking and that there are individuals or groups of individuals seeking to purchase banks, not with the idea of having them operated for the benefit of the community in which they are operating, but for the sole purpose of dis-

[21] *American Banker* (December 17, 1929), p. 1.

[22] J. W. Pole, "Banking and the New Financial Era." (Address before the Maryland Bankers Association, May 23, 1929.) Issued as a pamphlet, p. 11.

[23] *Hearings*, pp. 61-62, 1330-1331, and 1754-1755.

[24] *Ibid.*, p. 61. Also see *Report of the Superintendent of Banks of New York* (1929), p. 13.

posing of the stock to some bank holding corporation at a profit.[25]

A statement, which serves as representative of some of these views, was made by Mr. L. I. Lunenschloss, Vice-President of the Security State Bank, Madison, Wisconsin, as follows:

If there is no motive of selfish gain upon the part of the group advocates, and they have no expectation of realizing on their company stock, why is it that the present participants are asked to hold their stock six months before selling. To keep outsiders from gaining control, we are told. In that case, what will prevent a change of control at the expiration of this period? If stock prices did not enter into the procedure, why should certain bank stocks of about $300. book value, jump over to $800. when the holders were getting a certain number of their holding company stock shares, which in turn were to be sold at a much higher price? Why such a decided right about face now that the price of the stock has dropped to a point where the holding company stock perhaps would not equal the value of the original stock.[26]

The following statement by Mr. Andrew. Miller of the West Coast Bancorporation serves as a warning against speculation in bank stocks and other securities in connection with the bank holding corporation plan of operation:

Among the dangers of the bancorporation plan of operation is the possibility of speculation in stocks dealt in as investments, both bank stocks and other securities. Obviously the greatest care must be exercised when buying banks as it is easily possible to pay a higher price for them than is warranted by their earnings. It is also possible for a local banker purposely to "sell out" to a holding company and thus relieve himself of a responsibility and an investment which he no longer considers desirable for himself. "Buying a bank" has a large and important sound; but it is quite possible to acquire a lot of grief along with it.

The management of a bancorporation is charged with the necessity of making sufficient earnings on its outstanding capital stock to establish an adequate dividend return, in justice to the stockholders who have invested their money. As is generally known, the only sound and permanent dividend policy is from the earnings of the corporation and its affiliated banks. It is, of course, possible to

[25] *Ibid.*, pp. 1755 and 1330.

[26] L. L. Lunenschloss, "Good Banking Depends on Good Management," *Mid-Western Banker* (February, 1930), Vol. XXX, No. 2, p. 22.

pay dividends out of current profits from sales of stock, but such a policy is obviously a temporary expedient and unsound in practice.[27]

The low par value of bank holding corporation stocks is another feature which encourages speculation in such stocks. The smaller par values of $50, $25, $20 and $10,[28] are certain to have a marked influence upon the market price of the shares. The average stock buyer, particularly those who have recently ventured into this field, are probably attracted by low-priced stocks and will make commitments upon the basis of price rather than upon asset value and earning power at market price.

This restless, temporary ownership may bid up the price of the stock in speculative markets and then throw its holdings on the market when the climax comes, thereby creating an unstable stock situation which may very logically result in depositor runs and the exhaustion of group assets to meet the emergency, if the institution is in a weak financial condition. While the stock fluctuations of the Transamerica Corporation and the Bancitaly Corporation during the past few years are not a perfect illustration of all these points, they serve as an indication of the results of purchases for speculative reasons and the large losses to stockholders when a crash comes.[29]

The effect on stock prices of merger negotiations between banks and holding company groups brings to light another interesting factor in bank stock prices. We have long been familiar with the market action which signalized the merger of two institutions, the marking up of the price of one or both of the merging banks to bring about the market-price ratio on a basis equivalent to the value ratio upon which the principals agreed to merge. During the early months of 1930 an example of the same thing happened when an agreement to merge the shareholding interest of the Marine Midland Corporation and the Fidelity Trust Company, New York, was reached. In sections of the nation where the bank hold-

[27] Andrew Miller, *Loc. cit.*, p. 52.
[28] See *Hearings*, pp. 839, 895, 1048, 1187 and 1459.
[29] *Ibid.*, pp. 1416-1417 and 1431.

ing companies have been operating, California in particular, this marking up of bank stocks in exchange for holding company stocks has been a familiar thing.[30] In New York the trust company stock in question was marked up from around 14 times its earnings to about 24 times.[31]

It is not necessary or advisable to cite a substantial number of examples in view of the inference that might follow which would damage companies under experienced and capable direction. However, such speculation as may have developed to date, as a result of the group banking movement, is distinctly unwholesome. The banking business ought to possess relative stability and its management ought to be governed purely by banking considerations.

In connection with the purchase of small banks by group concerns, legislation prohibiting cash purchases and requiring that absorption must be by the exchange of stock would probably tend to remove the incentive to speculative profit to individual insiders of the group companies and small banks. It would in the long run, force such purchases to be considered solely for their economic worth, if all speculative deals could be eliminated.

Arbitrary values on financial statements

Another disadvantage of group banking is the ease with which accounts or resources and funds can be manipulated between the banks in the group in order to create the appearance of large assets when desired, or, in rare cases perhaps, conceal them for the purpose of showing an ultra-conservative statement.[32] In a group of banks controlled by a bank holding corporation there is opening for much that is questionable because when a company holds among its investments, stocks of other controlled concerns, it can easily be seen what an opportunity exists for creating more or less arbitrary values in the company's financial statement.

Mr. Frank W. Blair, Chairman of the Board of the Guar-

[30] *American Banker* (March 3, 1930), p. 1.
[31] *Ibid.*
[32] See Chapter X on the "Accounting Aspects of the Bank Holding Corporation" for further discussion of this point.

dian Detroit Union Group and Union Guardian Trust Company of Detroit, Michigan, in a discussion of the significance of group banking, referred to the danger of manipulation of accounts in a group organization as follows: "During this transitory banking period the opportunity for manipulation reaches its apogee. For the obscure complex accounts of many group and holding companies,—understood only by the insiders in the companies, and probably so confusing that even the major executives have to be led by the hand by skilled counsel and expert accountants—provide the most fertile of all fields for financial malpractice. This is not suggested in a spirit of pessimism, but rather in one of optimism; for the greatest opportunities for malpractice are now present and they are being availed of but sparingly." [33]

There can be no doubt that one factor which would disturb the psychological optimism in connection with bank holding corporations would be some irregularities of this nature uncovered in a big company.

Conclusion

The preceding chapters have dealt at length with group banking. Each of the distinct phases of this development has been treated separately, and with the introduction of a rather large amount of statistical evidence at certain points, a procedure which may have unavoidably obscured somewhat the general results of the investigation. In conclusion, therefore, it is proposed to draw together the threads of the foregoing discussion, and to briefly evaluate the movement.

Assuming responsible and efficient management of the bank holding corporation, economy of operation and consequent widening of the profit margin should result from centralized management. Fortifying each bank are large central reserves which may be transferred and used as needs arise. Great fluidity of capital is possible and a group may practically become a Federal Reserve System within itself. Thus credit facilities for all of the banks comprising the group may be enlarged, large loans easily handled and local industries

[33] Frank W. Blair, "New Alignments in American Banking," *Trust Company Magazine* (October, 1929), Vol. XL, No. 10, p. 484.

more readily financed. Small banks should be rendered safer for the public and greater safety for depositors may be thus brought about through affiliation with a strong group. The quality of service rendered should be improved through more scientific and less selfish operation. In addition to the conventional savings and commercial services, member group banks in smaller communities make available to their customers trust, investment and foreign services on a par with those afforded by the largest metropolitan banks. Instead of stifling competition group banking encourages competition, for organizations controlled by one group of financial interests tend to compete with those controlled by another. Summed up in a few words, the potential advantages of a bank holding corporation over the unit bank are those to be derived from large scale operations; the benefits of a larger number of experienced bankers working together; a broader scope in the functions of the holding company itself; a wider and more stabilized market for its stock; and the additional strength and protection to each individual bank and its depositors which may be afforded by the combined resources of the entire organization.

Their success may well mean the virtual superseding in some sections of the country of the independent unit banking system by a number of affiliated and far-reaching group banking organizations. Or it may mean the breaking down of opposition to branch banking as the lesser of two evils, in those States where multiple banking is considered an evil, on the theory that the branch bank system being a more closely knit financial structure, and not subject to the disadvantages of group banking previously discussed, is relatively desirable. As the situation stands today, unless some unforeseen event occurs to undermine the growing confidence of the public in group banking, there is every indication that the present tendency for unit banks to affiliate with group systems will become intensified. It is impossible to forecast what developments will take place during the next few years. When it is remembered that the present growth has been largely accomplished in a comparatively few years, it is obvious that a visualization of the future is extremely difficult.

CHAPTER XVII

BANK CONSOLIDATIONS IN THE UNITED STATES

Consolidations and the concentration movement

Bank consolidations are a significant part of the centralization movement. However, consolidation of banks in the United States is really a later part of the panorama, which goes back to the tendency for commercial and industrial business to merge, that has been developing before the American people for the last thirty-five years. Widening and spreading out of banking functions and activities has resulted in the establishment of a type of banking referred to as department store banking, which combines services for all types of financial needs, such as investment, trust, and others, in addition to strict commercial functions. The latter type of services are no longer sufficient. Through the extension of services a bank is made independent of the call for commercial banking assistance alone. Commercial banking *per se* no longer exists, at least in the large centers.

The bank consolidation movement has encircled the globe. Berlin has seen the development of imposing specimens in the banking field.[1] Developments in this metropolitan center have served as an incentive to concentration in Paris.[2] London has already seen its share of the movement which is held in abeyance at the present time because of unfavorable public opinion toward further consolidations.[3] Japan has already developed a concentrated banking system.[4] Bank

[1] H. P. Willis and B. H. Beckart, *op. cit.*, pp. 707-708. Also see G. W. Dowrie, *American Monetary and Banking Policies* (Longmans, Green and Company, New York, 1930), p. 368. Incidentally, developments in Berlin have proceeded so far that the conjecture may be made that they may have a profound effect on the Reichsbank's power of control, particularly in the money market.

[2] *Ibid.*, pp. 601, 625-626. Also see G. W. Dowrie, *op. cit.*, p. 368.

[3] *Ibid.*, pp. 1162-1165. Also see G. W. Dowrie, *op. cit.*, p. 367.

[4] *Ibid.*, pp. 831-832.

mergers have also developed to a considerable extent in Australia,[5] Austria,[6] Belgium,[7] Canada,[8] Norway,[9] Russia,[10] and Sweden.[11]

Clarification of terminology

At the present time, in common practice, these terms are used interchangeably but, from a theoretical point of view, some differentiation exists. A consolidation occurs where an entirely new bank is organized to take over two or more existing institutions, whereas a merger is effected when one of the banks already existing absorbs another institution, the latter giving up its charter and losing its identity as an independent unit.

Legally some difficulty arises since there is no uniform meaning regarding these terms under the various State laws. For example the laws of California and North Dakota merely refer to a consolidation as occurring where a new corporation is formed.[12] The following citation from the laws of Michigan is illustrative of the lack of agreement upon the use of terminology in this State:

> . . . such corporation which is in good faith winding up its business for the purpose of consolidation with some other like corporation, may transfer its assets and liabilities to the company with which it is in the process of consolidation.[13]

From a practical point of view, however, the difference is insignificant. The effect is the same and consequently the terms will be used interchangeably.

Early bank mergers in Italy and Scotland

Attention might be directed for a moment toward the historical aspect of bank mergers. One of the first mergers of this

[5] *Ibid.*, pp. 69-71, 95-96.
[6] *Ibid.*, pp. 155-156, 173-174.
[7] *Ibid.*, pp. 233-239.
[8] *Ibid.*, pp. 325-347. Also see G. W. Dowrie, *op. cit.*, p. 368.
[9] *Ibid.*, p. 886.
[10] *Ibid.*, pp. 915-916.
[11] *Ibid.*, pp. 1048-1052.
[12] See *General Laws of California*, 1923, Act No. 650, and *Supplement to 1913 Comp. Laws of North Dakota*, Section 5125.
[13] *Sessions Laws of 1925 of Michigan*, No. 363, p. 450.

type was effected by the Medici family, which owned and controlled more than seventy banks in Florence in 1422. In 1472 they were consolidated into thirty-three institutions.[14] These banks were called the "Fifth Estate." This family had sixteen banking houses in different European cities and lent money for safekeeping, lent sums out on collateral, issued bills of exchange and traded in foreign coins and bullion. That these banks also did a trust business is evidenced by the translation of the account books, which contain memoranda regarding deeds of sale, leases, dowry agreements, marriage settlements, and contracts.[15]

An indication that consolidations are by no means new trends is also evidenced by a consolidation in Scotland one hundred years ago when, in 1830, the Union Bank of Scotland was founded as the result of the consolidation of twelve distinct institutions.[16] It is not considered pertinent or feasible to devote further attention to the historical aspect of bank mergers abroad.

Bank mergers prior to 1915

Although the discussion is intended to deal primarily with the period 1915 to 1930, inclusive, brief reference should be made to the period before 1915. The total number of bank mergers prior to 1915 was small judging from all available evidence.[17] "During this period the country was rapidly expanding. It may be regarded as an era of extensive banking rather than intensive banking. The size of the business units was smaller, and the need for larger institutions was not so evident. Again, the country was not so closely knit together and banks were organized to meet local needs by the men actually engaged in carrying on the business of a given locality. In many cases the opportunities in other lines were much greater, so that there was a great deal less interest in large banks than now." [18] This period, as a whole, should not

[14] "Early Bank Mergers in Italy," *Trust Company* (May, 1929), Vol. XLVIII, No. 5, p. 663.
[15] *Ibid.* This information could not be traced back to the original source.
[16] "Interesting Records," *Union Bank of Scotland Limited* (1930), p. 4.
[17] H. P. Willis *et al.*, Chapter XIII, p. 15.
[18] *Ibid.*

TABLE XLIII

NUMBER OF MERGERS AFFECTING MEMBER BANKS OF THE FEDERAL RESERVE SYSTEM [1]
1915–1930

TYPE OF MERGER	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	TOTAL
Total	55	56	35	36	80	77	104	125	120	124	120	164	259	204	343	473	2,375
Merger of National Bank Total	55	56	35	34	70	63	85	105	99	96	82	128	164	139	213	261	1,685
With National Bank	35	36	20	16	36	29	38	48	41	44	42	68	96	70	109	143	871
With State Member Bank		.	1	4	14	12	28	39	23	22	12	20	19	19	25	22	260
With Non-Member Bank	20	20	14	14	20	22	19	18	35	30	28	40	49	50	79	96	554
Merger of State Member Bank Total	..	..	..	2	10	14	19	20	21	22	31	23	37	28	53	47	327
With National Bank	..	..	..	1	5	2	7	7	5	8	6	7	17	11	14	19	109
With State Member Bank			..	1	3	9	10	12	16	9	11	12	14	8	23	15	143
With Non-Member Bank	.	..	.	..	2	3	2	1	..	5	14	4	6	9	16	13	75
Merger of Non-Member Bank Total	..	..	..	..	..	..	..	..	..	6	7	13	58	37	77	165	363
With National Bank	..	.	..	..	..	..	..	.	..			2	35	15	55	135	242
With State Member Bank	..	..	..	..	..	..	..	.	..	6	7	11	23	22	22	30	121
SUMMARY																	
Merger of Member with Member	35	36	21	22	58	52	83	106	85	83	71	107	146	108	171	199	1,383
Merger of Member with Non-Member	20	20	14	14	22	25	21	19	35	35	42	44	55	59	95	109	629
Merger of Non-Member with Member	..	.	..	..	..	..	..	.	.	6	7	13	58	37	77	165	363
Merger of National with State	20	20	15	18	34	34	47	57	58	52	40	60	68	69	104	104	800
Merger of State with National	..	.	..	1	5	2	7	7	5	8	6	9	52	26	69	69	266

[1] Compiled from *Reports of the Federal Reserve Board.*

be regarded as of any significance insofar as bank mergers are concerned.

Mergers in the Federal Reserve System, 1915-1930

Merger proceedings during 1930 involved in individual instances large aggregates of banking resources, and effected in many communities far-reaching realignments of banking control.[19] The number of mergers involving member banks of the Federal Reserve System, and resulting net changes in the classification of these banks during the past sixteen years are shown in Table XLIII.[20]

This table indicates that there have been 2,375 mergers affecting the Federal Reserve System. Of this number, 1,383 have been between members. While 629 mergers took place in which member banks merged with non-members, only 363 mergers accounted for the affiliation of non-members with the system.

The following chart seems to indicate that the merger movement sagged off considerably during 1917 and 1918, at the time when the United States was engaged in the European War. These years evidently formed a period when banks were giving less attention to bank consolidation and more to financing the war and providing funds for domestic business.

The most important period is that beginning with 1919 and extending down to the present time. In many years the number has shown a marked increase over the preceeding year. The number rose from 80 in 1919 to 120 in 1925 and from the latter year we have had a rapid and continuous increase to 473 for 1930.[21] Attention should be called to the fact that this same period has witnessed the greatest development of branch banking in the country and also the greatest flood of bank failures which has been experienced.

According to the 1930 Report of the Federal Reserve Board, "The merger movement and bank suspensions taken together have served to reduce the total number of banks in

[19] See *Report of the Federal Reserve Board* (1930), p. 21.

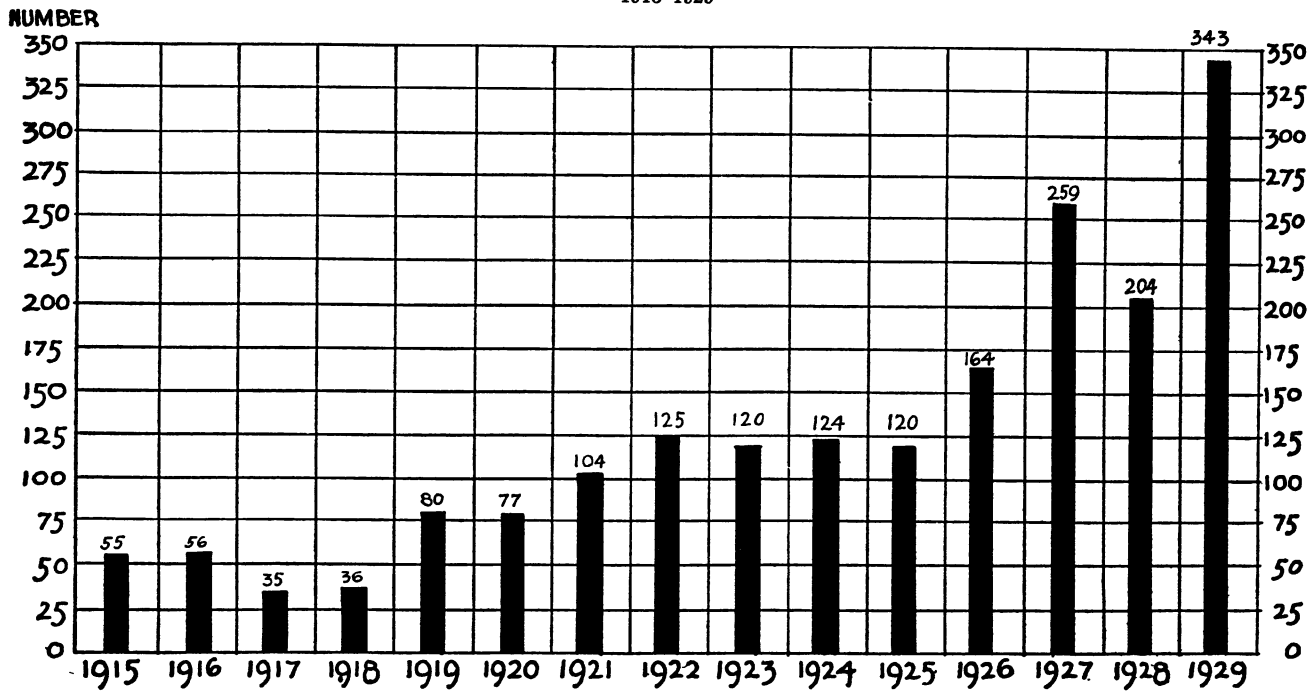
[20] Since elaborate data for the country as a whole are scarce, the analysis is limited to the data which are published regularly in connection with mergers in the Federal Reserve System.

[21] See *Report of the Federal Reserve Board* (1930), p. 22.

CHART VII

BANK MERGERS IN THE UNITED STATES[1]

1915–1929



[1] Data taken from *Reports of the Federal Reserve Board.*

the United States by almost 5,000 in a 5-year period ending with June 30, 1930, while banking resources were increasing by $12,000,000,000 to a total of $74,000,000,000. During these five years, therefore, the average size of banks, as measured by total resources, increased from $2,152,000 to $3,074,000. During the past five years there have been over 1,400 mergers involving members of the Federal Reserve System. The accompanying table brings out the fact that during the 5-year period the national system lost to the State systems 419 banks, while gaining through mergers 310 banks. In the year 1929 the national system suffered numerous defections, some of which were associated with unfavorable feeling toward national charters that arose from a court decision concerning the continuity of fiduciary powers of national banks. That this feeling has in part lost its force is reflected in the fact that in the year 1930, for the first time in recent years, the national system gained through mergers more banks than it lost through mergers. During the year 1930 more outside banks were absorbed by member banks than were lost to the Federal Reserve System by merger with non-member institutions, although in the 5-year period the net movement in this connection was in the opposite direction." [22]

While it has not been possible to determine definitely, it is probable that membership in the System has had no influence for or against mergers. Even where a State charter has superseded a national charter, membership in the System would probably be retained if the continuing bank was of any consequential size or influence. The prestige of a national bank does not apply to the same extent as in the past.

New York banks

These mergers indicate another significant tendency in world banking. During 1930 the leadership of England's great banks was taken away by the Chase National Bank which, according to its latest statement, as of December 31, 1930, showed aggregate deposits of $2,073,775,922, and total resources of over $2,650,000,000, a new high record for financial institutions. If bank consolidations continue at their

[22] *Ibid.*, p. 21.

present pace, there can hardly be any doubt as to the location of the world's greatest banks of the future, and it is but fitting that as New York City grows into its position of the banking center of the world, that it should develop banking institutions which have aggregate resources to handle necessary requirements.

From a domestic point of view, as pointed out above, in New York City, 20 banks, national and State, are capitalized at an aggregate of $642,675,300, and have combined resources of about $10,000,000,000, as of December 31, 1930. This capitalization of the New York banks is almost comparable in total to that of the 20,008 country banks situated in towns of 10,000 population or less.[23] Furthermore, 250 banks in the United States hold resources to the aggregate amount of about $30,400,000,000. This is nearly one-half of all of the banking resources in the United States.[24]

Procedure for effecting consolidations

The National Bank Act was negligent regarding consolidations, both between national banks as well as national and State banks, in that it failed to provide for procedure or incorporate provisions for minority stock interest. However, it must be remembered that the passage of this legislation was accomplished with great difficulty since public policy at the time was against concentration of money and credit with which the consolidation of banks was logically included.

In 1914, the Comptroller of the Currency pointed out the urgent need of consolidation provisions and sent a recommendation to Congress, which read in part as follows:

> It becomes desirable at times to effect a consolidation of national banks. The National Bank Act makes no adequate provision for facilitating or making effective such consolidations. The practice has been when two national banks desire to effect a consolidation of their business for one of the two national banks to go into liquidation, the other bank taking over the assets and assuming the liabilities of the liquidating bank. It is recommended that the banking laws be amended so as to permit actual consolidation of national banks possibly along lines which have proved satisfactory

[23] *Hearings,* Exhibit D, p. 1027.
[24] See *Report of the Comptroller of the Currency* (1930).

and efficacious under the laws of some of the States governing the Consolidation of State Banks.[25]

Similar recommendations were also presented by the Comptroller of the Currency in 1916.[26] Finally, on November 7, 1918, an act was passed providing for consolidations of national banks.[27]

However, it often happened that State and national banks were involved in a single consolidation, and difficulty arose in connection with State or national charters which the new enlarged bank was going to take. In cases where the consolidated institution was to operate under a State charter,[28] no roundabout process existed and the units consolidated directly. But in cases where the united bank was to be operated under a national charter, it was necessary for the State bank to be first converted into a national bank, and then unite with the national bank since a national bank could consolidate only with a national bank. Thus before the Chase National Bank could merge with the Metropolitan Bank, a State institution, it was necessary for the latter to become the Metropolitan

[25] *Report of the Comptroller of the Currency* (1914), p. 18.

[26] *Ibid.* (1916), p. 19.

[27] *Consolidation of National Banks. Act of November 7, 1918* (Government Printing Office, 1928), p. 1.

[28] While the banking laws of the various States are not in agreement, from a legal point of view, the actual procedure followed is very similar. The directors of the several banks pass resolutions ordering or suggesting the consolidation, after determining the terms and other essentials of the agreement, and then submit the plan to the stockholders. The latter, usually at a special meeting called for the purpose, consider the proposal and if the number of individual stockholders required by statute sign written consents, a written agreement of the consolidation is executed In most States the law provides that stockholders owning at least two-thirds of the outstanding stocks must endorse the proposal to make it valid. After the plan has been accepted, it is referred to State or national authorities, or both, depending on the charter under which the continuing or new bank will operate.

Upon receiving official approval, one or both of the old institutions are closed, and the assets conveyed to the new or continuing bank. Some State laws provide for the approval of the State Banking Department before submitting the plan to the stockholders. Even in such States, approval of the latter is necessary to culminate the deal.

The banking laws of some States cover the procedure in great detail as illustrated by the banking laws of Missouri for 1919 (see *Banking Law of Missouri*, 1919, pp. 132-141). Others provide for consolidations in a less comprehensive manner as evidenced by the banking and trust laws of Florida (see *Banking and Trust Laws of the State of Florida*, 1924, p. 25, section 4172). It is not considered pertinent nor feasible to investigate the laws of the various States regarding consolidation. Such information can be found in a digest of State Statutes on the subject.

National Bank. Consequently, in order to remove this obstacle to the proper consolidation of State banks and national banks, the McFadden Act of 1927 incorporated a consolidation section which authorizes the granting of national charters directly when a State and national bank consolidate.[29] When the First National Bank of Chicago and the Union Trust Company, a State institution, consolidated, to operate under a national charter, the new institution became directly the First National Bank of Chicago.[30]

Reasons for consolidations and mergers

The reasons for consolidations and mergers may be conveniently considered from the following standpoints: (1) line of credit; (2) sale and distribution of securities; (3) trust business; (4) acquisition of established branches; (5) foreign trade; (6) profits; (7) movement into position for group and branch banking; (8) personal motives; and (9) safety.

Line of credit

The great growth in business in all directions, indicated in Chapter I, Table IV, is one of the forces behind bank mergers. Under the law, banks are not permitted to lend

[29] *McFadden Bill, Section 3* (February 25, 1927).

[30] With the legal procedure settled, a very definite physical procedure should be followed so that when the consolidated institution begins operations the various departments, which have been brought together, will present a uniform and perfectly functioning organization.

The problem of supervising differing departmental functions is usually handled by the appointment of committees composed of members from each department and division of the banks consolidating. These committees meet regularly, study the systems of both banks, select the best methods of each, and then send their recommendations to a committee, which is usually known as the senior or executive committee and possesses the power of final approval.

Very often, especially where the consolidation involves large institutions, this executive committee sets up what may be referred to as a clearing house of information, whereby extracts from the recommendations of one department which would be of interest to another department are forwarded to the proper officer there.

After operating methods are satisfactorily worked out, the senior committee can then settle any additional problems before actual consolidation, from a physical point of view, takes place. Provision must be made so that supervisors of departments can know what individual to call when in need of information about any transaction. In other words, lines of control must be established.

more than 10 per cent of their capital investment, consisting of capital and surplus, to any single borrower, whether individual or corporation. Corporation growth has been tremendous in the last few years and with it has come increased responsibilities for the bankers who aid those great corporations in financing their enormous business. By merging, banks have been putting themselves in the way of being able to give their customers service on a larger scale. Through increased capital, surplus and undivided profits, they are able to make larger loans to industrialists and merchants as well as to correspondent banks in other communities.

The point may be illustrated by a consideration of the lending capacity of the National City bank of New York before merging with the Farmers' Loan and Trust Company. In 1928, the National City had prior to its capital increase, a capital of $75,000,000. The maximum loan that could be extended to one borrower on the basis of its capital stock was 7.5 million dollars. This seems a sizable loan, but when the requirements of some of the larger business corporations are considered, it is clear that a 7.5-million-dollar loan may be wholly inadequate. Thus the sales during 1929 of Sears, Roebuck and Company totaled 444 million dollars; of the Woolworth Company, 304 million dollars; of the General Motors Corporation, 305 million dollars; and of the Goodyear Tire Company, 280 million dollars.[31] Scores of other corporations may be cited whose sales run into nine figures. In modern financing these corporations probably make no such definite bank loans as is here suggested and it is probably true that much of their financing is done through surplus funds and stock issues, but it is also true that occasionally these corporations probably find it necessary to secure large bank loans and in any event keep their credit lines open. It would be necessary for such corporations to divide their borrowings among many banks when the legal lending capacity of one bank is exhausted.

The table on page 267 showing individual accretions in capitalization and deposits indicates how metropolitan banks

[31] Information furnished by the Standard Statistics Company.

TABLE XLIV

GROWTH OF CAPITAL, SURPLUS AND DEPOSITS OF METROPOLITAN BANKS [1]
1924-1931

	Capital and Surplus Per Cent Increase	Deposits Per Cent Increase
National City Bank, New York	164%	159%
Chase National Bank, New York	719%	366%
Guaranty Trust Co., New York	281%	235%
Continental Illinois Bk. & Trust, Chicago	229%	148%
Bankers Trust Co., New York	151%	180%
Irving Trust Co., New York	189%	105%
First National Bank, New York	72%	101%
Manufacturers Trust Co., New York	700%	262%
First National Bank, Chicago	80%	73%
Security First Nat'l Bank of Los Angeles	278%	177%
Bank of America of Calif., San Francisco	88%	302% [2]
Bank of Italy, N. T. & S. A., San Francisco	386%	154% [2]
American Trust Co., San Francisco	475%	999%
First National Bank of Boston	136%	140%
Peoples State, Wayne County, Detroit	243%	223%
Bank of America N. A., New York	507%	440%
Bank of Manhattan Co., New York	107%	239%
Corn Exchange Bank, New York	55%	40%
Central Hanover Bk. & Trust Co., New York	203%	240%
New York Trust Co., New York	69%	63%
Union Trust Co., Cleveland	18%	31%
Philadelphia Nat'l Bank, Philadelphia	217%	174%
Total 22 banks	209%	185%

[1] Compiled from information furnished by Gilbert Elliott and Company, New York.
[2] Merged as Bank of America, National Trust and Savings Association, in November, 1930.

have met the above situation and also points to the tendency toward larger banks in the metropolitan districts. The 22 banks listed have increased their capital, surplus and undivided profits 209 per cent from January, 1924, to January, 1931, and their deposits 185 per cent. The total capitalization of these banks during this period increased from $702,444,000 to $2,271,411,000 and their deposits increased from $4,824,471,000 to $13,746,499,000. Note that capital and surplus have increased more rapidly than deposits, indicating that strong banks are making themselves still stronger.

Sale and distribution of securities

Another important reason for mergers is the desire to acquire security affiliates in order to get the profitable business coming from security flotations and participations.

Great opportunities exist for corporate expansion and new business enterprises with which bankers are becoming more and more directly identified through these affiliated institutions. The day is passed for the banker just to sit still and take in commissions for loaning out other people's money. Competition and large overheads demand that he do more. He is taking a more direct interest in business enterprise and the profits therefrom through security affiliates. They can perform many functions forbidden the parent bank, such as buying and selling both bonds and stocks and maintaining branch offices as well as extensive sales organizations.

As indicated above, the Bank of America merged with Blair and Company, in order, according to the announcement, to extend the security business of its security affiliate, the Bancamerica Corporation. Such companies also serve as a source of securities for customers of the bank looking for investments. In other words, while the commercial banking department may have lost a good part of its corporate business, the security company serves as the attraction to hold it.

Trust business

The desire to acquire or expand fiduciary activities is another reason for mergers. The outstanding merger for this purpose was that of the National City Bank and the Farmers Loan and Trust Company.

Since fiduciary activities are highly specialized and much time is necessary to develop a successful business, the problem can best be met by following the procedure of acquiring an existing business. It is the easiest and, in the long run, the cheapest method.[32] Furthermore, a trained personnel is no little asset in an acquisition of this nature.

An outstanding development in this trust field has been the increase in trusts administered by banks in contrast with those under individual trustees. The former has definitely assumed the upper hand. While the following statistics presented by Mr. James A. Bacigalupi are somewhat out

[32] See *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, pp. 116-117 and 120-123.

of date, they clearly indicate the significance of the trust business:

> There are in operation in the United States 1,734 trust departments of National Banks alone, managing 75,988 individual trusts representing assets in excess of $5,237,000,000, a gain of 359% in such assets and of 191% in the number of such trusts since 1926. The assets under corporate trusteeships in national banks aggregate more than $7,370,000,000, a gain of approximately 200% over similar assets in 1926. This is indeed a remarkable showing, particularly when cognizance is taken of the fact that until the comparatively recent enactment of the Federal Reserve Act, national banks were not permitted to exercise trust powers. . . .
>
> It is of immense significance, therefore, that in the United States to-day there are in force nearly 100 billion dollars of life insurance; that this is now increasing at the rate of 10 billion dollars a year, and that life insurance companies, during 1928, paid out in cash total claims calculated to be in excess of 700 million dollars. It is estimated, that of this huge sum of life insurance in force to-day, only two billion dollars or 2% of it has as yet been lodged with American trust companies under agreements of trust; yet more than 500 millions so held or in excess of 25% of this total was trusteed during the past year alone.
>
> Impressive as these figures are—in my humble opinion—they do not begin to reflect the true measure of the immense resources awaiting trust company management in America.[33]

The number of wills making banks and trust companies executors or trustees jumped from 36,193 in 1929 to 48,812 in 1930, or more than 35 per cent.[34] Voluntary trusts to the amount of $1,013,769,436 were created during 1930—a 67 per cent increase over the amount so placed in trust during 1929. More than 450,000 estates valued at more than $5,500,000,000 are probated annually by trust companies,[35] from which the conclusion may be drawn that the acquisition and extension of the trust business through mergers, or otherwise, is most desirable. Future earnings from this source will probably increase.

[33] J. A. Bacigalupi, "The Growing Importance of the Trust Department of the Modern Bank," *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, p. 115.

[34] Information furnished by the Trust Company Division, American Bankers Association.

[35] *Ibid.*

Acquisition of established branches

The trend toward consolidations in this country is also due to a desire to acquire branches which otherwise would be outlawed. National banks cannot open new branches without the approval of the Comptroller of the Currency, but there is nothing in the law to prevent them from operating as branches the banks which they take over. Frequently it happens that such banks absorbed had branches, created by previous mergers. Therefore it often happens that by taking over another bank the parent institution acquires established branches.

One of the quickest methods of expanding is to acquire established branches through this process. It is probably more feasible to purchase established banks than establish new branches to compete with them. California mergers are almost exclusively due to the spread of the branch banking system in that State, with the merged bank usually becoming a branch of one of the great institutions in Los Angeles or San Francisco.[36] The Bank of Italy probably acquired more branches in this way than any other bank in the country.

While the increase in branches has probably been very strongly influenced by bank consolidations, it cannot be said to be a predominating cause as a whole because with the exception of California the largest number of mergers have occurred in States in which branch banking has been prohibited.[37]

Foreign trade

In addition to the necessity of having large banks to finance domestic business, the ability to finance foreign trade expansion is becoming increasingly important.

Most of our exports are financed by bankers' acceptances. In view of the fact the Federal Reserve Act restricts the total acceptance liability of member banks to 100% of their capital and surplus, not including credits arranged for the purpose of creating dollar exchange, one effect of bank mer-

[36] See S D. Southworth, *Branch Banking in the United States* (McGraw-Hill Book Company, New York, 1928), pp. 46-48 and 53-65.
[37] H. P. Willis et al., *op. cit.*, Chapter XIII, p. 9.

gers is the creation of larger capitalization which correspondingly raises the acceptance liability limit for the combined institutions.

The International Acceptance Bank, an institution with important foreign connections, has been merged with the Bank of Manhattan in order to strengthen the financial position of the latter in the foreign field. The merging of the Chase National Bank with the American Express Company illustrates the endeavor of a New York bank to reach additional foreign business through the draft department of the express company.

If mergers, consolidations and coöperatives are the necessary and natural instrumentalities to produce and market in competition with the world, then the banking facilities of the country must be so marshalled as to furnish credit for those mass operations. If the farmer or manufacturer of the United States is going to produce for the world's market, or be in competition with the world, as he will be, so long as he expects to market a surplus over the demands of the home market, his local bank is no proper partner for him. His local bank has no more sensitiveness to world demands than has the local farmer.

Profits

The expectation of increased profits undoubtedly lay behind the other motives which led to the consolidations which have been considered in this chapter. It would be of interest to ascertain to just what degree the profit expectations which impell mergers have been realized. This is impossible, however, not only because adequate data on the profits of the various participating institutions are not available but because of the uncertain nature of the profit expectations themselves, as held by those responsible for the mergers. Although these men probably had the feeling that some additional profits would result, they doubtless had little idea of just how great that increase would be. Further, some of the expected increase in earnings could not materialize for a period of years.

However, as a rule, it is probable that when two large banks merge a saving is made in the salaries of executive of-

ficers. As the result of a recent merger in a moderately large Eastern city, the salaries paid the executives of the merged bank were $50,000 less than the combined payrolls for these officers. The personnel of the credit department in the largest combining bank was able to serve the needs of the succeeding bank. The same volume of business that had been conducted by the two banks was conducted by an organization that was only slightly larger than that of one of the single banks. Instead of having two banking houses, only one was retained and the expense of maintaining one building was avoided, thereby effecting additional economies.

A merger is pending in a large city in the Middle West between a large trust company and a State bank. Both banks have outgrown their present quarters, and unless a consolidation is effected, each will have to construct costly new banking houses. One large banking building would take care of the combined business of both—so negotiations have been under way to effect a merger. This housing problem is one force that is driving the consolidation movement along, but it is also figured that the rate of earnings will go up if the two banks get together.

Nevertheless, it would seem that as long as competition continues to operate there will be no significant increase in the commercial banking profits of combined institutions. In fact, the increasing tendency of money rates to fluctuate with the reserve bank rate and with rates in the larger financial centers may mean an even lower rate of earnings in the future than has prevailed in the past.[38] As banks increase in size and deal with larger customers, the rates which they charge may tend to fluctuate more closely with the conditions of supply and demand instead of being maintained at a set figure year in and year out as is probably customary in the smaller cities and in country districts. This would likely result in smaller returns in periods of easy money than when a stereotyped rate is charged.

Such a result would not mean that the consolidations of the period we have been considering were not justified from the viewpoint of commercial banking operations. However, if

[38] See *Federal Reserve Bulletins*, 1922-1931.

mergers had not taken place, the decrease in commercial banking profits through the loss of business to outside centers might well have exceeded any decrease in earnings which may take place under the present arrangements. The consolidation movement is the natural outcome of the growth of business. The credit needs of big customers can only be adequately supplied by large banking institutions, and the most convenient and rapid method by which banks may increase their facilities is through combination with other established banking interests.

Movement into position for group and branch banking

Consciously or unconsciously the large metropolitan banks through mergers are moving into position to avail themselves of the great fundamental change which is now taking place in our system of bank organization. It must be admitted that if branch and group banking are to be accepted in this country as the future structure, these strong centrally located institutions are admirably adapted to become the parent institutions of a branch bank system or of the group, having a call upon able management, amplitude of resources and commending public confidence. When referring to the extension of branch banking, former Deputy Comptroller Collins said: "When that day comes this great bank merger movement in the United States will have revealed its most dominant economic meaning because only those strong metropolitan banks will be in a position to become centers of branch banking systems." [39]

Personal motives

The shallowest view of the merger movement whether in New York, Chicago, or elsewhere, is to state it exclusively in terms of personal rivalry and ambition or as mere rivalry for bigness. It would appear that metropolitan bank executives have visions of a service that shall be competent, in both financial and human resources, to handle adequately the

[39] C. W. Collins, "An Interpretation of the Bank Merger Movement in the United States" (Address before the New York State Bankers' Association, June 18, 1929). Published as a pamphlet, p. 8.

problems and needs of an enormously wealthy and tremendously growing country. Experienced bankers do not merge merely for the sake of merging. Immediately upon seeing its relative position threatened, it does not seem reasonable that a responsible financial institution would impetuously attempt to buy out another bank or banks without taking a number of other factors into consideration.

It has frequently been stated to the writer that the word service is often much abused and used synonymously with the word size. However, it is believed the motive of public responsibility actuates to a greater extent than ever before and men have learned that there is more to be gained selfishly by coöperation than otherwise.

Safety

Outside the large cities the trend toward bank mergers also is primarily due to the need for more concentrated banking facilities to accommodate growing trade and industry. The numerous bank failures, especially in the Middle West, have probably driven many surviving banks into consolidation as the surest means of escaping a like fate because of frozen credits. As indicated in Chapter II there are too many small banks in the country. Failure of guaranty of deposits in those Western States which have tried that doubtful experiment has convinced analysts of the situation that elimination of weak institutions and greater concentration of banking resources at small communities is the only possible cure for an ill which should be remedied.

Summary

The country bank phase, then, is essentially different in motives and significance from the merger movement in the big cities. The banking situation in the cities is universally one of strength and not of weakness. Competition there is keen but not destructive. The bank failure movement of recent years, therefore, as indicated in Chapter II, has left the cities largely untouched. An occasional failure in the cities has been for special reasons and is not symptomatic of general conditions such as prevailed in many country districts.

The whole theory behind the series of metropolitan bank mergers has been the necessity of providing increased services and the trend toward State charters is explained, therefore, as a result of the opportunity to carry on broader banking facilities permitted under such charters.

In summarizing the above discussion, it appears reasonable to conclude that the bank is compelled to change its organization and management in accordance with changing economic and social factors, and that because of general and specific reasons the modern bank must increase its size and service. Banking combination has taken place and is carried on not because of single and unchangeable motives; it is the result of a variety of forces. The end of banking consolidation apparently is not in sight. Not only is it anticipated that the merging of banks will be continued in cities of smaller size, but further grouping is looked for among large institutions in metropolitan centers.

CHAPTER XVIII

THE DEVELOPMENT OF BRANCH BANKING IN THE UNITED STATES

Introduction

In tracing the growth of the concentration movement, mention has been made of the great activity of groups of banks in practically every section of the United States. This development has been a very significant force in bringing about renewed agitation for an extension of branch bank privileges. The significance of branch banking on State, regional, or national lines is more important as far as the future is concerned than consideration of the subject on an intra-city basis. The general interest which this subject has aroused makes it desirable to consider this phase of concentration in relation to the general problem.

Previous discussion has indicated that the future banking system of the United States may be State, regional, or nation-wide systems of branch banks, provided permissive legislation is enacted, and if this is not done, extensive group banking systems probably will evolve. It would appear that much of the agitation against the concentration movement has been overdone in many sections of the country.[1] For example, Chicago in 1927 represented the center of anti-branch bankers,[2] while today, we find it becoming very much interested in group banking. The facts and economic principles underlying branch banking are being brought out in contrast with an unjustifiable antagonism toward its alleged monopolistic characteristics that has existed for many years in the past.

[1] S. D. Southworth, *Branch Banking in the United States* (McGraw-Hill Book Company, New York, 1928), p. 211.

[2] C. W. Collins, *The Branch Banking Question* (The McMillan Company, 1926), pp. 22-23.

Terminology

As indicated previously, branch banking may be considered to exist when a parent bank opens city, county or State-wide branches, all functioning under one head office, with a common capitalization available for all branches, with identical stockholders and a single charter. Prior to 1927, many non-homogeneous ideas existed regarding what was meant by the term "branch," [3] but since that time an official definition has been placed upon the statute records regarding what is meant by the term "branch." This came about with the enactment of the McFadden Bill, which provided that: "The term 'branch' shall be held to include any branch bank, branch office, branch agency, additional office, or any branch place of business located in any State or Territory of the United States, or in the District of Columbia, at which deposits are received, or checks paid, or money lent." [4]

Types of branches

The primary divisions of branch banks are according to (1) location, and (2) kinds of business carried on. As to location, the classification into city, county, and State-wide branches is generally accepted, whereas in relation to kinds of business done, branch banks may be listed under the divisions contained in the McFadden Act which have just been enumerated. Another classification may be offered on the basis of Federal reserve member bank branches, branches of national banks, and branches of State banks and trust companies that are not Federal reserve members.

The early period of branch banking, 1791-1863

Branch banking can by no means be considered a new device in the banking structure of this country. The period between the Revolution and the Civil War saw considerable branch activities.[5] The history of the First Bank of the United States, 1791 to 1811, and of the Second Bank of the United States, 1816 to 1836, is well known. The former institution

[3] S. D. Southworth, *op. cit.*, p. 6.
[4] *McFadden Act*, Section 7 (February 25, 1927).
[5] *Hearings*, p. 430.

operated eight branches, radiating from the head office in Philadelphia, while the latter, with headquarters also at Philadelphia, had at one time or another as many as twenty-seven branches, located in such commercially important, but remote, centers as New Orleans and Portland, Maine. In point of traveling time these cities were then farther from New York than is Tokyo at the present time. However, these two pioneer branch organizations failed to survive against the people's fear of monopoly and political action largely based upon the jealousy of State banks.[6]

One of the earliest of the banks to establish branches was the Philadelphia Bank, chartered in 1804, which opened up extra-city offices in many of the interior towns of Pennsylvania. It also appears that the Bank of the Manhattan Company had at least three branches outside of New York City in 1811.[7] The majority of these branches in the Eastern States were replaced by smaller independent banks during the early part of the nineteenth century, as a result of restrictive legislation. However, this legislation was not aimed at branch banking itself, but at the issuance of the so-called wild-cat currency.[8]

Branch banking was also very much in evidence in this country between 1848 and 1863, especially in the West and South. In 1848, out of 48 banks in Ohio, 29 were branches of the Ohio State Bank; Indiana had 17 branches of one State bank and no independent banks, Missouri had one bank and 5 branches, Kentucky 3 banks and 13 branches, Tennessee 3 banks and 17 branches, Virginia 6 banks and 30 branches, North Carolina 4 banks and 14 branches, South Carolina 12 banks and 2 branches, Georgia 13 banks and 7 branches, Delaware 5 banks and 3 branches, and Alabama 2 banks and 4 branches. At the same time no branches were listed in the Eastern States, except two each in the States of New York, Maryland and New Jersey.

In 1860, the situation was similar to 1848, though Illinois appeared with 75 banks, Indiana with 13, all of which were

[6] See F. Cyril James, *The Economics of Money, Credit and Banking* (Ronald Press, New York, 1930), pp. 170-173.
[7] *Hearings*, p. 430.
[8] *Ibid.*

branches of the State Bank of Iowa, and Missouri had 42 banks of which 33 were classed as branches.[9] The two branches existing in New York in 1848 had disappeared by 1860, and apparently branch banking was forbidden in New York. Pennsylvania, Massachusetts and Connecticut.[10] It appears that the motive for the early establishment of these branches was to facilitate the issue of bank notes which would be difficult to redeem.[11]

By 1863, there were 33 branch banks in the various States, with 128 branches.[12] The outbreak of the Civil War marked the end of the first era of the branch movements, since prior to that time it had been concentrated in the South.[13]

Branch banking in the national banking system, 1863-1926

The National Bank Act, whether by intent or otherwise, retarded the growth of branch activities in the national system. Directly after the Civil War the older banks operated by the States in the South, which were not ruined as a result of the War, were voluntarily dissolved rather than allow them to go into the national system, while those operating in the West were reorganized as national banks and their branches reëstablished as independent unit banks.[14] For forty years there were but three or four national banks operating branches.[15]

The table on page 280 shows the development of branch banking in the national system from 1865 to 1926.

It will be noted that the number of national bank branches in operation experienced a phenomenal growth, from 44 in 1919 to 504 in 1926. Another phase of the development deserving of note is that the substantial increase in branches during the three year period ending with 1926 took place within the corporate limits of cities of the parent institutions.

The expansion of national branch banking as indicated by total capital and resources of the banks operating branches

[9] *Ibid.*, p. 430.
[10] *Ibid.*
[11] *Ibid.*
[12] S. D. Southworth, *op. cit.*, p. 7.
[13] *Ibid.*, p. 6.
[14] *Hearings*, pp. 467-468.
[15] George E. Barnett, *op. cit.*, p. 135.

TABLE XLV

NUMBER OF BRANCHES OF NATIONAL BANKS [1]
1865–1926

Year	Total	In Home City	Outside Home City
1865-69	...	...	..
1870-74	...	...	..
1875-79	...	...	..
1880-84	1	...	1
1885-89	2	...	2
1890-94	3	1	2
1895-99	5	2	3
1900	5	2	3
1901	6	2	4
1902	6	2	4
1903	6	2	4
1904	6	2	4
1905	7	3	4
1906	8	4	4
1907	10	5	5
1908	12	6	6
1909	12	6	6
1910	12	6	6
1911	12	6	6
1912	13	7	6
1913	16	9	7
1914	18	11	7
1915	31	23	8
1916	39	23	16
1917	40	24	16
1918	42	24	18
1919	44	26	18
1920	56	38	18
1921	65	47	18
1922	136	115	21
1923	200	179	21
1924	248	227	21
1925	452	428	24
1926	504	477	27

[1] Compiled from *Federal Reserve Bulletin* (December, 1924), Vol. X, p. 935; and (February, 1929), Vol. XV, p. 100.

was also quite rapid between 1919 and 1926. At the end of 1919 the total capital reported for all national banks operating branches was $27,300,000; in 1924 it had increased to $223,700,000, and by the close of 1926 it had amounted to $335,600,000. Total capital for all national banks for each of the three years respectively was $1,158,200,000, $1,334,836,000 and, $1,362,000,000. Total resources of national banks operating branches in the same years were $609,300,000, $4,959,300,000 and $6,178,000,000 respectively, as compared with $22,711,-

300,000, $24,381,200,000, and $25,836,000,000, the latter figures representing the total resources of all national banks in like years.[16] Thus, it is seen that branch banking increased faster proportionately than the expansion of the national banking system as a whole.

Branch banking in the State banking systems, 1863-1926

Although existing almost from the very beginning of the country's history, it is only comparatively recently that the growth of branch banking among State banks has taken on an important aspect. For one reason or another, the number of State banks declined sharply during and immediately after the Civil War. As indicated above, in the South the majority of the older State institutions went out of existence, either because of the ravages of war or as a result of voluntary liquidation to avoid entering the national system. Meanwhile, a ten per cent tax on the note issues of State chartered banks was placed in effect in 1865, and this served to further deplete their ranks.[17] In consequence, State banks decreased in number from 1562 in 1860 to 247 in 1868. After 1870, however, activity was again manifested in the growth of these institutions.[18]

Concurrently, branch banking among the State banks began to make itself felt again. That development in the ensuing three decades was relatively slow is evident from the fact that at the beginning of the twentieth century there were less than fifty branches of State chartered institutions. During the decade 1900-1910, development of the branch movement under State charters was likewise rather unimpressive, an increase of only 262 branches having been recorded. From 1910, however, growth was much more pronounced and during the period to 1920 the number more than tripled, 996 branches in 1920 comparing with 317 in 1910. By 1926, a total of 2,273 branches of State banks were in existence. The table presented below outlines development from the time of the Civil War to 1926.

[16] *Report of the Comptroller of the Currency* for 1919, 1924, and 1926.
[17] S. D. Southworth, *op. cit.*, p. 17.
[18] G. E. Barnett, *op. cit.*, pp. 11-12.

TABLE XLVI

STATE BANK BRANCHES[1]
1865–1926

Year	Total	In Home City	Outside Home City
1865-69	1	..	1
1870-74	3	2	1
1875-79	3	2	1
1880-84	3	2	1
1885-89	6	3	3
1890-94	20	7	13
1895-99	53	16	27
1900	55	22	33
1901	65	27	38
1902	89	45	44
1903	114	59	55
1904	142	70	72
1905	159	77	82
1906	213	100	113
1907	240	111	129
1908	263	136	137
1909	293	145	148
1910	317	155	162
1911	348	171	177
1912	403	201	202
1913	446	229	217
1914	489	260	229
1915	534	283	251
1916	587	315	272
1917	656	358	298
1918	712	387	325
1919	813	455	358
1920	996	591	405
1921	1146	690	456
1922	1466	885	581
1923	1782	1024	658
1924	1847	1190	657
1925	2193	1413	780
1926	2273	1451	822

[1] Compiled from *Federal Reserve Bulletin* (December, 1924), Vol. X, p. 935; and *ibid.* (May, 1927), Vol. XIII, pp. 387-388.

The largest number of branches in any one State was in New York. This was probably attributable to the expansion activities of the large New York City institutions. This, of course, is what would be expected under a system of local branch banking, and probably was not confined to New York City alone. Growth in the number of branches operated and total resources of institutions with branches was probably the most marked in important cities where the larger financial institutions expanded in the hope of reducing overhead expenses or increasing the volume of business. Development of

branches or branch offices had, by 1926, become noteworthy in the States of California, Pennsylvania, Massachusetts, Michigan and Ohio as well as in New York. The geographical distribution of branch banks in the United States, as of December 31, 1926, is shown in the following table:

TABLE XLVII

NUMBER OF BANKS OPERATING BRANCHES AND NUMBER OF BRANCHES BY STATES [1]
December, 1926

State (States arranged in order, according to number of banks reporting branches)	Banks Operating Branches	Number of Branches
New York	105	507
California	88	668
Pennsylvania	83	127
Massachusetts	78	132
Michigan	68	397
Ohio	52	227
Louisiana	40	104
North Carolina	40	74
Virginia	37	59
Maryland	36	114
Maine	24	53
Georgia	22	38
Tennessee	22	56
New Jersey	13	20
Mississippi	11	25
District of Columbia	10	20
Rhode Island	9	27
Arizona	7	22
South Carolina	7	25
Wisconsin	7	9
Alabama	5	19
Delaware	5	15
Washington	5	7
Indiana	4	8
Kentucky	4	12
Arkansas	2	3
Minnesota	2	6
Nebraska	2	2
Oregon	1	1
Florida	..	..
New Hampshire	..	..
Total	789	2,777

[1] *Federal Reserve Bulletin* (May, 1927), p. 386.

The McFadden Amendment to the National Bank Act

Now that the development of branch banking in both the national and State systems has been discussed up until the enactment of the McFadden Act, it seems timely to dwell

briefly upon this legislative enactment. For a number of years prior to 1924, the year in which the Bill was first introduced into Congress,[19] there had been a continued shifting from the ranks of national banks to State-chartered institutions, so that the national system was being depleted to an alarming extent.[20] This movement was particularly noticeable among the larger New York banks, the reason being that the national banks were more or less at a disadvantage in comparison with the deposit-drawing ability of the State banks, with their branches conveniently located in the suburbs.[21] It was therefore evident that remedial legislation was imperative, as a further crumbling away of the national system would naturally mean a weakening of the Federal Reserve System.[22] Since 1915, the Federal Reserve Board had continually urged protection for the national institutions in the matter of branch operation.[23]

To be sure, there were certain ways in which national banks could carry on branch activities—of a sort. Additional offices could be established under the Comptroller's ruling; a national bank could convert into a State bank, acquire branches, and then re-convert into a national institution; group banking could be practiced; or a national institution could consolidate itself with a branch organization under State charter. However, these subterfuges did not suffice to meet the situation. Strenuous efforts being made to rectify matters finally took form in the McFadden Bill the main purpose of which was to enable national banks to compete fairly with State banks and to establish a national policy with respect to branch banking.[24]

A peculiar circumstance attending the discussion of the Act while it was under consideration in Congress was the fact that it was denounced by the anti-branch bank element as a branch banking bill, and attacked as an anti-branch banking

[19] C. W. Collins, *op. cit.*, p. 82.
[20] *Report of the Comptroller of the Currency* (1924), p. 12.
[21] *Ibid.*
[22] *Ibid.*
[23] For a complete resumé of the policy of the Federal Reserve Board on the branch bank question, see *Hearings*, pp. 437-442.
[24] C. W. Collins, *op. cit.*, p. 83. For an extended treatment of the McFadden National Bank Bill in its formative stages, see C. W. Collins, Chapters 8 and 9, pp. 82-109.

bill by the opposite forces.[25] The first contingent felt that the bill was dangerous, not only because of the privilege it gave to national banks to open additional branches within certain restrictions, but even more because of the fear that future extension of the movement into wider territory would result. Supporters of branch banking were not satisfied with the Act, claiming that it did not go far enough.[26] However, there was a feeling among certain other interests that while it was an anti-branch banking bill, the main purpose was to place the national banks on a parity with State institutions, so that the measure received favorable action on the strength of these tenets.[27]

Whatever the interpretations placed upon the purpose of the Act during its formative stage, the outcome was, in effect, a sort of truce between the interests at issue on the branch bank question. Notwithstanding the respite between the opponents and proponents of the theory and practice of branch banking, the McFadden Amendment to the National Bank Act in its final form said nothing about the number of branches which a State bank may establish, provided the institution is not a member of the Federal Reserve System. It is clear, therefore, that it failed to place national and State systems on an equal basis with respect to the establishment of branches.

The provisions of the Act with reference to branches of national banks may be summarized as follows:

(1) National banks were permitted to continue all branches which were in lawful operation when the Act was approved.
(2) State banks which converted into or consolidated with national banks were also allowed to retain any branches which they had in lawful operation on the date the Act became law.
(3) Any national bank which had continuously maintained and operated not more than one branch for a period of more than twenty-five years immediately preceding February 25, 1927, was permitted to continue operating such branch regardless of the legality of the establishment of the branch or of the maintenance of it prior to the time the Act became law.

[25] See S. D. Southworth, *op. cit.*, pp. 163-169; and C. W. Collins *op. cit.*, pp. 87-89, 95-98, and 111-120.
[26] *Ibid.*
[27] *Hearings*, p. 643.

(4) Where two or more national banks entered a consolidation, such consolidated national bank would be permitted to retain and operate any and all branches of any one of the constituent national banks which were in lawful operation on February 25, 1927.
(5) The Act prohibited any bank from becoming a national bank, unless and until any forbidden branches established after passage of the Act had been relinquished.
(6) National banks were authorized, upon approval of the Comptroller to establish and maintain branches only within the limits of the city where the head office is located, in such States as permit branch banking under their own laws, but subject to certain restrictions as follows:
   (a) no branches may be authorized in cities of less than 25,000 inhabitants
   (b) one branch is allowed in cities up to 50,000 population
   (c) no more than two branches are allowed in cities up to 100,000 population, and
   (d) above the 100,000 population limit, discretion is to rest with the Comptroller of the Currency.[28]

Provisions of the Act pertaining to State members of the Federal Reserve System are essentially similar. They are summarized as follows:

(1) All branches in lawful operation upon passage of the Act could be continued.
(2) No extra-city branches could be established subsequent to the time the Act became law.
(3) If allowed under State law, new intra-city branches could be established, these not being subject to the population limitations affecting national bank branches.
(4) A State bank applying membership in the Federal Reserve System would be required to relinquish branches established subsequent to approval of the Act.
(5) The privilege of establishment of foreign branches by State member banks was denied under the Act.[29]

The effect of the Act therefore was to permit the establishment of branch banks to members of the Federal Reserve System in States where branch banks are permitted by State law, but in any event, limiting such branches strictly to city limits of cities in which the parent institutions are located. It is of

[28] *McFadden Act*, Section 7.
[29] *Ibid.*

considerable importance to note, also, that not only did it forbid national banks and State member banks to establish new branches outside of the prescribed limits, but also prohibited any bank from becoming either a national bank or a State member bank without first relinquishing any such forbidden branches established after the date of approval of the Act.

Despite the sudden and substantial gain in national bank branches in the months immediately following the enactment of the McFadden Bill, expansion of branches during the entire period from February 25, 1927, to December, 1930, was only at about the same rate as was witnessed prior to passage of the Act.[30] In fact more banks have forsaken national charters for State charters than vice versa, and this unfavorable shifting of banks and banking resources has probably been a further source of disquietude to all interested in preservation of the integrity of the national banking system and the Federal Reserve System. Since the passage of the McFadden Act, total resources of the 377 national banks transferring to State charters approximates $3,400,000,000, while total resources of the 181 State banks coming into the national system has only been about $2,700,000,000.[31]

Passage of the McFadden Act raised some question among the banking fraternity as to whether State members of the Federal Reserve System in States permitting branch banking would elect to remain as members, relinquishing their right to extend further their inter-community branches, or to withdraw and be free to expand as they might see fit, subject only to the limitations of the State law. It should be remembered in this connection that interests identified with the larger California branch systems contested Section 9 of the McFadden Act very aggressively.[32] However, with the exception of the United Security Bank & Trust Co., of San Francisco, the more important branch organizations elected to remain as member banks. California's premier branch organization, the Bank of Italy, immediately took out a national charter after it was seen that the McFadden Bill was ready for final signa-

[30] Also see *Hearings*, p. 1024.
[31] *Ibid.*, pp. 255-256.
[32] C. W. Collins, *op. cit.*, pp. 88-89, and 111-121.

ture by the President, while the Pacific Southwest Trust & Savings Bank of Los Angeles, another extensive branch organization, also nationalized. The latter was later merged into the Los Angeles-First National Trust & Savings Bank, which in turn consolidated with the Security Trust & Savings Bank to form the Security-First National Bank.[33] The effect of the Act in California has been summed up in an official report as follows: ". . . thus far the McFadden-Pepper Act of February, 1927, which defined the branch banking powers of all member banks, appears to have influenced the direction, but not the rate of growth of branch banking. Reflecting this influence, the increase in number of branch banks in the Twelfth Federal Reserve District in 1928 was largely outside of the Federal Reserve System." [34]

No uniformity exists with respect to the laws governing the establishment of branches by national banks. In those States that permit State-wide branch activities, national banks are still prohibited from operating branches outside the city limits of the head office. Where branch banking is prohibited by State statute, the national institutions are not given the right to establish branches, even on intra-city lines. In this connection, it may be observed that the national banks of such important cities as Chicago, St. Louis and Kansas City must necessarily be unit banks, in contrast with the more equitable branch privileges of the national banks in the branch banking States. Considering the obvious disadvantage at which national banks still operate, it is not difficult to understand the very material decline in the proportion of national banks in existence during the past decade. In 1919, 44.8% of total banking resources of the country were found under national charters, but by 1930 this proportion had declined to 39.8%, the remainder being represented by State institutions.[35]

Present-day developments in Congress with respect to our banking system, as well as events that have transpired since passage of the Act testify to the fact that a settlement of the

[33] *Hearings,* p. 459.
[34] *Report of the Federal Reserve Bank of San Francisco* (December, 31, 1928), p. 6.
[35] Also see *Hearings,* pp. 255-256.

branch bank question has not been effected. The McFadden Act may therefore be characterized as a failure, insofar as it has failed to solve this problem and also because it has not enabled the national banks to fairly compete with State banks.

Development from February, 1927, to June, 1930

From February 25, 1927, until June, 1930, there was a net increased of 38 in the number of branch bank systems and a net increase of 718 in the number of branches in operation. Most of the increase represented branches located in head-office cities, the number of which increased from 1,929 to 2,470. The number of branches located outside of head-office cities grew from 971 to 1,148. The annual increase in the number of branches has averaged over 205.[36] Although there were 206 banks operating branches in June, 1930, that had no branches whatever when the McFadden Act became law, there was a net increase of only 38 in the number of branch systems from the time of passage of the Act. This was due to the fact that 138 branch systems went out of existence through merger with other banks, 17 suspended operations and 30 abolished their branches. Of the 30 banks that abolished their branches, 27 had only one branch each and 3 had 2 branches each.

Of the 2,902 branches that were in operation on February 25, 1927, 230 went out of existence, 197 having been discontinued or merged with other branches and 33 going out of existence following the suspension of the parent bank. There was a gross increase of 942 in the number of branches, of which 542 were established de novo and 400 were independent banks that were purchased and converted into branches.[37]

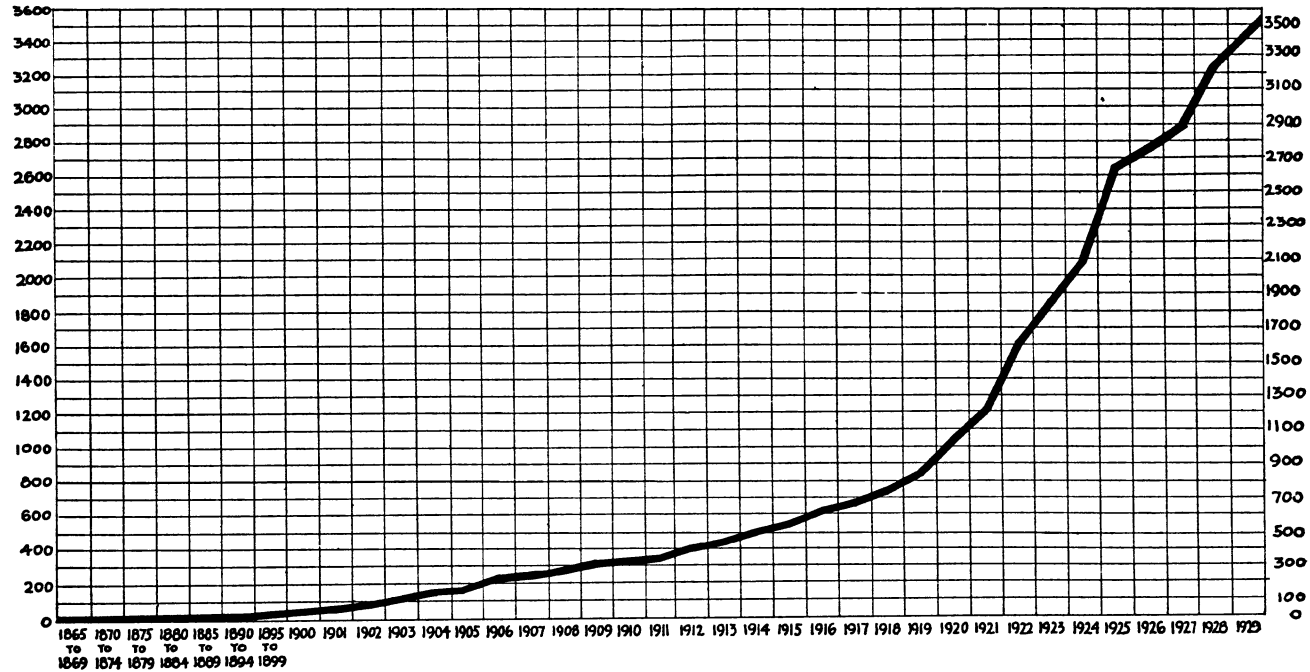
The number of branches operated by national banks and by State bank members of the Federal Reserve System was materially affected by the nationalization of a number of large branch bank systems in California, either directly or by merger with existing national banks. These include the Bank of Italy, San Francisco; the Pacific Southwest Trust & Savings Bank, Los Angeles; and the Security Trust & Savings Bank of Los Angeles, which had a total of 425 branches when

[36] *Federal Reserve Bulletin* (December, 1930), p. 813.
[37] *Ibid.*

CHART VIII

Number of Branches of Banks in Operation [1]

1865–1929



[1] *Federal Reserve Bulletins* (December, 1924), p. 935; *ibid.* (May, 1927) p. 316, and *Hearings*, p. 472.

the McFadden Bill was enacted. Therefore it is found that largely because of this fact the number of branches of national banks increased from 390 on February 25, 1927, to 1,041 by June 30, 1930, while the number of branches of State bank members declined from 1,560 to 1,308 in the same period. There was also an increase in the number of branches of non-member banks from 950 on February 25, 1927, to 1,269 as of December 31, 1929.[38]

That the development of the larger and more important

TABLE XLVIII

PRINCIPAL BRANCH SYSTEMS [1]

Location and name of parent bank	Number of branches Feb 25, 1927	Jan 1, 1930
Bank of Italy National Trust & Savings Association, San Francisco	278 [2]	287
Bank of America of California, Los Angeles [3]	[4]	160
Security-First National Bank, Los Angeles	[5]	139
Pacific Southwest Trust & Security Bank, Los Angeles	98	[5]
Security Trust & Savings Bank, Los Angeles	49	[5]
California Bank, Los Angeles [3]	45	56
Merchants National Trust & Savings Bank, Los Angeles	34	[6]
Citizens National Trust & Savings Bank, Los Angeles	24 [7]	31
American Trust Co., San Francisco	92	94
Peoples-Wayne County Bank, Detroit	[8]	94
Peoples State Bank, Detroit	46	[8]
Wayne County & Home Savings Bank, Detroit	45	[8]
First National Bank, Detroit	2	33 [9]
Peninsular State Bank, Detroit	29	31
Corn Exchange Bank, New York City	62	67
Bank of Manhattan Trust Co., New York City	40	64
Manufacturers Trust Co., New York City	14	45 [9]
National City Bank, New York City	18	37
Public National Bank, New York City	27	33
Bank of America N. A., New York City	7	34 [9]
Cleveland Trust Co., Cleveland	52	57
Marine Trust Co., Buffalo	32	33

[1] *Hearings*, p. 461. No later data available.
[2] This was a State member on February 25, 1927. It merged with the Bank of America, N. T and S. A, in November, 1930.
[3] Not members of the Federal Reserve System.
[4] This branch system is the result largely of mergers of smaller branch systems, and the purchase and conversion into branches of many unit banks.
[5] The Security-First National Bank is the successor of the First National Bank, the Pacific Southwest Trust and Savings Bank of America of California.
[6] Absorbed by the Bank of America of California.
[7] This was a non-member bank on February 25, 1927.
[8] The Peoples-Wayne County Bank resulted from the conversion of the Peoples State Bank and the Wayne County and Home Savings Bank
[9] Increase in the number of branches due largely to the absorption of other branch systems.

[38] *Ibid.*

branch systems since the enactment of the McFadden Bill has been inconsiderable is evident from the fact that the number of banks with 30 or more branches had grown from 12 as of February 25, 1927, to only 19 by June, 1930. In addition to these 19 major branch systems, there were 41 banks operating from 11 to 30 branches and 38 other banks operating from 6 to 10 branches. More than one-half of the branch systems, however, had only one branch each, while 144 had only two branches and 132 had from 3 to 5 branches.[39] The table on page 291 shows the principal branch systems in operation both on February 25, 1927, and January 1, 1930, and the disposition made of those systems which were in operation when the McFadden Act was passed, but have since been merged into other organizations.[40]

Principal branch banking States

As has been indicated above, the branch banking area includes most of the Eastern States but very few of the Southern, Middle Western and Western States. The growth of the movement has been retarded by restrictive legislation and the area in which it is practiced has not changed materially in recent years. State-wide branch banking has, of course, had its greatest development in California, but has also developed to a considerable extent in Maryland, North Carolina, Rhode Island, South Carolina and Virginia. The other States included in the principal branch banking area are those in which the establishment of branches is restricted as to location. Chief among these are New York, Michigan, Ohio, Pennsylvania, Louisiana, New Jersey and Massachusetts. Of the 3,618 branches in operation at the end of June, 1930, 1,308 were located in 9 States in which State-wide branch banking is permitted by law or implication, 2,257 in the 12 States in which the operation of branches is permitted, but restricted as to location, and 52 in 8 States in which the further extension of branch banking is prohibited by law. While branches are in operation in 30 States, the great majority of them are located in a relatively few States. In fact two-thirds of the

[39] *Federal Reserve Bulletin* (December, 1930), p. 813.
[40] See *Hearings*, p. 460.

TABLE XLIX

Banks Operating Domestic Branches by States [1]

June 30, 1930

States	Number of Banks Operating Branches				Number of Branches					
						Operated by—			Location [2]	
	Total	National	State Member	Non-Member	Total	National Banks	State Bank Members	Non-Member Banks	In Head Office City	Outside Head Office City
Total	817	165	169	483	3,618	1,041	1,308	1,269	2,470	1,148
STATE-WIDE BRANCH BANKING PERMITTED										
Total	218	35	19	164	1,308	512	186	610	461	847
Arizona	10	...	1	9	27	...	11	16	...	27
California	53	12	4	37	853	469	104	280	301	552
Delaware	7	...	2	5	13	...	2	11	3	10
District of Columbia	12	6	...	6	25	12	...	13	25	...
Maryland	31	3	2	26	129	8	24	97	70	59
North Carolina	36	2	2	32	84	3	7	74	12	72
Rhode Island	12	2	4	6	36	2	26	8	16	20
South Carolina	11	2	1	8	71	6	1	64	7	64
Vermont	7	..	..	7	10	..	...	10	...	10
Virginia	39	8	3	28	60	12	11	37	27	33
BRANCHES RESTRICTED AS TO LOCATION										
Total	575	121	145	309	2,257	511	1,113	633	1,982	275
Georgia	16	4	4	8	42	21	7	11	19	23
Kentucky	10	4	2	4	31	12	15	4	28	3
Louisiana	43	1	6	36	108	8	35	65	51	57
Maine	25	...	1	24	66	..	3	63	7	59
Massachusetts	88	17	15	56	168	67	27	74	148	20
Michigan	62	12	28	22	434	72	302	60	434	...
Mississippi	11	1	.	10	25	1	...	24	1	24
New Jersey	57	19	19	19	106	33	41	32	96	10
New York	103	31	35	37	750	210	467	73	750	...
Ohio	52	7	21	24	264	13	178	73	232	32
Pennsylvania	76	16	14	46	194	45	38	111	185	9
Tennessee	32	9	...	23	69	26	...	43	31	38
ESTABLISHMENT OF BRANCHES PROHIBITED BY LAW [3]										
Total	23	8	5	10	52	17	9	26	27	25
Alabama	3	...	1	2	17	...	1	16	...	17
Arkansas	2	...	...	2	3	...	...	3	...	3
Indiana	4	1	1	2	9	2	5	2	8	1
Minnesota	2	2	...	...	6	6	...	...	6	...
Nebraska	2	2	...	...	2	2	...	...	2	...
Oregon	1	1	...	...	1	1	...	...	...	1
Washington	3	1	..	2	5	2	..	3	3	2
Wisconsin	6	1	3	2	9	4	3	2	8	1
NO PROVISION IN STATE LAW REGARDING BRANCH BANKING [4]										
New Hampshire	1	1	..	..	1	1	.	..	.	1

[1] *Federal Reserve Bulletin* (December, 1930), p. 814. Latest available data

[2] Of the 2,470 branches located in head-office cities, 701 were operated by national banks, 1,177 by State bank members, and 592 by non-member banks. Of the 1,148 branches located outside head-office cities, 340 were operated by national banks, 131 by State bank members, and 677 by non-member banks.

[3] Branches established prior to prohibitory legislation. Other States which have prohibited establishment of branches (no branches in operation) include Colorado, Connecticut, Idaho, Illinois, Iowa, Kansas, Missouri, Montana, Nevada, New Mexico, Texas, Utah, West Virginia.

[4] The branch shown for New Hampshire was authorized by the Comptroller of the Currency in 1930 upon the submission of satisfactory evidence that it had been in operation for 25 years prior to the enactment of the McFadden Act. Other States which have enacted no legislation respecting branch banking are North Dakota, Oklahoma, South Dakota, and Wyoming. No branches are in operation in these States.

total number of 3,618 branches are in the five States of California, New York, Michigan, Ohio and Pennsylvania. Four other States, however, also had more than 100 branches in operation by June 30, 1930. These were Massachusetts, New Jersey, Louisiana and Maryland.

Table XLIX gives a complete summary of the extent of branch banking as of June 30, 1930, in relation to its legal status in the various States, classified as to location of branches and by National, State member and State nonmember banks.

Principal branch banking cities

Over two-thirds of all branch banks in operation in the country in June, 1930, were intra-city branches or branches located within the same city as the parent banks. These were largely confined to a few of the principal cities of the country. Twenty-five large banks in seven cities—New York, Detroit, Los Angeles, Cleveland, Boston, Buffalo, and New Orleans—each having 18 or more branches and all confining their branch activity to the city, had among them nearly 1,000 branches, and of the nearly 900 branches operated by 16 large systems whose branch activities were not so limited, more than one-fourth were within the home-office city.

Extra city branches, or branches located outside of the city of the head office, numbered 1,148, or nearly one-third of the total of all branches in operation in June, 1930.[41] It is interesting to note that by far the greater number of these extra-city branches were located in the smaller towns and cities. Of the 1,148 extra-city branches, 634 were located in places that had less than 2,500 population in 1920, including 212 in California, 57 in Louisiana, 46 in Maine, 55 in Maryland, 47 in North Carolina, 36 in South Carolina, 35 in Tennessee, 29 in Virginia, 20 in Mississippi, and 97 in 15 other States. Besides these 634 branches located in places of less than 2,500 population, there were 144 branches in places that had a population between 2,500 and 5,000, and 92 in places with a population of between 5,000 and 10,000. There were 278 extra-city branches reported in places that had a population of

[41] *Federal Reserve Bulletin* (December, 1930), p. 813.

TABLE L

LOANS AND INVESTMENTS OF ALL BANKS AND OF BRANCH AND CHAIN AND GROUP BANKING SYSTEMS BY STATES [1]

June 30, 1930

(Amounts in Millions of Dollars)

	All Banks in United States (Including Branches)	Banks that Belong to Chains and Groups		Banks that Do Not Belong to Chains and Groups but Operate Branches	Independent Unit Banks
		Operating No Branches	Operating Branches		
United States	58,108	5,122	6,897	18,264	27,825
Alabama	262	37	...	8	217
Arizona	75	17	1	25	32
Arkansas	194	49	..	2	143
California	3,353	190	1,784	849	530
Colorado	242	28	...	....	214
Connecticut	1,355	72	...	...	1,283
Delaware	166	1	..	106	59
District of Columbia	243	...	...	147	96
Florida	213	142	...	...	71
Georgia	329	42	131	32	124
Idaho	76	39	..	....	37
Illinois	3,814	1,248	.	. ..	2,566
Indiana	811	45	22	26	718
Iowa	756	65	..	....	691
Kansas	376	47	..	...	329
Kentucky	529	47	87	70	325
Louisiana	396	17	16	230	133
Maine	435	23	57	95	260
Maryland	847	.	.	318	529
Massachusetts	4,296	93	800	1,027	2,376
Michigan	1,982	261	959	204	558
Minnesota	877	400	181	..	296
Mississippi	211	12	3	27	169
Missouri	1,183	161	...	....	1,022
Montana	135	82	...	....	53
Nebraska	334	61	...	8	265
Nevada	37	24	...	...	13
New Hampshire	300	.	..	1	299
New Jersey	2,405	156	275	813	1,161
New Mexico	40	3	.		37
New York	17,422	199	1,860	10,314	5,049
North Carolina	354	3	...	148	203
North Dakota	101	60	.	..	41
Ohio	2,629	45	54	1,381	1,149
Oklahoma	381	105	...	....	276
Oregon	249	135	...	1	113
Pennsylvania	5,779	678	130	1,849	3,122
Rhode Island	540	11	142	234	153
South Carolina	160	13	..	44	103
South Dakota	131	48	32	....	51

[1] Compiled from data in *Federal Reserve Bulletin*, (December, 1930), p. 816.

TABLE L (*Continued*)

LOANS AND INVESTMENTS OF ALL BANKS AND OF BRANCH AND CHAIN AND GROUP BANKING SYSTEMS BY STATES [1]

June 30, 1930

(Amounts in Millions of Dollars)

	ALL BANKS IN UNITED STATES (INCLUDING BRANCHES)	BANKS THAT BELONG TO CHAINS AND GROUPS		BANKS THAT DO NOT BELONG TO CHAINS AND GROUPS BUT OPERATE BRANCHES	INDEPENDENT UNIT BANKS
		Operating No Branches	Operating Branches		
Tennessee	430	28	148	51	203
Texas	966	106	...	....	860
Utah	159	53	...	....	106
Vermont	246	1	...	27	218
Virginia	540	...	..	190	350
Washington	455	145	72	1	237
West Virginia	333	.	. .	....	333
Wisconsin	907	109	144	33	621
Wyoming	55	21	. .	....	34

[1] *Ibid.*

over 10,000,[42] this figure representing largely the branches of State-wide branch systems in California whose headquarters are in San Francisco and Los Angeles, and whose branches extend into other large or good-sized cities such as Oakland, Sacramento, San Diego, Pasadena and Long Beach.

Loans and investments of branch bank systems

The 817 branch bank organizations of the United States at the end of June 30, 1930, had 3,618 branches which represented about 17 per cent of the nation's total banking offices. Aggregate resources of these branch systems, as indicated by the total of loans and investments, were about $25,100,000,000, or over 43% of the total loans and investments of all banks in the country. These figures included 123 banks with 1,450 branches and loans and investments of $6,897,000,000, which belonged to groups and chains, so that the organizations of purely branch category numbered, in effect, 694, and operated over 2,100 branches and controlled approximately $18,250,000,000 in loans and investments.

[42] *Federal Reserve Bulletin,* (December, 1930), p. 813.

Table L shows the loans and investments of branch banks by States on June 30, 1930. The relation of such loans and investments to similar data for groups and chains, as well as independent unit banks and the total of all banks in the country, is also indicated.

There were 165 national banks that were operating 1,041 branches on June 30, 1930, and loans and investments of these national bank systems probably aggregated over $9,500,000,000, or about 40% of the total for all national banks in the country. State bank members operating branches on June 30, 1930, numbered 169, their branches 1,308,[43] and their loans and investments about $9,600,000,000. There were 483 nonmember banks, including mutual savings and private banks with loans and investments of about $6,000,000,000, operating 1,269 branches.[44]

[43] *Ibid.*, pp. 813-814.
[44] *Ibid.*

CHAPTER XIX

THE BRANCH BANKING PROBLEM

The chief considerations involved

The branch bank problem now resolves itself into two questions: (1) a consideration of advantages and disadvantages; and (2) the geographical extent to which future branch developments should be permitted. In other words, should branch activities be confined within the respective States or trade areas, or should they be permitted without territorial limitations?

To answer these questions it is only logical that one should observe conditions in those countries where the centralization of banking resources has reached a high degree of development. While their history and experience, as cited in this and the following chapter, may afford a basis from which may be deduced certain guiding practices and principles to assist in arriving at a point of view, it should be admitted that lessons derived from foreign experiences are useful only within limits and that, to a very considerable extent, a study of what may occur subsequent to the legalization of extensive branch banking in the United States falls largely in the field of conjecture.

Trade area branch banking

The Comptroller of the Currency has stated that the banking problem can be solved by giving national banks branch banking powers within what he calls the "trade areas" surrounding their places of operation in all States, regardless of State laws dealing with branch banking.[1]

However, the question of an adequate definition of what constitutes the areas of economic influence referred to in this

[1] See *Hearings*, pp. 105-109.

plan appears to be a difficult one at this time. The opinion may be ventured that no agency created by Congress could actually lay out such trade areas due to the fact that they would overlap. The natural flow of trade from an outlying geographical territory to and from a metropolitan center and embracing the wholesale as well as retail purchase and distribution of goods and commodities could not be determined so definitely. A trade area would necessarily have to have a definite economic autonomy and it is not believed the business of the country could be so allocated. On the outer edges of every trade area there would be overlapping with other trade areas. There would be cities in which the business is divided between more than one commercial center.

While it may be possible to define the economic provinces that look to Atlanta, Dallas or Denver for financial leadership, obviously such cities as Boston, Philadelphia, Cleveland, Chicago and St. Louis present financial lines extending rather deeply into the fields of other reserve center qualifications. What of New York whose sphere of influence is the entire country? While the Bank of America may be allowed to extend branches expanded throughout the great San Francisco trade territory, the extent of the branches permitted to a New York bank may be limited to that narrow strip of Connecticut, New York and New Jersey which might not be claimed by either Boston or Philadelphia. And in the Cleveland area, for instance, what shall be done with Pittsburgh, Columbus, Cincinnati? Furthermore, in the State of Tennessee its three principal cities, namely, Memphis, Nashville, and Chattanooga, all have trade areas extending into other States. The trade area of Spokane, Washington, extends into Idaho and Montana; of Omaha, Nebraska, into Iowa and Missouri; of Cincinnati, Ohio, into Kentucky; of Los Angeles into Arizona and Nevada; of Pittsburgh into Ohio and West Virginia.

In addition to the fact that it is impossible to define a trade area in a precise manner it must be remembered that developments in methods of transportation and communication would probably make it necessary to recast such trade areas from time to time, thereby further complicating the problem.

Besides, if a working plan could be arrived at, and is enacted into law, it should be recognized at the start that it will be only temporary, and before long the urge to group trade area branch bank systems into nation-wide groups, associations, or otherwise jointly controlled systems, will be the dominant thought. If this is recognized from the start, the problem of analyzing the issue of trade area branch banking will be exceedingly clarified. Temporizing with the regional branch bank idea is a mere compromise with the idea of nation-wide branches.

The American Bankers Association expressed the opinion that the trade area system is not likely to gain the support of any large percentage of the banking fraternity.[2]

Branch banking without territorial limitations

While much or most of the discussion in the following chapters is of a conjectural nature, it may be worth while to hazard an opinion at this point as to the most advisable attitude which might be taken in connection with the development of banking centralization in this country.

This country is made up of a tremendous geographical area and composed of many sectional and economic differences. What may be beneficial for one region is not necessarily beneficial for others. It is possible that a type of banking which operates satisfactorily in one section might be unsatisfactory if forced on another. If this line of thinking is sound then it must follow that the various types of banking should be permitted to develop in any part of the country in accordance with the requirements of industrial and business interests. This would dispense with the administrative difficulties of defining trade or economic areas but would call for a relaxation of laws with respect to the development of the various types which appear to offer promise of a sound development. For example, it would appear that branch banking should be allowed to develop wherever it may be profitable to develop it, assuming of course that adequate statutory and administrative facilities exist for supervisory purposes. It

[2] Report of the Economic Policy Commission, American Bankers Association (May, 1930), *loc. cit.*, p. 11.

would probably be desirable to permit concentration developments to take place with as few restraints as possible compatible with the best interests of the depositors, communities and bankers concerned. While this may sound vague, it actually is not. The laws against branch banking should be relaxed or removed entirely. Banking laws should accordingly be revised to provide for careful regulation of whatever form of banking concentration may be allowed to develop. Such a plan does not necessitate a relaxation as to regulation and supervision. Any form which cannot be efficiently supervised should not be allowed to develop. Within these limits it would appear satisfactory to permit banking to adopt either the unit, group, or the branch banking system. Both banker and depositor would be governed by selfish interests and, left free to operate under stringent legislative statutes, should develop a system or group of systems equally satisfactory to both.

Protective reservations in connection with this proposal would be: that governmental supervision be further extended and intensified, as stated above; that each parent bank be capitalized adequately to meet the responsibility of operating branches; and that discretion over the establishment and over the removal of every branch be vested in the Comptroller of the Currency.

Systems of branch banking would not be expected to work out of or proceed entirely from New York City. In our great country the future would probably witness many strong commercial centers with banks fully able to exist independently of New York. There would be branch banking systems with head offices in Minneapolis, San Francisco, Detroit, Chicago, Buffalo, St. Louis, Atlanta, New Orleans, and so on.

It seems clear to the author that territorially limited branch banking defined by legislation would be rigid in character and most unsatisfactory. It is able administration that will meet the changing requirements and will provide restraint when needed. It has been amply demonstrated that we cannot stop natural economic developments by legislation. At least our experience proves that all the laws we have against the spread of branch banking have not been able to prevent the growing concentration of financial power. Whenever those in-

terested in bringing about such concentration saw that the direct road leading to the realization of their ambition was blocked by anti-branch legislation they found that they could make a convenient detour via group banking which brought them with comparatively little trouble to the same goal.

Furthermore, it is obvious that in the absence of restrictions to the contrary it might be within the realm of possibility for a holding company to acquire stock control over more than one branch banking system within the same trade area. From a practical standpoint there would, of course, be many factors to be considered, such as whether it would be good business for the holding company to attempt such control, whether the local branch systems would be willing to enter into such an agreement, and other such questions growing out of the local situation. Nevertheless the possibility of such control must be admitted.

Any attempt to weigh the merits and shortcomings of a branch bank system without territorial limitations must necessarily involve consideration of a number of factors. The most immediate aspects of the problem, however, may be grouped under the following heads: (a) safety; (b) mobility of funds; and (c) availability of credits.

It should be observed that the various aspects of the question present problems of much complexity in view of the fact that what may happen in this country under such extensive systems falls largely in the field of conjecture.

A. Safety

Strength in a banking institution is usually synonymous with safety, and safety is the primary consideration in the interest of the public at large. The essential conception of a sound bank is that it serves as a safe depository of the funds entrusted to it by depositors. These funds may be employed by the bank in the most profitable way consistent with safety, but eventually they must be returned to the depositors. The most logical way to provide a safe depository is through the medium of an extensive branch system. Local communities would probably receive a greater degree of safety under an extensive system than under a territorially limited system

since the latter would not be in as strong a position to weather a complete or partial agricultural or industrial failure in any given section during one or more years.

As regards State-wide branch banking, it is probable that it would be much better than the present unit system. Diversification of risk would be secured, particularly in large States like California. But all States do not possess such diversification, for example, the group of grain States in the West and the cotton States in the South. State branches would not ensure safety in such a situation in the event of crop failures throughout these States.

Agricultural areas

The consideration of safety is particularly significant in the agricultural areas, because if a bank fails in the spring or summer, the farmer is prevented from making his crop; if it closes its doors in the fall the farmer's money is tied up with no available funds for another year. So it is apparent that the first consideration of the farmer is the safety of his bank.

The appalling mortality record of the small unit banks located in purely agricultural territory has been revealed elsewhere. In the main the wholesale, colossal number of small bank failures can probably be charged to the unit system itself. The banks having limited capital, little or no credit with correspondent banks, with no affiliated bank to lean upon and with no diversity of loans—when there occurs a shortage or failure of crops, or when farm products are extremely low in price, it is inevitable that such banks under such conditions must close their doors. A larger and stronger unit bank would not be profitable at such location. Therefore, the most logical way to provide the proper banking service for such a community is through the medium of an extensive branch or group banking system.

In certain sections of the country suspensions have been the rule rather than the exception. For example, in certain agricultural communities of the South, failures have been universal, leaving these sections entirely without banking service.[3] Prohibitive legislation with respect to branch opera-

[3] *Hearings*, p. 273.

tion has been enacted in the States affected. It is probable that this situation would have been largely avoided had branch systems been established in these areas.

Comparison with foreign countries

A fair measure of the desirability of branch banking, from the viewpoint of safety, perhaps, may be obtained by comparing bank failures in the United States with the failure record of those countries in which the branch system prevails. Statistics show that in the last twenty-five years or so, failures in representative branch banking countries have been far less serious than in the United States.[4]

Canada

Canada, with an agricultural population no different from ours and the same economic and climatic conditions, in the period beginning with 1900 and ending with 1928, saw the failure of only eight chartered banks and during the same period the arithmetic mean of the per capita liabilities of failed banks in Canada was $0.2829,[5] while in the United States it amounted to $0.6925, or three times as much.[6] Incidentally, the Canadian system has not been as safe as that of Great Britain or of Australia, especially since 1900,[7] so that if branch banking in any of these three countries is to be accepted as any sort of criterion, it becomes plainly evident that the American unit system is at a serious disadvantage from the point of view of safety.

During the trying period coincident with the economic depression of 1920-1921, as indicated elsewhere, many small American unit banks closed their doors. There were no failures in Canada in those years. The statement has been made that if all Canadian banks had been unit institutions, 80% of those situated West of the Great Lakes, and possibly 40% of those in the East, would have failed because many Canadian branches operated more or less consistently at a loss during

[4] See C. W. Collins, *op. cit.*, p. 4; S. D. Southworth, *op. cit.*, pp. 209-210; Ostrolenk, *op. cit.*, pp. 82-84.
[5] H. P. Willis and B. H. Beckhardt, *op. cit.*, p. 484.
[6] *Ibid.*
[7] *Ibid.*

the period.[8] While it would appear that branch banks can be operated at a loss, such a statement, of course, implies the reservation that losses of unprofitable branches be offset by the profits of those operating successfully. However, this reservation may readily be complied with in a nation-wide system of branches, such as exists in Canada, which affords ample protection against sectional disturbances.

On the other hand, there have been negative arguments set up with respect to the question of the safety of branch banks in Canada. However, investigation will show that while there was a reduction from 24 to 10 banks in Canada between 1913 and 1929, it was largely due to absorptions and there were only two failures.[9] Furthermore, the failure of one of these banks, the Home Bank of Canada in 1923, with its numerous branches, was not caused by economic conditions in Western Canada but by dishonesty of the management.[10]

England

There has not been an important bank failure in England since 1890,[11] which is in decided contrast with the record of the American institutions in the same period.

Interests opposed to the branch system point out that losses from failures of American banks in the period from 1863 to 1901 were approximately 405 million dollars, or less than those arising from failures of British banks, which aggregated about 455 million dollars in the same period. This, however, is not a significant comparison, as in those years, Great Britain's banking resources and her importance as a banking nation far exceeded the United States in this respect. It is to be expected that even with a system of branches, failures would be greater in England in that period for the reason that the methods and policies of conducting branch banks had not progressed to the point at which they operate today. There can be little doubt that the branch bank movement has strengthened the banking system as a whole.[12]

[8] Interview with official of Bank of Montreal.
[9] H. P. Willis and B. H Beckhart, *ibid*, p. 327.
[10] C. W. Collins, *op. cit.*, p. 2.
[11] B. Ostrolenk, *op. cit.*, p. 133.
[12] See H. P. Willis and B. H. Beckhart, *ibid.*, pp. 1239-1241.

Australia

Frequently anti-branch bankers support their refutation of the alleged supremacy of the branch over the unit system where strength and safety are concerned by reference to the numerous failures of Australian banks in 1893. In the first half of that year, some 15 banks with about 1,000 branches suspended payments, so that in that brief space of time a veritable landmark arose in the history of Australian banking.[13] The writer is inclined to believe that bank failures in Australia in 1893 could not be attributed to branch banking so much as to faulty management and the lack of proper regulatory legislation. While it is to be admitted that competition between the Australian branches was excessive, an equally important factor was the drain on credit caused by a large flow of funds to Great Britain, as well as to over-extension of loans and accumulation of frozen assets. Another cause was the abnormal increase in the drawings by State governments of Australia upon the banks for the purpose of developing the country.[14]

Failures of American branch systems

Aside from the numerous cases of failure found in the annals of branch banking history of foreign countries, the contention exists that American branch organizations cannot boast of a clean record. While no national banks with branches failed during the nine year period from January, 1921, to January, 1930, a total of 41 branch bank systems among branch banks operating under State charters suspended.

These branch systems operated nine branches in head office cities and 71 branches outside of such cities. The total deposits of the 41 banks and their branches were $49,000,000, which is obviously an inconsiderable amount in comparison with total deposits of failed unit banks in the same period. Five of the branch systems, four of which were operating one branch each and one operating two branches, subsequently reopened.[15] Later one of the systems again closed. Of the total,

[13] H. P. Willis and B. H. Beckhart, *op. cit.*, p. 49.
[14] *Ibid.*, p. 48.
[15] *Hearings*, p. 462.

29 had only one branch each, six had two branches, two had three branches, two had four branches, one had five branches and one had twenty branches.[16]

Among the failed branch organizations there were three Georgia banks, which closed their doors at about the time of the Florida debacle in 1926. Two of these were small and only had one branch each, while a third, the State Bank of Atlanta, had 30 branches, deposits of $2,805,000 and total resources of $4,471,000. However, it appears that the underlying cause of these failures was the affiliation of the banks with the Witham chain system which has been discussed elsewhere and the failure of the chain due to poor management. The following table gives a summary of the failures of branch bank systems during the period 1921-1929.

TABLE LI

FAILURES OF BRANCH BANK SYSTEMS [1]
1921–1929

YEAR	NUMBER OF BRANCH BANK SYSTEMS SUSPENDED	TOTAL DEPOSITS	NUMBER OF BRANCHES IN OPERATION		BRANCH SYSTEMS REOPENED		
			In Head Office City	Outside Head Office City	Number	Deposits	Number of Branches
1921	5	$10,917,000	.	5	..	.. .	.
1922	1 [2]	1,151,000	.	1	..	....	..
1923	1	28,000	..	1	..	..	
1924	4	1,365,000	..	5	1	$46,000	1
1925	2	2,209,000	1	1	..		
1926	11	7,448,000	.	33	2	14,000	2
1927	3	2,851,000		7	..	....	.
1928	4	2,895,000	1	7	.		
1929	10	19,955,000	7	11	1	5,882,000	2
Total	41	$48,819,000	9	71	4	$6,742,000	5

[1] *Hearings*, p. 462. Latest available data on failures of branch systems.
[2] This bank reopened but closed again and is not therefore included with the reopened banks.

From the foregoing, it is plain that the major portion of failures among American branch banks has been among those small institutions with only one or two branches, and

[16] *Ibid.*

comparable in size to the average local unit bank. Furthermore, in California, where branch banking is well developed, bank failures have been less than in the majority of other States, as shown by data submitted in Chapter II.

Hence, while a study of failures in both branch banking and unit banking countries shows that the branch system cannot be regarded as a positive guarantee against failures, it is evident that the branch bank is less likely to fail than is the independent bank. In other words, there is little question but that a powerful branch organization offers greater protection as a repository of funds than does the small independent institution. Recognizing the advantages of concentration, the tendency among the principal European countries has been toward concentration of the banking business with the possible exception of Germany, where there are a number of small independent banks in addition to the major institutions. It is to be observed, however, that there was a large number of failures among these small unit banks in Germany in 1929 and the early part of 1930.[17]

By virtue of its size and strength, the larger branch organization is in a better position to diversify its loans. Hence, it is much better equipped to withstand a business depression or financial strain than is the unit bank. A good illustration of what may be expected of branch banks in contrast with unit banks is found in the statement of a Mississippi banker who organized his first bank in 1890. During the panic of 1907-1908 there were 60 bank failures in Mississippi. In the 20 years that followed an additional 30 failures brought the total up to 90, while in the entire time there was not a single branch bank failure on record.[18]

As an essential adjunct to strength, the resources of any large branch system constitute a veritable guaranty fund where a single branch is concerned, and the guaranty fund in this instance is eminently more successful than has been the case of guaranty funds provided by certain Middle Western States in the past.

[17] *Hearings*, p. 236.

[18] J. J. Thomas, "Branch Banking in Mississippi," *Texas Bankers Record* (June, 1929), Vol. XII, No. 6, p. 49.

B. Mobility of funds

It is one of the marked advantages of a nation-wide system of branches that a shifting of funds may take place from those parts where there is an excess of deposits, where deposits are not absorbed entirely by local credit needs to other sections which need credit and are not able to finance themselves. This is one of the admirable qualities of the Canadian banking system and has meant much as a factor in the development of the grain provinces.[19] To some extent funds are shifted about in the United States and yet in a relatively crude fashion when compared with the ease in the mobility of funds in Canada. Interior banks borrow from their correspondents in the East or in large centers or from the Federal reserve banks to meet seasonal and on occasion cyclic needs. But the borrowing unit banks cannot be financed continuously to meet the constantly growing needs of a developing community, as may the branches of the banks in Western Canada whose loans may for a long period exceed deposits.[20] To an old, wealthy and long-established community as is the State of Massachusetts, it would be of relatively little value.[21] The local loan demand is probably small and not sufficient to absorb the funds of the banks. With a nation-wide system of branches these excess funds could be shifted West.

Diversification of risk

It is a fundamental principle of banking that loans should be diversified. This can best be accomplished by permitting branch systems to operate without territorial limitations. Exemplification of the diversification of risk of branch banking on State-wide lines by reference to California branch organizations is not significant. In California, wealth is obtained principally from the extraordinary agricultural and petroleum production as well as by the migration of capital resulting from those who come to the State because of its mild climate. Compared with other States an exceptionally large proportion of agricultural production is exported to other States and

[19] See H. P. Willis and B. H. Beckhart, *op. cit.*, pp. 412-413.
[20] *Ibid.*
[21] *Ibid.*

lands, and in the production of such commodities, California is fortunate enough to have a near-monopoly. Hence it is too much to expect that branch banking on strictly intra-State lines would be equally successful in other States, particularly in those dependent to a greater extent on agricultural crops or one or two industries that may not be in their most prosperous stages.

There has not been in the smaller communities throughout the country a proper recognition of what diversification is. In many communities practically all of the enterprises are dependent on the results of agriculture, so that the failure of the crops is reflected in losses among the business institutions and no matter how loans are divided among the various kinds of business, the fact that all the businesses are more or less dependent upon agriculture, in the last analysis, means that all loans are dependent on agriculture, so that no real diversification is obtained.

An extensive diversification of loans and deposits permits offsetting surplus funds in one community against demand in another. A well proportioned branch system of banks is in a natural position to keep its funds employed at all times in the aid of productive enterprise.[22] Seasonal demands for funds, instead of being a source of weakness as with a unit bank, would be conducive to profits in the well-managed branch organization. Funds accumulating in the fall at the small rural branches could be profitably used by lending to dealers and merchants in the cities and when deposits decline and loans are in demand in the spring the funds flow back to the small branches for the crop-making season. Hence, under a branch system of banks, the necessity of shifting funds in order to meet seasonal demands in different parts of the area is facilitated, and at the same time the tendency is to remove any spotty situation regarding bank prosperity which may exist.

Then there is the conventional argument that there are times when unit banks which are financing one type of industry acquire so many frozen loans that they cannot liquidate and consequently collapse, whereas a branch banking structure could carry these frozen assets until they could be liquidated

[22] C. W. Collins, *op. cit.*, p. 50. Also see S. D. Southworth, *op. cit.*, p. 105.

with relatively little loss.[23] While it might appear that crises have been the culmination of the efforts of strong banks to finance weaker ones in their economic mistakes, this argument does not appear to have much validity in it since it is the chief purpose of a branch banking system to diversify and diffuse its risks. It seems to be a safe guess that there are more cases in which the diversification of banking risks and the carrying of frozen assets in certain communities through branch banking has eliminated dangerous liquidations than there are cases in which branch banking has been responsible for serious collapses.

There are many instances where small banks have had to close because of a run on the bank resulting from the suspension of a nearby bank, the defalcations of a bank officer or employee, or some unfortunate rumor in the community. A branch bank, under such circumstances, can readily and quickly mobilize a sufficient amount of funds with which to pay every local depositor, which is impossible for any but a branch banking system to do.[24]

A number of unit banks, in their efforts to secure greater diversification of loans and bring about a greater liquidity of assets, have from time to time been sending a larger proportion of their available funds to the New York money market to an extent unknown in those with branch systems.[25] This concentration of funds in the money market can hardly be called a desirable condition, and is in fact, the very thing which the anti-branch bankers are most prone to condemn.

Uniformity of interest rates

Uniformity of interest rates is also facilitated by the mobility of capital in extensive branch systems. A British commentary referring to the amalgamation of branch organizations in England and the effect of the movement on interest rates made the statement that, "With the increase in the

[23] See H. P. Willis and B. H. Beckhart, *op cit*, pp. 313-314.

[24] Clyde Hendrix, "Limited Branch Banking Best Adapted to Agricultural Needs," *Commercial and Financial Chronicle* (October 19, 1929), Vol. 129, p. 101.

[25] B. H. Beckhart, "The Branch Banking Problem," *New York Herald Tribune* (Magazine Section, April 20, 1930), p. 1.

number of branches belonging to one bank (particularly since the '90's of the last century), and the growth of associations of bankers, rates and charges have tended to become more uniform and to be reduced. This tendency has now crystallized into effective practice by the development of competition." [26] The Scotch branch banks maintain uniform rates throughout the country, both for deposits and for loans.[27] It also appears that branch banking has lowered the rate of interest in some leading agricultural communities in California.[28] In this connection it is well to compare the rate of interest or discount on standard paper in branch banking countries with the rates on similar paper and under otherwise similar conditions as found in this country. Quotations show that despite the lack of competition in the Scotch market rates they were as low as in New York from 1925 to 1930, inclusive, while London rates were materially lower than in New York during that period.[29] Rates in most of the American cities are usually well above the New York rates.[30]

Quotations do not exist for open market interest rates in Canada, since there is no open market. Funds are secured from one bank, and rarely, if ever, from two. Rates in the territory west of the Great Lakes vary from 7% to 9%, and in the East from 5% to 6%. Free money in the East is shifted West because the banks are thus able to secure higher rates.[31] As a result, interest rates in the East tend to increase while those in the West tend to decline. In consequence, a more uniform rate prevails throughout the Dominion than is found in the United States. The easier it is to transfer funds, the more uniform will be interest rates. Borrowers are continually seeking lower rates and competition in this way tends to reduce the cost of borrowing. The final result seems to be that branch

[26] Joseph Sykes, *The Amalgamation Movement in English Banking, 1825-1924* (P. S. King & Son, Ltd, Westminster, 1926), pp. 149, 106; also see *Hearings*, p. 1121

[27] See C A Phillips, *Readings in Money and Banking* (The Macmillan Co., New York, 1916), pp. 479-484.

[28] *Hearings*, pp. 1525-1526.

[29] See *Reports of the Federal Reserve Board*, 1925-1930.

[30] See *Federal Reserve Bulletin* (June, 1930), Vol. 16, No. 6, p. 347; and (December, 1929), Vol. 15, No. 12, p. 781.

[31] H. P Willis and B. H. Beckhart, *op. cit.*, p. 374; also see B. Ostrolenk, *op. cit.*, p. 160.

banking lowers the rate for borrowing in Western Canada.[32] Certainly it does not increase interest rates, as the opponents of branch banking often have endeavored to prove. It has been stated that, "Instead of drawing funds from a locality the Canadian banks have pumped money in—which means that the farmers may borrow larger amounts under lower rates of interest than farmers in comparable sections of the United States." [33]

While it is evident that branch banking, by virtue of greater mobility of capital, induces more uniform interest rates over extensive areas and thus tends to lower the cost of accommodations in non-metropolitan regions, it is not intended by this to mean that greater liberality of accommodation should necessarily follow. In any well-managed banking system, whatever its form, liberality of accommodation is and should be predicated upon the legitimate and necessary needs of bona fide borrowers.

By virtue of the great mobility of capital under the branch system, the large Canadian banks have for many years been able to finance the immense seasonal money demands of the Dominion involved in crop-seeding, crop-harvesting, lumbering and fishing, as well as security market operations without the fluctuation of rates for credit accommodation that occur in some other countries including our own.[34]

Reduction of reserves

Another important advantage arising from greater mobility of capital is that extensive branch systems are in this way enabled to reduce the actual amount of reserves to a smaller margin in proportion to the total volume of business, than would be possible if such institutions were operating as unit banks.[35] On the other hand, loans and discounts could be increased, which, in effect, is the equivalent of a reduction of reserves. In other words, the reduction in the reserve ratio

[32] *Ibid.*

[33] B. H. Beckhart, *op. cit.*

[34] *American Banker* (September 18, 1929), p. 1. An address by C. R. Howard, of the Canadian Bank of Commerce, New York Agency, before the Seventh Annual Convention of the Pacific Foreign Trade Council.

[35] S. D. Southworth, *op. cit.*, p. 105.

facilitates greater loaning power, and loaning power is undoubtedly instrumental to a high degree in building up profits for a bank.

Clearing of notes

Elasticity of currency and the fluid movement of funds are augmented by an extensive branch system, making for easier credit. Banks can issue notes up to their paid-up capital and under the provisions in effect today even beyond this. Elastic currency is also secured by the method and the rigidity of rules dealing with the clearing of notes. Since bank notes are not money until paid out, it is to the profit of a bank to rid itself of all notes of other banks and circulate its own. Thus when a teller receives the notes of some other bank he immediately sends these to one of the clearing cities and will only pay out his own. This rapid clearing of notes greatly augments the elasticity of currency and responds to the needs of the country.[36]

[36] B Ostrolenk, *op cit*, p 138. Also see Joseph Sykes, *op. cit*, pp 150-151.

CHAPTER XX

THE BRANCH BANKING PROBLEM (*Continued*)

C. Availability of credits

From the point of view of availability of credits an extensive branch system would probably be superior to the unit system. It may be urged that branch banks would make relatively few loans on character and would exact a relatively heavy amount of collateral for loans in contrast with what a local unit bank would do. However, much of the development today seems to be in the opposite direction; our large banks with branches are endeavoring to compete with the Morris Plan Banks and are encouraging lending on the security of properly endorsed promissory notes. The idea that extensive branch banking would curb character loans supported by two or more indorsements is not well founded, particularly if one considers that the oldest branch banking system in existence—the Scottish—has emphasized just this aspect of banking in its system of cash credits.[1]

While it may be contended that branch banking would lead to a restriction upon local loans,[2] it is unreasonable to suppose that banks would make substantial investments in branches without any expectation of developing the business of the branch. This could not be done by draining the community of its cash.[3]

Furthermore, as no financial need would be too large to be supplied, extensive branch systems would be in a far better position to finance the sound and legitimate growth of a community than would be possible through the employment of local capital alone. In addition, as indicated above, such banks would probably be in a position to render a more adequate banking service at all times because they would be

[1] C. A. Phillips, *op. cit.*, pp. 479 and 484.
[2] *Hearings*, p. 21.
[3] *Ibid.*

capable of weathering a complete or partial agricultural or industrial failure in any given section during one or more years.

It may be alleged that funds would be withdrawn to metropolitan centers from smaller communities. This is improbable. In Canada complaint has been made by city borrowers that head offices located in the same cities have been disposed to shift their funds into country districts, in order to receive the slightly higher interest rates obtainable in these regions.[4] This condition has prevailed in Canada for some time, and in itself constitutes a rebuttal of the assertion that the independent banking system tends to keep funds in smaller communities, while branch banking has the reverse effect.[5]

Mr. S. H. Logan, General Manager of the Canadian Bank of Commerce, expressed the opinion that, "Any suggestion that the Canadian banking system involves a concentration of loans in larger centers to the detriment of smaller communities, is as far from the mark as can possibly be. The larger centers are of course served and well served, but the very essence of successful banking in Canada is the more widely served entire community—agricultural, commercial, industrial and financial—the better for banks and the growth of their business. Concentration would mean stagnation to the banks of Canada as well as to the communities which they serve." [6]

It cannot be said that well managed unit banks in the United States adhere to the policy of keeping their funds strictly at home. Furthermore, the larger correspondents in the financial centers probably require that specific balances be maintained, so that in this respect the correspondent-unit system is not essentially different from the branch system.

Loaning policy

It has sometimes been urged as a criticism of the branch banking system of Canada that delays must occur in passing

[4] H. P. Willis and B. H. Beckhart, *op. cit.*, pp. 465-466.
[5] *Ibid.*
[6] *American Banker* (September 18, 1929), p. 1.

upon applications for loans by customers, owing to the supposed necessity for referring such applications to the head office for approval. The fact is that over 95% of the total number of loans in any year are dealt with by branch managers and telephonic facilities throughout the Dominion. Furthermore, there is no delay in dealing with loans for amounts beyond the limits of local managerial authority.[7]

The policy of the old Bank of Italy (now Bank of America, N. T. & S. A.) with regard to loaning policy at their branches indicates how satisfactorily this large branch system operates in this respect. "Loans are made direct by the branches except in instances where the amount is unusually large or the branch manager wishes to secure the advice of the head office credit department. The customers of the branch deal with the local officers and only in extraordinary circumstances are they brought into contact with the head office departments. Each branch has a general lending limit fixed by the bank's finance committee.

"Within this limit each branch may lend and report without previous consultation of head office. These limits vary with the proven credit capacity of the various branch loaning offices. Experience has demonstrated that the limits thus fixed are usually sufficient to take immediate care of the ordinary requirements of the branches. In other cases lines are established for the larger borrowing accounts, in advance of the time when these firms or individuals require the accommodation for their seasonable operations.

"As a matter of fact, after a branch has been in operation for a year or more, experience shows that easily 80 per cent of the annual commercial credits extended by the branches are renewals under established lines. All applications for unfixed lines of credit in excess of the lending limit of a given branch are promptly considered and acted upon by the proper central credit department and proper advice and instruction issued. The branch makes daily reports of all loans, and as these are received the credit department reviews them.

"Pertinent comments or suggestions are then forwarded to

[7] S H Logan, "Branch Banking in Canada," *American Banker* (September 18, 1929), p. 1.

the branch manager, so that the loan may be properly followed and collection insured at maturity. The broad fundamental policies respecting credits are outlined by the general executive committee, an interpretation and application is then made by the credit department. This system permits the smallest branch in the organization to secure the benefit of the best obtainable advice and counsel on every loan that is made, and it also insures uniformity of policy, based on a thorough knowledge of conditions throughout the entire organization and the country as well." [8]

Branch Managers

An argument which is often heard is that where branch banking exists, there is no sympathy with local needs.[9] However, there is such a thing as a banker being too responsive to local applications and too much under the influence of local and personal appeals. This danger is accentuated because of competition. The fact that a local banker is under greater pressure from local borrowers than a branch manager, supervised by an outside authority, may cause the interests of depositors to be imperiled for the accommodation of borrowers. As discussed elsewhere, the record of failures proves this to be frequently the case. This criticism was aimed against many of the banks in the agricultural districts like Iowa in the period during and following the agricultural inflation of 1914-1920. The point was made that the trouble grew out of the fact that credit had been extended too freely rather than that credit was not available.

The contention that the branch managers are shifted about too frequently has been made in connection with the Canadian system. However, this problem appears to have been quite satisfactorily settled.[10] Obviously an unreasonable amount of shifting would be unwise.

The above arguments also appear to be somewhat offset by the greater managerial skill ordinarily obtainable by the large successful branch organization. A highly trained man could

[8] *Hearings*, pp. 1347-1348.
[9] H. P. Willis and B H Beckhart, *op. cit.*, pp. 166-167.
[10] *Ibid.*, pp. 467-471.

render greater service than the small country banker could afford to employ.[11]

Monopoly

Bearing further on the availability of credit is the question of a banking monopoly should unlimited branch banking be permitted. The writer's opinion is that such a development would not result in credit monopoly, but that competition for banking business would continue as keen, if not more so, than at present. There would undoubtedly be severe competition in getting business, establishing branches, and in securing deposits through better service and convenience of location.[12]

If a banking monopoly exists in Canada it does not seem to rebound to the pecuniary advantage of the banks.[13] Interest changes are reasonable and dividends paid are lower than those of the national banks in the United States. Its effect, if such exists, on the price of credit is negligible.[14]

Investment and trust services

The service rendered to the banking public is the criterion by which a banking system must be judged in the last analysis. The people want that system which, in addition to safety, will afford better banking services at less cost and with greater efficiency. It would seem that the service rendered at country points by branches of an extensive system would be superior to that which a unit bank could give because, as stated above, under a system of branches all of the facilities of the head office are made available at each point in the system,[15] each branch would be a department store of finance. For example, in addition to credit services, extensive branch systems with their expert investment departments would have the facilities for analyzing securities and consequently be in a better position than the unit bank in this respect.

[11] *Hearings*, p. 486.

[12] See J. F. Johnson, *The Canadian Banking System*. Senate document No. 583, 61st Congress, 2nd Session (U. S. Government Printing Office, Washington, D. C., 1910), p. 86.

[13] H. P. Willis and B. H. Beckhart, *op. cit.*, p. 478.

[14] *Ibid.*

[15] See B. H. Beckhart, *op. cit.*, p. 1.

Moreover, improved trust service would be made available. The growth and efficiency of trust service in the Bank of Italy has been summarized by Mr. A. P. Giannini, as follows:

> Opportunities for spread of the trust idea are further multiplied through the practical circumstances of branch banking. For example, the institution with branches in many communities is able to provide for the performance of trust functions in places that otherwise would not be reached. Out of a total of 165 California cities served by our institution, the people of 91, or 55% can look to our institution alone for service locally in connection with their personal estates. In only 15% of the communities we serve are there unit banks authorized to perform trust functions.
>
> Corporate customers, as well as individual depositors, benefit, through our plan of State-wide trust service. In California, it is compulsory for new corporations to have their stock registered by a trust company. A number of corporate registrarships are being administered by our bank in communities hundreds of miles away from the larger cities. Likewise we are serving as transfer agents for stocks and as trustees of bond issues for many companies whose offices are located away from the centers of population. The significance of this development lies in the fact that these standard trust functions are being performed by a financial institution that is able to guarantee a high degree of specialization and security in the performance of its work.[16]

Ex-Governor Young of the Federal Reserve Board has expressed the opinion that there will be a tremendous opportunity for branch banks to develop a business that will be profitable for many years to come, a business that the local bank cannot always get.[17] It is but natural that a man of sound business judgment in writing his will or creating a trust of whatever kind, will want to do business with a bank that has a separate trust subsidiary or affiliate. This, of course, is not possible with small independent institutions.[18]

Whatever may be the arguments against branch banking in other respects, the economic worth of the system as a means toward betterment of banking facilities on a more widely extended scale is not likely to be questioned. It would seem that

[16] A. P. Giannini, "How Branch Banking Multiplies Opportunities for Trust Service," *Trust Company Magazine* (March, 1929), Vol. XLVI, No. 3, p. 312.

[17] *Hearings*, p. 486.

[18] *Ibid.*

the tendency, apparently inevitable in the face of the great economic changes being brought about throughout the country, would call for subjugation of local pride and assumption of a broader viewpoint—one that is national in scope. Branch banking is also conducive to a more extensive knowledge of economic and financial developments abroad, an advantage that is not to be gainsaid. Financially, this country is tied up to Europe, and the resultant problems will tend to create an international viewpoint when under a system of branch banking. Better and broader service should thus accompany the unlimited extension of branch banking.

Profits

Although branch banking organizations vary from country to country and from time to time, they are ordinarily able to show greater profits than unit banks, by virtue of decreased expenses, due to elimination of unnecessary personnel, of costs of duplicating new business departments, advertising and the cost of acquiring and keeping correspondents.[19] As a highly flexible agency, it would seem the branch bank could be operated with a minimum of overhead since the scope of operations could be regulated in accordance with local requirements and hence not be burdened with the standard costs of a unit bank. Another economy that is seen in extensive branch systems is that the banks covering a comparatively wide area would not make any charge for remitting exchange, that is, provided checks were drawn on some branch in the same system.[20]

The organization of an extensive branch system would permit the installation of centralized management of advertising, buying, finance, as well as management of all domestic and foreign arrangements. While the alleged disadvantages of excessive size might be considered,[21] it is believed that superiority rests with large-scale methods.[22]

[19] S. D. Southworth, *op. cit.*, pp. 106-108, and 209-210.
[20] *Hearings*, p. 771.
[21] A. S. Dewing, *Financial Policy of Corporations* (Ronald Press, New York, 1923), p. 31.
[22] C. W. Collins, *op. cit.*, pp. 4-6. Also see S. D. Southworth, *op. cit.*, pp. 106-107; and *Hearings*, p. 1464.

Branch banks could afford to employ more efficient executives,[23] whose functions would be to see that the investments are diversified and made in accordance with sound banking practice, that the credit files are complete, that incompetent managers and employees are eliminated, and that regular audits are made.

Particularly in the metropolitan areas the large branch organizations have demonstrated unusual stability and growth of earning power. Several hundred branch banks are in operation in Greater New York and these have proved to be on the whole a profitable investment, if the trend of bank earnings may be considered a satisfactory barometer. While the cost of establishing and maintaining the branches may be high in many cases, net results are probably quite satisfactory. If there were no prospect of potentially greater banking profits, the tendency toward extensive branch systems would necessarily lose its momentum. Expectancy of greater earning power is a causative factor in the movement, and one which arises primarily from pressure exerted within and upon the controlling interests of the nation's larger and more progressive banks.

It is not alleged that all of the above advantages are entirely without certain offsetting disadvantages. Extravagance in the price paid for new units coming into a branch system would offset in many cases any theoretical savings. The profitability of branch banking may also be reduced through the establishment of an excessive number of branches in the same community. Expenses of coördination and centralization would also decrease profits.

The problem of examination

It is natural to suppose that numerous practical obstacles face adequate and thoroughgoing examination of a large branch bank system. However, if it were possible to gather together a force of men sufficiently large to make a simultaneous entry into each branch of the system to be examined, and provided the staff of examiners was thoroughly trained and

[23] B. Ostrolenk, *op. cit.*, p. 161.

fully coördinated, there should be no insurmountable difficulty in making a proper examination.

Since the Bank of Italy (now the Bank of America, N. T. & S. A., as indicated above) is the largest branch bank organization in the country with close to 350 branches situated throughout the second largest State in the Union, and is, moreover, the fifth largest banking institution in the country, with aggregate resources of over $1,000,000,000, it would appear that the methods employed in this institution would probably suffice with other branch systems of equal or greater importance.

With a force of only 40 men, a comprehensive examination can be made.[24] While obviously difficult to make a simultaneous entry into each branch, the procedure has been to examine first of all the head office and a number of the larger branches which represent approximately 60% of the bank's total assets. As fast as the examiner in charge could release his men they were then dispatched to the lesser branches with copies of the daily statements of such branches as of the date of current examination and of the branch manager's own inventory of the assets of his branch as of that date. The examiner was then under instructions to examine the branch as of the date he reached it, but to make a sufficient check of the manager's inventory of assets as of that date. This method, while successful, has since been improved upon and more recent examinations differ somewhat.

At present it appears that a consolidated balance sheet of the entire system is first required of the head office, which is examined at the same time. Branch banks carry their bond and securities investments at the head office, as well as brokers' loans, commercial paper and bankers' acceptances, so that it is possible to examine these assets at the same time. The examiners are then sent out to the branches with orders to carefully consider important changes between the statement as of the date of examination of the head office and the date of entry into the particular branch. This would seem to be as far as the examiner can go with respect to each branch.

[24] See *Hearings*, pp. 134-140, for a comprehensive outline of the procedure of examining the Bank of Italy.

Factors tending to make examinations more simple than would at first appear are that interbranch accounts are carried through the head office entirely, while the auditing department of the bank, usually the most efficient division of the institution, is a source of considerable help to the examiners.

Obviously examination of an important branch system is not as simple a matter as examination of an independent bank. Moreover, it is evident that as branch systems become increasingly large, examination will become somewhat more complicated and undoubtedly it will be necessary to add to the number of examiners required. At the same time, it is to be expected that more efficient methods will be developed while greater coöperation by the executive committee of any particular branch system, together with assistance from its auditing department should render the task less difficult. Whether branch banking of the future is to be conducted on a nation-wide, a regional, or a State-wide basis, the element of the geographical extent of the system should not have an important bearing upon the question of examination, but rather, the size and number of branches included.

At all events it has been adequately demonstrated that the matter of examination can be taken care of in satisfactory fashion, even in the case of the largest existing system in the country, and pre-supposing the ultimate development of branch organizations on an even larger scale there is no reason for assumption that ways and means cannot be devised to fit the circumstances.

Effect of branch banking on the Federal Reserve System

A very important question arises in connection with the ability of the Federal reserve banks to survive the development of large privately controlled reserve systems. Since the existence of a large number of banking units, which had no dependable source of help in time of need, is the primary reason for having a reserve system, the development of extensive branch systems would probably have a very noticeable effect on the Federal reserve banks and lessen their usefulness.

Such branch systems would possess the credit fluidity now

handled by the reserve banks. The effect of branch banks on the Federal reserve banks has been described as follows: "The head office and branches constitute a good-sized clearing and collection system in themselves, so that the volume of items sent through the reserve system diversified as to season and risk, one would expect the branch bank also to make much less of the rediscount facilities of the reserve banks than the same number of independent banks would do." [25] The future of the Federal Reserve System is somewhat bound up with the outcome of group and branch banking. Those who feel that the Federal Reserve System itself is paternalistic probably consider that the extension of the branch movement on a wider scale would not materially alter and might possibly improve the situation by decreasing the influence and power of the Federal Reserve Board.

As a matter of fact the danger that group banking will adversely affect the Federal Reserve System is more realistic than that branch banking will do so. The Northwest Bancorporation and the First Bank Stock Corporation are said to own enough banks to give them the voting power to elect the directors of the Federal Reserve Bank of Minneapolis.[26] Obviously it is a very serious danger to confer on two banking groups the power to control the board of a Federal reserve bank in any district in this country.

National banking system

While the primary object of having extensive branch systems is not to deal with the decline of the national system, but rather to strengthen our banking systems, both national and State, the effect would be to inject new life into the national bank system generally, and also benefit the public as well as the Federal government. As indicated elsewhere, at the present time the McFadden Act only enables the national banks to meet State bank competition, and does not attract State banks into the national fold. By conferring liberal branch banking privileges upon the national banks, the pres-

[25] G. W. Dowrie, *Monetary and Banking Policies* (Longmans, Green and Co., New York, 1930), pp. 40-41.
[26] *Hearings,* pp. 185-186.

tige of the national chapter would be restored. Comptroller Pole is quoted as follows:

> With liberal branch banking privileges conferred upon the national banks, the attractions of a national charter would be considerably enhanced, and while there would, of course, be no compulsion upon the State banks and trust companies to become national banks, in the usual course of business, it is believed that the stockholders of the large State institutions would find it to their advantage to operate under the national charter.
>
> From the standpoint of the Government of the United States, the increase in the resources and strength of the national system as a result of the extension of branches and the conversion of large State banks into national, would bring into the Federal Reserve System a great volume of banking resources now operating independently, and at the same time develop an instrumentality over which the Government would have complete control, and through which it could enforce an adequate banking policy.[27]

Merely permitting State-wide branches will accomplish little toward betterment of the national system in its competitive relationship with the State-chartered institutions, since the latter could be given powers equally as liberal.

Rediscounting

Since extensive branch systems could readily transfer commercial paper from one part of the country to another it seems logical to conclude that they should be permitted to rediscount at any of the reserve banks. However, since a majority of the extensive branch systems would probably have head offices in New York or Chicago, the tendency would be to concentrate rediscounting in these centers. This would not be harmful or present insurmountable difficulties since the Federal Reserve System has already brought about a substantial centralization of money in New York and Chicago.

Effect on unit banking

It is alleged that it is not possible for independent unit banking systems to exist in conjunction with branch banking systems operating without territorial limitations.

[27] *Hearings*, p. 1026.

While experience in Canada and England indicates that this contention is true, it does not necessarily follow that similar results would be experienced in the United States. The three limitations or conditions under which branch systems should operate, as outlined elsewhere, make it very unlikely that a unit bank would be forced into a receivership through the establishment of a *de novo* branch for the reason that no Comptroller of the Currency would sanction it. In spite of the fact that bank stock is a commodity with a market value and if a stockholder wishes to sell to a branch system that is his right under the ordinary law of contract, it is inconceivable that any Comptroller of the Currency, the proceedings of whose office are important public records, would ever lend his high responsibility to aid of a branch bank unfairly to drive a local bank out of business.[28] However, unit banks will frequently exist parallel with group banks and face severe competition from them.

Effect on group banking

The enactment of legislation permitting branch banking without territorial limitation would probably cause the conversion of many groups into branch systems. Branch banking should appeal to group officials since, as indicated elsewhere, it permits of much more economical operation, less overhead and simpler forms of administration.

However, as discussed above, since prohibitive branch banking statutes are only the primary and not the sole factor responsible for the development of group systems, certain of these organizations may see fit to retain their present status, which might be described as a deflected form of branch banking, particularly in the event present branch banking statutes are only slightly modified.

Conclusion

It appears therefore that an extensive branch banking system would be desirable because of greater unity of policy, approximate uniformity in regional interest rates, larger capi-

[28] *Hearings*, p. 1026.

tal behind each office, the ease of shifting funds to where they are most needed, the ability to mobilize reserves for the general benefit, and smaller overhead cost.

Moreover, it has been pointed out that the strength of a branch banking system is not so readily felt, if the system be confined to a single community or even to a single State, where crop failure or serious economic disturbance would react disastrously to the system. Furthermore, there are no arguments in favor of State-wide branch banking that do not apply with greater force to the establishment of the system on a nation-wide basis. Limiting the extent of branch banking systems to a single State, would simply retard their scope and prevent the building up of the strongest system of banking.

If future legislation in this country is not sufficiently comprehensive as to preclude the possibility of permitting concentration on a nation-wide basis without any restriction whatever, the group system of banking will be utilized to coordinate the operations of a number of banks. It has been indicated that while legislation can constitutionally be enacted giving the Comptroller of the Currency permission to supervise and regulate group systems, there is no likelihood of Federal legislation completely prohibiting them. Therefore as long as the latter are in a position to operate over extensive areas, it would seem that branch banking should be permitted on the same basis, in view of the more desirable features associated with the latter.

There will not be a rush for branches by national banks with resulting over-expansion and confusion any more than under the McFadden Act. The rush for branches under this Act, prophesied by many of the opponents of the measure, failed to materialize, because of the incorporation in the act of the same provision that has been recommended above to the effect that no branch can be established without the approval of the Comptroller of the Currency.[29] This discretionary power lodged with the Comptroller will enable him at all times to require a branch system to develop in an orderly manner.

It has also been indicated above that Congress has never

[29] *Hearings*, p. 1026.

adopted a definitely hostile policy toward the branch bank movement. The amendment to the National Bank Act passed in 1865 permitted State banks when converting into national banks to bring their branches into the national system. Federal reserve banks are permitted to establish branches. National banks with a capital and surplus of $1,000,000 or more and having secured the assent of the Federal Reserve Board are permitted by law to establish branches outside of the United States in any part of the world.

Furthermore, under the Consolidation Act of 1918, two or more national banks with branches which had been carried over from their State charters could merge into a large bank, even if the system of the new organization covered the entire State. Branch banking systems for particular purposes were also authorized when Congress provided for the establishment of postal savings banks, joint-stock land banks, Federal intermediate credit banks and the War Finance Corporation. And finally the McFadden Act legalized branch banking for national banks on an intra-city basis in such States as gave like privileges to State chartered institutions. The McFadden Act will not be the last word in this matter in view of the fact that legislation must be enacted to meet problems presented by banking concentration.

Hearings on branch, chain and group banking, which were conducted by the House of Representatives Committee on Banking and Currency in the second session of Congress, are completed and will not be continued in the third session. But a similar investigation is being made by a subcommittee of the Senate Banking and Currency Committee, under the chairmanship of Senator Glass, which is also including the operations of the Federal Reserve System, and banking and credit conditions generally. It will continue during the next session of Congress, and during recesses as well.

Unfortunately the branch banking discussions before this subcommittee have contributed little new on a subject which now has been under discussion for many years. Senator Carter Glass advocates State-wide branch banking in States where State banks have that privilege. Owen D. Young would limit branches within the limits of a Federal reserve district.

Others would limit it to a city or, at most, to a metropolitan area. And, as indicated above, Comptroller Pole favors trade area branch banking.

The hearings are not attracting any great attendance. Since no government officer is being charged with fraud or misconduct, the procedure lacks what might be termed a dramatic atmosphere. Nevertheless, it is of vital significance to the pocketbook of every member of the present generation, as well as future generations.

It is probable that when Congress acts in the matter two years or more hence it will adopt legislation far more radical than would have been thought possible two or three years ago. While the outstanding problem is the extent to which branch banking powers should be permitted to national banks, it is likewise concerned with developments in chain and group banking, with a view to determining what Federal enactments, if any, should be adopted with reference to these instruments of banking concentration.

The two Congressional investigations coupled with the report of the committee of the Federal Reserve Board, which is studying the banking concentration problem, will probably form important parts of the foundation for coming legislation. According to the Comptroller of the Currency: "If the rate of increase within the next twenty years equals that of the last, by 1948 the aggregate banking resources of the United States will exceed $240,000,000,000." [30] If this forecast should be reasonably accurate, then it appears that we are facing a genuine development in banking concentration.

[30] J. W. Pole, "Scientific Methods Must Replace Old-Fashioned Banking," *American Bankers Association Journal* (April, 1929), Vol. XXI, No. 10, p. 971.

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