

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For Immediate Release.

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November 7, 1923.

The Federal Reserve Board, at its meeting today, adopted by a majority vote the following report and the resolution contained therein, which was submitted to it by a Committee of its members who have had under study the development of branch banking in the United States, with a view of recommending to the Board the policy which the Board should pursue in admitting to membership in the Federal Reserve System state banks maintaining branches outside the corporate limits of the city or town or contiguous territory in which the parent bank is located; as well as the policy which the Board should pursue in considering applications of state banks already members of the System to establish additional branches or offices outside the corporate limits of the city or town or contiguous territory in which the parent bank is located.

TO THE FEDERAL RESERVE BOARD:

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 operation 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 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 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.

November 7th, 1923.

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 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 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.