

C O P Y

September 27, 1944

Honorable Brent Spence, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

Dear Mr. Chairman:

This is in response to the request contained in the letter from the clerk of your committee dated September 2, 1944, for a report on the bill H.R. 5258 "To amend Section 5155 of the Revised Statutes with respect to the establishment of branches by national banking associations".

The Board is favorable to the enactment of legislation along the lines of this bill.

Under existing law national banks and State banks which are members of the Federal Reserve System desiring to establish branches are required to have a certain minimum amount of capital which in many instances is in excess of that required by State laws and in excess of the actual needs of the banks. The laws of many States permit State banks to establish and operate branches with much less capital than that required under Federal law of national banks. This results in unfair discrimination against national banks and State banks which are members of the Federal Reserve System and tends to drive banks out of the National Banking System and to prevent them from joining the Federal Reserve System. As pointed out in the Annual Report of the Comptroller of the Currency for the year 1938, national banks in some localities have surrendered their national charters because they are required by the national banking laws to have considerably greater capital in order to establish branches than are State banks competing with them in the same State.

There are State banks which are prevented from joining the Federal Reserve System by the fact that they have branches lawfully established and in lawful operation under the laws of the States in which they are located and, under the provisions of section 9 of the Federal Reserve Act, they cannot become members of the Federal Reserve System without either relinquishing such branches or increasing their capital to an amount in excess of their capital needs.

Although the bill amends section 5155 of the Revised Statutes which by its terms relates to national banks, the same requirements would automatically become applicable to the establishment of branches by State member banks, because section 9 of the Federal Reserve Act forbids the

establishment of branches by State member banks except on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks, except that the approval of the Board of Governors of the Federal Reserve System, instead of the Comptroller of the Currency, must be obtained by a State member bank.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.