

C O P Y

X-3867

MERCANTILE TRUST COMPANY

San Francisco-California

October 18, 1923.

Hon. A. C. Miller,
Federal Reserve Board,
Washington, D. C.

Dear Sir:-

Following our conference in San Francisco, the Security Trust and Savings Bank, the Pacific Southwest Trust and Savings Bank, and the Mercantile Trust Company of California, through their respective officers, have prepared a letter addressed to the Federal Reserve Board, embodying the views of these three Banks with regard to branch banking in California.

The letter is herewith enclosed, and I have been requested by my associates to ask if you will be kind enough to present it to the Board at its next meeting.

Very truly yours,

JOHN S. DRUM

President.

Enclosure

C O P

San Francisco, California

October 8, 1923.

The Honorable, the
Federal Reserve Board,
Washington, D. C.

Sirs:

At the request of the Security Trust and Savings Bank, the Pacific-Southwest Trust and Savings Bank, the Bank of Italy and the Mercantile Trust Company of California, the Honorable A. C. Miller, a member of your Board, conducted a meeting in the Federal Reserve Bank in San Francisco this morning for the purpose of hearing the views of the above named banks with regard to the present and future status of branch banking in California.

In addition to Mr. Miller and representatives of three of the four banks named above - the Bank of Italy not being represented at the meeting - there were present Governor J. U. Calkins and Chairman John Perrin of the Federal Reserve Bank of this district, the Honorable J. F. Johnson, State Superintendent of Banks, his attorney Mr. James M. Oliver, and Mr. C. B. Wingate. These gentlemen were present at the request of the undersigned.

The entire matter was discussed at length, and we desire now to place before your Honorable Board this memorandum of the meeting.

It was the unanimous opinion of the conferees that your Honorable Board should be urged to adopt a definite policy with regard to the present position and future progress of branch banking in California, and with that in view the undersigned respectfully desire to suggest to you certain principles which we believe should be of substantial assistance in stabilizing the situation.

We feel justified in making these suggestions because we represent three of the four largest branch banks now doing business in California, and we believe that application of these principles would deal justly with our banks as well as with the smaller branch banks.

In reaching a decision on its general policy respecting the granting of permits to establish branches in California, we beg to suggest that the Board review the situation as it existed when the undersigned banks joined the Federal Reserve System. They were then engaged in branch banking which was authorized by the California Bank Act to the same extent as at present, and a review of the correspondence between these banks and the Federal Reserve Bank of San Francisco and the Board will disclose their respective views and policies as of that date.

As a basis for the suggestions that follow, it may be well to affirm the fact that the state banking system of California permits and encourages the development side by side of unit banking and branch banking and that both systems are necessary to the continued welfare and development of the state. We cannot approve any measures that would hamper the free development of unit banks along sound and proper lines, and at the same time we affirm the right of branch banks to develop also along sound and proper lines. We affirm that it has been the policy of the California Bankers Association and the State Superintendent of Banks, representing the people of the State of California, to maintain the integrity of both systems so that unit banks shall have no unfair advantages over branch banks and branch banks shall obtain no unfair advantages over unit banks, to the end that both systems may be allowed to continue on a proper competitive basis for the benefit of the State.

In order that this policy may have the widest possible application, we therefore respectfully suggest the following principles for consideration by your Honorable Board:

1. Every application to establish a branch bank hereafter presented to the Federal Reserve Board shall be considered by the Board separately and upon its merits. Its approval or rejection shall in no wise depend upon applications presented by any other bank or banks or upon the status of any other branch bank or branch banks doing business in California.

2. The approval of the Federal Reserve Board shall be obtained before any branch bank makes any conclusive agreement for the acquisition, either directly or indirectly, of any bank or any stockholding interest in any bank.

3. In its consideration of future applications for branch banks in California the Federal Reserve Board should examine into the public convenience and advantage as affected by the establishment of the particular branch in question and should consider the following points:

a. If a given locality has only one unit bank, the Board should consider whether or not the absorption of that unit into a branch banking organization would promote the public advantage and convenience.

b. In considering an application to establish a branch bank the same principle should apply as in the establishment of a bank de novo, except that if there is more than

one bank in the locality where permission to operate a branch is sought it becomes very important to consider further whether or not the soundness of the bank or banks in the same locality would be jeopardized by the establishment of the branch bank.

c. The Federal Reserve Board should be cognizant of the practices of banks either in acquiring control of the branch bank or in conducting their existing branches as a basis for exercising its discretion in determining whether or not permission to acquire additional branches shall be granted.

4. The Federal Reserve Board shall adopt such rules for the examination of branch banks in California as the Board shall deem necessary to make examinations adequate and thorough. In the event that the Board regards more than one examination a year necessary or desirable it shall consider the possibility of additional examinations for any one or all branch banks.

There shall be made such examinations of branch banks in California as will cover fully all the aspects of each bank's operations. Such examinations shall embrace, in addition to the condition of the bank examined, the following: All contingent obligations, the condition of subsidiary corporations and affiliated companies, stockholders' agreements and other collateral or allied arrangements, whether or not the stockholders in every instance shall be the same as the stockholders in the bank examined. This is to the end that the Federal Reserve Board at all times shall have full and complete knowledge, not only of the condition

of the bank itself, but also of its operating methods and of the assets and obligations of the affiliated corporations in any form or manner owned wholly or in part by the bank or by its stockholders as such.

5. If the Federal Reserve Board should adopt all or any of the foregoing suggestions, it might naturally place branch banks that are members of the Federal Reserve System at a disadvantage in competition with non-member branch banks, unless the State Superintendent of Banks of California applied the same principles to non-member banks applying to him for permission to establish branches.

6. We affirm our belief in the wisdom of the regulations promulgated by the Superintendent of Banks governing the exercise of his discretion in the granting of permits for branches. These regulations, copy of which is attached hereto, were approved by the Legislative Committee of the California Bankers Association and by the Executive Committee of the California League of Independent Bankers. The suggestions here presented are predicated upon an observance of these regulations and are dependent upon the universal application of these suggestions in California.

We have given a copy of the foregoing memorandum to the State Banking Department of California, and have requested the department to inform you of its views with regard to these suggestions.

It is our belief that the substantial adoption of the foregoing suggestions by your Honorable Board will help greatly to clarify the branch banking situation in California, and we submit them with the earnest desire that they may serve this purpose.

We desire at all times to co-operate with your Honorable Board to the fullest possible extent, and we hope the Federal Reserve Board, the State Banking Department and the undersigned bankers may establish and continue a sympathetic understanding that will serve as a foundation for adjustment, by conference and full and frank expression, of any questions relating to branch banking in California that may arise in the future.

Very respectfully,

MERCANTILE TRUST COMPANY

BY John S. Drum
President.

PACIFIC-SOUTHWEST TRUST AND SAVINGS BANK

By Charles F. Stern
Executive Vice President.

SECURITY TRUST & SAVING BANK

By J. F. Sartori
President.

SUPERINTENDENT'S RULINGS.

From and after this date no branch office shall be established by any bank in a city or locality other than that in which its principal place of business is located by the purchase of or consolidation or merger with another bank unless both banks shall have been open for business for at least three years prior to said sale, consolidation or merger unless the superintendent of banks in his discretion shall find that the public convenience and advantage require it; in the case of a national bank that has been converted into a state bank the time required herein shall be considered as running from the date of the original organization of said national bank.

From and after this date no branch shall be created in any locality other than the city or locality in which is located the principal place of business except by purchase of or consolidation or merger with an existing bank in said city or locality unless the superintendent of banks in his discretion shall find that the public convenience and advantage require it.

The rules hereby enunciated will be taken up for further consideration and for such changes as may appear desirable at such times as there may be any change in the status of national banks as to their right to operate branch offices or agencies in the State of California.