

August 31, 1945

MEMORANDUM:

Approximately twenty-six (26) applications for branches for Bank of America National Trust and Savings Association are now pending, raising once more the question of permitting further expansion of this branch system in California.

Following the policy formulated by the late President Roosevelt, it has been the practice of this office during the past six years to restrain as much as possible the growth of monopoly in West Coast banking and credit facilities which seems inherent in the expansionist program of the Bank of America and Transamerica, both of which are dominated by the so-called Giannini interests. This policy of restraint has received the active support and cooperation of both the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation. It is deemed appropriate to set forth very briefly the bases of this general policy, without specifying in detail the supervisory problems which have been encountered in carrying it out.

Bank of America operates through two so-called main offices and almost five hundred branches throughout the State of California - many times more branches than any other bank in the United States. For some years, its deposits have grown more rapidly than those of any other bank in the country. In total resources, it is the second largest bank in the world, and is rapidly overtaking the Chase National Bank of New York, the only larger bank in existence. In fact, it already has several times as

many depositors as Chase or any other bank; it has more business loans outstanding than any other bank; and whereas Chase is one of a number of huge "corporation" banks in the nation's financial center, which could be replaced by the numerous other large banks located there, Bank of America is a Titan whose activities cover an immense state and affect the whole West Coast, and whose collapse and replacement would involve an economically destructive upheaval.

The following figures bring out the situation clearly: Bank of America's deposits on June 30, 1945 were \$4,500,000,000, constituting approximately 40% of all deposits in California banks. Its approximately five hundred branches amount to almost half of the banking offices of the state, and are located in over 300 communities. There were 595 banks and branches in the Transamerica bank group on June 30, 1945, located in Arizona, California, Nevada, Oregon and Washington, out of a total of 1,461 banks and branches in those five states. The Transamerica banks and branches constituted approximately 50% of all banking offices in California, 60% in Nevada, and 34% in Oregon. They held approximately 41% of all bank deposits in California, 79% of all deposits in Nevada, and 41% in Oregon.

Throughout their history, Bank of America and Transamerica Corporation have been dominated by a small group of men who have pursued an aggressive and ruthless policy of expansion, and have engaged in a variety of banking and non-banking activities, some being of a highly speculative character. The management of the bank has been of the promotional type, and the results of its lack of conservatism became apparent in the early 1930's, when its condition was such as to create considerable

doubt as to whether it should be permitted to resume operations after the banking holiday. It was only consideration of the serious effect on the whole West Coast which forced a reluctant decision to permit the Bank of America to reopen at that time. Today its condition is very much improved - by virtue of general economic and war conditions, not by virtue of management. A study of the development of the Giannini empire even during the last twelve years will disclose that the promotional attitude still predominates.

In the light of this brief description, it will not be difficult to see the application of certain basic principles and policies which render it inappropriate, except to meet compelling local need, for the Comptroller to authorize Bank of America to establish additional branch offices. First of these principles is the American government policy against monopoly, unfair competition, and absentee ownership, and in favor of small businesses, free competition, and local ownership and control. The Comptroller is not charged with the enforcement of the anti-trust laws, but he should and does exercise his discretionary power in the light of the purposes which the statutes in this field were designed to achieve.

The opportunity to monopolize the field and prevent the development of new competition is greater in banking than in most industrial and commercial fields. Furthermore, monopoly in banking is singularly dangerous because of the influence banks exercise over the entire economy through control of credit and liquid funds.

Even apart from the foregoing, the potential disastrous effects of a failure of a branch-bank system of such magnitude render inadvisable

the authorization of further expansion of its branch network. Bank of America is in relatively sound condition today and its failure within the foreseeable future is improbable. However, supervisory authorities must always bear in mind the possibility of bank failures due to rapid changes in economic conditions or to unsound and speculative management, and policies should be adopted which will minimize the harm resulting from the collapse of any one institution. The primary obligation of the Comptroller, in exercising his discretion regarding the chartering of new banks, the granting of branch permits, etc., is the maintenance of a safe and sound banking system. Any further growth of Bank of America - and consequent increased dominance in California banking - is undesirable from this point of view.

The enormous importance of banks to modern industrial life gives rise to another danger implicit in the existence of a banking institution of the unparalleled power and extent of Bank of America. Banking has long been recognized as a matter requiring governmental supervision and control, and the federal statutes provide general sanctions designed to enable the supervisory authorities to maintain safe and sound banking practices and to prevent violations of the banking laws. Unfortunately, these sanctions - for example, the forfeiture of a bank's charter - are extremely drastic. Where a single bank is badly managed, or resistant to proper supervisory requirements, these sanctions can be brought to bear, and this possibility alone is sufficient to make the vast majority of banks receptive to criticisms, corrections, and recommendations. But any responsible official hesitates to invoke such sanctions where the offending bank furnishes a major part of the banking facilities of a great State; the hazards involved in mere unfavorable rumors regarding a bank make bank supervisors **reluctant** even to threaten the use of a serious sanction. Being fully

aware of this situation, the management of a mammoth, many-branched institution can sometimes defy governmental regulation, and violate almost with impunity the laws enacted by Congress for its control and the protection of the public. The history of Bank of America reveals just such a situation and attitude.

Even in the case of a branch bank system of comparable size with an outstanding record of safe, sound and conservative management, the foregoing principles would dictate the greatest caution in the handling of applications for new branches. The fact that the record of Bank of America cannot be so characterized simply renders more imperative the policy which the Comptroller has followed in this case.

In regard to the twenty-six (26) applications for branches with which we are presently confronted, no departure is contemplated from the basic policy of restraining all possible any further expansion of the Giannini banking interests. Some twenty (20) of these applications can and should be rejected. However, in approximately a half dozen cases the communities involved are entitled to more adequate banking accommodation, and careful investigation fails to reveal any practical method of securing such additional accommodation save through granting to the Bank of America permission to establish branches at these points.

There is considerable pressure from these communities and from their representatives in Congress. For six years there has been no increase in the number of branches of the Bank of America, although during that period this state, which permits branch banking, has grown enormously in population and financial resources and permits in considerable number

have been granted to competing institutions.

In the light of these facts it would seem judicious to authorize branches of the Bank of America in the few exceptional cases mentioned. To refuse would penalize the local communities involved and might give some weight to the charge of arbitrary and prejudicial conduct of this office.

A brief resume of thirteen(13) of the pending applications is attached hereto. The balance are still under investigation by field representatives.

(Signed) Preston Delano

Preston Delano