

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, November 7th, at 11:10 a.m.

PRESENT: Governor Crissinger  
 Mr. Platt  
 Mr. Hamlin  
 Mr. Miller  
 Mr. James  
 Mr. Cunningham  
 Mr. Dawes  
 Mr. Eddy, Secretary.

The minutes of the meeting of the Federal Reserve Board held on November 6th were read and approved.

Letter dated November 5th, from the Governor of the Federal Reserve Bank of Boston, with respect to previous correspondence between the Board and the Blackstone Canal National Bank of Providence, Rhode Island, concerning certain bankers' acceptance transactions.

Referred to Counsel for preparation of a reply.

Letter dated November 5th, from the Governor of the Federal Reserve Bank of Boston, transmitting a report from the Havana Agency of that bank for the week ending October 31, 1923.

Ordered circulated.

Letter dated November 5th, from Deputy Governor Bullen of the Federal Reserve Bank of Boston, quoting from a letter received from the Havana Agency of that bank, with respect to an inquiry received by the Atlanta Agency from the Cuban Treasury Department as to whether said Agency would redeem mutilated United States currency.

Referred to Committee on Cuba.

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Letter dated November 5th, from the Governor of the Federal Reserve Bank of Boston, conveying information received by him to the effect that the Manager of the Havana Agency of the Federal Reserve Bank of Atlanta had quoted the National City Bank of New York a rate of \$4.00 per thousand for a cable transfer, for which the National City Bank intended to make payment in gold coin.

Referred to Committee on Cuba.

Memorandum dated November 7th, from the Secretary of the Board requesting approval of action taken in dismissing Ira H. Stewart, messenger, as of the close of business November 30, 1923.

Approved.

Letter dated November 3rd, from the Chairman of the Federal Reserve Bank of Atlanta, transmitting and recommending approval of the application of the First National Bank of Montgomery, Alabama, for permission to accept drafts and bills of exchange up to 100% of its capital and surplus, under the provisions of Section 13 of the Federal Reserve Act.

Approved.

The Committee on Examination reported on the matter referred to it at the meeting on November 6th, namely, letter dated October 31st from the Chairman of the Federal Reserve Bank of San Francisco, enclosing a communication from the Vice President of the Pacific Southwest Trust and Savings Bank, with respect to the action of that institution in pur-

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chasing the assets of the First National Bank of Lindsay, California; the Committee reporting that in view of the facts and circumstances surrounding the case, the Vice President of the Pacific Southwest Trust and Savings Bank is justified and correct in his statement that their action in the matter is not such as to involve the permission of either the State Banking Department or the Federal Reserve Board.

Upon motion, the report of Committee was approved.

The Governor brought up the matter docketed as special order business for today's meeting, namely, the supplementary report of the Pension Committee to the Federal Reserve Board, transmitted in the letter of the Chairman of the Committee dated November 30th.

After a discussion as to the power of the Federal Reserve Board and the Federal Reserve banks to enter into the plan proposed and the advisability of their so doing, Mr. Miller moved that the Chairman of the Committee be advised that the Board has considered the supplementary report, and that nothing should be done looking toward putting the plan into effect under the laws of the District of Columbia, as recommended on page #4 of the report, and further that the Committee will be advised in due course when the Board has reached a conclusion with respect to the plan, as a whole, and whether it approves or disapproves.

Carried.

Mr. Hamlin moved that the question of the merits of the plan be laid on the table until after the forthcoming Governors' Conference.

Carried.

The Committee on Examinations reported on the matter referred to it at the meeting on October 30th, namely, the formulation of a policy to

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be followed by the Board with respect to the further extension of branch banking in the United States. The Committee, not being in agreement as to the nature of its recommendations, submitted a majority report, signed by Messrs. Dawes and James, and a minority report, signed by Mr. Platt, which follow:

#### Majority Report

The Examination Committee herewith submits to the Federal Reserve Board a resolution accompanied by an opinion as to its legality by the Counsel of the Board, upon which it recommends immediate and favorable action. The substance of this resolution has been a matter of long and intensive study by all of the members of the Federal Reserve Board and the Board should be, therefore, in position to express itself and to take a definite stand on the subject. The Committee desires to submit the following reasons for recommending this resolution which lays down certain general principles for the guidance of the Board in acting upon the individual cases presented to it.

The organization of the Federal Reserve System was possible because of the power of the National Government to enforce the cooperation of the national banks. At its inception it was primarily an instrumentality of coordination, imposed upon the existing national system, but the full membership of the Federal Reserve System is now composed of banks which are organized under 49 different governmental authorities, operating through the National Bank Act and the banking laws of the 48 different states. The intent of the Federal Reserve Act is necessarily to compromise and reconcile the operations of the banks under these 49 different sets of laws, since a rigid and technical adherence to a detailed formula would make the Federal Reserve System impracticable of operation. Recognizing this principle the Federal Reserve Act provided for the supervisory control of the operations of the member banks by the Federal Reserve Board and clothed this Board with certain discretionary powers over the member banks in order that, amongst other things, it should have the duty of seeing that the "corporate powers exercised are consistent with the purposes of this Act".

If a bank or a group of banks is engaged in a form of banking or in practices which are prejudicial to the successful opera-

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tion of the system, the Federal Reserve Act permits, and indeed requires, that the Federal Reserve Board should assert its authority to compel conformity on the part of such member banks to the fundamental principles upon which the Act is based, as well as to the specific provisions thereof. Without passing upon the question as to whether or not branch banking is in its fundamentals antagonistic to the Federal Reserve System, the fact is indisputable that certain Member Banks are privileged in a practice which is definitely forbidden to other Member Banks and which, very naturally, has resulted in unfair competition. This disadvantage applies with special force to the National Banks which, in the opinion of two Attorneys General, have not the right to indulge in any form of corporate activities beyond the limits of the city or town in which the bank is located.

It is the opinion of your Committee that the unlimited extension of the practice of Branch Banking will give to banks operating under liberal State Charters such competitive advantages over the unit banks which are members of the Federal Reserve System, as to impair materially their usefulness, if it, in fact, does not ultimately result in their extinction.

Your committee believes that it is clearly the duty of the Federal Reserve Board to lay down a policy to the general end that all banks, National and State, may operate for the good of the System, and that the good of the System cannot be subserved by the operation within it of a group whose activities must essentially endanger the very existence of another group. "A house divided against itself cannot stand."

The responsibility to effect an adjustment on fair, broad, general lines is a very great one, and one which this Board cannot evade by a technical interpretation of the law which is not based upon sound principles of equity. It is, in the opinion of your committee, the duty of the Board to lay down principles upon which member banks may operate with a proper regard for the good of the System, and to establish a basis for a fair adjustment as between the different member banks which compose it. Whether National or State, no bank should enter or continue in the System which is not willing to waive such of the privileges granted to it by the Act under which it is incorporated as may be inconsistent with the general purposes of the organization to which it belongs. It is the duty of the Federal Reserve Board to prescribe the basis for this compromise and in so doing to insist on the terms which may be necessary in order that

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the compensating advantages of membership in the System may be secured.

It is manifestly unfair for the Board in its current activities to refrain from notifying the members as to such general principles it will consider in carrying out such adjustments. It is unfair to permit a member bank unwittingly and innocently to engage in a course which may, without warning, meet with the criticism and prohibition of the Board. Therefore, the Committee submits the attached resolution and urges favorable action on the part of the Board to the end that the members of the System may know to what extent they will be limited in their activities in this important matter of branch banking, upon which the Federal Reserve Act expresses itself only by implication.

It is the opinion of the committee that, in certain specific instances, the interests of its members require at the present time a clear and definite statement as to the limitations and the privileges which will be recognized. It is necessary and only fair that those members which are engaged in this form of banking should be notified in advance of the extent to which their activities may be carried on within the System and that those member banks which are forbidden by law or have not as a matter of policy engaged in branch banking should know the extent to which other member banks may be permitted to compete with them within the System and the terms of such competition. It is the opinion of the Committee that the resolutions prepared offer as fair and reasonable a basis of compromise as is practicable under the present laws, both State and National. It will be observed that in recognition of the conditions which may exist in certain localities the State member banks would not be affected by this declaration of principle in the operation of full branch banking powers within the limits of the city in which the parent bank is located and in contiguous municipalities, and that this privilege is not impaired and denied them in spite of the fact that National Banks may, under the law, engage in only limited activities beyond the four walls of their banking house, and those only within the limits of a single municipality. This resolution does not give the National Banks facilities equal to those of the member banks operating under the laws of certain states. It does, however, in the opinion of the Committee, relieve the National Banks from the competition of state banks operating from headquarters in remote localities. The Committee does not contend that it places the State member banks and the National Banks

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in certain states on a basis of equality in the System, but it regards the resolution as going as far as the present laws, both National and State, permit in producing a condition of equitable adjustment. Complete equity can be established only by the modification of either State or National laws, or perhaps both.

It is the opinion of the Counsel of the Federal Reserve Board that the Board acts within its rights in passing the resolution herewith submitted. The Committee, in preparing this resolution, has recognized that the action advocated touches upon a vital principle of the Federal Reserve Act, and the fundamentals of American banking. It believes that its action will be sustained by the favorable opinion of the general public, the legislative authorities, and banking sentiment. It recognizes as undesirable, however, that in a matter of such basic importance, its action be considered as arbitrary or precipitate. It is, therefore, recommended that the date for the operation of this policy should be set forward until February 1st, 1924, in order that the member banks may have a reasonable time to adjust themselves to its provisions, and that if, in its wisdom, Congress should desire to curtail or to enlarge the powers of the Federal Reserve Board as exercised under this resolution they may have an opportunity to do so before it can be put into effect.

Respectfully submitted,

Committee on Examinations.

(Signed) Henry M. Dawes, Chairman  
" George R. James.

Resolution.

WHEREAS, under the terms of the Federal Reserve Act national banks are required to become members of the Federal Reserve System and cannot withdraw therefrom, while State banks may become members by voluntary choice and may withdraw therefrom at will, and,

WHEREAS, the Federal Reserve Act contemplates a unified banking system in which State and National banks can participate on a basis fair to both, and,

WHEREAS, State banks in certain States have been permitted by law or regulation to engage in State-wide branch banking while national banks are restricted by the Federal Statutes

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from establishing branches or offices beyond the limits of the city in which the parent bank is located, and,

WHEREAS, the Board believes that this results in an inequitable situation which renders it impossible for national and State banks to exist together in the Federal Reserve System on a fair competitive basis unless the powers of State and national member banks to engage in branch banking are reconciled, and,

WHEREAS, in the interest of the successful administration of the Federal Reserve System, it appears necessary and desirable to confine the operations of member banks within reasonable territorial limits, and,

WHEREAS, the Federal Reserve Board is authorized by the Federal Reserve Act to prescribe conditions under which applying State banks may become members of the Federal Reserve System,

NOW, THEREFORE, BE IT RESOLVED, that the Board continue hereafter as heretofore to require State banks applying for admission to the Federal Reserve System to agree as a condition of membership that they will establish no branches except with the permission of the Federal Reserve Board;

BE IT FURTHER RESOLVED, that as a general principle, State banks with branches or additional offices outside of the corporate limits of the city or town in which the parent banks are located or territory contiguous thereto ought not be admitted to the Federal Reserve System except upon condition that they relinquish such branches or additional offices;

BE IT FURTHER RESOLVED, that, as a general principle, State banks which are members of the Federal Reserve System ought not be permitted to establish or maintain branches or additional offices outside the corporate limits of the city or town in which the parent bank is located or territory contiguous thereto;

BE IT FURTHER RESOLVED, that in acting upon individual applications of State banks for admission to the Federal Reserve System and in acting upon individual applications of State banks which are members of the Federal Reserve System for permission to establish branches or additional offices, the Board, on and after February 1, 1924, will be guided generally by the above principles;

BE IT FURTHER RESOLVED, that the term "territory contiguous thereto" as used above shall mean the territory of a city or town whose corporate limits at some point coincide with the



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corporate limits of the city or town in which the parent bank is located;

BE IT FURTHER RESOLVED, that this resolution is not intended to affect the status of any branches or additional offices established prior to February 1, 1924, either those of banks at the present time members of the Federal Reserve System or those of banks subsequently applying for membership in said System.

(Signed) Henry M. Dawes, Chairman  
" George R. James.

#### Minority Report.

The resolutions submitted in the report of the majority of the Committee on Examinations are based upon the assumption that it is the duty of the Federal Reserve Board to deny to any state bank member the right to exercise any of the powers granted in its state charter that appear to give it a marked advantage over national banks in competition, even though the exercise of these powers may be to the advantage of the communities in which the banks are located and even though the powers, themselves, may be in accordance with the soundest banking principles.

If the Federal Reserve Board should adopt this attitude and pass the resolutions proposed with relation to branch banking, it would be tantamount to an attempt to force the state banks to conform to the national banking laws and would be a complete reversal of the position the Board has taken, not only in the matter of branch banking but in all matters touching competition between state and national banks where the practices of the state banks have been deemed to be sound banking.

The Board's annual reports from the organization of the Federal Reserve System bear witness to the fact that the Board has always taken a progressive position. It has not sought to repress and hold back state banks from the exercise of sound banking privileges, but has always recommended amendments to the National Banking Act, or the Federal Reserve Act broadening the powers of the National Banks.

Excepting the Act of 1900, which was chiefly an effort to increase the attractiveness of the note-issuing privilege,

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thought it also provided for national banks with a minimum capital of \$25,000, very few changes were made in the laws affecting national banks prior to the passage of the Federal Reserve Act. State banks by the abolition of their note issuing privilege through the 10 per cent tax, made effective in 1866, were reduced from 1562 in 1860 to 247 in 1868, and almost all of the surviving 247 were in the eastern financial centers where deposit banking had begun to assume considerable proportions. Long before the passage of the Federal Reserve Act they had overtaken and passed the National Banks in numbers, and the chief increase had taken place not in the financial centers but in the agricultural west. Nor was the increase confined to small banks. During the ten years 1899 to 1909 state banks with a capital above \$50,000 increased in practically the same numbers and at a much greater percentage than national banks. (Barnett "State Banks and Trust Companies", 222-223). The fact is that national banks had been held very narrowly to certain types of commercial banking, and nearly all progress in banking had been made by state banks, which steadily gained as the note issuing monopoly of the national banks became of less and less importance.

The Federal Reserve Act provided not only for the banding together of national banks in a cooperative system but it also liberalized the National Banking Act by adopting some of the best features of some of the best State banking legislation - notably in the recognition of a difference between time deposits and demand deposits in reserve requirements. It contained an attempt to allow the exercise of certain trust powers to national banks, and provided that the larger national banks might establish foreign branches.

Not long after the Federal Reserve System was organized the attention of the Board was directed to the fact that the competition of the state banks had not lessened and to the losses among national banks which were constantly being converted into trust companies, but instead of endeavoring to prevent state bank members from exercising trust powers the Board recommended and in fact prepared a bill for amendment to the Federal Reserve Act broadening Section 11 (K) so that national banks might exercise trust powers. This was passed in 1916.

The effort of the Board has been to make the national banking system as inclusive as possible, but it has at the same time sought constantly to add to the state bank member-

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ship and has not attempted to restrain state bank members from the exercise of proper banking powers enumerated in their charters. It has been actuated by desire to benefit the business interests of the country rather than the interests of any particular group of banks. The Board favored the amendments of 1917, which provided that state banks might be admitted to the system retaining their charter rights, and an examination of the correspondence that preceded the admission of the California state banks maintaining branches will show that they were clearly admitted with the understanding that their charter right to such branch extension as should be found consistent with sound banking would not be denied. Several times the Board as well as the Comptroller have recommended that national banks should be given branch banking privileges within the states where branch banking is permitted by state law, and the Board at one time recommended that national banks should be given branch banking privileges within city limits without regard for state law. This was at one time recommended also by the Federal Advisory Council. The Board in 1916 and 1918 recommended the enactment of a bill providing for branch banking within county limits, or within a radius of 25 miles from the parent bank.

If, now, the Board reverses itself and attempts to restrict state banks through the right to impose conditions when they apply for membership it will be in effect attempting to make state banks conform to the National banking act, and become practically national banks, so far at least as branch banking is concerned.

Limited branch banking within municipal limits has recently been extended the national banks through new regulations from the Comptroller, following a more liberal interpretation of the law by the Attorney General. If the Board had any reason for believing that branch banking beyond city limits must necessarily be unsound there would be ground for the complete reversal of its position but the majority report does not claim that it is unsound and apparently has abandoned the assumption that it is contrary to the Federal Reserve Act. Such claims, in fact, could not be sustained by the Federal Reserve Board at this time. Branch banking beyond city limits has existed in the Federal Reserve System since its organization, in national banks as well as in state banks, and the National banking act, itself, has since 1865 provided for branch banking through the authorization for the conversion of state banks with branches into national banks. State-wide branch bank-

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ing is authorized in a number of southern states and in the state of Rhode Island, and limited branch banking, either by counties or in districts contiguous to cities, is authorized in a number of other states. Before the Civil War and the passage of the National banking act branch banking was common throughout the West and South. Nearly every western state before 1860 had developed systems of state-wide branch banking and some of these systems, as in Indiana and Ohio, were notably successful. In some states as many as 40 branches were maintained and these state-wide systems might all have been brought into the national banking system under the Act of 1865.

It cannot be maintained, if one may judge from the history of state banking in the United States, that branch banking necessarily implies the destruction of unit banking. The two existed side by side in Ohio and in other middle western states, as well as in the South, before the Civil War, and in the southern states branch banking has made comparatively slow progress even where fully authorized by law.

It is undoubtedly true, as the majority report says, that in branch banking beyond city limits certain member banks are engaging in a practice which is definitely forbidden to other member banks. This at once raises the question whether there is good reason to continue to forbid the practice to the other member banks. Unless the Board is willing to take a retrogressive, repressive position in a matter primarily of competition between two classes of banks, and without regard to the public convenience and the interests of the communities served, it should in my opinion instruct the Committee to work out regulations which will guide and direct the extension of branch banking in California without attempting to deny all further extensions, and to that end full consideration should be given the letter of October 8, 1923, addressed to the Board by the responsible executive officers of three of the largest State banks engaged in branch banking in that State. That letter appears to me to present frankly a sound basis for such regulations. Economic developments, such as the recent growth of branch banking in California, do not take place without a reason, and should not be arbitrarily repressed by any governmental body. They should rather be studied and guided with the purpose of determining whether they may not represent a real advance in American banking.

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Branch banking has been recognized by the foremost authorities on banking in the United States as a natural method of extending banking facilities to small communities, as presenting opportunities for diffusing business risks over larger areas than at present with a gain analogous to that which such diffusion brings to insurance, and as having the advantage of ability to make loans from a common fund of capital and deposits in accordance with the unequal and varying demands of different industries and sections served. There is reason to believe that the agricultural sections of the United States would be far better served, and with the deposits of the farmers much more adequately safeguarded, under systems of branch banking, whether limited to counties or state wide, than at present. California is trying the experiment, and no evidence has so far been presented to show that it is not serving the people of the State well.

(Signed) Edmund Platt.

Mr. Dawes moved that the report of the majority of the Committee be adopted.

Mr. Hamlin moved that the minority report be substituted for the majority report.

Thereupon ensued a discussion of the two reports, various members of the Board expressing opinions as follow:

Mr. Hamlin

"I think we all understand that the original policy of the Board as to the admission of State banks with branches and the acquisition of new branches, adopted in the early stages of the System, was adopted only after the greatest of care and consideration of law and facts. That original policy the other day was reversed by the Board. I do not question at all the right of any Board to reverse any policy it believes to be wrong, but the question to my mind is "Is the new policy right, is it warranted by law". The policy we had already laid down was warranted by law. The majority resolution, however, which we are now discussing, was originally based on the claim that, as a

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matter of law, unlimited branch banking was inconsistent with the spirit of the Federal Reserve Act. Now, as Mr. Platt has brought out, that claim has been abandoned in the present resolution. The Committee does not rely on that at all. If it did rely on that, I should say that the report of the Committee was logical, and if correct in law, which however, I deny, that it would be our duty to overthrow the former policy of the Board.

I feel strongly that this resolution should begin with the clause "Be it enacted", because it is the closest approach to legislation which we ever proposed to lay down without authority from Congress. It is a legislative act to prevent unfair competition. The Committee states that unless conflicting powers of State and national banks are reconciled, it will be impossible for the System to go on. It proposes to reconcile the powers of the State banks with the powers of the national banks by taking away from the State banks powers given by their charters, under the claim that we have the right to do that under our power to lay down conditions. The Attorney General has advised us that State banks can enter our System with interlocking directorates free from the limitations of the Clayton Act. Would any one contend that we could lay down the condition that State banks must give up that right as a condition to admission to the System. Yet that right is not half as important as the right to establish branches.

If the assumption of power on the part of the framers of the majority report is correct, it would be within the power of our Board to impose as a condition of admission that all applicant State banks must waive and agree never to exercise any power however sound from a banking point of view, which national banks are not permitted to exercise by law. Surely no such power was ever granted to our Board by Congress.

In my opinion, this Board has no power to impose any condition except such as is expressed in the Federal Reserve Act, or necessarily implied from its language. I do not object to the condition requiring consent of the Board to the establishment of new branches but feel certain that such consent or refusal must be based on the language expressed or necessarily implied in the Act, and that refusal based on a dislike or distrust of branch banking generally, apart from the financial condition of the Parent bank and the proposed branch, is an unlawful assumption of power.

I believe firmly that if the spirit of this resolution is carried out by the Board, it will be a terrible blow to the agricultural interests, at least, of California. I think agriculture, in California, at least, is greatly benefited by the branch banks which can give larger loans than the unit banks and I can't see that the unit banks have been, up to the present time, at least, injured from having branches side by side. There

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has been no reduction in rates except in pioneer districts and in no other way can branches of State banks dangerously injure national banks by way of competition.

This resolution is inconsistent. It lays down a principle of action for the future, but it is careful to say that as to every bank in California or the country, that has branches today, their branches are not to be affected. In other words, we propose to give a monopoly to the banks of California that have had the good fortune to get in under the wire. Their monopoly is to be protected, but no new banks who haven't gotten under the wire can come in, and I use the very words of the resolution, - "Unless they relinquish such branches or additional offices" as they now have. That will subject the Board to severe and just criticism. The Committee also leaves open the date until February, 1924. I am afraid it is dangerous. It is going to invite a flood of applications. I may be wrong about that. The Committee did that I suppose to make the resolution less stringent than it would otherwise appear to be.

This, in brief, is my feeling about the resolution. I think we have no power to put into effect such a resolution but I am not saying there ought not to be some change in the laws of California. Personally, I think it might be well to make those laws more specific and not give so much power to the banking superintendent. That however, is a question to be determined by the people of California. We have here already a letter from three of the larger banks laying down certain principles very much like those in our resolution. I think in time all banks might voluntarily come in. Then we would have no reason for adopting such a principle. This is a bad time to put out this resolution. I think we should leave the whole matter to Congress and I am sure it will feel bound to take it up and do something about it. I think it would be much better for the Board to hold this up until we see what action, if any, Congress is going to take. Congress has full power to determine this question in so far as it relates to the Federal Reserve System.

In my opinion, this question is for the determination of the state of California or the Congress of the United States and is beyond the lawful power of the Federal Reserve Board."

Mr. Cunningham.

"That some policy should be established that will serve to direct the Federal Reserve Board in its actions toward State Bank memberships in the system, especially, such State institutions conducting Branch Banking, seems advisable; and I deem it my duty as a Member of the Board to assist in any effort that is made to establish such a policy for the guidance and direction of its memberships in the system.

The necessity of a strong and loyal membership should be our first consideration and every effort should be put forth to establish a membership in the system that can function with due regard to the law

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under which it receives its charter and in conformity to the spirit of the Federal Reserve Act and without advantage or special privilege to any member insofar as it is humanly possible to avoid it.

The Federal Reserve Act makes membership mandatory on the part of National Banks chartered under the National Banking Act, while it permits voluntary membership by Banks and Trust Companies chartered under the laws of their respective states, with specific provisions that such State Banks and Trust Companies are privileged to retain all of their charter rights and powers subject only to such regulations as the Federal Reserve Board may prescribe. Here we have a condition under which we undertake to develop and maintain a nationwide system of Federal Reserve Banks to furnish an elastic currency to afford means of rediscounting paper and providing a more effective supervision of banking in general and whose stability and efficiency is dependent upon a strong and loyal membership which we are endeavoring to maintain by conceding statutory rights to one member received through liberal State Charter while compelling membership from the other with restricted Charter Rights and privileges under a Federal Statute. This is a most practical demonstration of "a house divided against itself", and in accordance with divine prophecy, it must fall.

That two member banks in substantial competition in a given community can continue to serve the community efficiently under such unequal and divergent privileges, appears to me to be impractical and illogical and it becomes very clear to me as I observe the experiences of such banks, that as a natural consequence the unit Member Bank with its restricted privileges under Federal Charter is operating at a great disadvantage as compared with its competitor who retains more liberal Charter Rights. This kind of competition is unfair as a general rule, but when considered from the standpoint of the compulsory membership imposed on National Banks as against the voluntary membership of State Banks, especially those operating with Branch Bank privileges, the plan becomes alarming in that it suggests the thought of great impairment in its usefulness and efficiency, if not the possible extinction of the National Bank, or, possibly, as has happened in certain cases, its absorption and conversion into a Branch Bank of the competing Member Bank operating under a State Charter with the privilege of Branch Banking.

To my mind there is no great element of strength to the system under the present status of its membership. Its tendency is to divide the Member banks into factions by reason of the unequal privileges under which they function as members of one system which might in time engender a spirit of disloyalty on the part of certain members.

By the adoption of the Committee Resolution, it would give to the country due notice of the proposed policy by which the Board will, in the main, be guided from and after the date of its effectiveness,



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and serve the further purpose of directing the attention of Congress to the question and permit the Congress, if it so desires, to make such amendments to the Act as will clearly define the real meaning and intent of that part of the Act which the Committee Resolution undertakes to clarify.

The above statement does not exhaust all of the objections I entertain to the question under consideration, but the above does state the reason that directs my judgment in voting "aye" on the Committee Resolution."

Governor Crissinger.

"Before putting the motion made by Mr. Dawes to adopt the report made by a majority of the members of the Examination Committee, I desire to say that in my opinion it would be a very difficult thing for any Committee of this Board to draw regulations or to lay down principles or rules on the branch bank problem that would meet with the approval of the entire Board.

I am probably the pioneer member of the Board in opposition to the system of banking that has grown up in the State of California. At the time when this question was first raised, it is my recollection, the Bank of Italy had only fifteen branches, and that it was making application for four or five more. At that time, I pointed out my objections to the Bank of Italy being permitted to have additional branches. My objections then were that the State of California was unable to properly supervise the banking system that it then had permitted the Bank of Italy to build up, and that the Federal Reserve Bank was in no position to examine or supervise the system. That when the Federal Reserve Bank held itself out as supervising the Bank of Italy, it was thereby misrepresenting the facts. That when it was permitted to develop a system of branch banking that it could not supervise, and in holding out to the public that this branch bank system was having proper supervision by the Federal Reserve Bank, was really a fraud upon the public and should not be countenanced by the Federal Reserve Board, and should not be permitted to go on. I accordingly voted against the branches which the Bank of Italy then sought to establish. Since then, other branch banking systems have started up, and I have consistently voted against such systems because I did not believe that there should be developed any systems of banking which could not be properly supervised in the interest of public policy and the people.

I was then and am now of the opinion that these banking systems might ultimately become dangerous and a menace to the Federal Reserve System, as well as to the general banking system of the State of California, and in other states where they might develop branch banking, and for that reason I have persistently voted against extending any system of branch

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banking that I felt could not be supervised either by the State, or Federal Reserve Bank.

The report of the Committee and the resolution presented on this occasion by the Committee, does not meet my views about the banking system in California, or elsewhere. The report of the Committee is to my mind very well written and presents a strong case--one that requires legislation. I am not in accord with the views laid down by our counsel in this case. I do not believe that it states the law. While I think we have the right to impose certain conditions and to make them effective, I doubt whether we have so full a right as to say that we could exclude all banks from coming into the system for the reason that they had branches. To my mind, this raises a very grave legal question. I do say, however, that we have clearly the right to oppose a system of banking which may be sound now, but which may have tendencies to develop along unsound lines. I am not in accord with several things in the resolution, but on the whole, I am in accord with the principle that we should, at least for the time being, bring to a halt branch banking in the United States, especially its development outside of the city limits. I am saying this because I can not agree with all of the things I find in the report. Yet, I am of the opinion that we should stop branch banking until we can get such legislation as either will sustain us or will provide for adequate supervision of a state-wide or nation-wide system of branch banking. I do not believe we can do this on the ground that national banks are not afforded the same facilities as state banks. I am quite clearly of the opinion that Congress, by its legislation amending the Federal Reserve Act, has in effect doomed the national banking system, and put it in a position where it will have to ultimately go by the wayside, unless Congress comes to its rescue by amendments to the Federal Reserve Act or National Bank Act, or both, that it may be protected and given new vitality.

These remarks are made so that my reasons will be consistent with my former votes. I had hoped the question of regulations would come up on the determination of whether or not we would admit some bank into the system with branches, or come up on the question of approving additional branches for one of the existing branch bank systems. In either case, I should have voted in the negative, as heretofore. I am going to support the resolution offered by the Committee, not because I believe it is sound in principle or law, but because I feel the time has come when we must bring a halt to the further extension of branch banking, and especially state-wide branch banking until we have legislation clarifying our duties as members of the Federal Reserve Board, and providing for adequate supervision by the state authorities and by Federal Reserve Banks".

Mr. Miller.

Mr. Miller reserved the right to make a statement in explanation of his position, adding that the statement would be filed at his convenience in the Board's records but he desired that a reference to it should be included in the minutes.

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Mr. Hamlin's motion to substitute the minority report for the majority report, being put by the chair, was lost, the members voting as follows:

Governor Crissinger, "no"  
 Mr. James, "no"  
 Mr. Cunningham, "no"  
 Mr. Dawes, "no"  
 Mr. Platt, "aye"  
 Mr. Hamlin, "aye"  
 Mr. Miller, "aye"

Mr. Dawes' motion to adopt the majority report, being put by the chair, was carried, the members voting as follows:

Governor Crissinger, "aye"  
 Mr. James, "aye"  
 Mr. Cunningham, "aye"  
 Mr. Dawes, "aye"  
 Mr. Platt, "no"  
 Mr. Miller, "no"  
 Mr. Hamlin, "no"

Mr. Hamlin moved immediate publication of the majority report, with the statement that it was adopted by a majority vote of the Board.

Carried, Mr. Miller voting "no".

Mr. James moved that publication of the minority report also be authorized.

Carried, Mr. Dawes voting "no".

The Committee on Examinations reported favorably upon the matter referred to it at the meeting on October 30th, namely, letter dated October 18th, from the Federal Reserve Agent at San Francisco, transmitting the application of the Valley Bank of Phoenix, Arizona, for permission to

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take over the assets of the First National Bank of Glendale, and assume its liabilities, operating it as a branch of the Valley Bank. The Committee based its recommendation on the fact that approval of the application was recommended by the Federal Reserve Agent at San Francisco, and upon the following statement made by R. E. Moore, President of the Valley Bank, in a letter addressed by him to the Governor of the Federal Reserve Bank of San Francisco, under date of October 17, 1923:

"In explanation of our reason for wanting to take the bank over, I might state that last fall, I think about the first of November, the National Bank Examiner called an assessment in order to take care of bad loans; the stockholders were unable to pay the assessment because they had previously gone the limit with assessments. The Maricopa Credit Corporation, which is owned by some of the banks in Phoenix and this valley, purchased the bank stock for \$50,000, and used the money to charge off the bad loans. We have been trying to find a purchaser for the bank, but so far have not been successful. The Maricopa Credit Corporation desires to dispose of the bank and they have accepted our proposition to purchase it."

The Board's Committee was of the opinion that the circumstances upon which the application is based are exceptional, and warrant favorable action on the application.

Upon motion, the report of the Committee was adopted and the application of the Valley Bank was approved, Governor Crissinger voting "no".

Report of the Committee on Examinations on the matter referred to it on November 1st, namely, telegram dated October 31st, from the Federal Reserve Agent at San Francisco, recommending approval of arrangements for the merger under state charter of the Wells-Fargo Nevada National Bank and the

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Union Trust Company, a member bank, both in San Francisco, and the continued operation of both offices, one as head office and the other as branch; the Committee recommending approval of the arrangements.

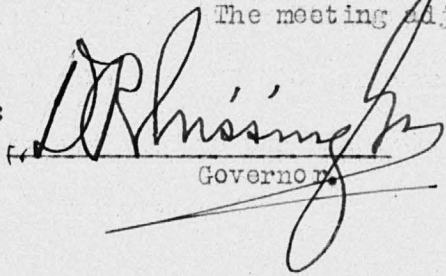
Upon motion, the matter was laid on the table to be considered at the meeting on Wednesday, November 14th.

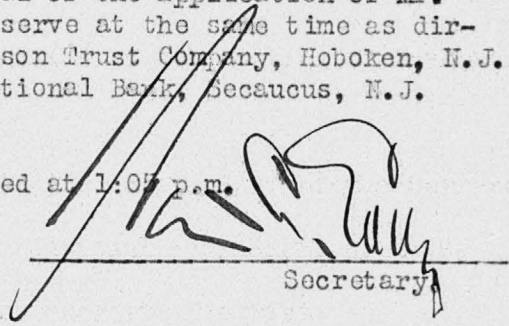
REPORTS OF STANDING COMMITTEES:

- Dated, November 6th, Recommending changes in stock at Federal Reserve Banks, as set forth in the Auxiliary Minute Book of this date.  
Approved.
- Dated, November 6th, Recommending approval of the application of Mr. J. E. Cosgriff to serve at the same time as director and officer of the Continental National Bank, Salt Lake City, of the First National Bank, Caldwell, Idaho, and of the First National Bank, Rawlins, Wyoming.  
Approved.
- Dated, November 6th, Recommending approval of the application of Mr. Isaac W. Frank to serve at the same time as director of The Bank of Pittsburgh, N.A., Pittsburgh, Pa., and of the Highland National Bank, Pittsburgh, Pa.  
Approved.
- Dated, November 2nd, Recommending approval of the application of Mr. Henry S. Nollen to serve at the same time as director of the Central State Bank, Des Moines, Iowa, of the Pella National Bank, Pella, Iowa, and of the Central Trust Company, Des Moines, Iowa.  
Approved.
- Dated, November 6th, Recommending approval of the application of Mr. Charles Hoffman to serve at the same time as director of the Jefferson Trust Company, Hoboken, N.J. and of the First National Bank, Secaucus, N.J.  
Approved.

The meeting adjourned at 1:05 p.m.

Approved:

  
Governor

  
Secretary