

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON

February 6, 1943

Dear Mr. Eccles:

Mr. Crowley has requested me to send you the enclosed copy of the letter dated February 1, 1943 received by him from Mr. A. P. Giannini, Chairman of the Board of Directors of the Bank of America N.T. & S.A., relative to the action of this Corporation on the application of the Bank of Nevada, Las Vegas, Nevada, to become an insured bank and correspondence relating thereto.

This is furnished for your information and as soon as a reply has been drafted, a copy of that will likewise be sent to you.

Yours very truly,

(Signed) Francis C. Brown

Francis C. Brown
Solicitor

The Honorable Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

BANK OF AMERICA

National Trust & Savings Association

A. P. Giannini
Chairman of the Board of Directors

Palm Beach, Florida
February 1, 1943

Hon. Leo T. Crowley, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C.

Dear Mr. Crowley:

My attention has been called to letters which you have recently written to Senators McCarran and Scrugham of Nevada, dated respectively December 29, 1942 and January 5, 1943.

If these letters accurately express your thoughts with respect to the subject matter covered, you are evidently laboring under a gross misapprehension which can very readily be corrected. In addition to this, however, both of the letters contain implications with respect to the Bank of America which are wholly unwarranted and which would seem to constitute gratuitous reflections upon its management.

They were written to explain the disapproval of the application of the new little Bank of Nevada at Las Vegas, Nevada, with deposits of some two and a half million dollars, to become an insured bank. In your letter to Senator McCarran you say: "Frankly, the question presented in this instance could not be determined solely on the basis of the eligibility of this particular institution. The question inevitably involves the broader question of the advisability of the further expansion of the Bank of America."

In your letter to Senator Scrugham you speak of the attitude of the three Federal banking agencies, saying: "They recognize, too, from past experience the great losses suffered by depositors from over expansion of credit, and for that reason, they are unalterably opposed to further expansion of the already extensive branch banking conducted by the Bank of America."

I am advised that the officers of the Bank of Nevada at Las Vegas gave complete information as to the ownership of the stock in that bank; that the bank was examined by examiners appointed by your Corporation; and that you were supplied with all necessary information concerning it. You should know, therefore, that this bank does not represent any expansion whatsoever of the Bank of America. You should also know that so far as extension of credit is concerned the Government of the United States is the chief recipient since the bank's assets consist overwhelmingly of cash and Government bonds. You seem to admit that the bank

is eligible, but claim the right to reject it because you dislike another insured bank. I am advised that you have no such authority, but that is beside the point for the present.

In both letters you speak of a tremendous risk concentration in the Bank of America and of the great concern that your agency and the other two Federal agencies feel over the problem presented by the application of this small bank in Nevada on this account. You even go to the extent of associating undue expansion of credit with branch banking as exemplified in the Bank of America, and in this connection you refer to "loose bank management and bank supervision." Of course I do not know whether in referring to loose supervision as bearing upon the denial of this application you intend any reflection upon the authorities in the State of Nevada who had previously approved the charter as well as endorsed the application for insurance, or whether the statement is a mere inadvertent reflection of attitude by a Federal officer accustomed to rendering final judgment in extending the benefits of Federal statutes which are required to be extended on a basis of equality and without discrimination. I assume that the State authorities are entirely competent if they choose to deal with this phase. However, in so far as your expression of an adverse judgment concerns the Bank of America by associating with its branch banking system the specter of a dangerous expansion of credit, I feel that my long experience in banking entitles me to enter a vigorous protest and rejoinder.

Not only this, but I feel that it also entitles me to say to you very frankly that branch banking occupies just as legitimate a place in the banking system of this country as unit banking. It is expressly authorized by law and in my opinion it is the duty of Federal officers charged with administering Federal banking statutes to administer them on a basis of equality as between branch banks and unit banks.

As the head of one of the Federal bank supervisory agencies in the United States, I assume that you are aware of the fact that the branch banking system is very extensively developed in all of the English speaking world as well as elsewhere. It is firmly established in many states of this country and in many foreign countries such as England, Scotland, Ireland, Canada, Australia, New Zealand, South Africa, India, Turkey and Sweden. Wherever established it is serving the public so well that there is no thought of departing from it. One of the greatest merits of this system is that it gives to such banks the strength and stability which come with wide diversification of assets, while giving to the communities in which branches are located greater facilities than they could otherwise enjoy.

Another merit of this system lies in its effectiveness as a deterrent to the monopolization of credit in financial centers situated remote from areas in need of capital and credit for the development of their resources. The decentralization of credit control was a fundamental consideration by President Wilson and Senator Glass when they secured the

creation of the Federal Reserve System. This is reflected not only in their unalterable opposition to a central bank but also in the provisions of the Federal Reserve Act locating autonomous Federal Reserve banks in separate districts throughout the country, thus giving to each district a measure of independence. This independence would be largely destroyed by the imposition of restraints upon the development of financial institutions within such districts which would be capable of supplying the credit needs of the localities with which they are identified. Experience shows that branch banking furnishes practically the only alternative to dependence upon remote sources for adequate credit supply.

Furthermore, well developed branch banks are not susceptible to the influence of large correspondent banks in Eastern money centers, and the experience of the past ten or fifteen years in banking, as well as that of the present war emergency, should impress practical men with the value of this feature of independence. I have no way of knowing whether your appreciation of the value of independence continues to be as marked as it was several years ago, when directing the affairs of your Corporation was a full-time job. Your references then to the relations between the metropolitan banks and their "country cousins" and your comments upon the "well-defined path of failures from rural areas to Wall Street" struck a responsive chord. We do not propose to tread that path.

You know as well as I that those who lost the fight they made for the central bank idea have never become reconciled to regional independence, and I have no doubt that they applaud every move to obstruct it. I trust that the connections you have made in financial circles since going to Washington do not cause you to overlook these facts. At any rate, the law under which your Corporation operates furnishes a clear guide by which to determine the application of a bank in Nevada for insurance. Why resurrect the ghosts that have been exposed in the past? Why not follow the law?

The ability of banks in this area to finance the unprecedented expansion within it of war industries such as airplane construction, shipbuilding, magnesium, steel, power, lumber, food, etc., is an ample demonstration of the merits of branch banking. No similar area in the United States has so great an economic diversification as has California and branch banking, if not strangled by Washington bureaucracy, will not only greatly aid in the development of its great resources but will help to maintain that degree of regional independence which is so essential to social and economic solidarity.

A branch banking system such as the Bank of America, large enough to enjoy the healthy diversification of assets which characterizes an economy as diverse as that of California, does not rise and fall with the alternating tides that may seriously affect one locality or a number of localities in which a single industry may be predominant. Nevertheless, you would seem to regard the insuring of such a bank as involving a "concentration of risk." As a matter of fact, it would be more

accurate to say that in insuring it your Corporation automatically acquires an advantage (which is essential to the soundness of any insurance)--that of spreading the risk over a wide base. Your Corporation itself is a device for spreading the risk of deposit loss over the banks as a whole. Therefore, the greater diversity of assets in a particular bank the more nearly does it conform to the principle upon which your Corporation is founded. From the viewpoint of deposit insurance risk your Corporation in insuring a bank covering a broad and diversified area is much better protected than in insuring a large number of small banks, the loans and investments of which are less diversified. Furthermore, in view of the policy of your Corporation to avert loss in large banks by protecting depositors to the full extent of their deposits, I cannot understand why you would speak of concentration of risk in a bank as though it paralleled a large volume of deposits or loans or as though one bank was peculiar in this respect. Other banks also have large deposits and loans and I have heard of no efforts on the part of the Federal Deposit Insurance Corporation to curtail their business. Altogether, your references to credit expansion and concentration of risk seem to me to be entirely inappropriate and so utterly inadequate as an explanation of the action of your Corporation in this instance that instead of justifying it they would seem to reveal its character as arbitrary official action.

So far as the Bank of America and its management are concerned, the bank has had an extraordinary experience which in itself is a testimonial both to branch banking and to the competency of its management. It has survived earthquakes, fire, panics, depressions, the moratorium, conspiracies, and a bitter proxy battle; it has stood up under constant harassment on the part of bank supervisory authorities and other Federal agencies; it has saved many thousands of bank depositors in the area where it does business the misfortune that overtook depositors in other parts of the country. Aside from a few localities where needed facilities have been arbitrarily denied, there is no general area in the United States that is better served bankingwise than the area served by the Bank of America. Today the bank's capital funds are the greatest in its history. It has been able to utilize its earnings to offset losses originating primarily in banks which were taken over, many at the urgent request of supervisory authorities, and which were incidental to the greatest banking catastrophe in the history of our country. It continues to maintain an earning capacity second to no bank in the United States. A bank and a management with such a record should, in my opinion, be entirely disassociated in the minds of responsible Federal supervisory authorities when dwelling on loose bank management. Why would they not think of experiences with which they have had closer contact? Our correspondent banks and large commercial clients, as well as our millions of customers who appreciate the quality of our service, will testify that their experience in doing business with us has demonstrated to their satisfaction that there is not a more sound bank or one that is more competently managed than Bank of America. In many respects it has furnished a pattern to be followed by others.

It has always been the policy of this bank to welcome competition. We believe in competition. I note that Congress has authorized your Corporation to loan its funds, which are derived from the assessments on all banks, to facilitate mergers and consolidation of banks. This, of course, does not help to maintain competitive conditions. I note, too, that this authority has been rather liberally exercised. Altogether it appears that there has been an increase in the number of branches operated by other banks and a decrease in the number of unit banks during the past several years. It would seem from this that your Corporation does not shrink from carrying out the policies established by law where other banks are concerned, nor does it hesitate apparently to lend its weight in support of discriminatory action of other supervisory authorities where the Bank of America is concerned.

Referring again to your statement concerning "expansion of credit" I wonder if you realize the utter baselessness of any express or implied charge against the Bank of America. I do not know whether you have seen the last annual report of President L. M. Giannini to the stockholders of the bank, but let me call your attention to a few of the items. The increase in deposits during 1942 amounted to \$677,756,778; investments increased \$572,635,534; loans decreased \$74,099,592. The investment in the obligations of the Federal Government and its agencies increased \$549,353,856. Its liquidity is even greater than would be evidenced by this figure alone for out of the total investment in Government securities of \$1,043,061,518.77 at December 31, 1942, \$510,563,000 or approximately half of the investment was in maturities of five years or less and more than one-third of the account represents maturities of one year or less, and added to this is total cash of \$605,041,384.74. The loans and commitments for war production purposes for the twelve months ended September 30, 1942, totaled \$409,631,000 and many of the loans making up the total of the bank's loans are "V" loans. Besides, the bank during the last calendar year sold to the public \$160,218,000 war saving bonds. I know you do not mean to criticize the bank on account of its participation in the financial program of the Government in connection with the war, but why do you talk of credit expansion at all in connection with the Bank of America? Your Corporation reviews the reports of its examination. You have the facts and you know that there is not a bank in the United States of comparable size which has a more favorable loan experience or a finer loan portfolio than the Bank of America.

You also have the facts with reference to banks other than Bank of Nevada that are under the same majority ownership as that bank. (This bank is not in that category, for less than 10% of the common stock of Bank of America is owned by any one stockholder.) I know that that ownership would invite any comparison you may be inclined to make between the management of such banks and the former management of them, or between the present management and the management of other insured banks. I am confident that any such comparison will result most favorably. If you claim for your Corporation the right to discriminate between applying

banks on the basis of the absolute or relative quantity of bank stock owned by a particular stockholder, would you be good enough to advise me of the legal provision authorizing such discrimination? Where does the law draw the line as to quantity? Do you claim the right to deny applications of qualified banks which are substantially under the same type or quality of ownership as other insured banks? Upon what legal or other basis do you discriminate against either majority or minority stockholders or both? I should appreciate any information you might be able to give me along this line.

Your letters suggest another question that is perhaps more direct and pertinent than any of the above. Under what provision does your Corporation or the other Federal banking agencies determine the advisability of any banking corporation increasing its legitimate business along sound lines and under what law can it or they determine whether it is advisable for one bank to extend its legitimate business and for another bank, equally equipped, not to do so?

I like to be frank in stating my position or in discussing the affairs of institutions in which I am interested with those vested with supervisory authority. You may recall that I wrote you quite fully on June 2, 1938, concerning your address to the California Bankers Association. In that address you had incorporated what seemed to me to be an unwarranted assault upon the branch banking system of the State, which you deleted during actual delivery. Subsequent events showed that this address corresponded somewhat in point of time with the work of the conspirators who were then endeavoring either to wreck or gain control of the Bank of America.

I have always earnestly and consistently endeavored to promote a better understanding of the institutions with which I have been associated for the major part of my life, and I have particularly endeavored to enlighten those in high places who have the responsibility of bank supervision in the public interest. I know that the measure of public service any financial organization can render is dependent largely upon confidence--confidence born of honesty and understanding. It is at times disheartening to find highly placed persons who have access to accurate sources of information substituting grossly erroneous assumptions for facts and using them in an attempt to justify unwarranted official action, but I shall continue to consider it my duty nevertheless to set them right.

Sincerely yours,

(Signed) A. P. Giannini

Chairman of the Board