AN HISTORICAL STUDY OF THE COLLAPSE OF BANKING IN DETROIT, 1929-1933

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By

Howard Ralph Neville

AN ABSTRACT

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ABSTRACT

On March 6, 1933, the newly inaugurated President of the United States, Franklin Delano Roosevelt, proclaimed a banking holiday for the United States. During the previous twenty days authorities in almost every state had either proclaimed banking holidays or had made provision for the restriction of payment for deposits. The first state to reach a crisis and to have a banking holiday proclamation was Michigan on February 14, 1933. Some banking authorities put much of the blame of the Michigan crisis and, therefore, of the national holiday on two large group banking systems operating at the time in Detroit.

The purposes of this study are to try to determine whether the Michigan banking holiday was a catalyst instrumental in making President Roosevelt's proclamation inevitable and to determine whether or not the group banking systems should receive the main force of criticism they have received.

The procedure followed was to examine the literature in the general field of banking but also in the narrower field of multiple banking. Further, the testimony of banking people taken before the Senate Committee on Banking and Currency and that taken before a Detroit one-man grand jury inquiring into the Michigan banking holiday were studied.

In addition, interviews were held with people who were directly connected with the banking holiday in Detroit and also with authorities of the state banking department offices in Lansing.

It was found that although the officers and directors of the two group banking systems carried out procedures not generally accepted as good banking practice, factors other than economic exerted considerable influence on the stability of the banking structure in Detroit in 1933.

It has been pointed out that it was not necessarily the group banking system itself which contributed to the collapse of banking in Michigan as it was the lack of control and supervision of the system by banking authorities.

Finally, it can be said that the holiday proclamation by the Governor of Michigan and the closing of the banks was a contributing factor, if not the catalyst, which led to the closing of all the banks in the country.

Two proposals are outlined for reducing the possibility of a renewal of banking problems such as those arising in the period from 1929 to 1933.

The first proposal would increase the capital requirements for the establishment of new banks of all kinds through the machinery of the Federal Deposit Insurance Corporation.

The second proposal would introduce a permanent committee, appointed by the Secretary of the Treasury, which should constantly review the banking structure and which should make recommendations to the Senate and House Committees on Banking and Currency.

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CHAPTER I

INTRODUCTION

Problem of the Thesis

In the United States some rather drastic financial experiences have occurred in the past thirty years; experiences that as a whole have no precedent in history. Of these experiences, the closing of the banks in the United States on March 6, 1933 undoubtedly represents one of the phenomena of the century.

Banking in the United States has and always has had a very complex structure. Banks can be divided into two main categories, national banks or state banks. They can be divided into categories representing members of the Federal Reserve System as against those which are not members. Further, they can be categorized on the basis of belonging or not belonging to the Federal Deposit Insurance Corporation. They can be identified on the basis of either belonging to the group of banks affiliated with some multiple office banking group[1] or of belonging to a group of banks called unit banks. In addition to these categories, banks within any

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[1]Multiple office banking in this study means those forms of banking systems which operate a banking business at more than one office. The three forms are branch, chain, and group banking systems.

one category can be distinguished further. There are 49 different groups of state banks within the continental limits of the United States. Furthermore, there are at least three different types of bank examiners who are administered by separate agencies: there are examiners for national banks as well as for state banks, and there are examiners for those banks belonging to the FDIC.

Primarily the banking system has grown without direction, limited only by general restrictions of the national and state banking authorities.

During the days of the depression beginning in 1929, banks came under the watchful eye of the general populace because the banks were the depositories for their funds. When all the banks were closed by presidential proclamation, people were confused and uninformed. Especially was this so in Detroit where only a few months previously two giant group banking systems stood, seemingly as towers of strength.

Certainly the economic depression which spread over the world had much to do with many bank failures. Mismanagement was another factor in other failures. Failures were reported periodically, and with each new report more people became uneasy. Obviously the banking holiday of March 6, 1933 was a culmination; there were a number of specific events which preceded and apparently led to that proclamation. One of the problems of this study is to investigate these events and to

attempt to find the catalyst instrumental in making that proclamation inevitable.

A second problem of this study is to determine whether or not, on the basis of the experience in Michigan, group banking systems should receive the main force of criticism they have received. It is not uncommon to find that the "group banking systems of Detroit are found guilty of bringing about the banking holiday".[2]

A third problem is to make recommendations regarding the banking system on the basis of the experience of the years 1929-1933.

Limitation of the Study

For the purpose of the study it was necessary to define limits both in span of time and in subject matter of the larger field of money and banking. The time period chosen was January 1, 1929 to March 6, 1933 for the following reasons: (1) The depression became known to almost all people in the fall of 1929, and it was at this time that concern for the safety of banks began to spread. (2) Group banking systems were not segregated from the wider field of chain and branch banks until 1929 and after 1933 were restricted by both state and federal law. (3) More statistics are available

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[2] Joseph Ernest Goodbar, Managing the People's Money, (New Haven: Yale University Press, 1935), p. 361; and Jules I. Bogen and Marcus Nadler, The Banking Crisis, (New York: Dodd, Mead & Company, 1933), pp. 142-144.

from the Federal Reserve System and other governmental collection agencies for these four years than for other years immediately after or preceding these. (4) The March 6, 1933 date was chosen as the final date of study, for after the presidential holiday proclamation almost all banking problems became national problems and solutions were presented by national banking authorities.

This study is limited to group banking systems and to the specific events leading to the March 1933 closing of banks. Branch banking and chain banking systems are not mentioned or analyzed in relation to their part in the banking crisis. Unit banks are mentioned only in that general summarized figures are presented.

Source of Data

Sources of data for this study include the Annual Reports of the Comptroller of the Currency, of the Commissioner of Banking in Michigan, of the Federal Reserve Board and of the Federal Deposit Insurance Corporation. The Federal Reserve Bulletins furnished data along with the Annual Issues of the Statistical Abstract of the United States. Published testimony of the hearings of the Banking and Currency Committee of the Senate and newspaper reports of the testimony of a one man Grand Jury Hearing into the Michigan Banking

Holiday were invaluable.[3] In addition to the above sources personal interviews were secured with the late Maurice Eveland, Banking Commissioner until May 1956; with Herman Taylor, presently Deputy Commissioner of Banking; Burton Daugherty, Assistant Attorney General who is assigned to the state banking department; and James Holden, formerly a director of the Detroit Bankers Company.

Statement of Organization of Chapters

Before analyzing the group systems of Detroit it has been necessary to present a brief picture of the economy of Michigan in 1929 and to show an overall view of the changes in the banking structure from 1929 to 1933. This is done in Chapter II. In Chapter III the reasons why group banking systems developed and the advantages and disadvantages of these systems will be pointed out. Chapter IV will show the evaluation of the two group systems in the metropolitan Detroit area. Chapters V and VI will be devoted to the methods of operation and practices of these two systems and to the final collapse of banking in Detroit, in Michigan, and in the United States.

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[3] The official records of these hearings were destroyed by fire and, therefore, are not available. Because of the importance of the testimony, however, almost complete records were printed in the daily newspapers of Detroit.

The final chapter will summarize the findings, draw conclusions from the data and make recommendations for a safer operation of the banking system.

It is hoped that by analyzing these past events, a basis may be provided not only for appraising past events but also for formulating future policy in the interest of a safer operation.

CHAPTER II

BANKING AND THE ECONOMIC ENVIRONMENT

Introduction

Banking development goes hand in hand with the development of the total economy of an area. The total economy is assisted by the banking segment, and the banking structure reflects the industrial, agricultural, population and economic changes which occur in the nation. Before beginning any detailed study of the banking operations in Michigan, it seems necessary to examine some of the other parts of the economy which both directly affect banking and are affected by it. Therefore, (1) the population of the state; (2) the over-all importance of industrial interests; (3) the place of agriculture in the economy; and (4) a general economic picture of the period under examination will be shown in this chapter. The final part of this chapter will present a panoramic view of banking in Michigan from 1929 to 1933.

Population

In the period 1920 to 1930, the population of Michigan grew from 3.6 million to 4.8 million; the population increased by a third in a period of ten years. (See Table 1.) The percentage increase in population in Michigan was almost twice as fast in the period 1920-1930 as it was for the United States as a whole. Almost 40 percent of the population of Michigan was concentrated in Wayne County and the city of Detroit in 1930. The ten counties with the largest total population are in the downstate area and are listed and ranked in Table 2.

TABLE 1

POPULATION FIGURES

MICHIGAN			UNITED STATES		
Year	Population	% Increase Over Past Census	Year	Population	% Increase Over Past Census
1920	3,668,412		1920	105,710,620	
1930	4,842,325	32.0	1930	122,775,046	16.1

Source: United States Census of Population, Volume I, p. 46.

TABLE 2

CONCENTRATION OF POPULATION IN MICHIGAN, 10 GREATEST POPULATED COUNTIES WITH RANKING FOR 1930

County	Rank	1930
Wayne	1	1,888,946
Kent	2	240,511
Genesee	3	211,641
Oakland	4	211,251
Saginaw	5	120,717
Ingham	6	116,587
Jackson	7	92,304
Macomb	8	184,961
Calhoun	9	87,043
Kalamazoo	10	84,630
Total for 10 Counties		3,144,998
% of Total Population		64.9%

Source: United States Census of Population, Volume I, p. 826

This concentration of population has a relationship to the amount of banking services offered in these particular areas. The continued increase in population in concentrated areas is likely to have some bearing on the expansion of general banking facilities in these areas.

Manufacturing

Population concentration in Michigan has paralleled manufacturing. Those counties with concentrated manufacturing interests correlate very closely with those of concentrated population. Table 3 shows the counties with the greatest concentration of manufacturing as indicated by the two manufacturing censuses. These ten counties account for approximately 70 percent of manufacturing done in the state.

Manufacturing interests have been important customers of banks in all counties of the state. However, the concentration of manufacturing with the income it generates in a few counties in the state has had much to do with the concentration of banking interests in these same areas.

TABLE 3

COUNTIES WITH GREATEST CONCENTRATION OF INDUSTRIAL INTERESTS (1939 and 1947)

County of Michigan	Census of 1939		Census of 1947	
	Rank	Value added[1] (Millions of Dollars)	Rank	Value added[1] (Millions of Dollars)
Wayne	1	1,004.6	1	2,544.4
Genesee	2	133.5	2	324.5
Kent	3	71.8	4	255.3
Calhoun	4	52.9	Not	Ranked
Kalamazoo	5	45.9	6	150.4
Muskegon	6	38.6	7	142.6
Saginaw	7	37.3	9	113.9
Jackson	8	25.9	Not	Ranked
Berrien	9	24.3	10	89.8
Ottawa	10	18.3	Not	Ranked
Oakland	Not	Ranked	3	261.4
Ingham	Not	Ranked	5	155.1
Washtenaw	Not	Ranked	8	120.3

[1]Value added in manufacture here is interpreted as industrial interest.

Source: Census of Manufactures, Volume I, 1948, p. 45.

Agriculture

Agriculture maintains a prominent position in the economy of Michigan. However, those counties which are predominantly industrial have very little agriculture, and the agricultural sections of the state are almost completely void of manufacturing. The predominance of agriculture in so great an area of the state has been partially responsible for a large number of small banks, both state and national, which were designed to meet the needs of agriculture. The total value of farm products sold in Michigan is shown in Table 4. As can be seen from the Table, although the total dollar amount is not large or does not rank high in comparison with other important agricultural states, there is a good basis for the establishment of banking for the agricultural communities.[1] Though there has been an extension of the facilities of Federal Government into traditional agricultural finance areas, there is still a need for a number of small banks scattered widely throughout the state to service the agricultural interests and auxilliary businesses.

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[1] Statistical Abstract of the United States, (Washington, D.C.: United States Government Printing Office, 1949), p. 615. Value of farm products in 1930 in the State of Michigan was low in comparison to value added in manufacturing, $266,154,193 worth of farm products as against $30,591,435,000 value added in manufacturing.

TABLE 4

VALUE OF FARM PRODUCTS SOLD

	1930
United States	11,011,329,325
Michigan	266,154,913
Rank of Michigan in U.S.	15

Source: Census of Agriculture, Volume II, Department of Commerce, Bureau of the Census.

General Economic Setting

After World War I, the world was torn by such unsound commercial and financial policies as tariff warfare, currency rivalry, and disorganized balance of payments. In the United States parts of the economy experienced depressed incomes during the early 1920's, and these areas remained depressed for the next decade. The boom of the 20's was not a general boom but one which was localized both in geographic area and in manufacturing interest.[2]

The city of Detroit and the state of Michigan prospered throughout this whole period; hordes of workers from all over the United States migrated to Michigan to work in the automobile factories.[3] Everyone wanted to buy one of the

[2] E. A. Goldenweiser, American Monetary Policy, (New York: McGraw-Hill Book Company, Incorporated, 1951), p. 137.

[3] Malcolm Bingay, Detroit Is My Home Town, (New York: The Bobbs-Merrill Company, 1946), p. 206.

new horseless carriages and many wanted to work in the new assembly line factories. Detroit to a very great degree, and Michigan to a lesser degree, became a one industry area; almost everyone was dependent directly or indirectly upon the automobile industry or upon servicing it.[4]

Between the years 1919 and 1929 the value of manufactures in Detroit increased 64.2 percent, and this was largely due to the phenomenal growth of the automobile industry.[5]

With the stockmarket crash in 1929, and with the development of depressed economic conditions, people throughout the United States began to stop buying automobiles. As purchases began to dwindle, unemployment in Michigan and Detroit began to grow. (Federal Reserve Statistics show that employment in the automobile industry was reduced by more than 45 percent in the year following the beginning of the depression in October 1929.)[6] "Unemployment on a scale unparalleled in any other great industrial city piled up a staggering volume of delinquent municipal taxes."[7] Speculators who had borrowed

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[4] United States Census of Manufacturers, (Washington, D.C.: United States Government Printing Office, 1927), p. 932. The lack of diversity of Detroit's industry is recognized when one realizes that over 56 percent of the total product of Detroit in 1927 represented motor vehicles, bodies, and parts.

[5] United States Census of Population, (Washington, D.C.: United States Government Printing Office, 1930), p. 1046.

[6] Federal Reserve Bulletin, Volume 16, 1930, p. 777.

[7] Lawrence Sullivan, Prelude to Panic, (Washington, D.C.: Statesman Press, 1936), p. 83.

money were called upon to raise collateral; business men who had borrowed on increased inventory and borrowers of all types were called upon to reduce their indebtedness. Workers who had borrowed to build homes were unemployed and mortgages became delinquent. "It would do banks and financial houses little good to foreclose or to bring debtors to the courts, because they could not liquidate property or goods."[8]

This was truly a very dreary setting but it is the picture of Detroit in the early years of the depression.

The banking collapse of 1933 in the United States "marked the culmination of one of the most dramatic and moving chapters in the history of modern capitalism. It came as the climax of a series of episodes that followed each other with startling inevitability --- disaster followed disaster in unerring fashion, so that the final catastrophe, we can see in retrospect was inescapable."[9]

Michigan Banking Structure, January 1, 1929

From January 1 to December 31, 1928, there were no bank failures in the state of Michigan, one of eleven states to

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[8] Personal interview with Mr. James Holden, formerly a director of the Detroit Trust Company, an affiliation of the Detroit Bankers Company, January 5, 1956 in his Detroit office.

[9] Nadler and Bogen, Op. cit., p. 3.

post such a record.[10] At the beginning of 1929 of the 787 commercial banks in Michigan, there were 585 state commercial banks, 134 national banks, 10 industrial banks, 22 trust companies, and 36 private banks.

Of the state banks of Michigan 155, or 25.1 percent, were members of the Federal Reserve System. State member bank aggregate resources totaled $1,177,699,543.82, or 73.6 percent of the total resources of state banks in Michigan on December 31, 1928.[11] These 155 banks, along with the 134 national bank members (National Banks are required to maintain membership in the Federal Reserve System)[12] made a total of 289 banks with resources of approximately $1,818,533,000, or approximately 81.2 percent of total resources of all banks in Michigan. Though Federal Reserve member banks accounted for 81.2 percent of total resources of all banks, they were only 36.7 percent of banking units in Michigan. Though only 36.7 percent of banking houses were Federal Reserve members, they were scattered all over

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[10] _Banking and Monetary Statistics_, (Washington, D.C.: Board of Governors of the Federal Reserve System, 1943), p. 284. In thirty-seven other states, there were 498 commercial bank failures.

[11] _Report of the Commissioner of Banking, 1928_, (Lansing: Franklin DeKleine Company, 1929), p. xv.

[12] Goldenweiser, _Op. cit._, p. 31.

the state, with particular concentration in the lower peninsula and around industrial and population centers where the larger banks had developed.

Table I in Appendix A shows a composite balance sheet for the 787 banks of all classes chartered to do business in the state of Michigan as of December 31, 1928.

Michigan Banks, 1929

In 1929, 83.4 percent of all banking units of Michigan had a paid-in capital of $100,000 or less. A breakdown by classification of banks shows that 527 of 617 banks under state supervision, or 85.4 percent of them, had a paid-in capital of $100,000 or less; 93 of the 134, or 69.4 percent, of the national banks and all 36 of the private banks were in this same category.[13]

In 1929 the speculative interests of the country were very active. The participation of commercial banks in this speculative boom, both directly and indirectly,[14] was made

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[13]Annual Report of the Comptroller of the Currency, (Washington, D.C.: United States Government Printing Office, 1929), pp. 688-689. The exact figures of the capital accounts for the private banks are not available since it was not necessary that they report to state officials. The total capital accounts for private banks was $460,000, so it is reasonable to assume that each of the banks had a capital paid-in account of under $100,000. The average was $12,777.78 per bank.

[14]H. Parker Willis and John M. Chapman, The Banking Situation, (New York: Columbia University Press, 1934), p. 53. See for summary of analyses made by the committee and its counsel.

clear in testimony before the Subcommittee of the Senate Banking Committee which was authorized to undertake an official investigation into the general financial situation.[15] The collapse of a considerable portion of the speculative boom in October, 1929, had an immediate impact on the value of the assets of the commercial banks of the United States. There was a close dependence of the banks upon the stock market, "by reason of the enormous volume of brokers' loans which had been developed (running close to 8 billion dollars during the latter part of 1929), these loans being subject to call, and hence likely to impel a sudden and exceptional strain upon the banks."[16]

The bank failure record for 1929 shows it to have been a year of heavy economic cross currents. In 1929 for the nation as a whole, 580 banks of all classes failed, whereas in 1928 there were 468 failures.[17] In Michigan 9 banks failed while in 1928 there were no bank failures. The Michigan bank failures consisted of 1 state bank, 7 private banks

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[15]Authorized by "Senate Resolution No. 71" passed in July, 1930 and championed by Senator Carter Glass of Virginia.

[16]Willis and Chapman, Op. cit., p. 56.

[17]In 1928 there were 1.8% of all banks failing, and in 1929 there were 2.4% of all banks failing, a percentage increase of one-third.

and 1 national bank with combined total resources of $1,601,206.[18] But births were greater than deaths, and 15 new Michigan state banks, trust companies and safe deposit companies were authorized to commence business in that year, indicating that some people thought the future in banking to be bright. Of the 15 new banks only 5 had a capital account of over $100,000; 8 of the new banks had capital of $25,000 or less. By December 31, 1929 the commercial banking structure of Michigan had changed somewhat but not radically. There were 613 state banks (4 fewer than at the beginning of the year) and 130 national banks (4 fewer than at the beginning of the year) plus 34 private banks (2 fewer than at the beginning of the year), making a grand total of 777 Michigan banks. There were 17 banks which consolidated with other banks during the year of 1929.

The change in the number of banks came about as follows:

Michigan State Banks & Trust Banks, Jan. 1, 1929 ------------		617
New banks during the year --------------		15
		632
Less: Consolidations --------	17	
Failing State Banks --	1	
Conversion -----------	1	19
		613
National Banks --------------		130
Private Banks ---------------		34
Total		777

[18] *Annual Report of the Comptroller of the Currency*, *Loc. cit.*, 1929, p. 729; 1930, p. 765.

1930

The upheaval of the commercial banking system of Michigan and the nation did not become evident in an increasing number of failures until 1931. However, in 1930 many banks encountered difficulties in maintaining solvency and earnings.

The 1930 readjustments were aimed at higher earnings rather than greater liquidity as would be expected. They took the form of expansion of loans and investments into investments other than United States government securities and eligible paper for rediscounting.[19] Bankers were anxious to get a high return on their new investments to compensate for the declining value of previous investments; hence, the desire to stay away from the United States government securities which carried a very small return. "This changing character of bank assets resulted in a further, though not impressive reduction in banking liquidity."[20]

In 1930, 1,174 banks of all classifications failed in the United States.[21] They included 959 state commercial

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[19]Willis and Chapman, Op. Cit., Table 46, p. 118.

[20]Ibid, p. 128.

[21]Annual Report of the Comptroller of the Currency, 1930, p. 767; 1931, p. 1034.

banks, 53 private banks and 162 national banks. In Michigan 22, or 2.8 percent of all banks operating at the beginning of the year failed before the end of the year.

The bank failure rate in Michigan was below the national average. Michigan had 3.2 percent of all banks in the nation but only 1.9 percent of all bank failures in the country. The 22 banks in Michigan which failed were classified as 4 state banks, 16 private banks and 2 national banks. In 1930 as in 1929, despite a growing realization that commercial banking was in serious trouble, 5 new Michigan state banks and trust companies were authorized to begin business.[22] These banks were all authorized to begin and did actually commence business before the fall of 1930 when there was an increase in the bank failure rate.[23] None of these banks commencing business in 1930 had a paid-in capital of more than $100,000, and 3 of them were of $25,000 or less, indicating that there was to be a very narrow safety margin for times of stress.[24]

On December 31, 1930, the banking structure of Michigan showed the effects of a continuation of the consolidation

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[22] _Report of the Commission of Banking_, 1930, p. xi.

[23] _Ibid_, p. xi. The last authorized bank began operations August 4, 1930.

[24] _Ibid_, p. xi.

movement of the previous year. Again there had been a decline in state bank members of the Federal Reserve System, this time 7 fewer members from the previous year, or a total of 137. This shows a decrease of 18 members in two years. At the end of 1930 the banking structure of Michigan consisted of 597 state banks (16 fewer than at the beginning of the year), 125 national banks (5 fewer than at the beginning of the year), plus 24 private banks (10 fewer than a year previously), making a total of 746 banks. There were 17 consolidations of state banks during the year.

The change in the number of banks came about as follows:

Michigan State Banks & Trust Companies, Jan. 1, 1930			613
New Banks			5
			618
Less:	Consolidation	17	
	State Bank Failures	4	21
			597
	National Banks		125
	Private Banks		24
		Total	746

1931

Though bank failures were large in 1930, the first real crisis with which the Federal authorities could not cope came in the fall of 1931. Banks had been supported by the Federal Reserve since the beginning of difficulties and, though there were numerous failures, the financial sector of the economy could still carry on business as usual. There

had been relatively little shrinkage in bank credit since October 1929.[25] Since the crash in 1929, throughout 1930 and during the first half of 1931, the Federal Reserve Banks had taken measures[26] to maintain the position of commercial banks' reserve in such a way that the commercial banks would be under no general pressure to call loans and sell investments except where special local economic and banking conditions developed.[27] Though banks of all classes continued to fail in great numbers in every section of the United States, there seems to have been no general panic. "The surest sign of general anxiety about banks - an increase of cash in the hands of the public - was not in evidence."[28]

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[25] Albert Gailord Hart, Debts and Recovery, (New York: The Twentieth Century Fund, 1938), Table 5, p. 290.

[26] Banking and Monetary Statistics, Op. cit., p. 340. The Reserve Banks bought bankers' acceptances and government securities enabling the commercial banks to pay off most of their borrowings. Discounts were reduced from $1,037 million in June 1929 to $251 million in December 1930.

[27] Hart, Op. cit., p. 45.

[28] Banking and Monetary Statistics, pp. 411, 412, 414. According to official figures published by the Federal Reserve, cash in circulation was less in each week of 1930 than in the corresponding week of 1929. The average figure for 1929 was $4.476 billion, compared with $4.245 billion for 1930. In 1931 money in circulation began to creep up above 1930, and at the very end of the period here under discussion, it rose above 1929. In June 1931 the circulation was $4.535 billion, as against $4.235 billion in 1930 and $4.459 billion in 1929. But when we remember that 3200 banks had disappeared by failure and merger since 1929, leaving many

In the spring of 1931 bad news began to come from Europe. The Austrian banking system began to have difficulties; shortly following came the "Stand-Still Agreement" involving the transfer of funds out of Germany; in the summer, runs developed on London banks; in late September England went off the gold standard and the United States began to lose gold to overseas depositors. Some of this returned in the next two months, but then began a steady decrease in our gold stock. September, 1931, to September, 1932, gold stock figures are as follows:

TABLE 5

Net Change in Gold Stock of United States (Millions of $)[29]

Sept. 1931	+ 20.6	March 1932	- 24.6
Oct.	- 337.7	April	- 30.2
Nov.	+ 89.4	May	- 195.5
Dec.	+ 56.9	June	- 206.0
Jan. 1932	- 73.0	July	- 3.4
Feb.	- 90.6	Aug.	+ 6.1

This drain of gold caused the Federal Reserve authorities to reverse their "easy money" policy of the past year by raising

communities without banking facilities, the rise in early 1931 need not be taken to register a panic. Further see Appendix I, which shows the amount of money in circulation as related to amount of spending.

[29]Banking and Monetary Statistics, p. 537.

rediscount rates.[30] This tightening of money supply came at an inopportune time for the commercial banks since they had already been losing reserves from a double source: (1) the outflow of gold to foreign depositors, and (2) an increase in cash hoarding in this country.[31]

This double pressure on bank reserves caused bankers to speed up the process of the contraction of bank credit. The drop in total bank deposits, other than interbank deposits, for the last half of 1931 was $5.844 billions, more than double the decline than that from June 30, 1929 to June 30, 1931.[32]

A. G. Hart says that "during the second half of 1931 -- a transition took place from the orderly, if unpleasant, early depression situation of 1930 to the state of fear and panic which characterized 1932 and early 1933."[33]

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[30] Goldenweiser, Op. cit., p. 158.

[31] Banking and Monetary Statistics, p. 412. Cash in circulation in May, $4,415 billion; June, $4.535 billion; July, $4.550 billion; August, $4.765 billion; September, $4.959 billion; October, $5.253 billion; November, $5.249 billion; December, $5.360 billion. This indicates an increase of 21.4 percent in seven months, whereas there was a decrease of $136 million from September 1929 to May 1931.

[32] Ibid, p. 18.
Bank Deposits: June 30, 1929, $53.9 billion; June 30, 1931, $51.8 billion; December 31, 1931, $45.9 billion.

[33] Hart, Op cit., p. 50.

In the United States during the last half of 1931, there were 1,611 bank suspensions, more than twice the number for the first six months of the year, and almost as many as for the entire year of 1930. This alarming rate of bank suspensions in the fall of 1931 induced the Federal Government to begin some kind of remedial action in addition to previous Federal Reserve action to help the banking sector of the economy.

On October 31, 1931, the National Credit Corporation was incorporated as a non-profit organization under the laws of the state of Delaware at the suggestion of President Hoover and his advisors.[34] Hoover said it was "created to help banks with sound assets to obtain liquid funds when necessary."[35]

The Corporation obtained funds with which to operate by asking banks throughout the country to subscribe to notes of the corporation to an amount equal to 2 percent of each bank's net demand and time deposits. Banks subscribing to the notes organized themselves into one or more associations in each Federal Reserve District. If a bank needed a loan, the association would pass on it and then recommend action to

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[34] New York Times, October 12, 1931, p. 16. Mr. M. N. Buckner, President of the New York Clearing House Association, served as Chairman of the Organizing Committee.

[35] New York Times, October 18, 1931, Section II, p. 11.

the loan committee of the corporation which actually advanced the funds. Each loan was secured by adequate collateral and became first, an obligation of the borrowing bank, and secondly, a joint liability of the other banks of the local association.

The plan of the National Credit Corporation was thus one of mutual assistance. A second boost to troubled banks during the year came in December, 1931, when the Comptroller of the Currency informed all national banks that bonds enjoying the four highest ratings of any standard rating service would be valued at cost because of the low prevailing market prices.[36] Depositors would have none of this type of action; only by paying money of one sort or another on demand could the banks regain the confidence of the depositors.

For the United States as a whole there were 2,296 banks of all classifications which suspended operations during 1931.[37] These included 409 national banks, 1,807 state banks, of which only 55 were members of the Federal Reserve System, and 80 private banks.[38] In 1931, 113 banks of all classes suspended operations in Michigan. Since three of these reopened the

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[36] *Report of the Comptroller of the Currency*, 1931, p. 2.

[37] *Report of the Comptroller of the Currency*, 1932, p. 1037

[38] *Ibid*, p. 568.

same year, total suspensions for the year were 110. These 110 banks constituted 18.4 percent of the banks in Michigan as of the first of January, 1931. (See Page 22.) This 18.4 percent failing rate need only be compared with the less than 12 percent failing rate for the nation to see that in a period of one year a situation had developed in Michigan which was dangerous to all banks in the state.

TABLE 6

Bank Suspensions for Michigan and U.S.

	Michigan			U.S.		
Year	Bank Suspensions	Total Banks	Rate of Suspension (percent)	Bank Suspensions	Total Banks	Rate of Suspension (percent)
1927	6	774	.8	669	25800	2.6
1928	-	787	.0	498	24968	2.4
1929	9	777	1.16	659	24026	2.7
1930	21	746	2.81	1350	22172	6.1
1931	113	614	18.4	2293	19375	11.8
1932	87	567	15.3	1453	17802	8.2

With almost one of every five banks failing, the rest hardly could be expected to remain solvent for very long.

The 110 failing banks in Michigan were classified as 14 national banks, 82 state banks and 14 private banks.[39] There were 6 new state Michigan banks authorized to commence business in 1931. Three of these had a capitalization of

[39] Report of the Commissioner of Banking, 1931, p. xi. One of the state banks went into voluntary liquidation by vote of its stockholders. This was the Wojcik State Bank of Hamtramck, Michigan.

$25,000 or under, again indicating that there was a very narrow safety margin for unanticipated trouble.

At the end of 1931, the banking structure of Michigan had changed materially from the previous year. There were now only 109 state banks which were members of the Federal Reserve System, or 29 fewer than the previous year. These 109 banks had aggregate resources of 77.2 percent of the total resources of Michigan state banks.[40] There were 484 state banks (113 fewer than at the beginning of the year), 106 national banks (19 fewer than at the beginning of the year), and 24 private banks (the same number as at the beginning of the year), to make up a total of 614 commercial banks (134 fewer than at the beginning of the year) in the banking structure of Michigan. During the year there were 43 banks of all classes consolidating in Michigan. The change in the number of banks came about as follows:

Michigan State Banks and Trust Companies, Jan. 1, 1931		597
New banks (state banks)		6
		603
Less: Consolidations	38	
State Bank Failures	81	119
		484
National Banks		106
Private Banks		24
		614

[40] *Ibid*, p. xix.

1932

The year 1932 was a particularly trying one for the economy of the United States in that it was this twelve-month period that was characterized by stop-gap measures by the Federal Government. In addition it was a year of political crisis, of the low point of the depression, of the first state-wide bank moratorium, and of other happenings which were preliminary to the ultimate general banking disaster and Holiday in March,1933. In general, with the possible exception of the early summer months, the year 1932 was one of monetary and over-all disturbances. The new year was hardly three weeks old when the Congress established the Reconstruction Finance Corporation.

The Reconstruction Finance Act (entitled "An Act to Provide Emergency Financing Facilities for Financial Institutions, to Aid in Financing Agriculture, Commerce and Industry and for Other Purposes") was passed on January 22, 1932. The aim of the Administration in setting up the RFC is given in the words of President Hoover in a statement announcing his approval of the Act:

> It brings into being a powerful organization with adequate resources, able to strengthen weaknesses that may develop in our credit, banking and railway structure, in order to permit business and industry to carry on normal activities free from the fear of unexpected shocks and retarding influences.

> Its purpose is to stop deflation in agriculture and industry and thus to increase employment by the restoration given to their normal jobs. It is not created for the aid of big industries and big banks. Such institutions are amply able to take care of themselves. It is created for the support of the smaller banks and financial institutions, and through rendering their resources liquid to give renewed support to business, industry, and agriculture. It should give opportunity to mobilize the gigantic strength of our country for recovery.[41]

The RFC had an expiration date of January 31, 1935, but the President of the United States could extend this time under certain conditions. The authorized capital was $500,000,000, but the Corporation could, in addition, borrow $1,500,000,000 through issuance of its own obligations.[42]

All loans of the RFC had to be fully secured, and the law further stated that neither obligations of foreign governments nor of foreign corporations could be used as collateral. By the end of 1932 the amount of authorized loans of the RFC had reached the sum of $1,937,000,000.[43] This absorbed the best collateral of many banks.

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[41] _Federal Reserve Bulletin_, Vol. 18, Feb., 1932, p. 49.

[42] The initial capital was entirely subscribed by the United States Government.

[43] _Federal Reserve Bulletin_, Vol. 19, Feb., 1933, p. 65. There were outstanding debts of $1,225,000,000, since some of the authorized amounts had not been advanced, and $300,000,000 had to be repaid on previously made loans.

One of the original requirements of the RFC was that a quarterly report be submitted to Congress stating "the aggregate loans made to each of the classes of borrowers provided for and the number of borrowers by states in each class."[44] However, in July, 1932 there was a change in policy which required that "the RFC shall submit monthly to the President and to the Senate and the House of Representatives (or Secretary of the Senate or the Clerk of the House of Representatives, if those bodies are not in session) a report of its activities and expenditures, together with a statement showing the names of the borrower to whom loans and advances were made, and the amount and rate of interest involved in each case."[45] This publicity instruction came as an amendment to the Emergency Relief Act of 1932. In signing the Act, President Hoover said, "The possible destructive effect on credit institutions by the so-called publicity clause has been neutralized by the declaration of the Senate leaders of all Parties that this provision is not to be retroactive, and that the required monthly report of future transactions are all of a confidential nature and must be so held by the Clerks of the Senate and the House of Representatives,

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[44] Ibid, Vol. 18, February, 1932, p. 98.

[45] Ibid, August, 1932, p. 521.

unless otherwise ordered by the Congress when in session."[46]

Speaker of the House of Representatives, John Nance Garner, disregarding the statement of President Hoover, ordered the Clerk of the House to release all the names of the borrowing institutions to the press as soon as they were received. Speaker Garner declared that he personally would be responsible for this action.

As protested by the RFC directors and other banking leaders, this publicity was particularly bad for two reasons: (1) the publication of the loans threw needless alarm into thousands of communities at the end of every month, and (2) this publicity requirement kept many needy banks from applying for RFC loans because of the fear of bad public feeling from depositors.

The reaction of the public to the Reconstruction Finance Corporation in the beginning was that of complete confidence. They felt that with the huge resources of the RFC at the disposal of the banks, bank failures would decline and eventually cease almost altogether. However, with the publicity given to banks making use of the RFC funds, depositors became very nervous about funds kept in a bank which had borrowed money from the RFC. Many of these depositors immediately transferred their accounts

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[46] The Detroit News, July 18, 1932, p. 2.

from a borrowing bank to one which had not yet been forced to approach the RFC for help.[47] The banks losing deposits were in dire circumstances and many of them were forced to close. The publicity given to the RFC loans actually made a bad situation worse.

At the "lame duck" session of Congress in January, 1933, Speaker Garner, now the Vice President-Elect of the United States, drove for more publicity.[48] He personally got through the House of Representatives a resolution to publish a list of all banks which had ever received assistance from the RFC regardless of whether the banks had repaid the loans or not.[49]

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[47]Nadler and Bogen, Op. cit., p. 132.

[48]Apparently, the demand for publicity of the RFC loans developed out of the heat of the election campaign during the summer of 1932. It seems the out-party felt that loan applications from Republicans were being given preferential treatment at the RFC. Once the newspapers began picking up the story, it is only logical that those of the out-party would try to capitalize on the publicity and continue the pressure for an investigation of the operations of the Corporation. Since Speaker Garner was one of the key leaders of the party, it was only natural that he should carry the burden in trying to prove some kind of preferential treatment for various banks.

[49]Sullivan, Op. cit., p. 50.

The result of this publicity was that thousands of banks which had borrowed from the RFC prior to the first public release in July 1932 were exposed to pressures from depositors who felt that they should withdraw their money while they could.

In addition to the Reconstruction Finance Corporation and the National Credit Corporation, which liquidated its assets and ceased operation in March,1933 for lack of business, there were a number of other steps taken by the Administration to strengthen the collapsing banking system during 1932.

The Treasury, on March 6, 1932, put on sale new 2 percent Treasury Certificates maturing March 15, 1933, in denominations of $50, $100, and $500, which were popularly known as "Baby Bonds". The object of these "Baby Bonds" was to induce people hoarding currency to invest in these securities and to put idle funds back in circulation.[50]

The Glass-Steagall Bill was passed on February 27, 1932, in order to utilize the gold reserve of the United States to full advantage in expanding credit. The bill amending the Federal Reserve Act authorized the Reserve banks to pledge government securities acquired through open market operations as eligible paper as a cover for their notes. A second

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[50]Nadler and Bogen, Op. cit., p. 112.

provisions of this bill authorized loans to groups of five or more member banks secured by collateral otherwise not acceptable as security on loans.

In the early months of 1932 the Federal Reserve Banks began open market purchases on a new large scale. Government security holdings increased from $741,000,000 on February 24, 1932,to $1,801,000,000 by the end of the fiscal year in June,1932. The objective of the Federal Reserve in buying the larger amount of securities was two-fold: "one, to offset the outflow of gold and, two, to pump large amounts of reserve funds into the banks, so as to reduce interest rates and create extremely easy money market conditions."[51] It was felt that with lower interest rates the banks would be able to extend loans more freely to industry and trade. The authorities were working on the old theory that the only thing necessary to halt deflation and decrease economic activity was a large increase in the amount of money in the market.

On July 22, 1932, the Federal Home Loan Bank Act was passed, which established 12 Federal Home Loan Banks, 1 in each Federal Reserve district. These banks were authorized to make advances against installment home mortgates. From

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[51] Ibid, p. 118.

late in 1929 to the early part of 1932 increasing numbers of home owners found themselves unable to meet interest and principal payments on their mortgages. Lending institutions were to subscribe to the capital of the banks up to 1 percent of the aggregate unpaid principal of their home mortgage loans. Congress appropriated $125,000,000 to be added to this subscribed amount. The Home Loan Banks might then advance up to 60 percent of the unpaid principal of a home mortgage loan.

To the Federal Home Loan Bank Act was attached the Glass-Borah Amendment which incorporated a provision permitting a substantial increase in the circulation of national bank notes by extending for a period of three years the circulation privilege to all bonds of the United States bearing interest at 3 3/8 percent or less.[52]

The passage of this amendment was again designed to increase the money supply. However, the Comptroller of the Currency in his Annual Report of 1932 said the chief currency problem had not arisen out of a lack of power to issue currency but out of hoarding after it was issued. Further he pointed out that issues of new national bank notes for the first three months aggregated $125,000,000 and that the total amount of currency outstanding did not rise by this amount, but that in

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[52] _Annual Report of the Comptroller of the Currency_, 1933, p. 4.

fact, there was an offset by the retirement of the Federal Reserve notes during the period of more than $125,000,000.[53]

The passage of the Federal Home Loan Act and its attached amendment, the Glass-Borah amendment, ended the emergency action methods by the Hoover administration of dealing with the financial and economic crisis. In Table 7 below a summary of these emergency type actions are listed with the date inaugurated and the purpose for which they were taken.

TABLE 7

Summary of Actions Taken by the Hoover Administration to Bolster the Banking System, 1931-1932

Action	Date	Purpose
(1) National Credit Corporation	Oct. 1931	Mutual assistance through making loans to needy banks from funds provided by all.
(2) Revaluation of Bonds	Dec. 1931	Comptroller of the Currency would allow bonds enjoying the four highest ratings of any standard service to be valued at cost in bank examinations, to maintain solvency of banks.
(3) Reconstruction Finance Corp.	Jan. 1932	Resources to be placed at the disposal of financial institutions by loans to relieve temporary pressures.
(4) Glass-Steagall Bill	Feb. 1932	Reduce amount of gold necessary to be held as collateral for Federal Reserve notes in the event of a shortage of eligible commercial paper.

[53] *Ibid*, p. 5.

TABLE 7 - Continued

Action	Date	Purpose
(5) Sale of "Baby Bonds"	Mar. 1932	To induce people to take money from hoards and return it to circulation.
(6) Federal Reserve Open Market Purchases	Spring 1932	To offset the outflow of gold and to create easy market conditions with lower interest rates.
(7) Federal Home Loan Banks	July 1932	To make advances against installment home mortgages so people would not lose their homes through foreclosures.
(8) Glass-Borah Amendment	July 1932	To "monetize" the debt of the U.S. Government and to increase the money supply.[54]

None of these methods did more than quiet the alarms of the people for a few weeks, and thus the government failed in its obligation to the people to make a fundamental change. In the state of Michigan these opiates had much the same effect as in other sections of the country and bank failures persisted with a continued down trend in economic activity.

During 1932 there was again a fairly large change in the banking structure of the state of Michigan. There were 72 bank suspensions from the 484 state banks operating at the beginning of the year. These 72 suspensions represent almost 15 percent of the total banks. During the year 32 banks were reopened which previously had closed, so the net decrease in the number of banks was 40. In addition the Northern Title

[54]When the Federal Reserve would purchase these bonds, or debt claims against others, they gave in exchange deposits which served as money, or their own debt instruments, Federal Reserve notes. Thus, out of the government bonds has come money.

and Trust Company of Bay City went into voluntary liquidation. Despite a bank suspension rate of about 15 percent for the state, at least one new bank began operations; that, the Michigan Trust Company of Bay City.

At the end of the year there were 441 state banks and trust companies in operation in Michigan (47 fewer than at the beginning of the year). There were 102 national banks in operation (4 fewer than at the beginning of the year), and 24 private banks (the same number as of January 1, 1932). Of the state banks, only 99 belonged to the Federal Reserve System. This was 10 fewer than twelve months previously.

During 1932 a total of 87 banks suspended operations. This was made up of 5 national banks, 72 state banks, and 10 private banks. At the end of the year there were 567 banks of all types operating in the state, 47 fewer than had started the year. The change in the number of banks came about as follows:

Michigan State Banks and Trust Companies, January 1, 1932		484
New Banks		1
		485
Less: Consolidations	4	
Net State Bank Suspensions	40	44
		441
National Banks		102
Private Banks		24
Total		567

1933

Throughout January and February 1933 the convergence of fears and uncertainties undermined business confidence, and the general attitude gradually changed from alarm

for the future to nationwide distress. The banking sector of the economy was naturally one of those which was most affected, and the results of uncertainties regarding the health of the economy brought on the strains which eventually resulted in the Banking Holiday.

The retroactive publicity release on January 25, 1933, of all RFC loans previously made, and the growing insecurities about the change in national administration which was to take place in March made the general public and businessmen very wary. Slowly at first, but with increasing virulence, symptoms of general panic began to appear in widely scattered cities of the country. During the month of January scattered banking runs developed in San Francisco, Baltimore, St. Louis, Kansas City, New Orleans, Cleveland and Boston.[55]

Bank suspensions in the first two months for the whole United States were at a phenomenally high rate. There were 462 suspensions of banks of all classes from January 1, 1933, to March 3, 1933.[56] This was made up of 66 national banks, 375 state banks and 21 private banks. The 462 suspensions for two months is equal to an annual rate of 2,772 banks per year, greater by far than any previous year. In Michigan

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[55] Sullivan, Op. cit., p. 81.

[56] Annual Report of the Comptroller of the Currency, 1933, p. 4

18 banks suspended operations during this same period.[57] These 18 banks were made up of 4 national banks, 9 state banks and 5 private banks. Had this rate of suspension for the first two months of the year been carried through to the end of the year, there would have been over 100 suspensions for the year, or almost 18 percent of banks in operation at the beginning of the year.

Truly the feeling present in the early part of 1933 was that of near panic. From the outlying centers the feeling spread, first slowly and then more rapidly to the intermediate towns and then to the large cities and banking centers. The first major climax was reached in Detroit during the second week of February,1933, when the Governor of the state of Michigan called a statewide Banking Holiday on February 14, 1933.

Summary

During the post World War I years,prosperity was prevelant in most sectors of the United States. Michigan with its booming automobile industry received many new residents and grew almost twice as fast as the United States as a whole percentagewise. The state became divided into two main parts: those primarily concerned with agriculture and those primarily concerned with the production of manufactured products.

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[57] _Ibid_, p. 657.

In the banking sector of the economy there were many under-capitalized banks in rural sections of the state and nation. Robert G. Rodkey points out that 57.17 percent of the state bank failures in Michigan were concentrated in banks with $50,000 in capital or less for the period January 1, 1929 to March 4, 1933.[58] In addition, the Comptroller of the Currency in his 1932 annual report states that of all suspended banks since 1920, 65.7 percent have had capital of less than $50,000.[59]

The continued solvency of banks depends to some extent on the size of the capital account. If these accounts are large, creditors enjoy a wider margin of safety than if they are small; assets must depreciate much more before the owner's equity is erased. When capital accounts are small, a small decline in the value of assets will wipe out the owner's equity and endanger the creditors' claims.

Once the depression got under way in 1929 the weaker of the banks were forced to suspend operation. During the years 1929 through February 14, 1933, a total of 249 banks, or more than 31 percent of the banks of Michigan in operation on January 1, 1929, were forced to close their doors.

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[58] Robert G. Rodkey, <u>State Bank Failures in Michigan</u>, (Ann Arbor: Bureau of Business Research, 1935), p. 10.

[59] <u>Annual Report of the Comptroller of the Currency</u>, 1932, p. 4.

Below is a summary table showing the changes brought about in the banking structure for Michigan during the period 1929-1933.

TABLE 8

Summary, Changes in Number of Banks in Michigan, 1929 - 1932

	1929	1930	1931	1932
State Banks Beginning of Year	617	613	597	484
New Banks	15	5	6	1
	632	618	603	485
Less: Consolidations & Failures	19	21	119	44
	613	597	484	441
National Banks	130	125	106	102
Private Banks	34	24	24	24
Total Banks in Michigan (End of Year)	777	746	614	567

It was during this period, 1929-1933, that multiple banking came to be used more extensively than ever. Though chain and branch banking were common prior to this time, the group systems became important only after 1926. It was in 1929 that the first exhaustive study was made of the system and that there was a distinguishing between the group and chain systems.[60]

[60] "A Study of Group and Chain Banking," Report of the Economic Policy Commission, (New York: American Bankers Association, 1929).

CHAPTER III

MULTIPLE BANKING FORMS DEFINED AND EXPLAINED

Introduction

Multiple banking is a development of the twentieth century. Branch banking was an important form of organization in the early years of banking in the United States,[1] but in the years immediately preceding the Civil War, and during and after this conflict for about 30 years, its significance dwindled. At the turn of the century there were only 87 commercial banks which maintained branches and these branches totalled only 119.[2]

In the next five years commercial banks added 231 branches, making a total of 350.[3] By 1910 commercial banks maintained 548 branches in the United States, and by 1920 there were 530 banks with 1281 branches.[4] For the United States as a whole, the following table shows the number

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[1] The Charter by Congress in 1791 of the first bank of the U.S. provided for a head office in Philadelphia and authorized branches wherever the directors saw fit.

[2] Banking and Monetary Statistics, p. 297.

[3] Ibid, p. 297.

[4] Ibid, p. 297.

of banks operating branches and the number of branches for the 7 years, 1921-1929.[5]

TABLE 9

Number of Banks Operating Branches

Year	Total Banks	National Banks	State Banks	Number of Branches Total
1921	547	23	524	1455
1922	610	55	555	1801
1923	671	91	580	2054
1924	706	112	594	2297
1925	720	130	590	2525
1926	744	148	596	2703
1927	740	153	587	2914
1928	775	171	604	3138
1929	764	167	597	3353

The origin and history of group banking is lost in poorly kept records. Almost all early records of multiple banking of any sort classified group and chain banks into one category. It was only an increase in the control of ownership of banks by corporations in the late 1920's which led to differentiation between group and chain banks.[6]

Though only fragmentary statistics are available for the years prior to 1929, those available serve to indicate the general growth of the group banking movement. "As early as 1922 the Federal Reserve Board made a survey which showed that there were some 800 banks in groups and chains in the United States. Later investigations showed 1,000 banks in

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[5]Ibid, p. 297.

[6]Ibid, p. 295.

groups and chains in 1926 and over 1400 banks in groups and chains in 1928."[7] This movement continued to gain ground until, at the end of 1929, there were 332 groups and chains of banks involving a total of 2,165 banks.[8]

During the late 1920's and early 1930's group banking became very popular and spread throughout the United States. The holding company, which is the primary essential of group banking, was a popular form of business organization and extended to almost all fields of endeavor; the banking field did not escape.

Business leaders, usually of a promotional type, saw a chance to make profits by selling the shares of a holding company in a market in which shares of stock were a much sought after item. The shares they wished to sell were those connected with one of the most conservative and respected of all businesses, that of banking.

Chain banking is older historically than the group system. The earliest instance of this type of multiple banking found is that of Mr. David Beecher in North Dakota in 1887.[9] Some few chains developed before 1900 but it was after the

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[7] Ibid, p. 295.

[8] Ibid, p. 312

[9] Commercial West (Nov. 1, 1902), Quoted by Gaines T. Cartinhour, Branch, Group and Chain Banking, (New York: MacMillan Company, 1931), p. 82.

panic of 1907 that this form of banking control came to be used more widely. Though chain banking systems are not limited to states prohibiting branch banks, this prohibition has no doubt been a factor in the beginning of many chain systems. Table 10 shows the most reliable list of states with chain systems available in 1925.

TABLE 10

Chain Banks in the United States, 1925[10]

State	Number of Chains	Banks in Chain
Arkansas	2	24
Arizona	4	15
California	20	66
Colorado	Two or three reported, but banks failed	
Florida	1	54
Georgia	2	163
Idaho	18	73
Illinois	3	18
Iowa	8	45
Massachusetts	1	Reported for an earlier date in Boston
Minnesota	5	103
Mississippi	2	17
Missouri	1	6
Montana	Report made but number not given	
Nebraska	2	11
Nevada	1	9
New Jersey	8	26
New Mexico	2	8
New York	10	35
North Dakota	Report made but number not given	
Oklahoma	6	45
Oregon	6	22
Pennsylvania	2	16
South Dakota	1	6
Texas	2	28
Utah	9	52
Washington	16	69
Wisconsin	2	14
Wyoming	1	8
Total	134	933

[10] H. P. Willis, Survey of Banking in the United States, (New York: Columbia University Press, 1926), p. 12.

The heaviest concentration of chain banking systems is in the Northwest and Southeast. In the Northwest there are at least 56 chains with 399 banks, more than 42 percent of the total number of banks. In the Southeast, in only three states and with only 5 chains, there are 234 banks, more than 25 percent of the total banks involved in chain systems.

The chain system lost much of its glamour in 1926 when the Witham Chain of Georgia and Florida failed.[11]

Definition of Multiple Banking Forms

There has been a problem in distinguishing between multiple forms of banking. In discussions regarding chain and group banking, until about 1929, few if any banking people made any differentiation between the two systems. However, with the advent of the greater use of the group system, and with the falling into disfavor of chain banking, bankers in general, and group bankers in particular, began to make a definite distinction between the two.

For purposes of clarity the three forms of multiple banking are defined. Branch banking, as defined by Cartinhour, is a system "in which the branches are merely offices of the parent institutions, extensions of it, but under its direction, with the same officers, management, and corporate

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[11] Haynes McFadden, "The Chain Bank Crash in Georgia", American Bankers Association Journal, September, 1926, Col. XIX, No. 3, p. 137.

existence where 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".[12]

The Board of Governors of the Federal Reserve System defines branch banking as "a type of multiple office banking under which a bank as a single legal entity operates more than one banking office".[13]

Chain banking, of little importance after 1926 (see page 49), is characterized as "a type of multiple office banking in which the operations or policies of at least three independent incorporated banks are controlled by one or more individuals", and generally the system is built around a key bank considerably larger than the other banks in the chain.[14] Cartinhous makes one further distinguishing characteristic regarding chain banks. He points out that in the chain system "an individual or group of individuals, in contrast to a corporation, have established majority control or are in a position through stock ownership, or otherwise, to exercise some control."[15]

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[12] Gaines Thomson Cartinhour, Branch, Group and Chain Banking, (New York: MacMillan Company, 1931), p. 59.

[13] Banking and Monetary Statistics, p. 294.

[14] Ibid, p. 295.

[15] Cartinhour, Op. cit., p. 58.

Group banking "indicates the type of multiple office banking structure in which three or more independently incorporated banks are controlled directly or indirectly by a corporation, business trust, association, or similar organization".[16] Again, Cartinhour makes a distinction which is necessary to separate chain banks from group banks. He says that in order for a group banking system to exist the stockholders must exchange their shares for a price, or permit them to be placed under a trusteeship, or exchange their shares in another corporation. 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 degree of unity is achieved for the group as a whole.[17]

The main feature distinguishing chain banking from group banking is that in group banking there is always some form of concentration in a central management, usually by way of a holding company. A secondary difference is that in chain banking there is usually a close distribution[18] of the stock, while in group banking the stock of a holding company is usually offered through organized exchanges and this stock is

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[16] Banking and Monetary Statistics, p. 295.

[17] Cartinhour, Op. cit., p. 59.

[18] Most often this close distribution takes the form of family stock or two or three business associates holding the stock by themselves.

widely held by the public. It is, however, sometimes difficult to distinguish between chain banking and group banking as a form of multiple banking.

Branch banking, on the other hand, is relatively easy, even for the layman, to distinguish from either of the other two forms of multiple units. Branch banks are clearly identified in most cases and have managers appointed by the parent institution and are directed policywise by the officers of the parent bank.

Group banking as carried on in the boom times of the 1920's was usually characterized by a group being built up around a large, stable, influential metropolitan bank. This was done to lend the prestige of the large bank to each of the units of the system, to take advantage of a proven experienced management which normally consisted of experienced and well known businessmen, and to make stockholders willing to trade stock for that of the holding company dominating the group system.

Quite often group banking systems brought into the system banks which maintained branches or, in other cases, developed branches for some of the unit banks in the group. "Of the larger chain or group systems in operation on December 31, 1929, a very considerable number comprised one or more banks operating branches, . . ."[19] However, even in these cases

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[19] Federal Reserve Bulletin, Vol. 6, April, 1920, p. 149.

where branches were maintained, the group system was the main element, and policies were designed to take care of the problems of the system as a group system rather than of the system as a branch banking system.

Why Group Banking Became Extensively Used in Late 1920's and Early 1930's

Unit banks have been the predominant type of bank in the United States from the time of the early banks in Revolutionary times to the present day.[20] However, as was shown on page 46, in the decade after World War I, all multiple forms of banking came into prominence. There was much literature written in favor of or against these multiple forms of banking during this time.[21]

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[20] Banking and Monetary Statistics, p. 295.

[21] A few representative books, pamphlets, and articles are as follows: A Study of Group and Chain Banking, (New York: American Bankers Association, 1929); C. W. Collins, The Branch Banking Question, (New York, MacMillan Co., 1926); S. D. Southworth, Branch Banking in the United States, (New York: McGraw-Hill, 1928); J. G. Laurence, "Banking Concentration - Its Progress and Present Status", Bankers Magazine, Oct., 1920; B. Ostrolenk, "Revolution in Banking Theory", Atlantic Monthly, February, 1930; G. W. Dabison, "Concentration of Money Power Threatens Business Initiative", Printers Ink Monthly, January, 1920; H. M. Dawes, "The Branch Banking Problem", Saturday Evening Post, November, 1929.

Though group banking had created a lot of interest in banking and financial circles, it was in June, 1930 that this form of banking reached a high point in the percentage of total nationwide loans and investments which were kept in this type of bank. At this time there were 269 group banks in the United States with a total of $15,285,000,000 in total loans and investments; while for banks of all classes combined, there was a total of $58,417,000,000 in total loans and discounts.[22] The amount of loans and investments in group banking was 26.1 percent of total loans and investments for the United States. In December, 1931 there were 97 groups of banks in the United States with 22.2 percent of the loans and investments for the total United States. In 1939 there were only 41 groups with only 12.6 percent of the total loans and investments for the United States.[23]

In Michigan the "problem" of group banks was more acute. In 1931, 57.5 percent of all loans and investments were located in the group banks of one or two groups; and there were only two states with a higher percentage, Minnesota with 58.5 percent and Oregon with 58.1 percent loans and investments in group banking systems.[24]

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[22] "Chains, Groups and Branches", American Bankers Association Journal, June, 1930, p. 1126.

[23] Banking and Monetary Statistics, p. 321.

[24] Ibid, p. 314.

There have been a number of reasons given for the trend toward group banking as a type of multiple banking. (1) Branch banks were prohibited in a number of states. In 1930 there were 19 states which did not allow branch banking of any kind, and there were 20 states which allowed multiple banking only on a limited basis.[25] The National Bank Act of 1865 prohibited the establishment of branches for national banks. The Consolidation Act of 1918, permitting the national banks acquiring state banks with branches to keep the branches open, and a ruling of the Comptroller of the Currency in 1922, allowing national banks to open teller windows within the corporate limits of a city having a national bank, were significant steps forward in the development of branches for national banks.

However, the longest step forward came in 1927 with the passage of the McFadden Act. This Act permits national banks to locate branches in the city of the parent bank providing that the state has no law against the operation of branches in that state by state banks and trust companies. Since there were restrictions on branch banking in so many states, it was only natural that banks whose officers desired to extend their services to adjoining cities and communities would look for and find a way to fulfill those desires. The method they used was group banking.

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[25] Federal Reserve Bulletin, Vol. 16, April, 1930, p. 145.

(2) The desire for power and profits has been the driving force behind the establishment of many group banks.[26] The holding company offers an ambitious banker the same opportunity for prestige, profit, and power that it does in other fields of business. It was felt that additional profits could be made by the utilization of a better management team, by the speculation in the shares of stock of a unit bank during and after the time when it became a member of the group, and by organization, distribution and speculation in the shares of stock of the holding company itself which controlled the banks of the group system.

(3) The desire to improve the conditions of the banking industry was undoubtedly of great influence in the spectacular increase of group banking.

"The sponsors of groups have declared themselves to be actuated solely by a desire to improve the banking and general business conditions of their district . . . "[27] The abler and more farseeing bankers were aware that the undoubtedly bad banking conditions surrounding them affected unfavorably the success and growth of their own institutions. They felt that they could give to some of the weaker and less stable

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[26]Virgil Willit, "The Banks Go Chain-Store", The American Mercury, Vol. 20, June, 1930, p. 147.

[27]Ibid, p. 146.

banking institutions the benefit of their experience and capable management and that conditions could be improved considerably.[28]

(4) Some of the stockholders, officers, and directors of the large metropolitan banks feared the loss to some of the other group banking systems of some, if not most, of their correspondent business upon which they depended. Therefore, they acted in the spirit of competition and self-preservation and proceeded to enter the group banking business themselves. Thus, two ways to increase their own profits were found: [a] the income from the operation of the banks which they "absorbed", and [b] the continued correspondent business of the banks which were in the group system plus any increase in correspondent business which might accrue to them because of a closer working relationship.[29] Many of the large banks which had feared the loss of correspondent business which probably would result from the establishment of branches by competing banks in other communities could now in essence carry on a multiple banking operation with no fear of loss or correspondent business.

(5) Though in the decade following World War I there had been great interest in chain banks, this interest lessened as some of the prominent chain banking systems failed in the

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[28] Ibid, p. 147.

[29] Willis and Chapman, The Banking Situation, p. 390.

late 1920's. (See page 49.) The one great difference in this new device of group banking was that the actual management of the individual bank was retained in that bank and the management carried out the general policies of the group system. This was different from chain banking because there was no uniform specified operational procedure applying to all banks within the system.

(6) Some group banks were established in preparation for branch banking which the promoters of the group banks felt sure would be permitted in their own states and nationally within a short period of time. They felt that when branch banking was to be permitted, there would be a rush by banks to start branches. These promotors wanted their own metropolitan banks to be ready immediately to enter this field. Group banks for them offered a temporary alternative and one which offered potentially large profits while waiting. This policy was followed in Washington when the Marine Bancorporation of Seattle definitely announced a policy of changing individual units into branches when and where possible.[30]

Advantages of the Group Banking System

There are a number of features of group banking which present advantages over the system of unit banks. However,

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[30] John M. Chapman and Ray B. Westerfield, Branch Banking, (New York: Harper and Brothers, 1942), p. 324.

most of these advantages are also common to other forms of multiple banking. In this section advantages common to all forms of multiple banking will be enumerated. Further, reasons why the exponents of the group system as a form of multiple banking feel that group banking is superior will be given.

One of the strongest arguments for multiple banking in general and for group banking in particular is that the system can provide credit to large business institutions which otherwise might not be able to find accommodation from an independent unit bank, at least in the same local territory. The large business institution could go to a member of a group system; and if the resources were not available there, the bank would, in all likelihood, be able to call in other members of the group for part of the loan. The original bank then would not only be able to accommodate the customer but also all banks sharing in the loan would be able to spread the risk of their own portfolios.

Group systems and multiple banking systems have available better and more complete credit information than a small unit bank. Through specialization, the large group bank would probably have a man whose entire time would be devoted to credit information and large business loans, whereas in the small unit bank, this task would be carried on by the president or executive officer along with other duties.

Group banks and other forms of multiple banking systems usually are better equipped to provide a more complete portfolio analysis and to diversify better the investment portfolio of all banks. Again, a specialized individual may be placed in charge and can carry out his duties uninterrupted by distracting influences such as other miscellaneous duties.

The advice and counsel of the officers and managers of a large, efficient metropolitan bank are distinct advantages of the group system. The executive officers of the small member banks may call at will on the management of the larger members of the group and can then discharge their duties more efficiently. Too, a more experienced personnel is at the head of the system than would normally be possible under the small unit system. If the management of the smaller member bank is of substandard quality, educational facilities may be put at their disposal to improve their competency.

Group banks and other forms of multiple banking can put large, efficient, and experienced trust facilities at the disposal of the residents of the small town; whereas a small unit bank steers clear of trust activities because of the heavy responsibility attached to such activities. Thus the community is not offered, and, in fact, is denied these services.

All forms of multiple banking afford an enlarged opportunity for the officers and managers, in that a man may be placed in smaller banks to gain experience. Until he has

gained broad experience and developed his abilities, he cannot take his place in a responsible position as a well-trained banker in an upper level position.

Though group banking is sometimes a precursor to branch banking, there are some group bankers who feel very strongly that their type of system is the best and say they would not change even if the opportunity to do so were present.[31]

Group bankers maintain there are certain advantages in their type of system over types of multiple banking systems. One of the most important of these is that a central treasury is present which can provide the means for the expansion of the capital structure if necessary, or can make available funds in times of stress, or can make possible a bigger loan to a particular customer if need be. In addition to these advantages, the individual unit bank of a group system maintains its own identify and own management in the community. This gives the citizen a feeling of pride of ownership and promotes a feeling of security in his bank.

Group banks can have their own supervisory and examining personnel to keep the managers of the systems operating in the best manner and can instruct them in ways to improve their operation. George F. Rand, of the Marine Midland Corporation of Buffalo, New York, in a statement to the Committee

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[31]Conversation with James B. Holden, formerly Director of Detroit Bankers Company, Jan. 5, 1956.

on Banking and Currency of the House of Representatives, said,

"An expert examiner, who was formerly a chief bank examiner of the New York State Banking Department, has been secured to head the supervision and examinations department. He, with his associates, and with the assistance of auditors drawn from other banks than the one being examined, will conduct frequent examinations of the various member banks, thus insuring that they will be maintained in excellent condition, that their methods will be up-to-date and standardized according to the best accounting practice, and that any weaknesses will be promptly discovered. The best methods developed in any one bank will be made available for all in the group."[32]

Group banks may serve to make more efficient operations for the small member banks and its stockholders through making available a large mobile reserve within the holding company. Unit banks in small communities during the late 1920's and early 1930's were holding their assets in a liquid condition so that they would be able to meet any emergency or mass withdrawal from depositors. This made many of these small unit banks unprofitable and there was a need to help them out. The existence of the large cash reserve in the holding company would release back to the use of the local community a large volume of capital held in cash, deposits with other banks, and investments in highly liquid, but low return bonds and notes. This released capital could be put into better-paying investments both in the communities to help business

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[32]Hearing before the Committee on Banking and Currency, House of Representatives, 71st Congress, 2nd Session, under H. R. 141, Volume 2, pt. 9, p. 1179.

there but also into higher interest-bearing safe securities which could be found by a trained, competent investment staff of the group banking system.[33]

The rise of the group banking system makes it possible for the small member bank in a relatively small community to have substantial capital protecting it from adversity which is so essential to safe and sound banking. Through the broad dissemination of its stock in the community which it serves, the local member of the group system and the holding company preserves the local interest and substantial local ownership.[34] For an eight year period, ending with 1927, 71 percent of the banks that failed were capitalized below $50,000 each and 88 percent under $100,000. In 92 percent of the cases of failure, the banks were located in towns of less than 10,000 population.[35] These statistics indicated the pressing need for increased capital or at least availability of greater resources in a short period of time.

In the group system, holders of stock have a readier market for the sale of that stock if liquidation becomes desirous or necessary. Stock of most of the group holding

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[33]Ibid, Vol. 1, pt. 8, p. 905.

[34]Andrew Price, "The Advantages of Group Banking", American Bankers Association Journal, October, 1929, p. 317.

[35]Hearings, Op. cit., Vol. 1, pt. 1, p. 13.

companies is listed on organized exchanges and there is active trading. The value of the stock does not depend on the management of one man or a small group but on the management and earning power of a whole group of banks and managers.[36]

Disadvantages of the Group Banking System

Certainly there are features of the group banking system and of all forms of multiple banking which can work unfavorably for the financial sector of the economy. Some of these disadvantages are common to multiple banking in general; some are disadvantages of the group banking system alone.

The opponents of multiple banking maintain that one of the greatest disadvantages is that all forms retard the economic development of the country. They say multiple banking handicaps the development of new businesses and industries because of a great amount of routine and red tape and because the manager cannot make risk loans without the approval of the head office. It is contended that this approval more often than not is not forthcoming or is far too late. The multiple banks do not promote and adequately service the small depositor or the small business but prefer to take care of the giant corporation or big depositor. The argument has been carried further in some cases with protagonists

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[36] Hearings, Op. cit., Vol. 2, pt. 9, p. 1185. Also J. E. Neville, "Advantages of Group Banking Summarized", The Commercial and Financial Chronicle, Feb. 22, 1930, p. 1178. Also Willis and Chapman, Op. cit., p. 392.

maintaining that the branch or chain manager cannot or will not make loans to a small borrower who cannot furnish collateral. On the other hand, the unit banker can and will make loans on character and judgment and help a new business or a young man to start a business.

Another argument against all forms of multiple banking units is that they deaden the civic pride and the enterprise that has built our communities and great cities.[37] It is claimed that multiple banks have no interest in building up a community but that the officers and directors of the head office or parent company will make loans in the market of greatest total profit, sometimes to the detriment of the local community.

Other opponents claim that multiple forms of banking make for speculation in the stock market, since money is drawn from local communities through branch or member banking offices and placed in the call market for the use of speculators in organized exchanges. This is bad in two ways: the local funds are not available for local businesses and depositors; and, secondly, detrimental speculation is furthered. Another disadvantage claimed is that multiple banking results in a dangerous concentration of power in a relatively few banking institutions. This concentration of

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[37]Virgil Willit, Editor, Chain, Group and Branch Banking, (New York: H. W. Wilson Co., 1930), p. 43.

banking institutions can result in a virtual monopoly of the financial world, and ultimately even the Federal Reserve would be under the control of a few large banks. Former Comptroller of the Currency Henry Dawes pointed out this danger in his annual report in 1923 when he said, "To say that a large proportion of the banking interests of the States are centralized in the hands of five or six or a dozen branch institutions and that these institutions will not combine, either as a result of direct conferences or agreement of mutuality of interests, is to ignore the fundamental basis of human action."[38]

Another disadvantage often cited is that the management and/or directors of branches or member banks are reduced to the status of hired employees. Subsequently, they lose their independence, initiative, and creative power. Other disadvantages, but considered by most to be of less over-all importance, are the undesirable speculative element which can be introduced, the impracticability of a thorough bank examination, the hinderance of the proper control and functioning of the Federal Reserve System, and the concentration not only of commercial banking but of other types of financial institutions under one roof or management.[39]

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[38] _Annual Report of the Comptroller of the Currency_, 1923, p. 9.

[39] Willit, _Chain, Group, and Branch Banking_, _Op. cit._, pp. 36-54.

Probably one of the biggest disadvantages claimed against group banks as a form of multiple banking is that they introduce into banking an undesirable element of speculation in the bank stocks. Former Comptroller of the Currency Dawes said that the holding companies were paying more for the stocks of the unit banks than the book value and that

> anything above book value is, in the last analysis, of course, an estimate of future earning capacity except possibly some speculative value in trading. It is very rarely that bank stocks are acquired by holding companies on their asset or book-value basis. They are absorbed rather on the basis of what it is hoped they will be able to earn in the future, the extent to which they will strengthen the general organization, and the fear that some competitor will absorb them. This has resulted in a tremendous speculation in bank stocks, and this advance and speculation has produced a dilution in the real asset value of the holding companies. It is altogether a sad departure from the stability and dignity which has always been a tradition of the banking profession and it is thoroughly inconsistent with the trustee relationship.[40]

A second major objection to group banks is that a thorough and comprehensive examination is almost impossible because of the diverse types of banks usually included in the structure. National banks are examined by national bank examiners and state banks by state bank examiners of the state in which the bank is located. The two different groups of examiners frequently have different methods and are looking for somewhat different things so that each part of a group system is not examined uniformly.[41] It has been claimed

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[40] Hearings, Op. cit., Vol. 2, pt. 13, p. 1174.

[41] Virgil Willit, "The Case for Multiple Banking Examined", The American Mercury, June, 1930, p. 151.

that unless there is simultaneous examination of all units of a group "it would be possible for a bank to cover up a bad situation by an improper manipulation of shifting of assets between banks. As a practical proposition it is impossible to make this kind of examination."[42]

Further, in relation to this objection, there is no examination of subsidiary and affiliating institutions to the group bank, and in many cases the solvency and liquidity of the whole group is very closely dependent on sideline activities.[43]

A group bank can, if it so desires, carry on the undesirable and potentially dangerous practice of essentially loaning or investing its own legal reserves. This can be done since in a group there are different types of banks as national banks and state banks which are members of the Federal Reserve System, and also state banks which are not members of the Federal Reserve System. This latter group can deposit its reserve in other commercial banks. It is logical that these reserves would be deposited in the bank

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[42]Willit, Chain, Group and Branch Banking, Op. cit., p. 51.

[43]An example of the kinds of sideline activities carried on is that of the Guardian Detroit Union Group, Inc. At one time (1932) this group was operating in addition to its regular banking business the following types of affiliated companies: A securities affiliate, the First Investment Company of Detroit; a trust company, the Union Guardian Trust Company; a title insurance company, the Union Title and Guaranty Company; a real estate holding company, the New Union Building Company of Detroit; and a safe deposit company, the Guardian Safe Deposit Company. (See page 74.)

within their own group. The group bank receiving these deposits can then either lend or invest these funds. This type of practice defeats the very purpose for which the reserves were set up.

Weak and inefficient management is always particularly dangerous in banks and potentially leads to failure. Losses sustained in group member banks are more severe than if a bank were operated under the unit system. This is so because if one member bank fails, there is less capital in the holding company and also because of the bad publicity coming to the group as a whole. Other members are naturally affected by the failure of one bank, and it is quite possible that this one break may bring about the failure of an entire group system.

Summary

Three forms of banking organizations--branch, chain, and group banking--are phenomena of the twentieth century. These forms of banking, generally known and referred to as multiple banking forms, are distinguished one from the other by their corporate structure and administrative patterns.

Branch banking as a system was started in the early days of the founding of the United States and has become an important form of banking. Since 1900 it has become probably the one form of multiple banking which has received the greatest use and attention from the banking fraternity. Chain banking was inaugurated in this country shortly before 1900 and, though never important as a form of banking structure, gained its greatest development from 1907 to 1926 when the Witham Chain failed. Group banking began late, in 1928, and in a relatively few years developed to a point where approximately 25 percent of the total loans and investments in all banks were located in group banks.

One must understand the reasons why a particular system developed and the advantages and disadvantages of that system as outlined in this chapter before a detailed study of a particular group or groups can be studied.

CHAPTER IV

FORMATION OF THE GROUP SYSTEMS IN DETROIT

Introduction

The preceding chapter has described the general characteristics of the various forms of multiple banking, the trend toward group banking during the last part of the prosperity period following World War I, and the various advantages and disadvantages of these forms of banking. With this as a background, the purpose of this chapter is to show in detail the formation of the two large group systems which operated in Detroit from about January, 1930, to March 4, 1933. Before pointing out this formation, it might be well to examine the extent of the development of group banking for the United States.

At the end of June, 1930, the Reserve Committee of the Board of Governors of the Federal Reserve Board reported that there were 2,229 banks owned by groups and chains.[1] This was the largest number ever reported by the Reserve Committee in any of its reports. At the reporting dates thereafter, though the number of groups and chains increased, the number of individual units decreased.

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[1] Willis and Chapman, Op. cit., p. 384.

TABLE 11

GROUPS AND CHAINS; BANKS OWNED BY EACH
June, 1929 to December, 1931

	Number of Groups and Chains	Banks Owned by Groups and Chains
June 30, 1929	321	1,921
December 31, 1929	332	2,165
June 30, 1930	327	2,229
December 31, 1930	316	2,154
June 30, 1931	305	2,071
December 31, 1931	273	1,886

Source: Report of the Federal Reserve Committee on Branch, Group and Chain Banking, 1932, _Banking Groups and Chains_.

Banking groups were located in all sections of the country. On December 31, 1931, there were only twelve states in which there were no banks directly connected with a group system; and all geographical divisions of the United States contained banks connected with some group.[2] On that date there were 97 total groups exclusive of chains in the United States. Table 12 shows the number of groups and the number of banks in each geographical division of the United States.

[2]_Banking and Monetary Statistics_, Table 81, p. 314.

TABLE 12

GROUPS AND BANKS BY GEOGRAPHICAL DIVISION - DECEMBER 31, 1931

	Number of Groups	Number of Banks
United States	97	978
New England	10	71
Middle Atlantic	28	164
East North Central	10	145
West North Central	7	221
South Atlantic	7	55
East South Central	7	54
West South Central	7	69
Mountain	3	78
Pacific	18	121

Source: Banking and Monetary Statistics, Table 81, p. 314.

In Michigan on this same date, December 31, 1931, there were two groups including 40 banks. Though these 40 banks represented only 6.8 percent of all commercial banks in the state, the loans and investments of these two group banks represented 57.5 percent of all loans and investments in all commercial banks in Michigan.[3]

In the state of Michigan the two group banks operating were the Guardian Detroit Union Group, Incorporated and the Detroit Bankers Company. Both of these group banks had their headquarters and the bulk of their business in the city of Detroit. These two group banks operated from late 1929 to March 4, 1933, when they were put into receivership. They were not reconstituted.

[3] Ibid, p. 314.

Formation of the Guardian Detroit Union Group, Incorporated

The Guardian Detroit Union Group, Incorporated was formed through the merger of two earlier group systems. The pioneer group banking operation in Michigan was established May 17, 1928, through the Union Commerce Investment Company. (Later known as the Union Commerce Corporation.) The Union Commerce Investment Company was incorporated under the laws of the state of Delaware on May 17, 1928, as a holding company and acquired the stock of the Union Trust Company which had as subsidiaries the Union Title and Guaranty Company and the Union Building Company, a company organized to enable the Union Trust Company to acquire real estate and one to build a building of its own. Also the Union Commerce Investment Company acquired the stock of the Union Company, a company organized to take over the business and profits obtained by the Union Trust Company in the form of commissions for loans brought about as agents for insurance companies and the National Bank of Commerce with which an affiliation had been effected on October 24, 1927.[4] The National Bank of Commerce had previously acquired the Griswold First State Bank on an exchange of stock basis.[5]

The Union Commerce Investment Company then, through one means or another but generally by exchange of stocks, acquired

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[4]Hearings, Op. cit., p. 4770.

[5]Ibid, p. 4774.

a controlling or a strong minority interest in 16 additional financial institutions. The following is a list of the institutions under the general management of the Union Commerce Investment Company:[6]

Michigan Industrial Bank	Detroit
Union State Bank of Dearborn	Dearborn
Bank of Commerce of Dearborn	Dearborn
Jefferson Savings Bank	Grosse Pointe
Union Jt. Stock Land Bank	Detroit
Ohio-Pennsylvania Jt. Stock Land Bank	Cleveland
City National Bank & Trust Company	Battle Creek
Keene, Higbie & Company	Detroit
Union Industrial Bank & Union Industrial Trust Company	Flint
State Savings Bank	Vestaburg
State Savings Bank	Stanton
State Bank of Six Lakes	Six Lakes
State Savings Bank	Remus
State Savings Bank	Clinton
Lansing State Bank	Lansing
Thompson Savings Bank	Hudson
Union Trust Company	Detroit
Union Company	Detroit
Union Title & Guaranty Company	Detroit
Union Building Company	Detroit
National Bank of Commerce	Detroit

At the time of incorporation in May, 1928, the capitalization of the Union Commerce Investment Company was $5,000,000, consisting of 50,000 shares at $100 par value. This had to

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[6] *Ibid*, p. 4214.

be increased several times to take care of new acquisitions, and then prior to a merger with the Guardian Detroit Group, Incorporated, the name of the company was changed to the Union Commerce Corporation.

The Guardian Detroit Group, Incorporated was formed as a holding company on May 9, 1929. The major part of the stock was issued immediately to acquire the stock of the Guardian Detroit Bank. By acquiring the Guardian Detroit Bank, the Guardian Detroit Group, Incorporated immediately gained control over three financial institutions, since the Guardian Detroit Bank had two affiliates, the Guardian Detroit Company and the Guardian Detroit Trust Company.[7]

The Guardian Detroit Bank had been organized to meet a banking need which had arisen as a result of the tremendous growth in the automobile industry and the following rapid rise in population in Detroit and the Detroit area.[8] The Guardian Detroit Group, Incorporated was organized specifically to take over ownership of the Guardian Detroit Bank and its affiliates and to operate as a group.[9]

The group then set out to acquire new banks, both in and out of Detroit, in order to expand its operations.

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[7] *Ibid*, p. 4210.

[8] *Ibid*, p. 4209.

[9] *Ibid*, p. 4212.

> The general idea of acquiring the shares of banking institutions located throughout the state was to have an association with a number of strong banks in different sections of the state, banks a part of whose business flowed to New York and Chicago and which could be handled just as well or better through strong Michigan banking institutions, thus retaining that business within the state. Through this association these banks could more capably handle the business of their own local and out-of-state clients, could supply more complete credit information, and through contacts of other unit banks in the group could aid their clients in the development of the client's own business. It was thought that such an association would naturally attract to the various local units a substantial amount of desirable business.[10]

In the five months after its birth in May, 1929, the Guardian Detroit Group, Incorporated acquired seven additional financial units. These were as follows:

Highland Park State Bank	Highland Park
Highland Park Trust Company	Highland Park
Bank of Dearborn	Dearborn
National Union Bank & Trust Company	Jackson
Federal Commercial & Savings Bank	Port Huron
First National Bank & Trust Company	Port Huron
Bank of Detroit	Detroit

These acquisitions were made usually under an exchange of stock basis. The group and the bank in question would each appoint a committee to examine the assets of the bank and to fix an exchange agreement based on the book value and the earning power of the bank. The merger was consumated

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[10] _Ibid_, p. 4211.

when and if 75 percent of the shareholders accepted and deposited their shares of stock with a signed agreement to the exchange.[11]

The original capitalization of the Guardian Detroit Group, Incorporated had been $7,500,000; but from time to time, this was increased until on November 12, 1929, the authorized capital was increased to $50,000,000. It was at this time the name was also changed to Guardian Detroit Union Group, Incorporated, to be ready for the merger with the Union Commerce Corporation.[12]

These two banking groups of Michigan merged on December 16, 1929, through an exchange of shares of stocks of the two corporations, and the one resulting group became known as the Guardian Detroit Union Group, Incorporated. This group then either controlled or had a strong minority interest in 32 separate financial institutions, most of which were either in the city of Detroit or in the Detroit area. On the next page is an organizational chart as presented at the Hearings before the Senate Committee on Banking and Currency. This chart shows the organization as of March 4, 1933.

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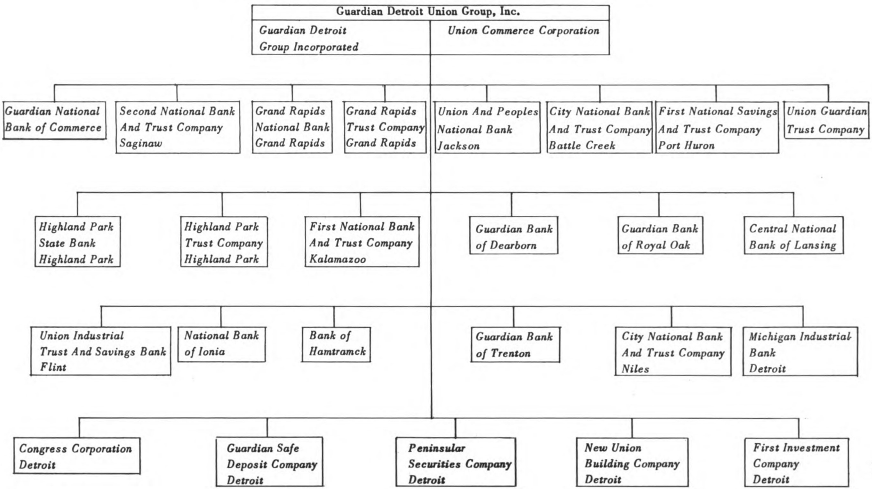
[11] Ibid, p. 4246.

[12] Ibid, p. 4211.

CHART I

ORGANIZATIONAL CHART OF THE GUARDIAN DETROIT UNION GROUP, INC.



Formation of the Detroit Bankers Company

The Detroit Bankers Company was incorporated under the laws of Michigan on January 8, 1930, as a holding company. Though this date was some three months after the stock market crash, negotiations had been under way for some time. The actual final plans were completed on October 9, 1929, when the articles of association were signed by the twelve incorporators. The guiding hand in the early days of the corporation was Julius H. Haass, who became the first president of the group. The first general knowledge of the group was released on October 5, 1929, when the stockholders of 5 of the larger banks of Detroit were notified that during the previous month the boards of directors of these banks had passed resolutions recommending that the stockholders exchange their shares for shares of the about to be formed Detroit Bankers Company.

The original signers of the articles of association also entered into a trust agreement which allocated 120 trustee shares to be divided among the directors of the Detroit Bankers Company for a five year period. This trustee agreement provided that each of the directors would purchase 10 trustee shares and that the owners of these trustee shares would have exclusive voting power in the election and removal of directors.[13] The trust agreement also provided

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[13] Ibid, Committee Exhibit No. 11, p. 5127.

for the allotment of the trustee shares on a proportionate basis for the time of the five year period of the trust.[14] The shares were allocated as follows: 5 trustees to the Peoples Wayne County Bank, 2 to the First National Bank in Detroit, 2 to the Detroit and Security Trust Company, 2 to the Bank of Michigan, and 1 to the Peninsular State Bank.[15]

It was stated at the time that the purposes of the Detroit Bankers Company was "to acquire, own, hold, vote, and exercise all rights of ownership of and to sell and dispose of shares of the capital stock of banks and trust companies and of other corporations or associations engaged in purchasing, selling on their own account or as agents of others, underwriting or dealing in corporate and other securities, or of any other corporation engaged in any business or activity incidental to or related to or of assistance in the conduct of any such business aforesaid".[16] John Ballantyne testified at a Senate Banking and Currency Committee Hearing that the company was primarily organized to obtain control of 5 banking institutions with their many branches in the city of Detroit; the banks were the Peoples Wayne County Bank, the First National Bank in Detroit, the Detroit

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[14] Ibid, p. 5132.

[15] Ibid, p. 5132.

[16] Ibid, Committee Exhibit No. 1, p. 5060.

and Security Trust Company, the Bank of Michigan, and the Peninsular State Bank.

The authorized capital of the Detroit Bankers Company was $50,001,200. This was divided into 2,500,000 shares of $20 par value common stock and 120 no par value trustee shares which were sold at $10 a share. Actually the trustee shares carried with them most of the traditional rights of ownership and control. Article V of the Articles of Association provided that the trustee shares were to have exclusive voting power in the election and removal of directors, and all other voting power was vested in the common stock, except that no increase or decrease of the capital stock or change in the number or qualification of directors could be authorized, or any other class of stock created, or the sale of all of the property or business of the company, or the sale of any substantial part of the stock, property, or business of the 5 institutions owned by the Group Company unless two-thirds of the common stock and trustee shares approved.[17] This arrangement was to be in effect until December 31, 1934, at which time the common stock holders were to assume ownership, authority and responsibility.

The common stockholders for the first five years were actually deprived of some of the normal rights as owners, in that the Board of Directors of the Detroit Bankers Company

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[17] Ibid, p. 5128.

was the group which managed the business, made the policies, decided how much was to be paid in dividends, and carried on other duties as prescribed by the trustees. Since the Board of Directors was elected and removed at the discretion of the holders of the trustee shares, this latter group maintained efficient control over the whole operation and denied the owners, the common stock holders, a voice in the management of the company.

In a letter to the stockholders of each of the banks to be brought into the Detroit Bankers Company, the drafters skillfully enticed these stockholders to become a part of the Detroit Bankers Company. The stockholders of the 5 banks were told that dividends in the amount of 17 percent annually would be paid on the common stock of the new company each quarter. They were also told that the Detroit Bankers Company would have, at the time of the exchange of stock, combined capital, surplus, and undivided profits of about $90,000,000, and $725,000,000 in resources, representing 60 percent of the total banking resources in Detroit, with 192 branches and serving approximately 900,000 depositors and clients. The plan of the group company was to carry on the business of the individual unit institutions as they were.[18] It was further stated in the letter than the exchange of shares was to be on the following basis: One and

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[18] Ibid, Committee Exhibit No. 3, pp. 5069-5071.

one-half shares of the shares of the Detroit Bankers Company for one share of the Peoples Wayne County Bank; 4.466 shares for each share of the First National Bank in Detroit; 10 shares for each share of the Detroit and Security Trust Company; 3 shares for each 4 shares of the Bank of Michigan; and 4.1 shares for each share of the Peninsular State Bank.[19] All of the members of the boards of directors of each of the 5 banks recommended this action to the stockholders of their individual banks.

Shortly after the final act of incorporation in early January, 1930, the Detroit Bankers Company, through the exchange of stock proposed the previous October, acquired almost all of the common stock of 5 of the larger banks of the Detroit area. The trustee shares were sold for $10 a share, and this group of trustees then became operators and essentially managers of the group company. After the company once began its operation, additional unit banks and non-banking institutions were acquired. The structure of the Detroit Bankers Company as it was on March 4, 1933, is shown below.

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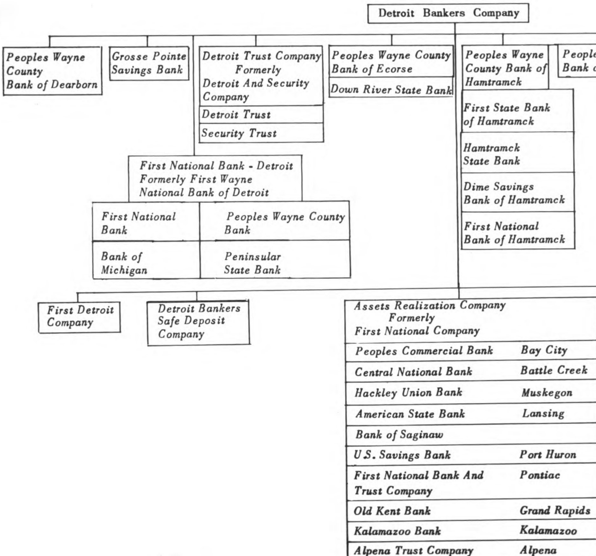
[19] *Ibid.*

CHART II



Detroit Bankers Company
Peoples Wayne County Bank of Dearborn
Grosse Pointe Savings Bank
Detroit Trust Company Formerly Detroit And Security Company
Detroit Trust
Security Trust
First National Bank - Detroit Formerly First Wayne National Bank of Detroit
First National Bank
Peoples Wayne County Bank
Bank of Michigan
Peninsular State Bank
Peoples Wayne County Bank of Ecorse
Down River State Bank
Peoples Wayne County Bank of Hamtramck
First State Bank of Hamtramck
Hamtramck State Bank
Dime Savings Bank of Hamtramck
First National Bank of Hamtramck
Peoples Wayne County Bank of Highland Park
First National Bank at Pontiac
First National Bank And Trust Company
Peoples Wayne County Bank of Wyandotte
Peoples Wayne County Bank of River Rouge
River Rouge Savings Bank
First Detroit Company
Detroit Bankers Safe Deposit Company
Assets Realization Company Formerly First National Company
Peoples Commercial Bank Bay City
Central National Bank Battle Creek
Hackley Union Bank Muskegon
American State Bank Lansing
Bank of Saginaw
U.S. Savings Bank Port Huron
First National Bank And Trust Company Pontiac
Old Kent Bank Grand Rapids
Kalamazoo Bank Kalamazoo
Alpena Trust Company Alpena
First National Company Detroit
The Detroit Company

Causes of the Group Movement in Detroit

Several factors have been important in prompting a consolidation movement in the Detroit area. Professor G. Walter Woodworth in his study, The Detroit Money Market, points out three main reasons for this movement.[21] (1) Existing banking institutions were unable to furnish adequate services to the unique industrial development in Detroit. The automobile industry has produced a few giants of industry and, in turn, giant banking institutions are required to handle their active commercial accounts and the loan requirements, though the latter be quite infrequent. (2) There were some banking institutions which wished to extend their operations throughout the city and the area. This could be done by consolidating with other institutions which already maintained branches. A prime example of this was the merger of the National Bank of Commerce and the Griswold First State Bank, the latter which operated 17 branches.[22] (3) Professor Woodworth further points out that once the consolidation and group movement was under way, there was a certain pressure to keep pace with the competing group. This can be seen from the fact that the two large group systems started operations within a

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[21] G. Walter Woodworth, The Detroit Money Market, (Michigan Business Studies, Bureau of Business Research, University of Michigan, Ann Arbor, 1932), p. 245.

[22] See page 74 showing the place of the National Bank of Commerce and the Griswold First State Bank in the Union Commerce Investment Company.

few months of each other and within a year had developed to the point where the two groups controlled more than 87 percent of the total banking resources of Detroit.[23]

Doubtless, to be added to these more specific causes of movement toward a concentrated group system are two general causes as related in the previous chapter. They are (1) the desire to lessen competition among bankers, and (2) a desire for greater profits and power.

It could be expected that, upon the development of the group system of banking in Michigan, there would be some question of its legality. It has been pointed out by Assistant Attorney Burton P. Dougherty that the statutes in 1929 allowed corporations organized for profit to purchase and hold shares of stock in other corporations organized for similar purposes.[24] The Commissioner of Banking in Michigan, Rudolph E. Reichert, asked for an opinion from Attorney General Wilbur M. Brucker in October, 1929. The opinion of Mr. Brucker on October 27, 1929, was as follows:[25]

> 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 bank.
> 2) The ownership and exercise of incidents of ownership of stock in a holding company owning all but

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[23]<u>Ibid</u>, p. 58.

[24]Personal interview in Mr. Dougherty's office,Lansing, Michigan, July 12, 1956.

[25]<u>Ibid</u>. From records of Mr. Dougherty.

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 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 statuatory 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.

Thus it was considered legal for a holding company to own shares of state banks and to operate them as it saw fit. At the time of the incorporation of the two group systems, there was no federal statute which would prohibit a holding company from owning shares of stock of national banks.[26]

Summary

Following a pattern set in many other states, two large group banking systems were established in the Detroit area during the early months of 1930. The Guardian Detroit Union Group, Incorporated was formed on December 16, 1929, preceding the formation of the Detroit Bankers Company by twenty-three days. At once upon formation these two banking groups began to dominate banking in the Detroit area.

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[26]It was not until the Banking Act of 1933 became law that any kind of regulation was adopted for holding companies. (See pages 148-149.)

CHAPTER V

PROCEDURES OF THE GROUP BANKING SYSTEM OF DETROIT

Introduction

The functions of commercial banking today are well defined; they are the extension of credit to business, agriculture, and individuals and a depository of funds from the public. Good commercial banking demands that these functions be carried on without undue risk to the public.

Most bankers are honest and ever aware of the dangers of banking practice that would invite the risk of failure through a loss of deposits or inability to collect on a loan made. In spite of this, however, there are still times when some bankers will do things in the operation of their business which, though not always illegal, are questionable to students of the profession. Sometimes such practices are "necessary" for the continued operation of the bank; at other times, these practices are overt acts by management to wring the last dollar of profits from the financial business. Still, oftentimes, the practices are carried on because of the ineptness of the directors of the bank; and occasionally, such practices result from carelessness. Probably there were many practices resulting from these reasons that were carried on by both the group banking systems of Detroit and the individual banks in the groups that could be labeled questionable.

In this chapter five types of customary action by the two large group systems of Detroit will be shown.[1] These types of action are as follows: (1) undue concentration of control in the board of directors of the group system; (2) drainage of resources from the unit banks to maintain dividends to the owners of the holding company shares of stock; (3) false and misleading reports of the group system and of the unit banks within the system; (4) loans to individuals and businesses with the stock of the holding company being held as collateral; (5) loans to officers and directors of the group system and of the unit banks, many times with stock of the holding company being put up as collateral.[2]

With the exception of the practice of false and misleading reports to the general public, these practices were not illegal and were within the letter of the law. However, they clearly were not within the spirit of the law as it then stood.

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[1] These areas were specifically pointed out by the Senate Banking Committee on Banking and Currency investigating stock exchange practices in late 1933 and 1934.

[2] Most of the information concerning the five areas of customary action by the two group systems was taken from the records of the Senate Banking and Currency Committee Hearings. This Committee Hearing was a public inquiry conducted into the closed banks in Detroit between December 19, 1933, and February 9, 1934.

At that time, since the holding company was a relatively new type of organization in the field of banking, there were few, if any, laws dealing specifically with operational procedures and with jurisdictional problems in the examination of these groups. This group-type banking system was a mutational development and the lawmakers had lagged behind in devising ways to cope with it.

(1) Undue Concentration of Control in the Board of Directors of the Group System

That the operation of the unit banks within the group system was intended to remain in the hands of local directors and management can be seen from a resolution passed by the Board of Directors of the Guardian Detroit Union Group, Incorporated.[3] This resolution stated that "credit based upon the deposits in a local bank, which is a unit member of the Guardian Detroit Union Group, Inc., shall be controlled wholly by the board of directors and the officers of the local bank."[4] Further, Robert O. Lord in his prepared statement at the Hearings before the Senate Committee on Banking and Currency said that the group tried to preserve the local management and develop a high prestige for that management in the local community and placed the responsibility of the affairs of the local bank on the local boards of directors

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[3] Hearings, p. 4214.

[4] Ibid, p. 4213.

and officers.[5] He further said that the selection of new directors in the case of death or disability was left to the unit directors who were previously in charge and that the group system directors acted strictly in an advisory capacity.[6]

Regardless of the resolution adopted to leave control of the local bank in the hands of local directors and of Mr. Lord's testimony regarding what the intentions were, the local unit banks were controlled by the directors of the group system. Knowing that the directors of the group system could unseat them at will because of the ownership of stock in the unit bank, the local unit boards of directors sought to please. Mr. Lord himself testified that before each annual meeting of the unit bank directors, the heads of these units would discuss all plans with Mr. Lord or other officers of the corporation.[7] This discussion could lead to only one result--that of doing what the group officers desired.

In the election of members to the boards of directors of the unit banks, the officers of the group system would ask members of a board to resign and pick and choose the new members very carefully so as to integrate group system ideas

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[5]Ibid, p. 4214.

[6]Ibid, p. 4214.

[7]Ibid, p. 4227.

throughout. Two documents presented at the hearings show the method of choosing board members. They are as follows:[8]

From: Robert O. Lord, President, Guardian Detroit Union Group, Inc.
To: L. H. D. Baker, Director, Michigan Industrial Bank

My dear Lee:

As you may know, Mr. D. F. Valley is giving a very considerable amount of his time toward the affairs of the Michigan Industrial Bank. In order to accomplish what we want, I think he should be a director in this bank and I am going to ask you if you will be good enough to send me your resignation as a director so that we can have the Board elect Mr. Valley in your place - - - - - .

The underlining of the words and phrases is not in the original text. Underlining is to show that by phraseology alone, one can see that this action is by the group system officers, not by action of the local unit bank.

Memorandum from: B. K. Patterson, Executive Vice President, Guardian Detroit Union Group, Inc.
To: Joseph H. Brewer, President, Grand Rapids National Bank

I anticipate that it is going to be necessary to make a few changes in the members of the board of directors of the National Bank of Ionia, but we will not do so until the next meeting. What would you think of the advisability of your going on the board in place of one man who we think has served his purpose to the institution - - - - . Inasmuch as the bank is located only a short distance from you it would probably not require a great deal of your time - - - - - - .

Again it can be seen from the words underscored that the control of the unit bank was concentrated in the directors of the group system. Mr. Brewer must have been a very important

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[8] *Ibid*, pp. 4228 - 4229.

follower of the policies of the group directors to have been asked to serve as a director in a bank in a neighboring town. Actually, the Ionia Bank was located twenty-seven miles away from Grand Rapids.

The organizers of the Detroit Bankers Company stated their intentions as clearly as did the organizers of the Guardian Detroit Union Group, Incorporated, regarding the operation of the unit banks. These men said that it was the intention of the group to continue the same policies as in the past.[9] Regardless of what the intentions were, the facts show that the structure of this group system was such that this could hardly be the case. The very act of setting up the trusteeship and the issuance of trustee shares, holders of which had exclusive voting power in the election and removal of directors for a period of five years, showed that there was intended to be a concentration of control in a very small group of men. In this case, twelve men, with a nominal investment, controlled directly or indirectly all the resources and capital of the several unit banks within the system.

Further, there was included in the articles of association a stipulation that the trustees could sell to persons of their choice the minimum number of shares necessary to qualify such persons as desired to be a director of any of the unit banks within the group system.[10] In addition, the

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[9] _Ibid_, p. 5077.

[10] _Ibid_, p. 5129.

persons who bought such shares to become qualified as directors were required to sign statements that they would sell back to the group system the qualifying shares when they ceased to become directors.[11] This kind of an arrangement gave the holders of the trustee shares an undue amount of pressure which could be applied to any wavering director or officer who might not act in the interests of the group system. Surely there was an undue amount of concentration of control in a very small number of persons for the Detroit Bankers Company.

An example of the type of control exercised by the directors of the Detroit Bankers Company is shown by the following resolution which was passed by this group in December, 1930:[12]

> Under date of December 23, 1930, various individuals were authorized by the Board to vote the shares owned by this company at the several meetings of stockholders. For the purpose of instructing these proxy holders to nominate directors in each instance, the following resolution was offered and moved for adoption:
>
> Resolved, That John Ballantyne, who has heretofore been appointed proxy to attend the annual meeting of the stockholders of the First National Bank, be and he is hereby directed to nominate the following as directors of the bank.

Thereafter a list of names of people to be elected as directors followed. Even to the casual observer, there is a concentration of control to an extremely high degree when one

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[11] Ibid, p. 5130.

[12] Ibid, p. 5089.

man is directed to vote for a specific slate of directors, and a specified group decides who will be directors of a number of seemingly independent units.

(2) Drainage of Resources from the Unit Banks to Maintain Dividends to the Owners of the Holding Company Shares of Stock

The Detroit Bankers Company, a holding company, was of course dependent on dividends received from its units for a source of income. The stockholders of the Detroit Bankers Company were dependent for their dividends upon the income received by the holding company from the units of the group system. It appears that the people originally starting the Detroit Bankers Company tried to help sell their plan and, at the same time, set the pattern for future dividend policies of the unit banks when they declared, "It is proposed that dividends be paid upon the common stock of the new company (Detroit Bankers Company) in the aggregate amount of 17 percent per annum, payable quarterly."[13] Of course at the time of the writing of this letter on October 5, 1929, there had been no crash and it was not known what the next four or five years were to bring. The Detroit Bankers Company was not officially organized until January 20, 1930. At that time, after the stock market crash, there was no

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[13] *Ibid*, p. 5071.

repudiation of this proposed relatively high dividend rate for a period in which business conditions looked rather bleak.

During the first year of operation the Detroit Bankers Company paid dividends of 17 percent as promised in their letter of October 5, 1929. However, this 17 percent rate was not easy to collect from the unit banks. These banks, like most other businesses, had been placed under strain by the depressed business conditions of the country and of Detroit. The amount of dividends required of the unit banks by the parent group company is indicated by the demands placed upon the First National Bank of Detroit. For the period 1925 to 1929 the dividends of this unit bank had averaged $975,000 a year.[14] In 1930, under more strenuous conditions, this bank was called upon to pay $1,137,307 in dividends to the parent company or an increase of about 16 percent in total dollars.

During 1931 business conditions became worse and bank suspensions became exaggerated.[15] Yet the Detroit Bankers Company called upon its units to pay abnormal dividends to maintain the 17 percent dividend policy to stockholders of the holding company. In 1931 the First National Bank of Detroit, one of the largest of the unit banks in the system,

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[14] Ibid, p. 5235.

[15] Banking and Monetary Statistics, Op. cit., p. 284. In 1930 there were 1,350 suspensions, and in 1931 there were 2,292 suspensions.

was called on for $4,649,642 in dividends to the parent company.[16] This was more than four times the amount of dividends of the previous year and almost five times the size of the average for five relatively prosperous years, those of 1925-1929. In fact, the First National Bank paid a special dividend of $2,000,000 to the parent group company so that company could maintain the 17 percent rate promised.[17] All this was done in the face of a report of conditions at the First National Bank by the national bank examiners which stated in part:[18]

> This report reflects a very unsatisfactory condition showing classified loans and doubtful paper aggregating approximately the surplus and profit of the bank, without taking into consideration a large amount of slow assets. This condition has been brought about by two major causes, namely, the general business depression and the shrinkage in the inflated value of real estate, and poor management.

The First National Bank continued to pay dividends during the first and second quarters of 1932 at rates of 16 percent per annum and 10 percent per annum respectively.[19]

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[16] Ibid, p. 5235.

[17] Ibid, p. 5241.

[18] Ibid, p. 5242.

[19] It is interesting to note that from December 31, 1931 to December 31, 1932, the undivided profits account of the First National Bank of Detroit was reduced from $7,465,481 to $1,758,611. This is a reduction of more than $5,700,000 in one year. Individual Statements of Condition of National Banks, (Washington, D.C.: United States Government Printing Office), Table I, 1931, p. 77; and Table J, 1932, p. 71.

This second dividend was declared after a severe criticism by the chief examiner, Alfred P. Leyburn, in which he told the governing committee of the bank that they would have to assume the responsibility for any dividend declared and that if they did declare a dividend of any amount, its legality would be questioned.[20] The Detroit Bankers Company continued to pay dividends to its stockholders as long as it could drain badly needed resources from its units. It was not until the end of the third quarter of 1932 that this group company ceased the payment of all dividends at the insistence of the Comptroller of the Currency and the bank examiners.[21]

The Guardian Detroit Union Group, Incorporated was as flagrant a violator as the Detroit Bankers Company. The president of the Union Guardian Trust Company, one of the largest institutions of the group system, testified that the group corporation had determined that it would pay annual dividends of 16 percent on the stock of the system.[22] In defense of this action of the corporation, however, it must be remembered that most of the plans were set before the stock market crash of October, 1929.

Again as in the case of the Detroit Bankers Company, the Guardian Detroit Union Group, Incorporated was dependent

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[20] Ibid, p. 5768.

[21] Ibid, p. 5767.

[22] Ibid, p. 4409.

on the unit banks for dividends in order to make a return to its own stockholders.

Robert O. Lord, chief officer in the group corporation, testified that the group corporation only suggested what dividend the unit bank should declare but that these suggestions were almost always accepted.[23] What was suggested was sometimes what may be considered an abnormal rate, and valuable resources were drained off from weakened unit banks.

An example of the kind of suggestions made is that of the Union and Peoples National Bank of Jackson, Michigan. This bank "accepted" the suggestion as to how much that bank should pay in dividends to the group system during 1931. The suggested amount paid to the parent group system came to over 24.7 percent of the capital of the bank. This percentage dividend declaration amounted to a higher percentage than had ever been paid by the bank in its history, yet it was made at the suggestion of the group corporation officers in a period of declining prices and business activity.

According to testimony at the Senate Banking and Currency Committee Hearings the group always took into consideration the condition of the bank in making suggestions regarding the amount of any dividend declaration.[24] At least

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[23]<u>Ibid</u>, p. 4252.

[24]<u>Ibid</u>, p. 4313.

one example may help to show that Mr. Lord may have erred in his testimony.

On September 19, 1931, a national bank examination was completed of the City National Bank and Trust Company of Niles, Michigan. In that examination Henry F. Quinn, national bank examiner, found that the bank's capital was impaired to the extent of over $30,000, that there were losses of over $65,000, and that the bank was "not in a position to pay any dividends."[25]

The following six intra-group memoranda, however, show that the executives of the Guardian Detroit Union Group, Incorporated were first suggesting and then insisting that this City National Bank and Trust Company declare a dividend on its outstanding stock which was held by the group corporation.[26]

From: F. M. Brandon, President, City National Bank and Trust Company
To: A. A. F. Maxwell, Secretary, Guardian Detroit Union Group, Inc.

Dear Mr. Maxwell: Date: September 17, 1931

Your memorandum of July 16 concerning the dividend requirements of units of the Guardian Detroit Union Group, Inc. is received. The September meeting of the Board of Directors was held yesterday and the matter of dividends was discussed and no action taken. This is in harmony with the request of the Comptroller of the Currency that current profits be used instead to take care of depreciation in the securities account.

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[25]Ibid, p. 4313.

[26]Ibid, Committee Exhibit No. 23, p. 4307.

If for any reason the management of the group feels that different action should be taken and will promptly advise us, we shall call for a special meeting of the board of directors for further consideration of the subject and will, therefore, appreciate hearing from you promptly.

From: A. A. F. Maxwell
To: F. M. Brandon

Dear Mr. Brandon: Date: September 24, 1931

Your letter of September 17 has been received and referred to Mr. Patterson.

Undoubtedly there will be adjustments to be made after the conference with the National Bank examiner, but Mr. Patterson feels that these charges should be taken care of through the surplus account. Will you, therefore, arrange to call a special meeting of your board for the purpose of declaring the dividend as outlined in our previous memorandum of July 16.

From: F. M. Brandon
To: A. A. F. Maxwell

Dear Mr. Maxwell: Date: September 28, 1931

Your memorandum of September 24 with reference to quarterly dividends at this bank is received, and wish to advise that the writer explained the reason for our failure to pay September dividends to Mr. Patterson while in his office on September 26.

From: A. A. F. Maxwell
To: F. M. Brandon

Dear Sir: Date: September 29, 1931

Your memorandum of September 28 is received, from which we note that you have discussed the dividend matter with Mr. Patterson. We assume, however, that you are calling a special meeting of your board for the purpose of declaring the dividend as originally requested.

From: F. M. Brandon
To: B. K. Patterson

Dear Mr. Patterson: Date: October 8, 1931

In compliance with your telephone request a special meeting of our board of directors was held last evening to further consider the matter of quarterly dividend.

> The directors are hesitant about declaring a dividend at this time, having been recently advised by Examiner Quinn that the same would be illegal if made. However, they want to comply with the request of stockholders if the same can be done in a legal manner, and therefore requested me to advise you of the situation, and to ask the management of the Group to request the dividend by letter, and to indicate that the Group Company, as stockholders, will take care of any requirements of the Comptroller of the Currency without in any manner changing the capital and surplus account of this bank.
>
> I am assured by a majority of the Board of Directors that if this is done the dividend will be promptly declared, and I hope to hear from you tomorrow.

The above letter puts the burden upon the management of the Group Company to break the law if the law was to be broken. The Group Company officers were unready to make such a flagrant violation of the law and thus replied as follows:[27]

> To: F. M. Brandon
> From: B. K. Patterson
>
> Dear Sir: Date: October 12, 1931
>
> Answering your letter of October 8 in regard to the matter of quarterly dividend: After giving further consideration to this matter, it is believed inadvisable to ask that the City National Bank and Trust Company, of Niles, pay to the Guardian Group the dividend which was requested for the third quarter.

It is surprising indeed that this bank did not accept the suggestions of the management of the Group Company to declare dividends. Only a strong local directorate could withstand the demands for a drainage of resources from stockholders.

Both group banking systems in Detroit followed a policy of draining resources from unit banks to maintain the group companies and also to make payments of dividends to stockholders

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[27] *Ibid*, Committee Exhibit No. 29, p. 4312.

of the group systems. It seems that each of the group systems was vying with the other to make payments of dividends if the other chose to do so, regardless of the condition of the group system or of the unit banks of which the system was composed.

At the time the group systems of Detroit were paying 16 and 17 percent on the par stock of the holding companies, other corporations were paying much less. For the two years 1931 and 1932 neither bond nor stock yield averages came even close to this high percentage payment.

TABLE 13

BOND AND STOCK YIELD, 1931 - 1932[28]

Year	Bonds		Stock	
	Industrial	Railroad	Industrial	Railroad
1931	6.08	6.09	6.4	7.8
1932	6.71	7.61	7.3	6.3

Another factor to be considered in comparing the yield of the two group systems and other corporate yields is that the group bank yields were on the basis of the par value of the stock. Actually, if the yields for 1931 were computed, they would have been much greater.[29]

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[28] Statistical Abstract of the United States, (Washington, D.C.: United States Printing Office, 1949), Table No. 516, p. 483.

[29] Detroit News, Financial page, Dec. 29, 1931. At the end of December, 1931 the stock of the Guardian Detroit Union Company, Inc. was selling for $16 per share, making the actual yield per cost of that date 20 percent.

It could be argued that this high payment of dividends was not wholly undesirable for two reasons. First, by continuing to make the high dividend payment, confidence in the group systems would be maintained both by the many stockholders and also by the depositors of the several affiliated banks. Were the dividends to be decreased or halted, stockholders and depositors alike would naturally raise questions as to the soundness of the banks, and runs could develop.

Secondly, but not nearly as important a factor, by continuing the high dividend payments, a stabilizing effect was given to the economy. In times of low income and depression, payments made to the public generally make for more spending and thus for an approach toward recovery. This may not have been the case, however, in making dividend payments in Detroit because it may be assumed the payments were being made to high income people who have a lower propensity to spend.

(3) False and Misleading Reports of the Group System and of the Unit Banks within the System

The officers and management of the Guardian Detroit Union Group, Incorporated were especially open to criticism for making misleading reports to their stockholders in order to put up a better front and also to the public in order to make an attempt toward instilling confidence in the unit banks of the group company and in the group company itself.

It was the expressed policy of the officers of the Guardian Detroit Union Group, Incorporated to have each of

the units and also the group system show "no bills payable on each call date."[30]

There were two ways in which bills payable were eliminated from the records of condition.[31] (1) If bills payable were present for a bank, the lending institution (usually another unit bank within the group system) would make a deposit to the borrowing bank. The borrowing bank would then repay the loan from the asset deposited.[32]

The second method of eliminating bills payable at call dates was to have the debtor bank issue to the creditor bank a demand certificate of deposit.[33] This certificate of deposit would then be withdrawn after the call date and bills payable would again be shown on the books of the borrowing bank.

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[30]Ibid, p. 4226. Mr. Pecora, Examiner for the Senate Committee on Banking and Currency, asked the following question during Hearings: "At any time did any of those unit banks have bills payable which were taken care of temporarily in some fashion so as to make it unnecessary to show those bills payable in published reports of condition?" Robert O. Lord, executive officer of the group system replied, "Yes, sir."

[31]Encyclopedia of Banking and Finance, p. 599. Bills payable include an aggregate of notes, acceptances, etc. held by others representing sums of money to be paid at a future time, and constituting a liability of business. From an accounting point of view, the aggregate of notes contracted to be paid, also known as "bills payable" and due to others.

[32]See next page.

[33]See next page.

[32] The balance sheets of the borrowing and lending institutions would be changed to show the transactions as follows:

Steps -	Bank A (Borrower) Assets	Bank A (Borrower) Liabilities	Bank B (Lender) Assets	Bank B (Lender) Liabilities
1) Shows loan 2) being made	+ Deposit Asset	+ Bill Payable	+ Bill Receivable	+ Deposit Liability
3) Lender makes 4) a deposit to borrower	+ Asset (Cash)	+ Demand Deposit	- Asset (Cash) + Demand Deposit in other banks	
5) Bill payable 6) is eliminated	- Asset (Cash)	- Bill Payable	+ Asset (Cash) - Bill Receivable	
Net Result	+ Deposit Asset	+ Demand Deposit	+ Demand Deposit	+ Deposit Liability

[33] The balance sheets of the borrowing and lending institutions would be changed to show these transactions as follows:

Steps -	Bank A (Borrower) Assets	Bank A (Borrower) Liabilities	Bank B (Lender) Assets	Bank B (Lender) Liabilities
1) Shows loan 2) being made	+ Deposit Asset	+ Bills Payable	+ Bills Receivable	+ Deposit Liability
3) Shows bills 4) payable being eliminated		+ Deposit Liability - Bills Payable	+ Deposit Asset - Bills Receivable	
Net Result	+ Deposit Asset	+ Deposit Liability	+ Deposit Asset	+ Deposit Liability

Typical of the letter sent to unit bank officers in regard to the elimination of bills payable is the following from James Walsh to Mr. Alexander Robertson of Ionia, Michigan:[34]

> Dear Alex:
>
> From now until after next call date will you please wire me promptly each morning giving me your deposits in thousands of dollars, and also your bills payable in thousands of dollars . . . Even if you do not need any additional deposits to offset bills payable, it is extremely important that I be informed accordingly, as I may be holding up several other moves awaiting to hear from you.

A second method of misleading the stockholders into believing the banks were financially stronger than they really were through published reports of the conditions of the group banks was by showing owned but pledged government securities among the assets of the banks. An example of the amount of this type of misleading information can be seen from the following example. On December 31, 1932, in a report of the Comptroller of the Currency, the Guardian National Bank of Commerce showed $16,807,728 worth of government securities among the assets of the bank.[35] Mr. Lord testified at the Hearings, however, that at the time of the submission of information to the Comptroller of the Currency on November 9, 1932, that $11,021,144.25 worth of these securities had been

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[34] Ibid, Committee Exhibit No. 37, p. 4348.

[35] Individual Statements of Conditions of National Banks at the Close of Business, Dec. 31, 1932, Table J, 1933 p. 70.

pledged and were unavailable for use by the bank.[36] This indicates that the total resources of the bank were expanded by this item alone by almost 7 percent since the total resources of the bank at the time were slightly over $160,000,000.[37]

A third device for misleading the public regarding the true amount of resources available to the group system and to the individual unit banks was by including an item on the asset side of the balance sheet called "Customers' Securities, Safekeeping." It is true that on the liability side of the balance sheet was an item called "Customers' Securities, Safekeeping" but a casual observor would not be aware of the fact that these two items were offsetting and would be led to believe a bank had more total resources than was actually the case. Mr. Lord testified that the consolidated group statements ceased to include this item in 1930 but that various unit banks continued to carry the offsetting and misleading items with the permission of the directors of the group system.[38]

A fourth method of misleading the public and also the stockholders of the group system was that of purposely omitting from statements the true condition of the system. In

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[36] Hearings, Op. cit., p. 4379.

[37] Individual Statements of Conditions of National Banks at the Close of Business, Dec. 31, 1932, Table J, 1933, p. 70.

[38] Hearings, Op. cit., p. 4381.

a year-end report to the stockholders there appeared the following statement:[39]

> The policy of maintaining a highly liquid position is naturally reflected in reduced earnings. Nevertheless, your company earned more than sufficient to pay during 1930 regular dividends at the rate of $2 per annum and an extra dividend at the rate of $1.20 per annum.[40]

A statement such as this clearly led the stockholders to make the assumption that there had been a profit for the year. However, such was not the case. In a report to the Michigan Securities Commission for the calendar year 1930, the Guardian Detroit Union Group, Incorporated stated that a net loss of $39,387.57 had occurred.

In a year-end report to the stockholders for 1931 there appeared the following statement:

> For the year ended December 31, 1931, the net earnings of the banks and trust companies of the Group, after all expenses of operation and after setting aside adequate reserves for taxes and depreciation of banking quarters and equipment, but before charge-offs, were $3,887,052.86, or at the rate of $2.51 per share on the 1,544,844 shares[41] of the Group stock $20 per value outstanding.[42]

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[39] It should be pointed out at this point that these year-end reports to the stockholders were not examined by bank officials or any other government official to make sure the statements were accurate. It must be remembered that annual reports are issued with the alleged purpose of giving information to stockholders. A demand for more detailed information by inquisitive stockholders is the best remedy for more informative reports.

[40] _Ibid_, p. 4435.

[41] $3,887,052.86 divided by 1,544,844 shares of stock.

[42] _Ibid_, Committee Exhibit No. 36, p. 4435.

This report to the stockholders shows a net earning while an official report to the Michigan Securities Commission clearly contradicts the accuracy of the above statement of earnings. For the year 1931 the Guardian Detroit Union Group, Incorporated stated to the Commission that there had been a deficit of $288,930.33.

In answer to a question from Mr. Pecora, Mr. Robert Lord at one time testified that ". . . if these reports did not include information that the stockholder should have, we were unquestionably subject to criticism."[43]

A fifth method used by the management of the Guardian Detroit Union Group, Incorporated to mislead the public and its stockholders was through the use of a consolidated statement which was almost completely uncomprehensible to the reader. A more understandable form had been suggested by banking authorities for many years. The following passages, quoted from the minutes of a meeting of the Public Relations Committee[44] held in June, 1931, show that a more comprehendible form was being considered:

> A discussion followed of the Consolidation Group statement, which is to be printed in poster form three or four days after the unit statements are available. It was finally decided that this consolidation statement

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[43] Ibid, p. 4450.

[44] This was one of a number of committees functioning among the directors of the group system. Its duty was to interpret the system to the stockholders and depositors for the best advantage of the system.

> would be printed in the standard form rather than in the understandable form, as it had been originally set up. It was felt that the understandable form was devised at a time when conditions warranted such a statement whereas the situation is now entirely different.[45]

Further the minutes reported, "At a later date it may be advisable to use the understandable consolidated statement form, and it was decided to hold it in reserve for the time being."[46]

The Detroit Bankers Company was also a party to misleading the public and stockholders regarding the condition of the group system as a whole and of the unit banks within the system. The officers and managers of the Detroit Bankers Company carried on many of the same practices as did the Guardian Detroit Union, such as the manipulation of certificates of deposits and reciprocal deposits among the various units of the system to create the impression of financial strength and increased deposits.[47]

The group system was warned against the reciprocal deposit practice by the bank examiners, though this written warning really should not have been necessary for all good bankers know this type of practice is frowned upon by banking authorities.[48]

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[45] Ibid, p. 4367.

[46] Ibid, p. 4370.

[47] Ibid, pp. 5365 - 5372.

[48] Ibid, p. 5336. The letter warning the Detroit Bankers Company said in part, "This department frowns upon the plan of building up your reserves through reciprocal

The Detroit Bankers Company had added a new type of operation to make their reports to the public misleading if not false. It was arranged that all units of the group system would make deposits in the trust unit.[49] In these cases the deposits of both the commercial banks and the trust unit would be increased, showing increased activity and financial strength to the casual observer.

As can be seen from the above accounts of the activities of the two group systems in Detroit, the managers and officers knew that they were not presenting clear facts to the public, and in many cases they were intentionally misleading the public and depositors and making false reports to the stockholders.

(4) Loans to Individuals and Businesses with Stock of the Holding Company Being Held as Collateral

Both the national banking laws and the Michigan banking laws prohibit a bank under their jurisdictions from making loans secured by the bank's own collateral or from buying any of its capital stock except under the most trying

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deposit arrangement with other Detroit banks. We realize the present plan of setting up reserves was recently inaugurated; however, the plan of reciprocal deposits should be discontinued as fast as the necessary reserves are built up."

[49] Ibid, p. 5335.

conditions.[50] In the group system when there is no bank stock available except that held by a holding company, this type regulation has little, if any, meaning. If the holding company is organized to hold only the stock of various unit banks, all within an affiliated group, a secondary problem arises. Should a bank within the group or holding system make loans secured by stock of the holding company? This is the problem which faces examiners at both the state and national level in dealing with the group banking systems over the country. This type of secured loan actually is a

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[50]The Michigan law is as follows: (Michigan Banking Act, 1929, Section 80) "Loans on or purchases by bank of own stock. Except as otherwise authorized by law, no bank shall make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within 6 months from the time of its purchase, be sold or disposed of; or, in default thereof, the same shall be cancelled and shall not be considered as part of the capital structure of the bank: Provided, That the commission in its discretion may extend the time within which the bank may dispose of and sell said stock for a period not to exceed 1 year."

The law for national banks is as follows: (Section 5201 United States Revised Statutes, 1929) "No association (national bank) shall make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within 6 months from the time of its purchase, be sold or disposed of at public or private sale; or in default thereof, a receiver may be appointed to close up the business of the association, according to Section 5234."

circumvention of the law and the intent of the original law is broken. Examiners criticized this type of activity. Both the Guardian Detroit Union Group, Incorporated and the Detroit Bankers Company were violators of the intent of the law.

An example of the concentration of stock held as collateral for loans can be seen in examining the National Bank of Commerce, a member of the Guardian Detroit Union Group, Incorporated. In September, 1930, there were 48,431 shares being held as collateral for loans;[51] in March, 1931, there were 57,531;[52] and in May, 1932, there were 149,574 shares held.[53] These stocks were not only held as collateral in the face of frequent criticism by the examiners but were being increased almost continuously.[54] Finally in January, 1933, the Comptroller of the Currency in a direct message to the Board of Directors of the National Bank of Commerce called attention to the special schedules of loans of the bank. These schedules showed the extent to which loans had been granted on stock of the Guardian Detroit Union Group which to all intents and purposes was equivalent to loaning on the bank's own stock, since the Group owned all of the bank's stock except the

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[51] Ibid, p. 4491.

[52] Ibid, p. 4501.

[53] Ibid, p. 4508.

[54] Ibid, p. 4390.

qualifying shares of the directors.[55] Mr. Bert K. Patterson formerly was chief examiner of the Seventh Federal Reserve District, of which Detroit is a part, and later vice president of the Guardian Detroit Union Group, Incorporated. He stated during the Hearings before the Senate Banking Committee that the loans based on stock of the parent company could be traced to a violation of the national and state statutes pertaining to banking.[56]

The unit banks affiliated with the Detroit Bankers Company were criticized early for their large concentration of loans which had as collateral the stock of the parent holding company. One of the affiliates, the Detroit Trust Company, was censured by the examiner in September, 1931, as follows: "This department recommends that in the future no additional loans be extended which are predicated upon Detroit Bankers Company stock and that your present loans be gradually eliminated whenever possible."[57] A gradual elimination of this type of loan and collateral may have been desired by the officers of this unit bank and others in the system, but the very structure of the group system prevented this elimination.

Once a unit bank was in the position of holding stock of the group system as collateral for a loan, there was a vicious

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[55] _Ibid_, p. 4390.

[56] _Ibid_, p. 4499.

[57] _Ibid_, p. 5336.

circle reaction. First, the unit banks had to declare dividends on their own stock so that the parent company could pay dividends and thus keep the collateral stock at a reasonably high price on the Detroit Stock Exchange. This had to be done even though the unit bank was experiencing reduced earnings. Secondly, the bank could not liquidate any significant amount of holding company stock because the price of stock would fall on the Detroit Stock Exchange and thus confidence in the group system and the affiliated unit banks would be weakened in the mind of the public. Further, any fall in the market quotation would make the balance of any stock held for collateral of less value.

To see to what extent some of the unit banks of the Detroit Bankers Company held group stock as collateral for loans, one needs only to look at the First National Bank of Detroit as an example. On February 14, 1933, at the time of the Michigan banking holiday, this unit held 300,000 shares of the Detroit Bankers Company or almost one-eighth of the total authorized under the Articles of Incorporation as collateral for loans of one kind or another.[58]

Though many of the loans made upon collateral of the stock of the two great group banking systems of Detroit were repaid after the banking holiday, the collateral held for

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[58] *Ibid*, p. 5618.

these loans was of no value after the holiday.[59] The loans were liquidated on other bases than redeeming the collateral. This practice of holding group stock as collateral for loans proved disastrous for both systems and never should have been followed.

(5) Loans to Officers and Directors of the Group System and of the Unit Banks

Loans to officers and directors of banks have always presented a most difficult problem for bank examiners and for government regulation. In times of prosperity there is a tendency for some directors and officers to feel that with a specified amount of borrowed money they can make themselves financially secure; in times of stress the bank directors will sometimes pass on the dubious loan applications of one another in a "we're all good friends' spirit" in order that the directors and officers might ride out a period of hard times.

Effective legislation to control borrowings by directors, officers and the enterprises in which they have an interest is especially difficult. Under our present scheme of unit banks, it would be almost impossible to obtain the more able

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[59] Ibid, p. 5618. Both the Detroit Bankers Company and the Guardian Detroit Union Group, Inc. were forced into receivership. The bankruptcy proceedings which followed allowed no payment whatsoever on the shares of stock of either company.

men of the community to serve as directors, if they were denied bank credit.[60]

It is not uncommon for authorities on examining an insolvent bank to find that loans to its officers and/or directors exceed the unimpaired capital of the bank.[61] When this is the case, in the final analysis, the officers and directors have borrowed the capital of the bank for their own use.

It is a curious fact, indeed, that though banking authorities for years had frowned upon the making of loans to directors and officers, the group system actually encouraged substantial loans to officers and directors of both the group system and of the unit banks. Robert O. Lord testified at the Hearings before the Senate Committee that the Guardian Detroit Union Group, Incorporated encouraged these loans, a substantial part of which were secured by group stock.[62]

To see to what extent the officers and directors of the Guardian Detroit Union Group, Incorporated availed themselves

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[60] In 1928 the directors of the Continental National Bank & Trust Co. of Chicago included the following people: Edward F. Carry, President, The Pullman Co.: F. Edson White, President, Armour & Co.; Milton S. Florsheim, Chairman of Board, The Florsheim Shoe Co.; and Robert F. Carr, President, Dearborn Chemical Co. Had these men and/or the companies in which they had a substantial interest been denied bank credit, it is difficult to imagine that they would still have been willing to serve in that capacity.

[61] Goodbar, Op. cit., p. 155.

[62] Ibid, p. 4390.

of the opportunity to borrow money from the banks in which they worked, one need only look at two of the largest units of the system. As of November, 1932, the Guardian National Bank of Commerce had outstanding loans without collateral of over $1,740,000 and loans backed by collateral of over $1,741,000 to officers and directors of the bank.[63] This total of $3,481,000 was more than 34 percent of the total capital of the bank as reported by the Comptroller of the Currency on December 31, 1931.[64] One can see the extent of the penetration of this borrowing when it is shown that loans were made to 52 of the 61 directors and to 33 of the 43 officers of the main office.[65]

In the second of two of the larger banks of the Guardian Detroit Union Group, Incorporated, the Union Guardian Trust Company officers and directors of the bank were liable for a total of over $2,477,000 on their respective individual accounts.[66] One Robert Oakman, a director in this bank, must

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[63] Ibid, p. 4391.

[64] Individual Statements of Conditions of National Banks at the Close of Business December 31, 1931, (Washington, D.C.: U.S. Printing Office, 1932), Table I, p. 77.

[65] Hearings, p. 4394.

[66] The directors of the Union Guardian Trust Company included such people as Frederic G. Austin, Walter O. Briggs, Edsel B. Ford, Charles S. Mott, Ransom E. Olds, Hiram H. Walker, Charles E. Wilson, well-known industrialists in the Detroit area. These men and other

have taken the encouragement to borrow liberally, for during 1932 he increased his borrowings by almost $400,000 even though in September, 1931, the state bank examiner had classified his aggregate liability of $1,283,000 as "slow."[67]

The situation in regard to loans to directors and officers in the Detroit Bankers Company is much the same as in the Guardian Detroit Union Group, Incorporated. As of December, 1931, direct loans to directors were a net total of more than $20,742,000 and affiliated borrowings of the same directors were over $21,386,000, or a grand total of more than $42,128,000 owed by directors of the group system to unit banks within the group system.

One of the most flagrant violators of good banking practice of all unit banks within this group system was the First National Bank in Detroit. As of the date of the National Banking Holiday that unit bank had outstanding loans, direct and indirect, to officers, directors and employees of over $33,296,000.[68] This was greater than the total capital of

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directors were active business men, and it is entirely possible legitimate loans of $2,477,000 would be extended to them. On the other hand, loans to officers of this amount could almost be considered as excessive. No information is available as to the breakdown of the $2,477,000 as to how much was loaned to officers and how much was loaned to directors.

[67] *Ibid*, p. 4863. On December 31, 1931, this loan was 6 months overdue, though interest was being paid.

[68] *Ibid*, p. 5618.

the bank at the time, indicating bad judgment or mismanagement on the part of the officials of the bank.

Although the officials of the First National Bank stated that they were trying to correct a bad situation when they were criticized by bank examiners for having so much in loans to officers and directors, the aggregate of direct loans to directors was reduced from $20,742,000 in January, 1932 to $20,568,000[69] in February, 1933, or a reduction of less than $200,000. This slight reduction seems to indicate one of two alternatives: (1) there was no real pressure brought to reduce this type of loan, or (2) the loans made were bad, never should have been made in the first place, and were now virtually losses and actually should have been written off.

It is obvious to even the casual observer that the practice of a bank lending money in large amounts to directors and officers is an indefensible practice. Why these two great group systems of banks condoned, even encouraged this action, was never brought out in testimony before the Hearings before the Senate Committee on Banking and Currency.

Summary

The two large group banking systems in Detroit were inviting criticism in operating as they did. The five abuses, as enumerated, were continuously frowned upon by bank examiners

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[69] Ibid, p. 5632.

at the time. Yet, it appears from the evidence presented at the Senate Banking Committee Hearings that instead of correcting the frowned-upon operations of the banks, the management continued to operate in much the same way until February 13, 1933. It was at this time that Governor Comstock called the first important banking holiday, which led eventually to the general Holiday of March 4, 1933, called by the newly inaugurated President of the United States, Franklin D. Roosevelt.[70]

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[70] Sullivan, Op. cit., p. 81; see also, Report of the Comptroller of the Currency, 1932, p. 79. There had been a banking holiday in Nevada in October, 1932, but since there were so few banks and these few banks had resources totalling only $40,700,000 at the time of the holiday, little excitement was felt beyond San Francisco.

CHAPTER VI

COLLAPSE OF BANKING IN DETROIT

Introduction

Forces affecting American banking in general and Detroit banking specifically, which had been developing for several years, erupted in the February, 1933, gubernatorial banking proclamation. Banking people and legislators had been aware of mounting problems for some time, but instead of a frank analysis and reformation, measures were taken in 1931 and 1932 which could hardly be classified as anything more than "relief" or "stop-gap" measures.

One clear indication of difficulty was the increase in bank failures. Though many seemed to think these failures were a result of local situations and problems, one can hardly overlook the fact that in several of the years from 1918 to 1932, suspensions amount to more than 10 percent of all banks in existence. Chart III shows the number of suspensions for the fifteen years 1918 - 1932.[1]

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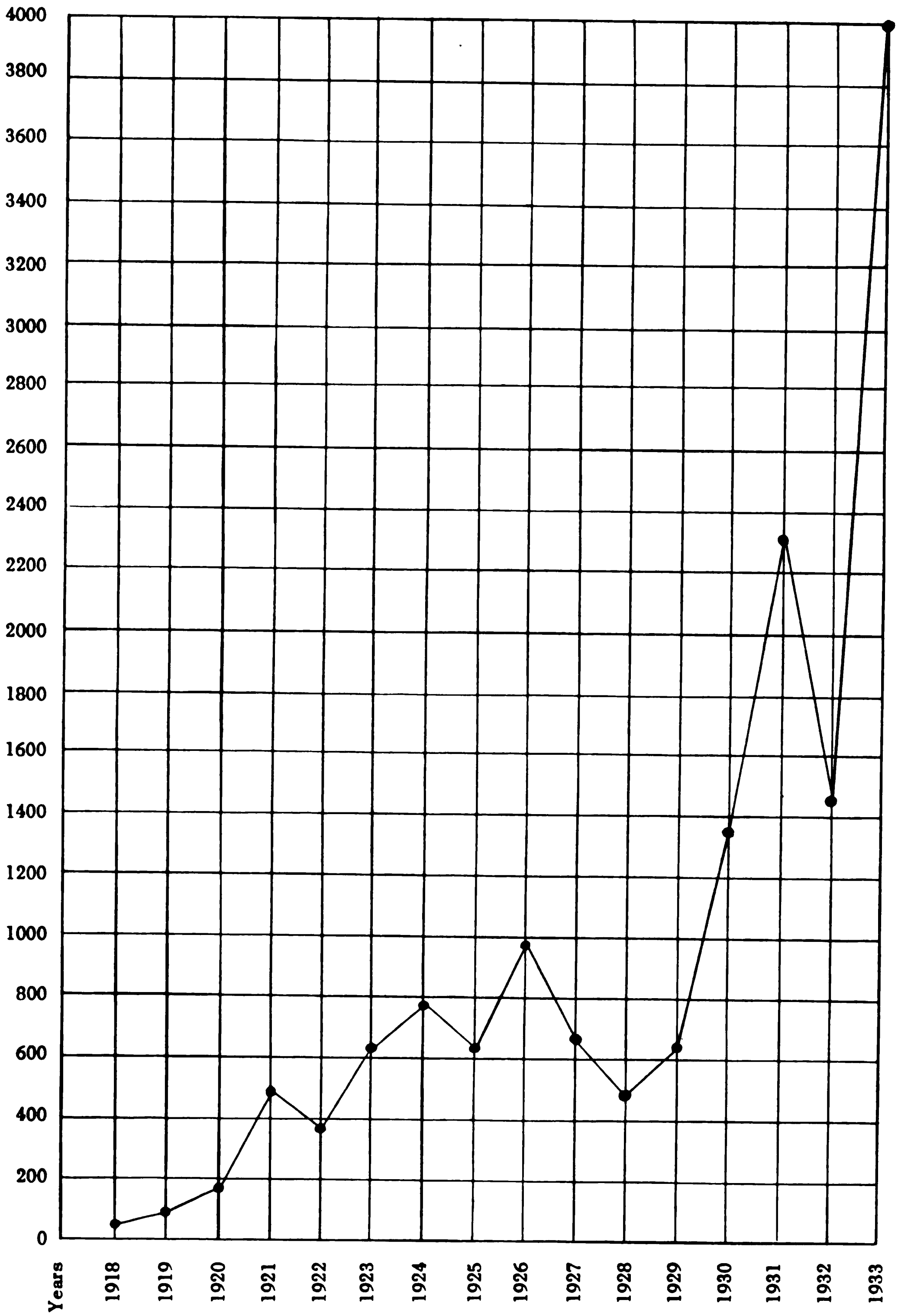
[1] Banking and Monetary Statistics, Table No. 66, p. 283.

CHART III

Number of Bank Failures for United States by year, 1918 - 1933



(Source: BANKING AND MONETARY STATISTICS, Table Number 66, P. 283)

Another indication that a crucial problem would have to be met, and soon, was apparent in published statistics of the Federal Reserve Board. From December, 1930, to June, 1932, the amount of money in circulation increased from $4,603,000,000 to $5,408,000,000 or more than 16 percent.[2]

Thereafter the amount of currency in circulation increased week by week until the crash and the general holiday of March 4, 1933. Table 14 shows the currency in circulation on Wednesday of each week from December 21, 1932, to March, 1933, when this excessive hoarding became most noticeable.

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[2]The change in circulated money can be seen from the following:

	Money in Circulation 000,000	Gold Coin	Gold Certificates	Standard Silver Dollars	Silver Certificates
1930	4,603	81	1,118	37	404
1932	5,408	166	716	30	353

	Subsidiary Silver	U. S. Notes	Federal Reserve Notes	National Bank Notes	Miscellaneous Money
1930	281	296	1,641	623	123
1932	256	289	2,780	701	118

It can be seen from the table that the biggest change came about as a result of an increase in Federal Reserve Notes. These notes got into circulation in two main ways: (1) Borrowing by member banks from the Federal Reserve, and (2) the discounting of eligible paper by member banks at the Federal Reserve.

Source: Federal Reserve Bulletins.

TABLE 14

MONEY IN CIRCULATION, DECEMBER 21, 1932 - MARCH 3, 1933[3]
(By weeks)

Date	Amt. of Money in Circulation (Millions)	Date	Amt. of Money in Circulation (Millions)
Dec. 21, 1932	$5,730	Feb. 1, 1933	$5,652
28	5,687	8	5,705
Jan. 4, 1933	5,669	15	5,854
11	5,589	21	5,988
18	5,602	28	6,545
25	5,611	Mar. 1	6,720
		3	7,414

The question of how long the banking system could withstand the strain became the concern of officials in 1932; but in 1933 the question became when and in what form the breakdown would show itself first and then how far would the breakdown go.[4]

Detroit, Michigan, was especially vulnerable to the possibilities of a banking crisis. As the heart of the still young automobile industry, the city was particularly sensitive to the rise and fall of the buying power of the public all over the country. Added to this was the fact that Detroit had become almost a one-industry city and was shown to

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[3]Source: Federal Reserve Bulletins.

[4]Willis & Chapman, The Banking Situation, p. 9.

be vulnerable to a crisis. Scores of new plants and factories had been built, and many new homes were constructed in the previous decade to provide space for the new industry. The banks of Detroit had financed much of this expansion. When depression came, the buying power of people in the United States was reduced so that unemployment became widespread in the automobile center. The forced unemployment of the worker brought about forced non-payment of the mortgage and loan payments. Jesse H. Jones, in his book Fifty Billion Dollars -- My Fifteen Years with the RFC, says, ". . . Detroit was harder hit (by the depression) than any other American metropolis."[5] Because of this one-industry feature, unemployment was a particular problem in the Detroit area.

The following chart shows employment in the automobile industry from September, 1931, to March, 1933, along with the factory employment record for the entire country. Few industries were as depressed as the auto industry. This, coupled with the fact that the automobile industry was one of the most concentrated of any in the country, created a real problem for the leaders in Detroit and Michigan.

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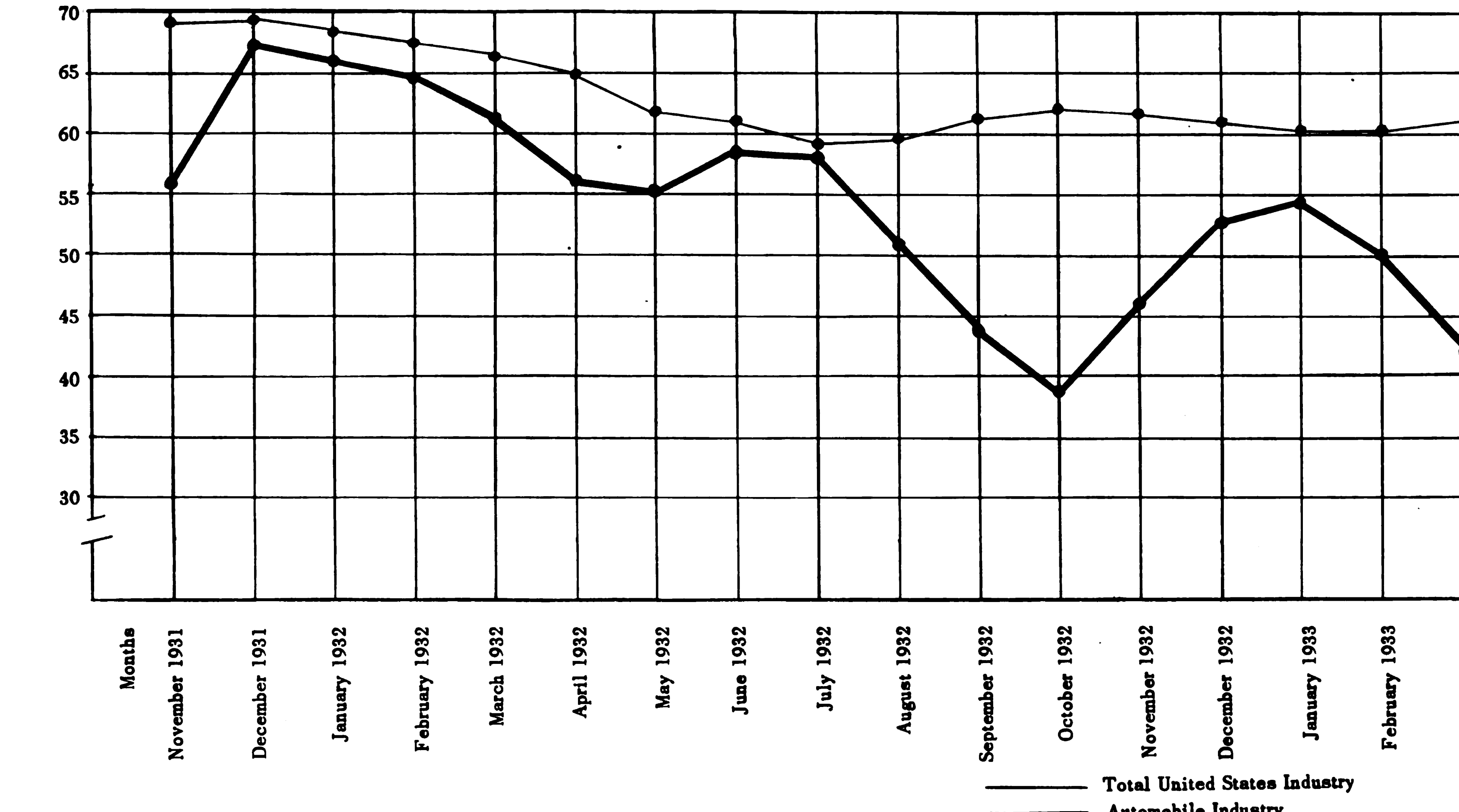
[5] Jones, Jesse, Fifty Billion Dollars. (New York: MacMillan Co., 1951), p. 57.

CHART IV

Factory Employment: Total Industry of United States and Automobile Industry

November 1931 — March 1933[1]



[1] (Source: Federal Reserve Bulletin, 1933, P. 209)

In this chapter events leading up to and culminating in the collapse of banking in Michigan in mid-February, 1933, will be described. Much of the information presented has been taken from the hearings before a special referee inquiring into the state banking holiday. The original hearings are unavailable, due to loss by fire, but since the hearings had been of such importance to the people of Detroit, almost complete testimony was printed daily in the newspapers. The hearings were called by the Attorney General of Michigan shortly after the banking holiday and continued until the early fall of 1933.[6] The hearings were held before a one-man Grand Jury in the Circuit Court of the city of Detroit.

Political Aspects of the Crisis

There seemed to be political overtones to the advent of a crisis. In November, 1932, Franklin D. Roosevelt had been elected on the Democratic ticket. Many people felt uneasy because of the impending shift in the control of the Government after twelve years of Republican leadership. Cooperation between the incoming and outgoing administration was absent.[7] Then, too, business and industrial leaders, as well as the general populace, uncertain of the policies to be carried out by the new administration, were anxious. The

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[6]See Appendix for the document asking for the hearing.

[7]Sullivan, _Op. cit._, p. 110.

publicity and the effects of all RFC loans made to banks was was still fresh in their minds.[8]

Personal Factors Entering the Crisis

It has been pointed out several times by authoritative sources that Senator James Couzens, senior senator from Michigan in 1933 and an influential member of the Senate Banking and Currency Committee, and Henry Ford had become antagonistic toward each other by the early part of the 1930's.[9]

Couzens had made a fortune with the Ford Motor Company several years earlier (1906-1919) but after several disagreements with Ford had sold out. He shortly became an acknowledged foe of Ford; they differed over military preparedness in 1915-1916, over prohibition, and over politics.[10] On leaving the Ford Motor Company, Couzens operated a bank in Highland Park and, because he had not conformed to the regulations set forth, was refused a permit to become a member of the Detroit Clearinghouse Association.

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[8]See Chapter II, pages 30-35 for a detailed discussion of the creation and operation of the RFC.

[9]Jones, Op. cit., pp. 55-56; Bingay, Op. cit., p. 120; personal interviews with James Holden and Maurice Eveland, present Commissioner of Banking for Michigan.

[10]Jones, Op. cit., p. 55. Both Ford and Couzens were members of the Republican Party, but during the presidential campaign of 1924 and during the senate rate of 1918, Couzens openly and vigorously opposed Ford for these two nominations.

Couzens had also participated in a long feud with Andrew W. Mellon, Secretary of the Treasury in the Harding, Coolidge, and Hoover administrations. This quarrel had arisen in part over the tax the Treasury had assessed on the sale of his Ford stock. At the time of the banking crisis, because of his influential position in the Senate, Couzens was in a particularly good position to shape the destiny of banking in Detroit, in Michigan, and in the entire country.

Events Leading up to Banking Holiday of February 14, 1933

In Detroit definite pressures of the general financial situation began to be felt in late January. Apparently by chance, at this time the two national banks of the two group systems dominating banking in Detroit were examined by Federal bank examiners on January 27 and 28, 1933. At the conclusion, in letters to the directors, each of the banks, one from each of the two group systems, was declared to be solvent.[11]

By the first of February, 1933, officials of the RFC were informed that Detroit was in a precarious situation because of the development of a crisis situation at the Union Guardian Trust Company, one of the larger units of the Guardian Detroit Union Company, Incorporated. It was felt that if the Union Guardian Trust Company were forced to suspend operations, the entire Guardian Detroit Union Group would be dragged down with

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[11] The Detroit News, Wednesday, June 7, 1933.

it and eventually the other group system, the Detroit Bankers Company, and then all the banks in the state.

The officials of the Union Guardian Trust Company knew that, since there was some rumor that the bank could not realize on its assets, the bank must be prepared to pay off 100 cents on the dollar of all deposits. Since the Union Guardian Trust Company had deposits of approximately $20,000,000 and held not more than $6,000,000 "present value" assets,[12] it was absolutely necessary that outside help be obtained. The Guardian Detroit Union group as an entity decided to ask for a loan large enough to sustain the Union Guardian Trust Company in its present difficulty and also to put the whole group on a reasonably sound basis to withstand almost any difficulty. The Group system, therefore, requested a loan of $50,000,000 from the RFC, which when added to a loan previously made would have totalled $65,000,000 loaned to the entire Guardian Detroit Union Group, Incorporated.

Senator Couzens at a Grand Jury hearing into why the banking holiday was called on February 14, 1933,[13] said:

> On February 3, 1933, a member of the RFC Board of Governors, discussing the railroad situation, incidentally remarked that there was trouble in the Detroit banking situation. He gave me some of the details. On February 4, another director said the Guardian Detroit

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[12]"Present value" assets mean the asset value at which the Union Guardian Trust Co. could liquidate its portfolio on the depressed market of early 1933.

[13]This is the one-man Grand Jury hearing to which reference is made on page 130.

> Union Group was applying for a $65,000,000 loan and that the RFC had been requested not to let me know. While that made me curious, it did not make me take any action. I had casual talks with members of the RFC Board and got much of the detail concerning the situation.[14]

The loan which the Guardian Detroit Union Group sought was to be secured by $90,000,000 in mortgage assets, which at the time had a market value of approximately only $35,000,000. It was estimated, however, that the assets probably could be liquidated at some time in the future at somewhere between $75,000,000 and $80,000,000. The RFC ruled that the loan could not be made, particularly since Senator Couzens had threatened to carry the whole case to the Senate floor if the loan were made on that basis.[15]

By Thursday, February 9, the situation had become so desperate that President Hoover called Senators Couzens and Vandenberg of Michigan, Secretary of the Treasury Mills, and Charles Miller, President of the RFC, to the White House for a conference regarding the Detroit situation. Of this meeting, that ended with almost nothing accomplished, Senator Couzens later said, "I was definitely opposed and that if it were made (the loan), I would denounce it from the housetops."[16]

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[14] State of Michigan, Hearings before the Special Referee Inquiring into the State Banking Holiday: Wayne County Circuit Court, Detroit, 1934: quoted from The Detroit News, August 17, 1934.

[15] Sullivan, Op. cit., p. 83.

[16] Testimony of Senator Couzens, Detroit Hearings, quoted in The Detroit News, August 17, 1934.

On Friday, February 10, Secretary of Commerce Roy D. Chapin and Assistant Secretary of the Treasury Arthur Ballantine went to Detroit to try to keep the Union Guardian Trust Company and others of its group open until Saturday noon when there would be two and one-half days of closed bank time in which to find a solution to the immediate problems of Detroit banking.[17]

From Friday until Sunday Mr. Chapin and Mr. Ballantine exerted every influence to raise new capital in Detroit to save the situation but with little results because of the sentiment aroused by rumors about the Union Guardian Trust Company and by daily statements by Couzens that the banks of Detroit were hopelessly insolvent.[18]

A temporary plan was finally presented to hold the situation until a more permanent solution could be found. The Union Guardian Trust Company could still be "saved" if enough depositors would voluntarily subordinate their deposits.[19] There were found depositors who would subordinate to the amount of about $8,500,000--$7,500,000 of which belonged to

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[17]Sunday was Lincoln's Birthday, and thus Monday, the 13th of February, was a regular banking holiday.

[18]Bingay, Op. cit., p. 129.

[19]Deposits are considered subordinated if a depositor agrees not to make withdrawals from his account for a certain period of time. In effect, this means that a bank does not need to have as much cash on hand or be as liquid as otherwise might be the case.

Henry Ford. Thus it was that $5,500,000 stood between a hopeless situation and a chance for success.[20]

On Monday morning, February 14, 1933, President Hoover called Chairman of the RFC Pomerene and Secretary of the Treasury Mills to the White House and informed them that unless some other solution was found by 9:00 P.M. Monday night, the RFC should be ready to loan this $5,500,000 to the Union Guardian Trust Company, regardless of what Senator Couzens had to say.[21] However, this was never to happen.

In Detroit the situation had become so bad by Monday evening that bankers and community leaders gathered together to discuss the crisis. Among those present were Robert O. Lord, President of the Guardian National Bank of Commerce; Ernest Kanzler, Chairman of the Board of the same bank; Clifford Longley, President of the Union Guardian Trust Company; Roy D. Chapin, Secretary of Commerce; Arthur A. Ballantine, Under-secretary of the Treasury; John K. McKee, representing the RFC; M. L. Prentis, President of Chrysler Corporation; B. K. Patterson, Vice-president of the Guardian Detroit Union Group, Incorporated; Alfred P. Leyburn, Chief Examiner

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[20]Deposits of $20,000,000, less $6,000,000 in liquid assets, less $8,500,000 of subordinated deposits, leaves $5,500,000 needed to pay off non-subordinated depositors 100 cents on the dollar.

[21]Sullivan, Op. cit., p. 86.

of the Seventh Federal Reserve District; and Malcolm C. Taylor, Deputy Commissioner of Banking for the state of Michigan.[22]

Malcolm Taylor testified at the Detroit Hearings that he first heard the proposal for a general banking holiday at about ten o'clock that evening.[23] He said that it was the general feeling that the holiday was a "must" because the closing of the Union Guardian Trust Company would put extreme pressure on the other banks of the Guardian Group, which in turn would affect the Detroit Bankers Company, and then pressure would be applied to the out-state banks which used the City banks as depositories.[24, 25]

Governor Comstock was called to the meeting from Lansing late in the evening of February 13 and was told of the impending closing and of the crisis. Taylor testified that he, Kanzler, Ballantine, McKee, Leyburn and Chapin, all unanimously recommended that the Governor proclaim a holiday for

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[22]Testimony before Judge Keidan, Detroit Hearings, quoted from Detroit News, June 16, 1933. It is important to know that this was not just a meeting of Detroit bankers but one of financial men from all over the country.

[23]Ibid.

[24]Ibid.

[25]State law required banks which were not members of the Federal Reserve System to keep half of their reserves in some bank within the state; in practice this meant Detroit.

a long enough time to get banking in Detroit back on a sound basis.[26] State Banking Commissioner Rudolph E. Reichert was not present at this meeting but was called by telephone for consultation. He approved the holiday proclamation upon information submitted to him at that time; he said it was "the only thing to do under the circumstances."[27]

Finally, just after midnight of February 13, 1933, Governor Comstock signed the proclamation which closed the banks of Michigan and brought on the banking holiday in all the other 47 states of the Union.

The text of the proclamation issued by the Governor is as follows:

> Whereas in view of the acute financial emergency now existing in the city of Detroit and throughout the state of Michigan, I deem it necessary in the public interest and for the preservation of the public peace, health and safety, and for the equal safeguarding without preference of the rights of all depositors in the banks and trust companies of this state and at the request of the Michigan Bankers Association and the Detroit Clearing House and after consultation with the banking authorities, both national and state, with representatives of the United States Treasury Department, the Banking Department of the state of Michigan, the Federal Reserve Bank, the Reconstruction Finance Corporation, and with the United States Department of Commerce, I hereby proclaim the days from Tuesday, February 14, 1933 to Tuesday, February 21, 1933, both dates inclusive, to be public holidays during which time all banks, trust companies, and other financial institutions conducting a banking or trust business within the state of Michigan shall not be opened for the transaction of banking or trust business, the same to be recognized, classed and

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[26] Ibid.

[27] Testimony of Reichert before Holiday Hearing, quoted from Detroit News, June 15, 1933.

treated, and have the same effect in respect to such banks, trust companies, and other financial institutions as other legal holidays under the laws of the state, provided that it shall not affect the making or execution of agreements or instruments in writing or interfere with judicial proceedings.

Dated this Fourteenth day of February, 1933, 1:32 a.m.

William A. Comstock
/Signed
Governor of the State of Michigan

Though Governor Comstock, as a state officer, had no jurisdiction over national banks, certain men in the federal service urged him to close the national banks and all the banks in Michigan. The key man who urged him to do so was Arthur Ballantine, Under-secretary of the Treasury and immediate superior of the Comptroller of the Currency under whose jurisdiction are the national banks.

Though there was no legal question which was presented before any court, Congress moved slowly to make legal Governor Comstock's proclamation. On February 25, 1933, both houses of Congress passed a joint resolution permitting national banks to conform to state holiday proclamations. This was known as the Couzens Resolution, because Senator Couzens introduced the bill.[28]

It was not until April 7, 1933, that the Senate and House of Representatives in Michigan made it absolutely legal for the Governor "to declare a holiday when necessary,"

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[28]United States Code Annotated, Banks and Banking, Public Resolution, Number 58, p. 419 Title 12.

though on February 15, 1933, they had passed a joint resolution approving his action of the previous day.[29]

Late in the evening of February 13, 1933, Secretary of the Treasury Mills had been informed of the meeting being held in Detroit regarding the banking situation, and he so informed the President of the United States. The holiday proclamation of Governor Comstock halted the last minute rescue plan of making an emergency $5,500,000 loan to the Union Guardian Trust Company from the RFC regardless of the opposition of Senator Couzens.

On February 14, 1933, the State Banking Department announced that total deposits of $1,510,385,767 were tied up in Michigan by the holiday order. This amount was distributed approximately as follows:[30]

National Banks	$800,000,000
State Banks	560,000,000
Trust Companies	150,000,000
Total	$1,510,000.000

There was a feeling in neighboring states following the holiday proclamation that the problems of the Michigan banking system could be solved; but when the eight day holiday passed and still the banks did not open, other states were

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[29]Act 47, 1933, Michigan Statutes Annotated, Vol. 17, p. 59.

[30]<u>Detroit News</u>, Feb. 14, 1933, p. 2.

forced to proclaim state-wide holidays to protect the interests of the depositors and the whole financial system.[31]

The following list indicates the ever-widening circle of bank holidays and the cumulative effect they had throughout the United States:

Date	State
February 14	Michigan
February 23	Indiana
February 25	Maryland
February 27	Arkansas
February 28	Ohio
March 1	Alabama, Kentucky, Nevada, Tennessee
March 2	Arizona, California, Oregon, Louisiana, Mississippi
March 3	Georgia, Idaho, New Mexico, Texas, Utah, Washington, Wisconsin
March 4[32]	Colorado, Connecticut, Delaware, Florida, Illinois, Iowa, Kansas, Maine, Massachusetts, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Pennsylvania, Rhode Island, South Dakota, Vermont, Virginia, Wyoming

Both before and after the proclamation of the Michigan banking holiday, there were attempts made to work out problems

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[31]The proclamation was extended six days, to February 28, then four days, until March 4, by the Governor.

[32]Bank holidays were proclaimed by law in Illinois, Massachusetts, New Jersey, New York and Pennsylvania. In the other states banks closed by their own decision or restricted withdrawals to some extent on Saturday, March 4, 1933. On March 5, 1933, the newly inaugurated President closed all the banks of the country.

which needed joint action by both parties. Senator Couzens, on the one hand, and William H. Woodin, the newly announced selection as Secretary of the Treasury, on the other, seemed to hinder cooperative efforts. With no cooperation, March 4, 1933, found most of the banks in the country closed either by gubernatorial proclamation or otherwise. The day after the inauguration of the new President, a proclamation was issued formally closing every banking institution in the land.[33]

Summary

Industrial and commercial activities in metropolitan Detroit were dominated by the automobile industry during the period 1929-1933. With the depression, this area was particularly hard hit and at once became vulnerable to the possibilities of a banking crisis. This crisis actually developed in February, 1933, when one of the affiliated banks of the Guardian Detroit Union Group, Incorporated reached a point where it would have to be prepared to pay 100 cents on the dollar to all depositors. Because relief was not forthcoming, a state-wide banking holiday was declared on February 14, 1933.

What initially was a temporary expedient to give the Detroit banks time to prepare themselves to continue to do a commercial banking business ended in financial chaos on March 4, 1933, for all financial institutions in the United States.

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[33]The order was able to be issued because of the existence of the "Trading with the Enemy Act of 1917." The proclamation is given in Appendix B..

CHAPTER VII

SUMMARY AND CONCLUSIONS

The analysis in the preceding chapters has been both of a general and of a specific nature. It has been general in that background information was necessary to show the economic setting of the years between 1929 and 1933 and to define and explain group banking as a form of multiple banking. The analysis has been specific in showing the build-up and the operation of the two large group systems of Detroit and in showing the collapse of banking in Michigan on February 14, 1933.

As shown in Chapter II, bank failures had been excessive[1] and had reached such proportions that during the period from 1929 to 1933 in financial circles they were one of the main topics of conversation. The Comptroller of the Currency in his Annual Report for 1932 indirectly criticized, and justly so, national authorities by pointing out that

> Lax state laws and the passage by the Congress of the Act of March 14, 1900, reducing the minimum capitalization of national banks from $50,000 to $25,000 facilitated the organization of thousands of small banks in small towns, particularly in agricultural sections throughout the country, while rising prices and increasing prosperity made it possible for these banks to thrive. But with the turn of the times, which set in

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[1]See Table 6, page 28.

> with the beginning of the post-war period, we have come to realize the danger in permitting the organization of small under-capitalized institutions."[2]

Both the law makers and officials of the banking department in Michigan can be criticized for allowing under-capitalized banks to be organized. The lawmakers were at fault for not amending the general statutes of the state (and for not making a general overhaul of the banking system) in 1932 when it became known that over 18 percent of the state banks had suspended operations in 1931.[3] The officials of the banking department came in for criticism because it was they who made the final approval for any newly organized bank.[4] Though almost 25 percent of the failing banks in Michigan from 1929 through 1931 had a paid-in capital and a surplus of $25,000 or less,[5] and this fact was known to authorities in the banking department, 14 new banks were authorized to begin operations with a capitalization of $25,000 or under from 1929 to 1933.

The reasons why the group banking system became extensively used as a form of banking structure in the late 1920's and early 1930's are shown in Capter III. The reasons may be

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[2]Report of the Comptroller of the Currency, 1933, p. 4.

[3]See Table 6, p. 28.

[4]Michigan Statute, Oct. 1929, Section 26.

[5]Rodkey, Op. cit., p. 110.

summarized as follows: (1) Prohibition of branch banking in a number of states, (2) the desire for power and profits by promoters, (3) the desire to improve conditions of the banking industry, (4) the fear of the loss of correspondent business to other operating group systems, (5) the establishment of group systems in preparation for a branch banking which bankers thought was to be permitted in the near future.

The formation of the Guardian Detroit Union Group, Incorporated and of the Detroit Bankers Company is discussed in Chapter IV. The Guardian Group was formed through the merger of two earlier group systems. The resulting system, which was formed in December of 1929, either controlled or had a strong minority interest in 32 separate financial institutions. The Detroit Bankers Company was incorporated on January 8, 1930, to obtain control of 5 of the largest banks of Detroit. By February, 1933, this group system either controlled or had a strong minority interest in 27 separate financial institutions. At the end of 1931 these two group systems controlled 87 percent of the total banking resources of Detroit.

Chapter V is directed to a discussion of the procedures and practices of the two large group systems in Detroit. Five types of customary procedures are shown which can be criticized by students of banking. These procedures are as follows: (1) Undue concentration of control in the board of directors of the group system; (2) the drainage of resources from the unit banks to maintain dividends to the owners of the

holding company shares of stock; (3) false and misleading reports for the holding company within the group system; (4) loans to individuals and businesses with the stock of the holding company being held as collateral; and (5) loans to officers and directors of the group system and of the unit banks. Both federal and state lawmakers are to be criticized for not amending existing laws or drafting new ones to control the new group banking systems.

In Chapter VI factors other than economic which exerted considerable influence on the stability of the financial sector of the economy are presented. A personal feud between Senator James Couzens on the one hand and Henry Ford and Detroit bankers on the other appears to have been a factor in preventing relief in a period of crisis in metropolitan Detroit. Couzens, an influential member of the Senate Banking and Currency Committee, declared that he would denounce a proposed loan to Detroit banks from the RFC and that he would carry the case to the Senate floor if the advance were made.[6] The RFC, which was established by Congress through an act to provide emergency financing facilities for financial institutions and others, did not make a needed loan of $65,000,000 to the Guardian Group even though the loan would have been secured by $90,000,000 in mortgage assets. These assets at the time had a market value of only $35,000,000, but the

[6]Couzens had not objected to a $90,000,000 loan to Dawes' bank in Chicago in June, 1933.

estimated future liquidation was somewhere between $75,000,000 and $80,000,000. Senator Couzens was within his rights to protest the technical legality of the loan because it was not fully secured by liquid assets. However, the depressed value assets were good enough that five days later President Hoover and Chairman of the RFC Pomerene and Secretary of the Treasury Mills agreed to make the $65,000,000 loan to the Guardian Group, regardless of what Couzens had to say, in order to keep the banks from closing. In addition, according to Herman Taylor, none of the deposits of the banks in Detroit lost 1 cent because of the holiday; all paid off with money to spare. However, before this information could reach Detroit, Governor Comstock had proclaimed an eight day banking holiday. Furthermore, it was unfortunate that this period of crisis occurred at the very time when there was a change of administration at the national level and thus a period of uncertainty.[7] It is entirely possible to believe that if Senator Couzens had been more cooperative and if the RFC loan had been made, that the Michigan banking holiday might never have been proclaimed. If the Michigan holiday had not occurred, the nationwide crisis might not have been as severe. Certainly the holiday proclamation of Governor Comstock and the closing of the Michigan banks was

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[7]Comstock's proclamation occurred on February 10, 1933, only about two weeks before the inauguration of the new President. Cooperation between the incoming and outgoing administrations was absent.

a contributing factor, if not the catalyst, which brought about the crisis situation of late February, 1933, and eventually, on March 6, 1933, the presidential proclamation closing all banks in the country.

Several pieces of legislation were enacted as a result of the 1929-1933 experience on both the federal and state levels. On the national level one of the most important acts was the Banking Act of 1933. Though it was essentially a reform measure to correct specific abuses, it did contain several important new provisions.[8]

Probably the most far-reaching section of this act was Section 12B, an amendment to the Federal Reserve Act, creating the Federal Deposit Insurance Corporation. By establishing this institution many of the fears of people were overcome, and it was hoped that banks need not fear panic and runs again. Sections 18 through 28 of the act dealt specifically with the control of holding companies and group systems. The group systems were required to obtain a voting permit from the Board of Governors of the Federal Reserve System before voting any stock of a member bank. Further, there was a requirement that all affiliates be examined simultaneously regardless

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[8] Banking Studies, Board of Governors of Federal Reserve System, Washington, D.C., 1941, p. 56. In its report on the Banking Act, the Senate Banking and Currency Committee reported in part, ". . . the immediate emergencies were so great that it was wise to defer the preparation of a completely comprehensive measure for the reconstruction of our banking system . . ."

of whether they were national or state banks. This provision made it possible to uncover any malpractices more easily than when examiners could examine only state or national banks.

Another section of the act, Section 23A, prohibited member banks from making loans on the stock of any affiliated association. It thus became impossible to continue to operate as the two group systems of Detroit had in making loans to officers and directors with the stock of the holding company as collateral.

In Michigan little significant change was made in the general banking laws until 1937. Two years earlier, under Public Act Number 181, a commission was created to recodify the laws relating to Michigan financial institutions. The resulting law, the Financial Institutions Act, was passed and became law on July 28, 1937. It contained few if any new sections, but generally changed Michigan law to make state law uniform with federal in regard to banks to the mutual advantage of both national and state institutions.[9]

One act of significance passed on June 28, 1933, was an amendment to the Corporation Act of 1931. The amendment stated that corporations may hold the shares of other corporations "except banking corporations, industrial banks, trust,

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[9]Interview with Burton Dougherty, Assistant Attorney General for the Office of the Commissioner of Banking, July 12, 1956.

deposit and security companies . . ."[10] This amendment made group systems illegal in Michigan.

Although some corrective legislation was adopted as a result of the experience of 1933, further changes would seem advisable.

There is need for increasing the capital requirements for the establishment of new banks. This need is evidenced by the following: (1) Experience shows that the majority of bank failures have come from banks with a capital of under $50,000.[11] By raising the capital requirements, a greater safety factor would be given to the creditors, thus providing less chance for failure. (2) The increase in the capital account recommended would provide a greater safety factor for the Federal Deposit Insurance Corporation as well as for the creditor. This safety factor would make for a continued stable operation of the FDIC. Though there have been few bank suspensions in the past twenty years, freedom from wholesale failure is not guaranteed. An epidemic of bank failures could put terrific strain on the FDIC and perhaps bring about another nationwide financial crisis. (3) The $25,000 minimum capital requirement was adopted in 1900 for national banks and was reaffirmed for Michigan state banks in 1937. The devaluation of the dollar since then is such that on the inflation basis alone, the capitalization should be raised.

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[10] Michigan Public Acts, 1931, (Lansing: Franklin DeKleine Co., 1931), Number 327, p. 568.

[11] See Chapter II, page 43.

In Michigan a state bank can be established with a capital of only $25,000 with the approval of the banking department in a town whose population does not exceed 2500.[12] A national bank may be established with a capital of $25,000 on approval of the Comptroller of the Currency in a community of only 3,000 people.[13] Since state banks are controlled and administered by state authorities and national banks are controlled and administered by federal authorities, and since there is a constitutional restriction keeping Congress from regulating state institutions directly, another method must be found to raise the capital requirement of all banks throughout the nation. This method is found through the Federal Deposit Insurance Corporation. In 1955, 95.8 percent of all banks were insured by the FDIC.[14] It is almost impractical for banks not to belong to the FDIC because of the security which the deposit insurance gives to the creditor. The Congress should amend that section of the Federal Reserve Act which created the FDIC and do indirectly what it is constitutionally prohibited from doing directly. The amendment should be that no new bank may participate in the fund (the FDIC) unless it has a capital and surplus of more than $50,000 and that

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[12]Michigan Public Acts of 1937, Act 341, Section 40.

[13]United States Compiled Statutes.

[14]<u>Statistic Abstract of the United States</u>, (Washington, D.C.: U.S. Government Printing Office, 1955), p. 449.

present members must fulfill the requirements of this section within a period of two calendar years. In effect, this provision would force almost all banks with $50,000 of capital or less to increase their capital accounts.

A permanent committee should be appointed by the Secretary of the Treasury which should meet at least quarterly to review the banking structure and situation in the United States and which should make recommendations to the Senate and House Committees on Banking and Currency. There is a Federal Advisory Council consisting, as a rule, of one member banker from each Federal Reserve district. This Council provides an arrangement through which representatives from all sections of the country are enabled to present their views directly to members of the Federal Reserve Board and to communicate to their several communities information obtained directly from the Board concerning official Federal Reserve System policies and actions.[15] The committee here suggested would be an unofficial body made up of bankers from the several classes and sizes.[16] Were this committee to

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[15] Banking Studies, Op. cit., p. 378.

[16] The committee should include representatives from unit banks, multiple banking systems, state banks, national banks, the Federal Reserve System, the Federal Deposit Insurance Corporation, the Senate Banking and Currency Committee, the House of Representatives Banking and Currency Committee, a member representing the banks with over $1,000,000,000 in resources, one representing banks with resources of between $100,000,000 and $1,000,000,000, and one representing banks with resources under $100,000.

be appointed and were it to operate efficiently, the banking laws of the states and nation might be amended more quickly when a new type of institution or a new method of operation developed. A committee such as this potentially could have helped to correct some of the practices and procedures of the group banking systems and could have suggested changes in the laws to permit a complete examination of all affiliated units.

One of the real disadvantages of the group banking system is that the group potentially is only as strong as its weakest unit.[17] During a stable or prosperity period this potential threat to the safety of the group is not likely to cause trouble. However, with adversity the danger becomes more apparent and in some cases, as in the Detroit situation, creates a crisis which can cause many banks to fail. There is reason to believe from the evidence presented in Chapter VI that the weakness of the Union Guardian Trust Company was instrumental in bringing about the collapse of all banking in Detroit and finally all banking in Michigan.

Legislators and banking officials throughout the country accepted this failure as prima facie evidence that the group banking system was bad and either asked for legislation to outlaw the system or actually passed laws to forbid the system. From 1933 to 1936, thirteen states made provision of

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[17]See Chapter III, page 69.

one kind or another to limit the existence of the group banking system. One, Mississippi, prohibits it specifically, and twelve others restrict it through the proportion of stock that may be held by a company or by making illegal the holding of bank stock by a corporation as was done in Michigan.[18]

It would be difficult to say that the group banking system and its operational procedures did not contribute to the collapse of banking in 1933; but, on the other hand, there is good reason to believe that it was not the system itself as it was lack of controls and factors other than economic which made a substantial contribution to the downfall.

The categorical blame of all banking ills on the multiple banking system is false. What is needed is an objective study by lawmakers both at the state and federal levels to bring order and unity out of the dual and sometimes multiparte systems.

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[18] Banking Studies, Op. cit., p. 131. These states are Arkansas, Indiana, Kansas, Kentucky, Michigan, Minnesota, New Jersey, Oregon, Pennsylvania, Washington, West Virginia, and Wisconsin.

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APPENDIX

APPENDIX A

TABLE I

MICHIGAN BANKING RESOURCES AND LIABILITIES
(In Thousands of Dollars)

RESOURCES

	National Banks	State Banks	Trust Banks	Private Banks[1]	Total
No. of Banks	134	595	22	36	787
Loans & Discounts	345,748	963,737	102,769	4,875	1,417,129
Overdrafts	168	373	---	21	562
Investments	160,858	335,270	47,341	860	544,329
Bkg. House, Farm	24,493	47,378	5,023	250	77,144
Real Estate Owned	1,887	5,977	2,005	238	10,107
Cash in Vault	10,016	28,995	215	195	39,421
Res. with Fed. or others	25,191	20,061	19,624	85	64,961
Other amts. due from Banks	58,821	125,235	5,371	455	189,882
Exchanges for Clearing Hse. & other cash items	899	32,643	---	49	33,591
Other Resources	12,752	40,586	54,946	49	108,333
TOTAL	640,833	1,600,255	237,294	7,077	2,485,459

[1]Private banks in Michigan are not under the supervision of Michigan banking authorities. This data was taken from the Annual Report of the Comptroller of the Currency, 1929, and the figures are presented as of June 29, 1929, the end of the government fiscal year. All other figures were taken from the Annual Report of the Commissioner of Banking, Michigan, 1929, and are as of December 31, 1928.

TABLE I - Continued

LIABILITIES					
	National Banks	State Banks	Trust Banks	Private Banks	Total
Capital Stock Paid in	31,035	77,988	14,550	460	124,033
Surplus	26,636	65,958	15,020	228	107,842
Undivided Profits, Divid,	10,928	18,717	6,327	83	36,055
Reserves	871	1,935	184	3	2,993
Reserves, taxes, interest, etc.	1,219	4,103	1,148	25	6,495
Circulating notes outstanding	17,796	---	---	---	17,796
Due to Banks	38,169	31,275	---	2	69,446
Certified & Cashiers Checks, Letters of Credit	---	13,498	---	8	13,506
Demand Deposits	242,432	476,022	50,162	2,960	771,576
Time Deposits	248,983	833,943	---	2,992	1,085,918
U.S. Deposits	1,748	4,101	---	---	5,849
Deposits not classified	---	---	7	37	44
Trust Funds	---	189	70,149		70,338
Bills Payable	15,679	36,923	7,267	239	60,108
Securities sold subject to re-purchase	50	2,703	57		2,810
Securities for safekeeping	---	22,862	2,310		25,172
Other Liabilities	5,287	10,038	70,113	40	85,469
TOTAL	640,833	1,600,255	237,294	7,077	2,485,459

TABLE II

RATIO OF SPENDING TO MONEY IN CIRCULATION*
(January, 1930 through February, 1933)

Jan. 1930	15.03	Jan. 1931	11.47	Jan. 1932	6.74
Feb.	12.99	Feb.	9.38	Feb.	5.52
March	16.25(High)	March	11.57	March	6.20
April	15.88	April	11.33	April	6.22
May	15.32	May	10.59	May	5.29
June	15.57	June	10.66	June	5.41
July	13.58	July	9.30	July	5.02
Aug.	11.55	Aug.	7.67	Aug.	4.99
Sept.	12.29	Sept.	7.94	Sept.	5.18
Oct.	13.78	Oct.	7.94	Oct.	5.11
Nov.	10.32	Nov.	5.99	Nov.	4.20
Dec.	12.12	Dec.	7.31	Dec.	5.37
				Jan. 1933	4.92
				Feb.	3.86(Low)

*"Only in a broad way do (bank debits) reflect changes in general business conditions by showing, among other things, changes in the attitude of the public towards holding or spending money."[1] For the purposes here bank debits are considered as indicative of the spending of the nation.[2]

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[1] Banking and Monetary Statistics, Op. cit., p. 230.
[2] Ratios determined from amounts shown in Banking and Monetary Statistics.

Cash needs of the public and of business are generally related to the level of spending and of industrial output. In the period here under observation, however, both spending and industrial production were reduced significantly, but money in circulation remained approximately the same. (See Table III.)

TABLE III

MONEY IN CIRCULATION AS RELATED TO LEVEL OF SPENDING
AND LEVEL OF INDUSTRIAL PRODUCTION
October, 1929 to December, 1930

	Billions of $ Money in Circulation	Billions of $ Spending	Industrial Production
Oct. 1929	4.6	100.	121
Nov.	4.6	86.1	108
Dec.	4.6	70.7	96
Jan. 1930	4.2	64.2	103
Feb.	4.3	55.7	109
March	4.3	69.2	106
April	4.2	66.5	107
May	4.3	65.3	105
June	4.2	65.9	99
July	4.1	56.2	91
Aug.	4.2	49.0	90
Sept.	4.2	51.7	92
Oct.	4.2	57.9	90
Nov.	4.4	45.1	84
Dec.	4.6	55.7	77

Source: Banking and Monetary Statistics, p. 230 and p. 412; Federal Reserve Bulletin, Vol. 33, January, 1933, p. 22.

APPENDIX B

DOCUMENT I

PETITION FOR HEARING INTO BANK HOLIDAY

State of Michigan in the Circuit Court for the County of Wayne

To the Circuit Court for the County of Wayne, Honorable Harry B. Keidan, Presiding Judge; Your petitioner, Patrick H. O'Brien, Attorney General of the State of Michigan, respectfully shows to the court: 1. That certain information has been received by your petitioner that indicated that certain crimes and violations of the law have been committed within this county and that there are persons who can give material information with relation thereto. 2. That the information particularly related to the crimes committed by the employees, stockholders, directors, and officials of banks and trust companies located within such county or affiliated therewith, and the improper conduct of public officials charged with duties relating thereto. 3. That the information indicates that improper withdrawals were made by employees, directors, and stockholders in these banks. That deposits were received after insolvency or in contemplation thereof. That the crime of perjury had been committed, together with numerous other crimes which are too complex and with reference to which the facts are too indefinitely determined to make any detail allegations with reference thereto. 4. That investigation of some of these charges has been attempted by your petitioner, but that it has proved to be impossible to properly investigate them and arrive at the truth of the relation thereto, except by means of compelling the attendants of certain witnesses to testify before the court sitting as a Grand Jury. 5. That as a result of the closing of the numerous banking institutions and trust companies, which have closed within the City of Detroit and the events prior and subsequent thereto, including the numerous charges made regarding such closings and the conduct of the officials of the banks and the public officials dealing therewith, it appears advisable in the public interest to conduct an investigation before a Judge who is not a resident of Wayne County or the Metropolitan district of Detroit and who is in no way affiliated with any bank or trust company located therein or affiliated with any such bank or trust company or the Union Guardian Group or the Detroit Bankers Company or its affiliates. Wherefore your petitioner prays that an order may be entered herein for the appointment of some Circuit Judge not a resident of the

County of Wayne or the Metropolitan district of Detroit, nor affiliated with any bank or trust company located therein or affiliated with any such bank or trust company or the Union Guardian Group or the Detroit Bankers Company or its affiliates, as a One Man Grand Jury under the statutes provided therefore.

Patrick H. O'Brien,
/Signed
Attorney General

Gerald K. O'Brien
/Signed
Deputy Attorny General
and
Charles F. Loomis
/Signed
Assistant Attorney General

State of Michigan County of Ingham

On the fifth day A.D., 1933, before me a notary public in and for said county of Ingham, personally appeared Patrick H. O'Brien, Attorney for the State of Michigan to me known as the person named in and who signed the foregoing petition and made oath that he has read the said petition subscribed by him and knows the contents thereof, and that the same is true of his own knowledge, except as to matters therein stated to be on information and belief, and that as to those matters he believes it to be true.

/Signed
Helen P. Bushnell,
Notary Public
Ingham County, Michigan

My commission expires February 24, 1937.

End of Document

DOCUMENT II

PROCLAMATION OF PRESIDENT ROOSEVELT CLOSING ALL THE BANKS IN THE UNITED STATES

March 6, 1933

Whereas there have been heavy and unwarranted withdrawals of gold currency from our banking institutions for the purpose of hoarding; and

Whereas continuous and increasingly extensive speculative activity abroad in foreign exchange has resulted in severe drains on the Nation's stocks of gold; and

Whereas these conditions have created a national emergency; and

Whereas it is in the best interests of all bank depositors that a period of respite be provided with a view to preventing further hoarding of coin, bullion, or currency or speculation in foreign exchange and permitting the application of appropriate measures to protect the interests of our people; and

Whereas it is provided in section 5 (b) of the act of October 6, 1917 (40 Stat. L. 411) as amended, "That the President may investigate, regulate or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange and the export, hoarding, melting, or earmarkings of gold or silver coin or bullion or currency ****; and

Whereas it is provided in section 16 of the said act "that whoever shall willfully violate any of the provisions of this act or of any license, rule, or regulation issued thereunder, and whoever shall willfully violate, neglect, or refuse to comply with any order of the President issued in compliance with the provisions of this act, shall, upon conviction, be fined not more than $10,000, or, if a natural person, imprisoned for not more than ten years, or both; ***;

Now, therefore, I, Franklin D. Roosevelt, President of the United States of America, in view of such national emergency and by virtue of the authority vested in me by said act and in order to prevent the export, hoarding, or earmarking of gold or silver coin or bullion or currency, do hereby proclaim, order, direct and declare that from Monday, the sixth day of March, to Thursday, the ninth day of March, nineteen hundred and thirty-three, both dates inclusive, there shall be maintained and observed by all banking institutions and all branches thereof located in the United States of America, including the territories and insular possessions, a bank holiday, and that during said period all banking transactions

shall be suspended. During such holiday, excepting as hereinafter provided, no such banking institution or branch shall pay out, export, earmark, or permit the withdrawal or transfer in any manner or by any device whatsoever, of any gold or silver coin or bullion or currency or take any other action which might facilitate the hoarding thereof; nor shall any such banking institution or branch pay out deposits, make loans or discounts, deal in foreign exchange, transfer credits from the United States to any place abroad, or transact any other banking business whatsoever.

During such holiday the Secretary of the Treasury, with the approval of the President and under such regulations as he may prescribe, is authorized and empowered (a) to permit any or all of such banking institutions to perform any or all of the usual banking functions, (b) to direct, require or permit the issuance of clearing house certificates or other evidences of claims against assets of banking institutions, and (c) to authorize and direct the creation in such banking institutions of special trust accounts for the receipt of new deposits which shall be subject to withdrawal on demand without any restrictions or limitations and shall be kept separately in cash or on deposit in Federal Reserve banks or invested in obligations of the United States.

As used in this order, the term "banking institutions" shall include all Federal Reserve banks, national banking associations, banks, trust companies, savings banks, building and loan associations, credit unions, or other corporations, partnerships, associations or persons, engaged in the business of receiving deposits, making loans, discounting business paper, or transacting any other form of banking business.

In witness whereof, I have hereunto set my hand and caused the seal of the United States to be affixed.

Done in the city of Washington this 6th day of March, 1 a.m., in the year of our Lord one thousand nine hundred and thirty-three, and of the Independence of the United States the one hundred and fifty-seventh.

Franklin D. Roosevelt
/Signed

(Seal)
By the President:
Cordell Hull,
Secretary of State.

ROOM USE ONLY

Date Due

Mar 11 58 C			
~~SEP 26 1960~~			
~~OCT 3~~			
~~DEC 15 1961~~			

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