

SEES BRANCH BANKS ESTABLISHED IN THE U. S.

Roger W. Babson Says New System Not Good for Country but Sure Will Come.

Wellesley Hills, Mass., Oct. 19th, 1922. There has been much discussion regarding branch banks at the annual convention of the American Bankers Association which was held last week in New York. Owing to the controversy which this discussion has developed, Roger W. Babson was today interviewed regarding the probable outcome.

"Of course the discussion is the natural outgrowth of the establishment of the Federal Reserve Banks. Before the days of the Federal Reserve system," says Mr. Babson, "a branch bank organization practically existed, altho it was an unconscious and invisible organization. For instance, the small bank in Indiana took orders from its correspondent bank in Indianapolis; and the Indianapolis bank took orders from a still bigger bank in New York. The heads of a few of the New York banks would hold a conference at the home of the late J. Pierpont Morgan or at the home of Mr. Baker of the First National Bank, and decide upon a policy. This policy they would pass along to the large banks of Boston, Chicago, Philadelphia, Indianapolis, St. Louis, New Orleans, and other large cities. The banks in these large cities would in turn pass the same policy on to the small banks in their districts. There were no contracts or stock control existing between the banks, but there was an invisible control which was very powerful. With the organization of the Federal Reserve Banks, the clearance of checks at par, and the legislation against interlocking directorates, this control was given a tremendous jolt. No longer is it much of an object for a country bank to keep a deposit with the large city bank. Thus there has been a gradual drifting away on the part of the country banks from the city banks. The large cities have become more independent of New York; and the country banks have become more independent of the large cities. As long as the money rates were high, this did not worry the city banks, but during the past year, when money rates have been declining, the large city banks have distinctly felt the loss of their former power. Hence, they are looking around for some plan to get their country following back again.

"There is no hope of breaking up the Federal Reserve system which is functioning very satisfactorily. The men connected with the Federal Reserve Banks are active and ambitious. They are building permanent and substantial banking houses and are accumulating great resources. They are issuing reports and other publications which appeal greatly to the country banks. The larger city banks are distinctly worried about this and are looking for some other means for recouping their prestige. They first turned their attention to Foreign Trade organizations. 'Foreign Trade' was the key note at the American Bankers Convention two years ago. The foreign trade business, however, has not panned out as well as the banks had hoped it would, and our recent tariff has given almost a

death blow to what little foreign trade we had. Thus, the banks' hopes in this regard are not very sanguine at the moment. Another attempt has shown itself in the organization of separate 'Investment' companies and separate 'Acceptance' companies. These have been organized by many of the larger banks and most of them are operating successfully. Banks are finding these investment companies more profitable at the moment than their foreign trade adventure. The banks are gradually coming to the opinion, however, that they can recover their influence with the country districts only with organization of branch banks. Hence, there is a drive at present to have the National Bank Laws amended so that a city bank can own a system of branch banks in the surrounding cities and town.

Whether or not this is in line with Democracy, is a very debatable question; but the drive is on and my guess is that such branch banks are as inevitable as the chain store. "All the banking systems of Europe are developed on the 'branch bank' idea. The big banks of England, France, and Germany have their branches in hundreds of cities and towns. One of the finest branch systems in the world exists in Canada, just over the United States line. In Montreal there are several big banks, and each of these have from one hundred to three hundred branches in different Canadian cities and towns. As already stated, I doubt seriously whether the branch bank system is as good for the country as the present system. On the other hand, we know that the present tendency of eliminating the small farmer and substituting the renter in place of the owner is not for the good of

the country. The development of chain store systems which are slowly crowding out the individual retailer is not good for the country.

"One Christmas Mr. Henry Ford sent me an autographed photograph on which he wrote these words: 'Eliminate absentee ownership and industrial problems will solve themselves.' He is correct in that absentee ownership is a present difficulty with our industrial organizations. As the chain store grows, a similar difficulty will develop which we do not now have with our individual retail system, and as a system of branch banks grows, there will be that same difficulty with our banking system. Yet I believe these changes are inevitable. Branch banks will be established throughout the country, and Congress will enact such legislation as is needed to make this possible.

"Mr. Babson was then asked what the effect of this would be on bank stocks and he replied that it should be a benefit to bank stocks. There are enough banks in the country districts at the present time. Hence, the city banks will be wise enough not to start new ones to serve as their branches. Instead the city banks will buy control of the better country banks. This will develop a new and active market for country bank stocks. Small banks in growing communities will be in special demand. Their stocks will surely sell higher. At the present time most bank stocks sell on 'book value' without any consideration of the value of 'good will.' As soon as city banks bid against one another for the country banks, the 'good will' feature will at once be of value. With banks of small capital stock, this will at once become a valuable asset. Banks which have a small capital stock and

care about immediate earning capacity; but they will want to be sure that the assets are sound and that the bank has not many lame ducks." General business as reflected in the Babsonchart continues to improve. Its

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