

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, February 17, 1927 at 11:45 a.m.

PRESENT: Governor Crissinger
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. Cunningham
Mr. McIntosh
Mr. Noell, Asst. Secretary
Mr. McClelland, Asst. Secretary

The reading of the minutes of the meetings of the Federal Reserve Board held on February 14th and 16th was dispensed with.

Matter approved on initials on February 16th, namely, application of the County National Bank, Scranton, Pa. for original stock (600 shares) in the Federal Reserve Bank of Philadelphia, effective if and when the Comptroller of the Currency issues a certificate of authority to commence business.

Formally approved.

Telegram dated February 16th from the Chairman of the Federal Reserve Bank of Philadelphia, advising that the board of directors on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Telegram dated February 16th from the Chairman of the Federal Reserve Bank of St. Louis, advising that the board of directors on that day made no change in the bank's existing schedule of rates of discount and purchase.

Noted.

Bond of Mr. Herbert S. Downs, Assistant Federal Reserve Agent at the Federal Reserve Bank of New York in the amount of \$50,000.

Approved.

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Memorandum dated February 15th from the Director of the Division of Research and Statistics, requesting authority for the purchase of a calculating machine for use in the Division.

Approved.

Report of Committee on Salaries and Expenditures on letter dated February 9th from the Chairman of the Federal Reserve Bank of Dallas, requesting approval of the action of the directors of that bank in voting to grant leave of absence on account of illness, with full pay, for a period of thirty-nine days to March 1st, to Mr. Z. T. Anderson, guard; the Committee also recommending approval.

Approved.

Matter approved on initials on February 15th, namely, telegram to the Federal Reserve Agent at Chicago replying to his letter of February 3rd with regard to the propriety of delivering to the Des Moines Clearing House copy of report of credit investigation made by the Federal Reserve Bank of the Iowa Loan and Trust Company of Des Moines, a member bank since closed; the reply stating that the Board feels that the report should not be delivered except upon court order.

Formally approved.

Letter dated February 9th from the Federal Reserve Agent at San Francisco, advising that the James M. Peterson Bank, Richfield, Utah, a member bank, on February 7th took over the assets and liabilities of the State Bank of Escalante, a nonmember; the Federal Reserve Agent stating that application for the Board's approval and other information has been requested, upon receipt of which he will again communicate with the Board.

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Noted.

Telegram dated February 16th from the Federal Reserve Agent at San Francisco, advising of approval by himself and the Executive Committee of the Federal Reserve Bank of applications filed by the American Trust Company of San Francisco for permission to establish branches at 7th and Market Streets, 16th and Wood Streets, and 40th and Telegraph Avenue, all in Oakland, at Domingo and Ashby Avenues, Berkeley, and at Highland and Magnolia Avenues, Piedmont, the latter place being a separate incorporated city surrounded by Oakland.

Referred to the Committee on Examinations.

Report of Committee on Examinations on letter dated January 25th from the Federal Reserve Agent at San Francisco, transmitting and recommending approval of an application of the American Trust Company, San Francisco, for permission to take over the Mission Savings Bank of San Francisco and to establish a branch in its premises; the Committee also recommending approval.

Approved.

Report of Committee on Examinations on letter dated January 25th, from the Federal Reserve Agent at San Francisco, transmitting and recommending approval of an application of the American Trust Company, San Francisco, for permission to establish a branch in the Palace Hotel, San Francisco; the Committee also recommending approval.

Approved.

The Governor then referred to the action of the Board at the

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meeting on January 25th in disapproving an application of the American Trust Company of San Francisco for permission to take over the Bank of Sausalito, with its Tiburon Branch, and to establish branches of its own in the premises. He read to the Board a telegram addressed to the Vice Governor by the Federal Reserve Agent at San Francisco under date of January 28th regarding this action.

Following a discussion, it was moved that the Board reconsider its action of January 25th in not approving the above mentioned application.

Carried.

It was then moved that the Board approve the application.

Carried, Mr. Cunningham voting "no".

The Vice Governor then reported on the matter referred to him at the meeting on February 14th, submitting draft of reply to letter dated February 7th from the Vice President of the Vandeventer Trust Company of St. Louis, a nonmember bank, making certain inquiries regarding the guarantee of deposits of member banks.

The proposed reply was read to the Board and following a discussion it was voted that the Board communicate regarding the matter with the Governor of the Federal Reserve Bank of Kansas City, upon certain alleged statements by whom the inquiries were based.

At this point, Mr. Goldenweiser, Director of the Division of Research and Statistics entered the room and presented a revision of the portion of the Board's Annual Report for 1926 relating to credit policy, prepared in accordance with the instructions given by the Board at the meeting yesterday.

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Following a discussion, the revision with certain minor amendments was approved by all members of the Board, except Mr. Cunningham.

Mr. Hamlin then moved that the Board approve publication of the Report as amended yesterday and today.

Carried.

The Vice Governor on behalf of the special committee consisting of Governor Crissinger, Mr. McIntosh and himself read to the Board the following Committee report:

"The Special Committee of the Board to which was referred on March 3, 1926, the proposed consolidation of the Bank of Italy, the Liberty Bank of San Francisco, the Commercial National Trust and Savings Bank of Los Angeles and the Bank of America, Los Angeles, prepared at that time a report in favor of consolidation, which, however, was not finally signed and presented to the Board because it appeared that the Bank of Italy could not nationalize and conduct its savings bank business with money largely invested in real estate loans until after the passage of the McFadden Bill. When prospects of passage of the McFadden Bill faded and finally disappeared at the time of the Spring session of Congress, the matter was dropped and has only just been revived since the passage of the McFadden Bill became a certainty.

Your Committee would refer back to the report prepared with the assistance of the Board's Counsel, Mr. Wyatt, on March 4th, in which the chief reason given for the consolidation was stated as follows:

'Your Committee believes that the present situation under which the above mentioned group of banks is operated, partly in the Federal Reserve System and partly outside the Federal Reserve System, partly in the National System and partly in the State System, to be very undesirable. It is nothing more nor less than chain banking; and it is extremely difficult, if not impossible, to obtain a simultaneous examination or a properly coordinated supervision of all members of the group.'

The only change in the situation since that time is that the Liberty Bank of San Francisco has already been consolidated with the Los Angeles Group of banks and with a number of other banking institutions which bring the total number of branches of the Liberty Bank, the head office of which is in San Francisco, to something like one hundred and thirty-five (135). Your Committee believes that no adequate reason exists for not approving the consolidation of this bank with the Bank of Italy, and that every consideration looking towards better banking and better supervision is in favor

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"of the conclusion reached by a majority of the Committee nearly a year ago. Furthermore, we understand that an examination has recently been made of the Liberty Bank which indicates that it is a sound institution and that the bringing of its assets into those of the Bank of Italy will not materially affect the standard maintained by the latter bank at the time of its admission to the Federal Reserve System."

Mr. Platt then read to the Board the following recommendation of the Comptroller of the Currency, concurred in by the other members of the Committee:

"I desire the Bancitaly Corporation to furnish a written agreement that the Bancitaly Corporation will not hold or own, for a period exceeding thirty days, at any time within five years of the date of this agreement, to exceed 25% of the Bank of Italy stock. And further, a statement in writing that the Bancitaly Corporation will not acquire stock of independent national banks in the State of California to an extent exceeding 25% of the capital stock without permission of both the Federal Reserve Board and the Comptroller of the Currency for five years after the date of approval of this consolidation."

The Governor stated that Mr. Belden, Vice President of the Bank of Italy, had informed the committee that the conditions recommended by the Comptroller and approved by the Committee would be acceptable to the Bank of Italy.

Mr. Platt then moved that the Board approve the merger of the Bank of Italy and the Liberty Bank of America subject to such lawful regulations as the Federal Reserve Board may from time to time impose, effective if and when the Bancitaly Corporation furnishes a written agreement that it will not hold or own, for a period exceeding thirty days, at any time within five years of the date of the agreement, to exceed twenty-five per cent of the stock of the Bank of Italy, and a further statement in writing that the Bancitaly Corporation will not acquire the stock of any independent bank in the State of California to an extent exceeding twenty-five per cent of the capital stock of any such independent bank without permission of both the Federal Reserve Board and the Comptroller of the Currency, for five years after the date of approval of this consolidation; the Bank of Italy to agree in writing that

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the merged bank, if it should remain a state member bank, at the time of the next examination will remove any assets that are unsatisfactory to the Federal Reserve Bank of San Francisco or to the Federal Reserve Board.

Mr. Miller moved that the application of the Bank of Italy to consolidate the Liberty Bank of America be laid on the table and made special order of business for any date agreeable to the members of the Board.

Mr. McIntosh stated that he did not at the time approve of the consolidation proposed in March 1926, referred to in the committee's report, but that he did approve at this time, with the understanding that the written agreements above referred to will be furnished.

Mr. Miller stated that he desired to have the matter laid on the table in order that he might have an opportunity of looking into it to ascertain if the Board is proceeding in accordance with its Regulation H.

Thereupon ensued a discussion as to the applicability of the Board's Regulation H to the consolidation under consideration.

During the discussion Mr. Cunningham referred to the examination of the Bank of Italy made by the Comptroller of the Currency and stated that it could not technically be considered an examination as it had consisted, he understood, merely of an analysis of the bank's own figures.

Mr. McIntosh stated that his organization made an analysis of both the former Liberty Bank of San Francisco and the Bank of Italy and went into it very thoroughly, going over all criticised matters with Mr. Giannini, who agreed in case of nationalization, to correct all criticisms and remove bad assets and excess real estate. He stated, however, that all of the branches of these banks were not examined.

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Mr. McIntosh then stated that the present law, with the passage of the McFadden Bill, would stop further extension of branch banking by member banks, but that the Liberty Bank of America outside of the System could establish branches anywhere in California with the consent of the State Superintendent. He stated he proposed to vote for the consolidation because he believed the banks should be members of the Federal Reserve System, either as State banks or National banks, for the purpose of stopping future branch and chain banking by the Bancitaly Corporation.

The Governor then put to vote Mr. Miller's motion that the matter of the proposed consolidation be laid on the table. The motion was lost on a tie, the members voting as follows:

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

At 1:10 p.m. the Board recessed until 3:00 p.m.

Mr. Miller stated that he would not be present at the afternoon session.

At 3:00 p.m. the meeting reconvened, the same members being present as attended the morning session except Mr. Miller.

The Governor presented the following telegram from the State Superintendent of Banks of California:

"I have given unqualified official approval of sales and purchase agreement whereby Liberty Bank of America will be sold to and merged with the Bank of Italy."

Thereupon ensued a discussion of the motion made by Mr. Platt at this morning's session, following which Mr. Cunningham moved that action on the application of the Bank of Italy for permission to take over the Liberty Bank

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of America be deferred until the Federal Reserve Agent at San Francisco is able to make an examination or satisfactory report on the condition of the two banks in question, together with their branches.

Mr. Cunningham's motion, being put by the Chair was lost, Mr. Cunningham voting "aye".

Mr. Cunningham then moved that action on the application be deferred until a meeting of the full Board.

This motion, being put by the Chair was lost, Mr. Cunningham voting "aye".

At this point, Mr. Belden, Vice President of the Bank of Italy, was called into the room. In response to a question, he stated that while not positive, he believed the Liberty Bank of America, since its formation, has been authorized to establish several additional branches in Los Angeles and Oakland. Mr. Platt's motion of approval was read to Mr. Belden, and he stated that all of the conditions set out therein would be acceptable to the Bank of Italy. He then left the room.

Mr. Hamlin stated that he was prepared to vote in favor of Mr. Platt's motion for the following reasons:

(1) The consolidation involved has been unqualifiedly approved by the State Superintendent of Banks of California, and is lawful under the laws of the State of California.

(2) The consolidation does not involve the creation of any new branches - the branches of the Liberty Bank of America are already established and would not be affected by the new McFadden Bill.

(3) The only applicable part of the Board's Regulation "H" is Section 4, Paragraph 1, relating to changes in the general character of assets, etc.

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(4) The Comptroller of the Currency has made a preliminary but careful investigation of both banks involved and his examiners state in effect that the consolidation does not violate the principle of Section 4, Paragraph 1 of the Board's Regulation "H".

Governor Crissinger stated that he concurred in Mr. Hamlin's position as just expressed by him, and also in the statement made by Mr. McIntosh at the morning session as to the desirability of having the banks involved in the proposed consolidation, in rather than out, of the Federal Reserve System.

The Governor stated that the vote would be upon the motion made by Mr. Platt at the morning session as follows:

"Mr. Platt then moved that the Board approve the merger of the Bank of Italy and the Liberty Bank of America subject to such lawful regulations as the Federal Reserve Board may from time to time impose, effective if and when the Bancitaly Corporation furnishes a written agreement that it will not hold or own, for a period exceeding thirty days, at any time within five years of the date of the agreement, to exceed twenty-five per cent of the stock of the Bank of Italy, and a further statement in writing that the Bancitaly Corporation will not acquire the stock of any independent bank in the State of California to an extent exceeding twenty-five per cent of the capital stock of any such independent bank without permission of both the Federal Reserve Board and the Comptroller of the Currency, for five years after the date of approval of this consolidation; the Bank of Italy to agree in writing that the merged bank, if it should remain a state member bank, at the time of the next examination will remove any assets that are unsatisfactory to the Federal Reserve Bank of San Francisco or to the Federal Reserve Board."

The motion, being put by the Chair was carried, the members voting as follows:

Governor Crissinger, "aye"
Mr. Platt, "aye"
Mr. Hamlin, "aye"
Mr. McIntosh, "aye"
Mr. Cunningham, "no"

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Mr. Cunningham requested and received permission to file later a statement in explanation of his vote.

REPORTS OF STANDING COMMITTEES:

Dated, February 15th, 16th, 17th, Recommending changes in stock at Federal Reserve Banks as set forth in the Auxiliary Minute Book of this date.

Approved.

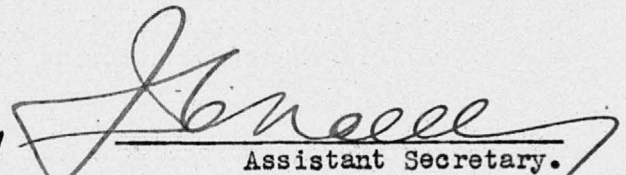
Dated, February 12th, Recommending action on an application for fiduciary powers as set forth in the Auxiliary Minute Book of this date.

Approved.

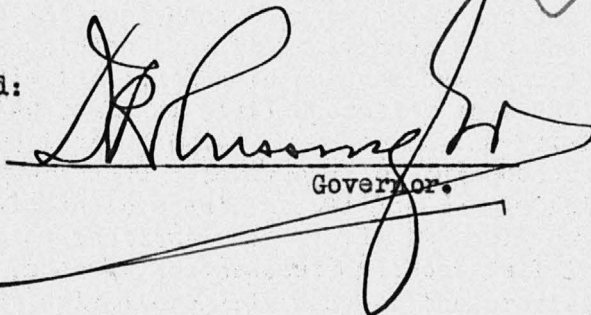
Dated, February 15th, Recommending approval of the application of Mr. Elgin H. Lenhardt for permission to serve at the same time as Director of the Bridgeport National Bank, Bridgeport, Pa., and as Director of the Montgomery Trust Company, Norristown, Pa.

Approved.

The meeting adjourned at 4:15 p.m.


Assistant Secretary.

Approved:


Governor.

Explanation of Vote by E. H. Cunningham on the Application of The Bank of Italy to Purchase the Assets of The Liberty Bank of America. Action taken on this application by the Federal Reserve Board on February 17th, 1927.

First. The application of the Bank of Italy which requests the Board's permission to purchase the assets of The Liberty Bank of America, does not have the recommendation of the Directors or Executive Committee and the Federal Reserve Agent of the Federal Reserve Bank of San Francisco. I regard this as a serious omission as such recommendation is one of the important requirements of the Board's Regulation H, which in the past has been quite generally insisted upon by the Board before granting permission to a member bank to purchase, merge, or establish additional branch or branches.

Second. The question before the Board at this time is: The Application of The Bank of Italy to purchase the assets of The Liberty Bank of America. For that reason, I deem the statement made before the Board that "an analysis of the report of The Liberty Bank of San Francisco and its thirty (30) branches had been made by the Comptroller's Department" as not applying directly to the question under consideration; as the Liberty Bank of San Francisco and its thirty (30) branches, referred to in the statement, had been absorbed by The Liberty Bank of America, and is now a part, and only a minor part of the institution known as The Liberty Bank of America, which has one hundred and seventy-two (172) established branches.

Owing to the far-reaching effect of such a purchase, I personally regard it as a rather unusual procedure to give final consideration and approval to this application, involving as it does so many different banks, the majority being non-member banks, without having at hand an authorized current report of examination of the Liberty Bank of America and its one hundred and seventy-two (172) branches, in order that the Board might be fully informed as to the advisability as well as the desirability of according this bank and its branches membership in the Federal Reserve System.

Third. The Bank of Italy expresses in its application the desire to apply for a National Bank Charter under certain contingencies. Personally I am of the opinion that it would have been the better policy to have directed this institution to pursue that course from the beginning for the following reasons: (1st) Operating as a National Bank, the institution would automatically become a member of the Federal Reserve System. (2nd) The Board would have been assured of the cooperation of the Comptroller's Department in the present, as well as in the future supervision and examination of the institution. (3rd) It would have eliminated the necessity for action (such as the present) without full information, which action, I believe utterly disregards many of the provisions contained in the Board's Regulation H.

I do not believe that the procedure followed in granting approval to this application, is in harmony with the intent and spirit of the Federal Reserve Act, therefore, I vote "no" on the application of the Bank of Italy for permission to purchase the Liberty Bank of America and its branches.