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## BRANCH BANKING IN TENNESSEE SINCE THE CIVIL WAR

By Claude A. Campbell

Branch banking in Tennessee since the Civil War has been very different from what it was before the war. Prior to the war parent banks and their branches supplied the major portion of the state's banking facilities and in effect dominated its banking system. Generally the state owned stock in these institutions and participated in their management.<sup>1</sup> Since the war the number of banks with branches has been relatively small and the state has owned no stock in them. The national banking and the federal reserve systems have exercised considerable influence upon branch banking in Tennessee as elsewhere.

Branch banking had practically no place in the banking structure of Tennessee between 1865 and 1914. For many years after the Civil War private capital was too scarce in the state to permit the establishment of banks having large capitalizations. Article II, section 31, of the constitution of 1870 prohibited the state from becoming "the owner in whole or in part of any bank."<sup>2</sup> Since a relatively large amount of capital was essential for carrying on branch banking, therefore, these conditions virtually precluded the establishment of state banks having branches. However, there were neither constitutional nor statutory provisions either restricting branch banking or making it illegal.

On March 3, 1865, an amendment to the National Banking Act of June 3, 1864, prevented national banks from having branches except in the cases in which certain state banks having branches became national banks, prior to July 1, 1865. These institutions could

<sup>1</sup>C. A. Campbell, "Branch Banking in Tennessee Prior to the Civil War," East Tennessee Historical Society's *Publications*, No. 11 (Knoxville, 1939), 34-46.

<sup>2</sup>In 1874, John C. Burch, state comptroller, recommended "as a measure of revenue, the re-establishment of the bank of Tennessee, with branches suitably located in the three divisions of the state." In order to make this possible he proposed an amendment to the constitution which would have permitted the establishment of another state owned bank with branches. He planned for the state to issue \$5,000,000 in bonds, which "it could sell at ninety percent." This would have produced \$4,500,000 for capital stock against which the state could issue notes to the amount of \$13,500,000 on the basis of three dollars circulation to one dollar of capital. (Burch thought that the United States Supreme Court would declare the ten per cent tax on state bank notes unconstitutional.) This scheme did not materialize, however, as the public was not ready to renew its experience with state banks. Tennessee *House Journal*, 1874, Appendix, 25-29.

retain their branches.<sup>3</sup> Since Tennessee had no state banks with branches at this time, however, this provision had no effect upon the state's banking system.

In 1913 the legislature of Tennessee passed a general banking act captioned "A General Act relating to Banks and banking; creating a banking Department of the State of Tennessee, and through this department regulating, examining, controlling and supervising banks and banking and liquidation of banks; providing means and agencies for carrying out the provisions hereof, and providing penalties for violation of this Act" which tacitly recognized the existence of branch banking in the state through its provision that branch banks or additional offices, like unit banks, should pay fees for the maintenance of the Department of Banking. This measure neither specifically prohibited nor authorized the establishment of branch banks. The law merely took cognizance of the fact that branches existed and would probably continue to exist by reason of the fact that it levied fees for the support of the Department of Banking upon them.<sup>4</sup> On January 6, 1914, not long after the newly organized Department of Banking began to function, it issued its first bulletin on the condition of the state banks in Tennessee. Among other things, it pointed out in this publication that there were at that time five state branch banks.<sup>5</sup>

The passage of the Federal Reserve Act in 1913 apparently provided an indirect incentive for the increase of branch banking in Tennessee. It imposed various restrictions upon the operations of national banks which placed them somewhat at a disadvantage in competing with state banks. This led not only to the conversion of some national banks into state banks but also to the establishment of branches by various state banks.<sup>6</sup>

Subsequent to the passage of the Federal Reserve Act the Federal Reserve Banks of Atlanta and St. Louis in the sixth and eighth federal reserve districts respectively established branch banks in Nashville and Memphis. These two branch banks differed from other branch banks in the state in that they were of course merely "bankers' banks."

From 1914 to 1925 there was an almost continuous growth in

<sup>3</sup>*U. S. Statutes at Large*, XII, Ch. LXXVIII, 469-87.

<sup>4</sup>*Tennessee Public Acts*, 1913, Ch. XX, 192-219.

<sup>5</sup>Tennessee Banking Department, *Bulletin*, No. 1, January 6, 1914. Since these five state branch banks were in operation prior to January 6, 1914, it seems improbable that they came into existence after the passage of the Federal Reserve Act on December 23, 1913. There is available, apparently, no data which makes it possible to tell exactly when they were organized or where they were located.

<sup>6</sup>C. H. Wetterau, vice-president, The American National Bank, to C. A. Campbell, July 18, 1938.

the number of branch banks in Tennessee as in the nation at large. Following the wave of bank failures that swept over the country in 1921, branch banking in Tennessee as in the rest of the country increased at a rapid pace. The fact that there was no law prohibiting or restricting branch banking in Tennessee prior to 1925<sup>7</sup> left individual state banks entirely free to follow their wishes in developing branch systems. Therefore the increase in state banks having branches was comparatively rapid throughout this period. During this time also two additional offices, or "tellers' windows"<sup>8</sup> of national banks came into existence in Tennessee. Even though the Bank Consolidation Act of 1918,<sup>9</sup> the regulation of the comptroller of the currency in 1923,<sup>10</sup> and the United States Supreme Court's decision in the case of the First National Bank vs. State of Missouri<sup>11</sup> in 1924 in effect enlarged the possible scope of branch banking by national banks,<sup>12</sup> they could not compete successfully with state banks. Consequently, there was to some extent a feeling of unrest and uneasiness among the national banks in Tennessee.

<sup>7</sup>From 1875 to 1913 state banks were incorporated by separate charters in the same manner as other corporations under the law entitled "An Act to provide for the organization of Corporations" which was passed in 1875. *Public Acts*, 1875, Ch. CXLII, 232-64. Since 1914, however, any corporation, firm or individual desiring to "commence the transaction of business as a bank" in Tennessee has had to submit its affairs to an examination by the superintendent of banks. If he finds that the applicant or applicants have fulfilled the requirements of the law regulating the incorporation of banking establishments, he then issues a certificate authorizing them to operate a banking business. *Public Acts*, 1913, Ch. XX, Sec. 24.

<sup>8</sup>"Tellers' windows," or additional offices, were offices of a banking institution located at some convenient place in the same town as the parent institution in order to render more adequate services to the bank's customers. They were not subject to all of the various restrictions imposed upon branch banks, as for example, those concerning capital, surplus, and reserves. While they could not carry on all of the banking activities that state branch banks could, they could cash checks, receive deposits, and perform certain other limited functions.

<sup>9</sup>*Statutes at Large*, XL, Ch. CCIX, 1043-44. This act permitted state banks having branches to retain them but not to acquire additional ones, if they were converted into national banks.

<sup>10</sup>*Federal Reserve Bulletin*, November, 1923, p. 1197. This allowed national banks to establish branch offices and/or tellers' windows within the "limits of the city, town, or village" in which their home offices were located.

<sup>11</sup>263 U. S., 640. The Court held in this case that national banks could not have branch banks but did not rule upon the question of additional offices and therefore by implication permitted them.

<sup>12</sup>For example, the American National Bank of Nashville absorbed the Cumberland Valley National Bank on January 20, 1921, and continued to operate it as a "tellers' office." In 1924 it opened the 808 Broadway office. It was not until later that these two offices, along with others ultimately established, were designated as branches. The American National Bank now has ten branches, nine in the city limits of Nashville and one at Old Hickory in Davidson county. C. H. Wetterau, vice-president of the American National Bank, to C. A. Campbell, August 6, 1937, and July 18, 1938; Rand McNally *Banker's Directory* (Chicago, 1939), 1162.

TABLE I

The Number of Branch Banks in Tennessee and in the United States from 1914 to 1924.<sup>a</sup>

Year	Tennessee		Total	United States State and National
	State	National <sup>b</sup>		
1914	9	0	9	507
1915	8	0	8	565
1916	13	0	13	626
1917	15	0	15	696
1918	19	0	19	754
1919	18	0	18	857
1920	25	0	25	1,052
1921	30	1	31	1,211
1922	31	1	32	1,602
1923	47	1	48	1,882
1924	52	2	54	2,095

<sup>a</sup>The data for the state branch banks are derived from the semi-annual financial reports in the *Bulletins* of the State Banking Department, 1914-1924. The data for the national branch banks from 1914 through 1923 are derived from a personal letter from Mr. C. H. Wetterau, vice-president, The American National Bank, Nashville, July 18, 1938. The data for the national branch banks of 1924 are from the *Report of the Comptroller of the Currency*, 1933, p. 11. The data for the branches in the United States are from the *Federal Reserve Bulletin*, December, 1924, X, 935. Since no account is taken of the branches which may have been established and discontinued prior to June, each year, the cumulated totals in this tabulation (branch banks in the United States) may be assumed to be understatements rather than overstatements of the number of branches in operation in any given year.

<sup>b</sup>These national branches were technically additional offices or tellers' windows rather than branch banks.

Until shortly before 1925, there was apparently little if any active opposition to branch banking among those operating either national banks or state unit banks in Tennessee.<sup>13</sup> It seems that this situation

<sup>13</sup>The Tipton County Farmers Union Bank of Covington established branches at Alamo, Dresden, Henning, Humboldt, Ridgely, and also Stanton between June, 1917 and November, 1919. D. D. Robertson, superintendent of banks, to C. A. Campbell, August 9, 1937. The setting up of this, the largest branch banking system in the state at that time, seemingly aroused little or no antagonism among those operating unit banks. According to Peter Fyfe, president of the Tipton County Farmers Union Bank, to the writer, August 14, 1937, "...our only reason for establishing branches was for the profit, not alone the profit arising from increased business at additional banking points through a branch banking system, but a profit in the long run because of a diversity of interests, both agricultural and industrial. If one normal activity, such as a cotton crop in our section is subject to the risks of production and price, the element of risk is reduced to the extent that operations are broadened to include other either neighboring activities, such as the important truck crops in Gibson County, and likewise tobacco, livestock and sweet potatoes in Dresden. This diversification brings in funds from one point when there may be a brisk demand for loans at another point.

"Our operations have been quite profitable, and the limited system of branch banking practiced by us has been entirely satisfactory."

changed, however, when the Commerce Union Bank of Nashville began the creation of the largest branch banking system in the state by establishing branches in numerous small towns in the surrounding trade area.<sup>14</sup>

Eventually some of those in control of national banks and some of those operating state unit banks united to bring pressure to bear upon the legislature to limit branch banking in the state. As a result of this agitation, certain members of the legislature<sup>15</sup> introduced bills in both houses so amending Chapter XX of the *Public Acts* of the General Assembly of 1913 as to impose a territorial restriction upon branch banking. Small minorities in each house made determined but largely ineffectual fights against the proposals to limit branch banking.<sup>16</sup> Since the content of the respective bills was similar, the House subsequently substituted the Senate bill for its own. This measure became a law on April 6, 1925. It stipulated, among other things,

That this Act shall not apply to branch banks, offices or agencies now maintained and operated by any corporation, firm or individual doing or

<sup>14</sup>Between May 22, 1923, and January 15, 1925, the Commerce Union Bank of Nashville found it profitable to establish branches at 821 Broadway, Nashville, and in Camden, Columbia, Gallatin, Lawrenceburg, Lebanon, Murfreesboro, Sparta, Springfield, and Woodbury. "Statement of Condition of Commerce Union Bank and Broadway National Bank," Nashville, Tennessee, June 30, 1938.

<sup>15</sup>The motives that prompted the branch office system were—that through a well-organized, closely-knitted organization that we could render to the territory we serve unparalleled service to the various communities, which would include all the advantages and combined experience of the officers of the parent bank as well as the officers in charge of the out-of-town offices. In this respect many forward steps have been taken by us to improve our service facilities.

<sup>16</sup>Too, we thought that, through our branch office system (with larger capital and broader facilities) we would be able to take care of large loans to individuals, businesses, towns and counties, which would promote and encourage business in our territory. We thought that our credit facilities would prove beneficial to the various communities in which we would operate. This has been proven to be of great assistance.

<sup>17</sup>We have all advantages of a State chartered institution and through the Broadway National Bank advantages of the National system, which include those of the Federal Reserve system." J. H. Tidman, assistant trust officer, Commerce Union Bank, Nashville, to C. A. Campbell, August 19, 1937; Rand McNally *Banker's Directory* (1939), 1162.

<sup>18</sup>Senators Vincent of Coffee, Bedford, and Moore counties, Whitfield of Montgomery and Robertson counties, Carothers of Hickman, Williamson, and Cheatham counties, Spencer of Dickson, Houston, Humphries, and Stewart counties, and Maiden of Weakley, Obion, and Lake counties introduced the measure in the Senate. *Public Acts*, 1925, Ch. XLVII, 97. Representatives Eubank of Dickson county and Bratton of Obion county "and others" introduced a similar proposal in the House. *House Journal*, 1925, p. 591.

<sup>19</sup>*Senate Journal*, 1925, pp. 557, 591, 831, 870, 871, and 1001; *House Journal*, 1925, pp. 679, 853, 1125, and 1126.

carrying on a banking business in the State of Tennessee in places other than the County of this State wherein such banking business is carried on.<sup>17</sup>

It provided further,

That no corporation, firm or individual now or hereafter doing or carrying on a banking business in the State of Tennessee shall have, maintain, create or operate any branch bank, office or agency, for the purpose of receiving checks, making loans or receiving or discounting bills or notes in any place other than the County of this State wherein such banking business is carried on.<sup>18</sup>

Thenceforth, branch banking in Tennessee pursuant to the legislative act of 1925 could not transcend county lines. The inter-county branch banking systems already in existence, however, were free to continue their business as usual.<sup>19</sup>

The Commerce Union Bank of Nashville, which was operating the largest branch banking system in the state, found this condition of affairs highly distasteful. Consequently, the officials of this institution decided to test the constitutionality of the act restricting branch banking. They made a contract to take over the Portland Bank located in Sumner county and operate it as a branch of the Commerce Union Bank. This matter came to the attention of the state supreme court in the case of "*Warren et al. vs. Commerce Union Bank*" in which the complainants maintained that this agreement was "illegal and invalid" in the light of the probable judicial interpretation of the act of 1925.

The defendant, Commerce Union Bank, demurred to the bill for several reasons. It contended that the contract and conditions of taking over the Portland Bank were legal and valid because the branch banking act of 1925 did

not prohibit a bank from thereafter starting and conducting a general banking business in any county in Tennessee other than in a county or counties wherein it has theretofore carried on a banking business, but simply prohibits a bank from thereafter creating and maintaining any branch office or agency in some other county for the purpose of doing a partial banking business. . . .

It took the position that since the act of 1925 did not mention the "principal office" or refer to the county in which it was located, it merely prohibited a bank from opening a branch or "partial banking business" in any county in which it had not previously been operating

<sup>17</sup>This provision was an amendment which the Committee on Finance, Ways and Means wrote into the bill. *Senate Journal*, 1925, p. 870.

<sup>18</sup>*Public Acts*, 1925, Ch. XLVII; *Code of Tennessee*, 1931, secs. 5949 and 5950.

<sup>19</sup>*Federal Reserve Bulletin*, July, 1932, XVIII, 457-58.

a bank. In view of the fact that the Commerce Union Bank had been carrying on a banking business at Gallatin, the county seat of Sumner county, since prior to April 6, 1925, therefore, it could legally establish a branch at Portland. Finally, the defendant claimed for good measure that the act was so vague and indefinite as to preclude the possibility of legally ascertaining its true meaning and therefore of intelligently administering and enforcing it.<sup>20</sup>

The court denied these contentions and ruled that the Commerce Union Bank could not establish a branch at Portland or in any other county except Davidson, the county in which the parent bank was located. The court said:

We think the above language [the language of the act of 1925] is clear and unambiguous, and expressly prohibits the creation of any "branch bank, office or agency" even though such branch does a banking business in any place "other than the county of this state wherein such banking business is carried on." The words "the county of this state wherein such banking business is carried on" unquestionably refer to the principal office of the bank. It contemplates the limitation of branch banks to one county only: that county being the one where the bank is carrying on its business. It is a matter of common knowledge that the branch banks are the exception, and not the general rule and the above language of section 3 in so far as these exceptional institutions which maintain branches are concerned will be considered by the court to refer to the principal office of such institution.<sup>21</sup>

According to this interpretation, the purpose of the act was to stop the practice of a parent bank establishing new branches in outlying counties and thereby securing a monopoly in a given region or section of the state.

While this act definitely checked the spread of branch banking by state banks in Tennessee, it of course had no effect upon the activities in the field of branch banking by national banks. The United States Supreme Court's failure to rule upon the constitutionality of "additional offices" when it held that national banks did not have the power to establish branches in the case of the First National Bank in St. Louis vs. State of Missouri in 1924<sup>22</sup> apparently lent impetus to the establishment of additional offices by national banks in Tennessee. At any rate, it is significant that their number increased from three in 1924<sup>23</sup> to eight in 1925. By February, 1927, when the McFadden-

<sup>20</sup>274 *Southwestern Reporter*, 539 ff.

<sup>21</sup>*Ibid.*

<sup>22</sup>*Supra*, note 11.

<sup>23</sup>*Report of the Comptroller of the Currency*, 1933, p. 11.



Pepper Act became law, there were nine of them.<sup>24</sup> The passage of the McFadden-Pepper Banking Act, which permitted national banks to establish branches in the cities in which parent banks were located if state banks had the power to do the same,<sup>25</sup> seemingly stimulated the relatively rapid development of branch banking by national banks in Tennessee during the next few years.

Branch banking reached its highest point in Tennessee in 1930 with thirty-two state and national parent banks operating a total of sixty-nine branches. Although the number of branches operated by state banks had decreased from its peak of more than fifty<sup>26</sup> in 1925, it had increased from forty in 1928 to forty-three in 1930. Meanwhile, the number of branches of national banks had risen from eight in 1925 to twenty-six in 1930.<sup>27</sup>

The depression which began in 1929 had an adverse effect upon branch banking in the state. The sharpest decline in the number of banks operating branches and in the total number of branches came in 1931.<sup>28</sup> Branch banking was at its lowest point from 1933 through 1935.<sup>29</sup> During these years there were only eighteen parent banks maintaining a total of forty-six branches. In 1936 and 1937 respectively there were slight increases in branch banking. This was entirely in the field of state banking.<sup>30</sup>

<sup>24</sup>*Federal Reserve Bulletin*, February, 1929, p. 102.

<sup>25</sup>*Statutes at Large*, XLIV, Ch. CXCI, 1224-34.

<sup>26</sup>According to the Tennessee Department of Banking *Bulletin* No. 23, of April 6, 1925, there were fifty-three branch banks in the state at that time.

<sup>27</sup>*Federal Reserve Bulletin*, June, 1926, p. 408 and June, 1930, p. 814.

<sup>28</sup>This decline is in line with the general national trend to 1933. The number of banks operating branches in the nation at large began to decline in 1929. The greatest decrease, however, came in 1931 and the decline reached its lowest depth in 1933. It has risen steadily since that time. *Federal Reserve Bulletin*, April, 1930, p. 152; October, 1934, pp. 699-700; June, 1935, pp. 336, 405; April, 1936, pp. 218-19, 304; November, 1937, p. 1083; October, 1938, pp. 876-81; June, 1939, pp. 477, 479; September, 1939, p. 729; and December, 1939, p. 1065.

<sup>29</sup>Possibly the depression neutralized the liberalizing effect of the Federal Banking Act of 1933 upon branch banking by national banks in Tennessee. At least, there has been only one additional branch of a national bank established there since that time. The provision of the Federal Banking Act of 1935 imposing restrictions upon state member banks having branches has apparently had no effect upon branch banking in Tennessee. Although one state bank having branches became a member of the Federal Reserve System in 1937, its branches were created before February 25, 1927. *Statutes at Large*, XLVIII, Ch. LXXXIX, 162-95 and XLIX, Ch. DCXIV, 684-723; *Federal Reserve Bulletin*, October, 1934, p. 700; June, 1935, p. 405; April, 1936, p. 304; November, 1937, p. 1083; June, 1938, p. 449; and June, 1939, p. 479.

<sup>30</sup>*Ibid.*, June, 1926, pp. 402, 407-08; May, 1927, pp. 387-88; February, 1929, pp. 102-03; April, 1930, p. 152; December, 1930, p. 814; October, 1934, pp. 699-700; June, 1935, p. 405; April 1936, p. 304; November, 1937, p. 1083; June, 1938, p. 499; and June, 1939, p. 479.

Table II gives the number of the banks maintaining branches, and the number of branches maintained, by class of bank and the locations of the branches in Tennessee and in the United States from 1925 to 1937 inclusive. It seems significant that the total number of banks in Tennessee maintaining branches did not begin to decline during the depression years until 1931, while the number of those in the nation had begun to decline in 1929. Furthermore, the number of banks in Tennessee maintaining branches did not begin to increase again until 1936 whereas the number of those in the nation had begun to increase again in 1934. The decline in the number of national banks maintaining branches in Tennessee and in the nation followed the same chronological pattern as the decline in the total number of banks maintaining branches in Tennessee and in the nation. Although the number of national banks in Tennessee maintaining branches has never risen from the low point reached in 1933, the number of national banks in the nation maintaining branches began to increase again in 1934. The number of state member banks in Tennessee and in the nation maintaining branches was smaller in 1938 than it had been in 1925. Nevertheless, their number in Tennessee began to increase slightly again in 1937 as it had already begun to increase again in the nation in 1934. The number of non-member banks in Tennessee maintaining branches began to decline in 1931 and those of the nation also started a temporary decline in the same year. While the number of non-member banks in Tennessee maintaining branches did not begin to increase again until 1936, those in the nation had already begun to increase again in 1934. In general, variations in the number of branch banks paralleled those in the number of banks maintaining branches both in Tennessee and in the nation. The number of branches located in the head-office city was smaller in 1938 than it had been in 1925 in both Tennessee and the nation. Nevertheless, the number in each had begun to increase in 1936. On the other hand, the number of branches outside the head-office city in both Tennessee and the nation was greater in 1937 than it had been in 1925. The number of branches outside the head-office city in Tennessee began to decline in 1931 while they did not begin to decline in the nation until 1932. The number of branches outside the head-office city in Tennessee began to increase again in 1937 whereas those in the nation had begun to increase again in 1934. The territorial, *i. e.*, county-wide, limitation upon branch banking necessarily restricted this increase to the head-office county in Tennessee. In general, it seems, that the effect of the depression upon branch banking was largely the

**NUMBER OF BANKS MAINTAINING BRANCHES, AND NUMBER AND LOCATION OF  
BRANCHES MAINTAINED BY CLASS OF BANK IN TENNESSEE AND IN  
THE UNITED STATES, DECEMBER 31, 1925, TO DECEMBER 31, 1938<sup>a</sup>**

Years	Number of banks maintaining branches							
	Total		National		State member		Non-member	
	T.	U. S.	T.	U. S.	T.	U. S.	T.	U. S.
1925	24	735	6	132	3	198	15	405
1926	22	739	6	141	1	195	15	453
1927	22	779	6	145	1	189	15	445
1928	27	835	7	169	1	186	19	480
1929	32	822	9	166	.....	180	23	476
1930	32	817	9	165	.....	169	23	483
1931	25	677	7	157	.....	141	18	379
1932	20	680	6	157	.....	133	14	396
1933	18	575	4	146	.....	116	14	313
1934	18	715	4	176	.....	134	14	405
1935	18	798	4	182	.....	143	14	473
1936	19	840	4	188	.....	152	15	500
1937	20	903	4	194	1	159	15	550
1938	21	917	4	194	1	161	16	562

Years	Number of branches							
	Total		National		State member		Non-member	
	T.	U. S.	T.	U. S.	T.	U. S.	T.	U. S.
1925	58	2,572	8	332	6	1,280	44	960
1926	56	2,777	9	404	2	1,363	45	1,010
1927	55	2,900	9	390	2	1,560	44	950
1928	61	3,230	19	941	2	1,220	40	1,069
1929	68	3,547	25	1,027	.....	1,299	43	1,221
1930	69	3,618	26	1,041	.....	1,308	43	1,269
1931	58	3,394	22	1,274	.....	1,073	36	987
1932	49	3,191	17	1,220	.....	1,031	32	940
1933	46	2,752	16	1,211	.....	960	30	671
1934	46	2,973	17	1,243	.....	981	29	749
1935	46	3,099	17	1,327	.....	952	29	820
1936	47	3,228	17	1,398	.....	981	30	849
1937	51	3,407	17	1,485	10	994	24	928
1938	51	3,440	17	1,499	10	992	24	949

Years	Location of branches					
	In head-office city		Outside head-office city			
			In head-office county		Outside head-office county	
	T.	U. S.	T.	U. S. <sup>b</sup>	T. <sup>b</sup>	U. S.
1925	27	1,752	.....	820	31	.....
1926	24	1,928	.....	849	32	.....
1927	23	1,929	.....	1,061	32	.....
1928	25	2,214	.....	1,106	35	.....
1929	30	2,432	.....	1,116	38	.....
1930	31	2,470	.....	1,148	38	.....
1931	24	2,176	16	410	18	748
1932	19	2,064	14	432	16	695
1933	16	1,651	13	388	17	713
1934	16	1,642	13	522	17	809
1935	16	1,611	13	606	17	882
1936	17	1,612	14	650	16	966
1937	17	1,648	18	705	16	1,054
1938	17	1,630	18	729	16	1,081

<sup>a</sup> The data contained in this table were derived from the *Federal Reserve Bulletin*, June, 1926, pp. 402, 407-08; May, 1927, pp. 387-88; February, 1929, pp. 102-03; April, 1930, p. 152; December, 1930, p. 814; October, 1934, pp. 699-700; June, 1935, p. 405; April, 1936, p. 304; November, 1937, p. 1083; June, 1938, p. 499; and June, 1939, p. 469.

<sup>b</sup> There was no distinction between branches in head-office county and branches outside head-office county until 1931.

same in both Tennessee and the nation although there was usually a lag in the time element in the case of the state.

On December 31, 1938, there were 352 banks and branches in Tennessee. Four of the seventy-one national banks in the state had a total of seventeen branches. Seventeen of the 230 state chartered banks had a total of thirty-four branches. Thus the state branch banking system is composed of twenty-one parent banks and fifty-one branches and its unit banking system consists of 280 unit banks.<sup>31</sup>

Obviously the federal banking acts of 1933 and 1935,<sup>32</sup> which enabled national banks to carry on branch banking upon the same basis as state banks, made it possible for the Hamilton Associates of East Tennessee to convert their affiliated institutions into a branch banking system provided the state law restricting branch banking to county limits could be liberalized. These acts, however, apparently did not have the same stimulating effect upon any national banks in Middle and West Tennessee.

There have been three attempts to revive branch banking in Tennessee within the last seven years. The first of the measures for this purpose provided for state-wide branch banking. It was, it seems, somewhat in the nature of a trial balloon to test the sentiment of the people throughout the state on the question of abolishing the law limiting branch banking to the county in which the parent bank was located. The second and third of these measures proposed the establishment of district or regional branch banking systems based upon the state's three grand divisions. Their object was to expand the territorial restriction upon branch banking from county to sectional lines so as to make possible the creation of relatively small branch banking systems which would serve the peculiar needs of given areas without competing with the unit banks of the state in general. While it is not certain that any particular banking interests promoted the first of the branch banking bills, it is obvious that a group of banking concerns in East Tennessee vigorously sponsored the second and third.<sup>33</sup>

On April 5, 1933, Representative Norman Eubank of Dickson county started the first attempt to remove or modify the restrictions on branch banking in the state when he introduced in the House of

<sup>31</sup>See Table II. H. G. Huddleston to C. A. Campbell, August 23, 1939.

<sup>32</sup>*Statutes at Large*, XLVIII, Ch. LXXXIX, 162-95 and XLIX, Ch. DCXIV, 684-723.

<sup>33</sup>A small branch banking system had been established in West Tennessee and a larger one, in Middle Tennessee prior to the passage of the law restricting branch banking to county limits in 1925. *Supra*, 88, and notes 13 and 14.

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Representatives "An Act to Permit and Regulate the Maintenance or Operation of Branch Banks, Offices, or Agencies, in Any Place in the State of Tennessee, by Any Corporation, Firm or Individual Carrying on a Banking Business in the State of Tennessee."<sup>34</sup> This bill was designed to do two things. First, it provided for state-wide branch banking. This in effect would repeal section 5950 of the Code of Tennessee which restricted branch banking to the limits of the county in which the parent bank was located. Second, it set up the rules under which branch banking should be carried on. It stipulated that branch banking, including the operation of both parent banks and branches, should be subjected to the same degree of regulation as unit banks. It provided that both the parent banks and individual branches should meet the same capital requirements as comparable unit banks. It required that a parent bank wishing to operate a branch in a town outside of its home county which already had banking facilities must acquire an existing banking concern instead of establishing a new one.<sup>35</sup>

This measure was referred to the Committee on Banks and Banking. Chairman R. D. Cowley subsequently reported the bill back to the House with the statement that this committee had carefully considered it and did not wish to make any recommendation concerning it.<sup>36</sup> The House did not take further action on the matter. The Senate took no action whatever on the question of branch banking during this session. Despite the decisive defeat of Representative Eubank's bill in 1933, the advocates of branch banking did not give up hope. Instead of trying to obtain the passage of a measure providing for state-wide branch banking, however, they decided to attempt to secure the enactment of a law permitting regional or district branch banking. They succeeded in getting a few members of the state legislature of 1935-1936 interested in such a proposal.

Senator Fletcher Morgan of Hamilton county made the second recent attempt to change the law concerning branch banking in Tennessee when he presented a banking bill to the state Senate on March 27, 1935.<sup>37</sup> The immediate object of this measure, which was entirely different from Representative Eubank's bill, was to amend section 5950 of the Code of Tennessee so as to make possible the conversion of a group of affiliated banking institutions in one section of the

<sup>31</sup>*House Journal*, 1933, p. 1002.

<sup>32</sup>Original Bill, Department of Archives (War Memorial Building, Nashville).

<sup>33</sup>*House Journal*, 1933, p. 1266.

<sup>34</sup>*Senate Journal*, 1935, pp. 558, 608.

state into a branch banking system. In order to do this it stipulated that branch banking should be district-wide rather than county-wide. For this purpose, each grand division of the state was to be a banking district. It provided that banks in each banking district which were affiliated as provided in this bill on or before January 1, 1935, might be converted into a branch banking system. This consolidation was to be effected in accordance with existing laws. The plan of reorganization and consolidation was to be submitted to the superintendent of banks for approval. The act prohibited any of the banks in the system from discriminating against any city or town. It required all banks to be members of the Federal Deposit Insurance Corporation. Finally, it provided that the capital of the banking corporation into which affiliated banks were consolidated should be at least \$1,000,000 and in addition that it should never be less than the "aggregate minimum capital" required by law for the establishment and operation of an equal number of unit banks similarly located.<sup>38</sup>

The Senate referred this bill to the Committee on Banking where it died. No branch banking bill appeared in the House during the legislative session of 1935.<sup>39</sup>

The proponents of regional branch banking were not able to get the question before the legislature in the regular session of 1937. They did bring it before that body for the third time, however, in the regular session of 1939.

On February 1, 1939, a number of senators introduced Senate Bill Number 322 which was designed to permit branch banking within the limits of each of the three grand divisions of the state.<sup>40</sup> At the same time a group of representatives introduced an identical measure, House Bill Number 463, in the House.<sup>41</sup>

If the personnel of the senators and representatives sponsoring the Senate Bill Number 322 and the House Bill Number 463 in 1939

<sup>38</sup>Original Bill, Department of Archives.

<sup>39</sup>*Senate Journal*, 1935, p. 608.

<sup>40</sup>They were: Senators Bean of Hamilton county, Chandler of Knox county, Mosby of Fayette county, Paine of Sevier county, Doak of Warren county, Carey of Knox county, Buckles of Sullivan county, Motlow of Moore county, and Geer of White county. *Senate Journal*, 1939, p. 354. On February 6, Senator Lem Motlow moved that his name be stricken as one of the authors of the Senate bill. His motion carried. *Senate Journal*, 1939, p. 429.

<sup>41</sup>They were: Representatives Ragon of Hamilton county, Ailor of Knox county, Grubb of Hamilton county, Colman of Hamilton county, O'Dell of Sullivan county, Hatfield of Claiborne county, Austin of Henderson county, Badgett of Knox county, Calloway of Loudon county, Campbell of Polk county, Headden of Lake county, McGinness of Sequatchie county, Cameron of Marion county, Mitchell of White county, and Denton of Rhea county. *House Journal*, 1939, p. 408.

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was indicative of the sentiment for branch banking in Tennessee, it seems that the question was almost entirely a sectional matter. An analysis of the counties represented by the authors of the Senate bill reveals that of the nine senators who introduced this measure, five were from East Tennessee, three were from Middle Tennessee (two of these being from counties adjoining East Tennessee and one being from a county which was not very remote from East Tennessee), and one was from West Tennessee. A similar examination of the counties represented by the fifteen representatives who were sponsors of the House bill shows that twelve of them were from East Tennessee, one was from a county in Middle Tennessee adjoining East Tennessee, and two were from West Tennessee.

These bills passed the second readings the next day, February 2, and were referred respectively to the Committee on Banks in the upper house and to the Committee on Banks and Banking in the lower house.<sup>42</sup>

These bills, which were identical, were substantially the same as that which Senator Morgan had introduced in 1935. The only changes were those having to do with the minimum capitalization required for a proposed "consolidated banking corporation" or branch banking system and the definition of what constituted an affiliated bank.<sup>43</sup>

The practical result of the changes in these measures, it seems, was to create a situation in which the Hamilton Associates was the only group of banks in the state able to qualify for conversion into a "consolidated banking corporation" or branch banking system. At least, the fact that the bill which interested parties could not get the legislature to consider seriously in 1937 was identical with that introduced by Senator Morgan in 1935 indicates that the changes subsequently incorporated in the measures introduced in 1939 were designed to overcome opposition by narrowing the scope of the bill's alteration in the state's branch banking provision of 1925.<sup>44</sup>

A joint meeting of the Senate and House committees held public hearings on these identical branch banking bills on February 7 and 8, 1939.<sup>45</sup> About seventy-five bankers came to Nashville to watch

<sup>38</sup>*Senate Journal*, 1939, p. 375; and *House Journal*, 1939, p. 477.

<sup>39</sup>Original bill, Tennessee Bankers' Association, *Legislative Bulletin*, No. 7, Series of 1939, February 1, 1939.

<sup>40</sup>Copies of the bills introduced in 1935 and 1939 and of the one prepared in 1937 are in the writer's possession.

<sup>41</sup>*Knoxville News-Sentinel*, February 8, 1939; *Nashville Tennessean*, February 8, 1939; and *Memphis Commercial Appeal*, February 8, 1939.

the fate of the branch banking bill "which would allow the 10 Hamilton associated banks in East Tennessee to consolidate and merge capital resources. But action was postponed."<sup>46</sup>

At the joint committee meeting in Nashville on February 7, J. Pope Shepherd, the attorney for the Hamilton National Bank Associates, explained the measure.<sup>47</sup> He told the committee that its passage would bring "expanded service to the Tennessee Valley area." He pointed out that it authorized the consolidation of the ten East Tennessee banks into one corporation, which proponents said would give each bank a potential "lending power of a \$2,000,000 institution." Attorney Shepherd explained that he thought that it was unfortunate that the bill had been termed a "Chain or Branch Banking Bill." He stated that "A notable instance of the multiple banking we seek is the Commerce Union Bank of Nashville. They own and operate 10 banks in Middle Tennessee." He told the group that the Hamilton Associates of Chattanooga and Knoxville owned ten banks in East Tennessee and that the proposed bill would only give the Hamilton Associates the same rights that the Commerce Union Bank already enjoyed.<sup>48</sup>

Mr. C. W. Bailey, president of the First National Bank of Clarksville and "self-styled" representative of the country or unit banks, led the opposition to the measure. He took the position that the unit or country banks of Tennessee "are doing a good job." Bailey contended that the passage of this bill would be the entering wedge of statewide branch banking. He said that Tennessee was not "branch bank minded." He stated that since the legislature had turned down the idea in 1925, he thought it would be well to "Let sleeping dogs lie." He concluded his argument against the bill by saying that the unit or country banks were "serving well" and that they were "paying taxes."<sup>49</sup>

About three weeks after the introduction of the regional branch banking bill T. R. Preston, president of the Hamilton National Bank of Chattanooga, wrote the chairman of the House Banking Committee, W. L. Parker, in part:

There was no opposition of consequence from any source except that sponsored by Mr. C. W. Bailey, President of the First National Bank of Clarksville, and Mr. Frank M. Farris, President of the Third National Bank of Nashville. These two men took an active part in opposing the bill before the committee at the open hearing several weeks ago, and were ad-

<sup>46</sup>Knoxville *News-Sentinel*, February 8, 1939.

<sup>47</sup>*Ibid.*

<sup>48</sup>Memphis *Commercial Appeal*, February 8, 1939.

<sup>49</sup>*Ibid.*



mittedly responsible for hundreds of telegrams and other messages to the banks over the state, requesting them to secure protest wires to their senators and representatives.

This matter was none of their business and would not affect their banks or any other bank in the state in the remotest way, and their action was not prompted by patriotic reasons as they have tried to make it appear, but by pure selfish reasons. Not a single sound reason have they given or can they give for opposition to this measure.

This bill asks permission to put a number of our affiliated banks into one system confined to East Tennessee, would have helped improve the Hamilton service, and if passed, we contemplate adding a development department which will work with the citizens in East Tennessee in securing new industries and business for the towns in which our banks are located.<sup>50</sup>

The opposition to these companion measures mustered so much strength from all parts of the state that neither the House nor the Senate committee ever reported on them. Thus the third attempt in the 'thirties to revive branch banking in some form failed.

Branch banking remained virtually dormant in Tennessee from the time of the Civil War until after 1913. During the early 1920's there was a comparatively rapid increase in branch banking by state banks. In 1925 the state legislature, in response to the demands of those national banks and small state banks that were opposed to the growth of state-wide branch banking, passed an act limiting branch banking to the county in which the parent institution was located. This measure modified but did not entirely check the development of branch banking by state banks. After the United States Congress passed the McFadden-Pepper Act in 1927, there was a marked increase in branch banking by national banks in the state. The depression which began in 1929 adversely affected the development of branch banking by both state and national banks in Tennessee. In general, there has been a slight upward trend in branch banking in the state since 1936. Since 1925 there has apparently been little general demand for any change in the state laws regulating branch banking. A number of bankers interested in converting their group of affiliated banks into a branch banking system has apparently been almost solely responsible for at least the last two unsuccessful attempts to bring about modifications in Tennessee's branch banking law.

<sup>50</sup>Printed in the *Knoxville Journal*, February 23, 1939.