

Upon call of the Governor a special meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Friday, March 20, 1925 at 11:10 a.m.

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

The minutes of the meeting of the Federal Reserve Board held on March 19th were read and approved as amended.

Report of Committee on Salaries, Expenditures and Efficiency on letter dated March 18th from the Chairman of the Federal Reserve Bank of Atlanta, advising of the action of the directors of that bank in electing Mr. L. L. Magruder, Assistant Manager of the Havana Agency, as Manager to succeed Mr. L. C. Adelson, resigned, and in electing Mr. H. C. Frazer as Assistant Manager to succeed Mr. Magruder, and requesting approval of an increase from \$4200 to \$5,000 per annum in the salary of Mr. Magruder, and an increase from \$3,000 to \$3,600 per annum in the salary of Mr. Frazer, all effective April 1, 1925 - also advising of the establishment of a fund of \$400 per annum for the use of the Manager of the Agency for extraordinary expense incurred by him in line with his duties; the Committee recommending approval.

Approved.

Memorandum dated March 20th, approved by the Comptroller of the Currency and by the Board's Committee on Examinations, recommending that the Board approve an application from the Idaho Falls National Bank, Idaho Falls, Idaho for permission to reduce

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its capital stock from \$200,000 to \$100,000 on condition that, with the unanimous consent of the stockholders, no part of the funds released by the reduction be paid to the stockholders but that the full amount of the reduction be credited to undivided profits and such part of it as is necessary immediately used to charge off unsatisfactory profits.

Approved.

Draft of letter to the Federal Reserve Agent at San Francisco, suggesting certain revisions in the text of his Annual Report for the year 1924 and advising that with these modifications the report may be released for publication.

Mr. Platt moved approval of the above letter and acceptance and publication of the report with the modifications suggested.

Carried.

Letter dated March 19th from the Deputy Governor of the Federal Reserve Bank of New York, requesting approval of the action of the directors of that bank in voting to authorize formally the opening of an account for the Bank of Poland and the appointment of that bank as agent and correspondent in Poland of the Federal Reserve Bank of New York in return for a similar appointment from the Bank of Poland.

Approved.

The Governor then stated that the special order of business for this morning's meeting would be consideration of the applications of the Bank of Italy for permission to establish branches at Santa Ana, El Centro, Venice, Arcadia, San Fernando, Newhall and Hollywood.

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Mr. Cunningham submitted the following statement:

"I know of nothing that has taken place relative to the applications of the Bank of Italy for the establishment of Branch Banks at Venice, Arcadia, San Fernando, Newhall, Hollywood and El Centro, California, which have heretofore been disapproved by the Board, that would cause me to cast my vote in favor of the establishment of such branches.

If my request is permissible under the Rulings of the Board, I would respectfully ask to be excused from voting on the applications above mentioned."

Governor Crissinger then stated:

"I am going to vote to approve all of the applications of the Bank of Italy before the Board on entirely different grounds from those stated by Mr. James at the meeting yesterday. The fact that the State Superintendent has made an examination to my mind is not controlling. The duty still remains by law on the Federal Reserve banks to make examinations and supervisions of member banks, which has not been done in California. I have always contended in the matter of branches in California for the Bank of Italy and the Pacific Southwest and other large branch banking systems that the Federal Reserve Bank should be in a position to supervise and make a simultaneous examination of such branch banking systems, and as long as the Federal Reserve Bank neglected to do so the Federal Reserve Board should not approve additional branches and make the burden to make such supervision and examination still harder for the Federal Reserve Bank.

My votes heretofore on the question of branches have all been predicated upon my view of the law that the Federal Reserve banks should be at all times prepared to make examinations and give proper supervision to all member banks and that they owe that duty to the banking public. This view was entertained by me because I feel that it is a fraud upon the public for the Federal Reserve Bank to hold itself out as making examinations and giving supervision to member banks when in fact it does nothing of the kind. The Board has repeatedly ordered the Federal Reserve Bank of Twelfth District and its chief examiner to make examinations of the big branch banking systems of California including the Bank of Italy. The Bank of Italy has repeatedly expressed its desire and willingness for the Federal Reserve Bank to make such examinations; but the Federal Reserve Bank has neglected to make such examinations. We have held up these branches for the Bank of Italy for nearly two years awaiting such examinations although it was understood early last fall in the Board that there should be an examination of the Bank of Italy this spring in March following the state examination started practically six months ago, but we are now advised that no such examination will take place.

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"As I view the law there is no warrant in the law for the Federal Reserve Board to refuse to grant branches where a state authorizes such branches unless it can be put upon the ground that the state has no right to impose upon the Federal Reserve System a system of banking which may become dangerous or has elements of danger in it and which cannot be controlled or supervised by the Federal Reserve banks. The law certainly contemplates that the Federal Reserve Board should see that a good and secure banking system is provided for the people of the various Federal Reserve districts. If a branch banking system tends to impair such safety and security or might impair such safety and security by a failure to exercise supervisory powers by the Federal Reserve Bank then in my opinion that constitutes an element of danger that would warrant the Federal Reserve Board in declining to grant branches. In the instant case the Federal Reserve Board has not insisted upon its orders to the Federal Reserve Bank of the Twelfth District to make examinations of the Bank of Italy being carried out. It has permitted the Federal Reserve Bank of the Twelfth District to exercise its own option and discretion and to avoid carrying out the order of the Federal Reserve Board; so that it amounts to a practical avoidance of the former orders of this Board for an examination by the Federal Reserve Bank. Under the circumstances the Bank of Italy has met, in my judgment, all the requirements of the Board. Counsel for the Bank of Italy has repeatedly stated that we had a right to deny such applications for branches on the ground that a branch banking system might have elements of danger, but the Board and the Federal Reserve Bank of the Twelfth District have not seen fit to exercise such powers although conceded by the Bank of Italy.

For the foregoing reasons I am of the opinion that there is no warrant of law for further declining to approve the applications of the Bank of Italy for the branches that are before the Board today, and to further postpone the granting of such applications under such circumstances is an abuse, in my opinion, of the discretion vested in the Board to regulate the method of granting branches to member banks.

I therefore will cast my vote to grant all of the applications before the Board today and these views are pertinent to each application."

Mr. Hamlin then moved that the Board approve the application of the Bank of Italy for permission to purchase the business and assets of the American National Bank of Santa Ana and to establish a branch in its premises.

Mr. Hamlin's motion being put by the chair was carried, Mr. Cunningham "not voting".

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Mr. Platt then moved that the Board approve the application of the Bank of Italy for permission to purchase the business and assets of the First National Bank of El Centro and to establish a branch in its premises.

Mr. Miller stated that he would vote "no" on the El Centro application notwithstanding the fact that he was favorable to branch banking properly restricted, territorially and otherwise. He stated he would vote "yes" on the other applications before the Board because he believes that they fairly come within the scope of the Board's Regulation "H", which, among other things, provides that in case of public necessity or convenience the Board would permit the establishment of branches in territory outside of that defined as contiguous to the city where the head office was located, it having been certified to the Board that the banks taken over in Venice, Hollywood, San Fernando, Newhall and Arcadia on behalf of the Bank of Italy were in bad condition and therefore likely to involve the depositors in losses and the Bank of Italy had been asked by the State Superintendent of Banking to take them over and thus save them. Mr. Miller stated that his vote "no" on the El Centro application was guided by the belief that it was not good policy for the Board either to encourage or to permit the establishment of branches at points too remote from the headquarters of the parent bank and so far outside of any territory that could be properly regarded in a commercial sense as tributary to the city where the home office is located.

Mr. Platt stated that he believed that the Imperial Valley, in which El Centro is situated, really needed the branch, and that the Board had on file letters from residents of that territory requesting that the Bank of Italy's application be approved. He stated that the Valley fostered large farming activities that could not be financed by the smaller banks, and that the establishment of the El Centro branch would complete the picture contemplated by the Bank of Italy in a way it could not be completed without a branch in that territory. He stated he understood all branches of the Bank of Italy were connected with the head office by telephone and that he did not believe there was any danger in the distance of an El Centro branch from the head office at San Francisco.

Mr. Platt's motion then being put by the chair was carried, Mr. Miller voting "no" and Mr. Cunningham "not voting".

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Mr. James stated that he would have preferred not to have voted on the El Centro application because he was not a member of the Board at the time the application was originally rejected by the Board, but that he felt in justice to the Bank of Italy and to the Board the application should be granted.

Mr. Hamlin then moved that the Board approve the applications of the Bank of Italy for permission to purchase the business and assets and to establish branches in the premises of the State Bank of Venice, San Fernando Valley Savings Bank and its branch at Newhall, the Arcadia Savings Bank and the Santa Monica Boulevard State Bank of Hollywood.

Mr. Hamlin's motion being put by the chair was carried, Mr. Cunningham "not voting".

Mr. Miller on behalf of the Committee on District #12 then reported that he had been advised by the Federal Reserve Agent at San Francisco that Mr. W. L. Valentine of San Marino, California, would accept appointment as a director of the Los Angeles Branch.

Upon motion by Mr. Miller, it was then voted to appoint Mr. Valentine a director of the Los Angeles branch for the unexpired term ending December 31, 1926.

Report of Committee on Examinations on letter dated March 5th from the Federal Reserve Agent at San Francisco, inquiring whether the Board would be disposed, in view of circumstances stated, to reconsider the application for membership of the Federal Trust and Savings Bank of Hollywood, which was disapproved on September 6, 1923.

After discussion, Mr. Hamlin moved that the Federal Reserve Agent be advised that the Board sees no reason why the bank should not file another application, preceded by an examination, which will be considered by the Board as a new application.

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Mr. Hamlin's motion being put by the chair was carried, Messrs. Miller and Cunningham not voting.

The Governor then presented a statement showing the earnings and expenses of the Federal Reserve banks during the months of January and February, calling attention to the fact that during this period seven of the Federal Reserve banks have not had sufficient earnings to cover current expenses and dividends accrued, while three of them have not been able to meet their operating expenses.

After discussion, it was voted that a copy of the above statement be forwarded to each Federal Reserve bank for the information of the directors.

REPORTS OF STANDING COMMITTEES:

Dated, March 20th, Recommending changes in stock at Federal Reserve Banks, as set forth in the Auxiliary Minute Book of this date.

Approved.

Dated, March 20th, Recommending action on application for admission of state bank, subject to the conditions stated in the individual reports attached to the application, as set forth in the Auxiliary Minute Book of this date.

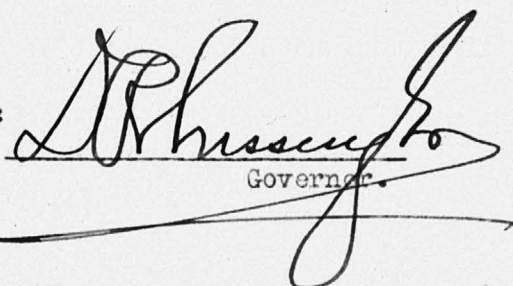
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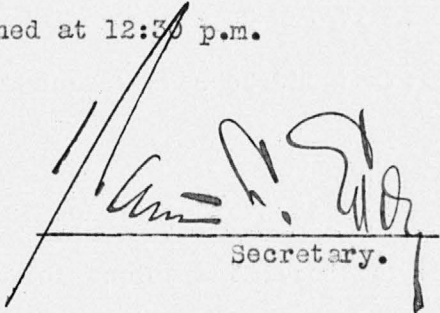
Dated, March 20th, Recommending action on application for admission of state bank, subject to the conditions stated in the individual reports attached to the applications, as set forth in the Auxiliary Minute Book of this date.

Ordered held for another examination.

The meeting adjourned at 12:30 p.m.

Approved:


Governor.


Secretary.