

COPY

March 1, 1930.

To The Federal Reserve Board
From Mr. Wyatt, General Counsel.

SUBJECT: Recommendations, Regulations and
Administrative Policies re
Branch, Chain and Group Banking.

In accordance with the Board's request, I submit below a summary of the recommendations of the Federal Reserve Board, the Federal Advisory Council, and the Conferences of Governors and Federal Reserve Agents, and of the regulations and administrative policies of the Federal Reserve Board, with regard to branch, group and chain banking.

This may not be satisfactory, because I have only a general idea of what the Board desires and it has been prepared very hurriedly. I shall be glad to supplement or revise it in any way the Board may desire.

Because of their interrelation, the recommendations of the Federal Advisory Council and the Conferences of Governors and Federal Reserve Agents have been discussed together with the Board's recommendations, regulations, and administrative policies. The subjects of domestic branches, chain banking and foreign branches, however, have been discussed separately.

DOMESTIC BRANCHES

1. Annual Report for 1915. - In its annual report for the year 1915, p. 22, the Federal Reserve Board recommended to Congress that national banks be permitted to establish branch offices within the city, or within the county in which they were located. The Federal Advisory Council, under dates of September 21 and November 16, 1915, had recommended that the national bank act be amended so as to permit

national banks to establish branches under certain conditions.

2. Recommendations during 1916. - Consistently with this recommendation, the Board in 1916 prepared and transmitted to Congress the draft of an amendment to the Federal reserve act. In the terms of this amendment national banks located in cities of 100,000 and over having a capital and surplus of \$1,000,000 or more would have been permitted to establish branches within the corporate limits of the cities in which they were located, and any national banks located in other places would with approval of the Federal Reserve Board and under such regulations as the board might prescribe have been permitted to establish branches within the limits of the county in which they were located or within a radius of 25 miles, irrespective of county lines, but not in any case outside the State or Federal reserve district of the parent bank. (Federal Reserve Bulletin, pp. 323, 327; 1916 Annual Report, pp. 29, 145.)

Under date of November 20, 1916, the Federal Advisory Council renewed its recommendation regarding the establishment of branches by national banks but added that the privilege of establishing branches should apply to all banks in the national banking system and not only to such national banks as were located in States which permitted State institutions to establish branch banks. (See pages 28 and 34 of 1916 Recommendations.)

An amendment drawn in compliance with the recommendations of the Board was adopted by the Senate, during 1916, and together with other amendments was referred to a conference committee of the House

and Senate. In conference it developed that the amendment was not acceptable to the House conferees and the Senate on recommendation of its conferees receded from its proposal. (1916 Annual Report, p. 135).

3. Annual Report for 1917. - In its 1917 Annual Report to Congress, page 33, the Board recommended an amendment to the Federal Reserve Act to provide that any national bank located in a city or incorporated town of more than 100,000 inhabitants, and possessing a capital and surplus of \$1,000,000 or more, may, under such rules and regulations as the Federal Reserve Board may prescribe, establish branches, not to exceed 10 in number, within the corporate limits of the city or town in which it is located, provided that no such branch shall be established in any State in which neither State banks nor trust companies may lawfully establish branches. The Board stated that "State banks which become members of the Federal reserve system are allowed by law to retain any branches which may already be in existence and, with the approval of the Board, to establish new branches. National banks which have taken over State banks having branches are permitted to continue the operations of these branches. There seems to be no reason for such discrimination between members of the Federal reserve system, and with the view of placing them more nearly upon terms of equality, besides affording in many cases better service to the public, it is recommended that provision be made for the establishment of branches by national banks, under proper limitations."

4. Annual Report for 1918. - In its 1918 report to Congress,

p. 83, the Board renewed its recommendation, expressing the opinion that national banks were "at a serious disadvantage in meeting the competition of State banks with branches," and that "the proper development of the Federal reserve system makes it necessary to coordinate as far as possible the powers of all member banks." This coordination of powers could not be effected without amendment of existing laws under which "some member banks, both National and State, are given advantage over other member banks." The Board renewed its recommendation of previous years, being confident that the proposed amendment would "prove beneficial to the Federal reserve system, as well as to the communities concerned." The Federal Advisory Council also renewed its recommendation that an amendment of this character should be enacted. (p. 6, 1918 Recommendations of Federal Advisory Council.)

5. Developments during 1919. - In 1919, a bill was passed by the Senate which proposed to authorize national banks in cities of 500,000 or more population, having a capital and surplus of \$1,000,000 or more, to establish not exceeding 10 branches within the corporate limits of the cities in which they were located, provided State law extended a similar privilege to State banking institutions. Under date of September 16, 1919 the Federal Advisory Council urged the Federal Reserve Board to use every effort to secure the passage of this bill in the interest of sound banking and the granting of equal banking facilities to all people in the same business. (p. 19 of 1919 Recommendations of Federal Advisory Council).

6. Annual Report for 1919. - The Board in its Annual Report for the year 1919, p. 64, made substantially the same recommendation regarding the branch banking amendment as it had made in its Annual Report for the

year 1918, and commented upon the bill above referred to as follows:

"Under the present law national banks can not afford the same facilities to the public as are given by State banks having branches, except in cases where State banks and trust companies operating branches have merged with national banks, when existing branches may be continued by the national banks. * * * While the board would prefer to have this privilege (of establishing branches) extended to national banks in cities of not less than 100,000 inhabitants, or, failing that, have the population limit raised to 200,000, it wishes to point out that the limit fixed in the Senate bill does not affect the principle involved, and it therefore respectfully recommends once more that national banks be permitted to establish branches in the cities in which they are located under such limitations as in the wisdom of Congress may be deemed desirable."

7. Recommendation of Agents' Conference in 1921. - The Conference of Federal Reserve Agents held in October, 1921, adopted a resolution favoring the establishment of branches in the same city in which a national bank is located, provided State banks are permitted that privilege under State law. (Pp. 111-115 of proceedings of October, 1921, Conference of Federal Reserve Agents.)

8. Annual Report for 1922. - Again in its report for 1922, pages 5-6, the board commented briefly upon branch banking developments, noting that the establishment of branches by the larger State banks "had gone so far in a few States, notably California, and in a few large cities, including New York, Cleveland, and Detroit, as to reduce greatly the number of national banks." The Board expressed the opinion that the action of the Comptroller of the Currency in permitting national banks to open "additional offices" within the corporate limits of the cities in which they were located in States which permitted branch banking "does not meet the situation in California and does not fully meet it in the cities mentioned,"

and that "an amendment to the national banking act allowing national banks the same privilege given to State banks in States where branch banking is permitted is much to be desired."

In this connection the board noted a suggestion made by the Joint Commission of Agricultural Inquiry in its report to Congress dealing with the problem of rural credit, to the effect that "a system of limited branch banking might furnish a possible solution of this problem." Upon this suggestion the board commented as follows:

"Such systems are in fact already established in some sections of our country, notably in California, and appear to have gone far toward solving the problem. Branch banking has lowered the rate of interest in some of the leading agricultural sections of California, and at the same time has provided added security for the deposits of farmers. There are interesting neighborhood branch banking groups in other States, which appear to be serving their communities well."

9. Annual Report for 1923. - Finally, in its 1923 report, page 48, the board notes the difficulties which originate in the differences of State laws and the competitive disadvantages under which national banks operate in States which permit branch banking, and expresses the hope "that it can by administrative measures find some reasonable method of harmonizing existing differences of interest of State and national banks in the matter of branch banking, and thus lay the basis for a policy which will result in shaping the development and practice of branch banking in the United States along useful and serviceable lines."

10. Administrative Policy of the Board prior to November, 1923. - In acting upon applications of State member banks for permission to establish additional branches within the system the board had prior to November, 1923, considered each case upon its own merits, giving consideration to public

convenience and to the parent bank's capacity for properly organizing the branch and assimilating the business taken over. As a matter of general policy rather than specifically of branch banking policy, the board in individual cases withheld its approval until satisfied that establishment of the additional branch or branches in question would not impair the solvency or liquidity of the parent bank. It gave consideration to the rate of expansion of the given branch system; co-ordination of branches already acquired; head-office control, supervision, and personnel; affiliation with outside corporations; relation of capital and surplus to deposit liabilities, especially in rapidly expanding branch systems; methods of acquiring branches; and generally to local conditions and needs in so far as these could be clearly defined. The Board distinguished branches from paying and receiving stations not vested with discretionary power to make loans, except for inconsiderable sums and while reserving the right to reconsider in case such offices in any instance developed into full-fledged branches, it made approval of such outside offices more or less a matter of form, except where it appeared that the expense of maintaining them might impair the capital of the bank.

Although the board had not formulated any arbitrary rule requiring simultaneous examinations of head offices and branches, it had nevertheless regarded any evidence of inability on the part of State authorities to conduct proper examinations of banks maintaining extensive branch systems as being in itself adequate justification for limiting further expansion of such systems. Responsibility for the conduct of adequate examinations, it has been felt, must in the case of member as of nonmember banks be assumed primarily by State authorities rather than in the case of member

banks by the Federal reserve bank of the given district.

In general, it may be observed that prior to November, 1923, the board permitted expansion of member bank branch systems under State supervision and control, in so far as such expansion was consistent with sound banking principles of efficient administration, adequate State supervision, and complete solvency.

11. Resolution of November 7, 1923. - On November 7, 1923, the Federal Reserve Board adopted a resolution (X-3881) formulating certain general principles for guidance of the Board in acting upon individual cases presented to it in applications for admission to membership of State banks operating branches outside the city or town or contiguous territory in which the parent bank was located and in applications of State member banks for permission to establish such branches.

This resolution reads as follows:

"Resolved, That the Board continue hereafter as here tofore 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 applica-

tions 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."

The Federal Advisory Council, however, was not inclined to favor this resolution. Under date of November 19, 1923, it stated with reference to the resolution that "it believes that the resolution, if carried into effect, will give a position of monopoly to those State banks that have established State-wide systems of branches, while those State banks that have refrained from branch banking will be placed in a position of great disadvantage" (p. 11 of 1923 Recommendations of Federal Advisory Council.)

12. Recommendations re McFadden Bill. - On February 11, 1924, the so-called McFadden bill was introduced in Congress giving to national banks the right to establish branches and imposing some restrictions upon the establishment of branches by State member banks of the Federal reserve system. As has been shown above, the Board had repeatedly recommended the enactment of legislation authorizing the establishment of domestic branches by national banks and a number of bills designed to accomplish this general purpose were introduced from time to time. These bills were

in various forms and contained various limitations and restrictions, but none of them was ever passed by Congress.

On May 26, 1924, and April 23, 1926, in letters addressed to Congressman McFadden and Senator McLean, respectively, the Board expressed its general approval of the McFadden bill. The Federal Advisory Council in 1924, 1925 and 1926 also recommended enactment of the bill, and on February 25, 1927, it was finally enacted into law.

13. Administrative Policy during 1924. - At its meeting on January 7, 1924, the Board gave consideration to the applications of three banks for permission to establish branches from time to time over a period of several months in accordance with contemplated programs of development, and adopted a resolution to the following effect: That no blanket authority to establish branches would be granted; that each application must be presented separately in regular form and manner, subject to approval of the State banking authorities and a recommendation of the Federal reserve bank of the district; that applications to establish branches in non-contiguous territory, filed before February 1 (under the board's resolution of November 7) might be considered by the board after that date; and that the board reserved right to pass on each application on its merits. (See X-5937).

14. Regulations of 1924. - On March 27 the board issued a revised and further elaboration of its regulations formulated under that general provision of the Federal reserve act which authorizes it to prescribe conditions of membership for State banking institutions applying for admission to the system. In these regulations, as amended a month later, on April 7, the board took occasion to give more formal statement than it had

previously given to principles which would govern it in approving the establishment of branches.

By Section IV of its Regulation H, as amended April 7, 1924, the Board stated that it would prescribe the following conditions of membership for every State bank thereafter admitted to the Federal Reserve System:

"(4) Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, establish any branch, agency, or additional office.

"(5) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest."

These conditions were prescribed for all State banks and trust companies which were admitted to membership between April 7, 1924, and February 25, 1927, and were conditionally prescribed for all institutions admitted between February 26, 1927, and January 3, 1928. Prior to April 7, 1924, these conditions, or conditions substantially similar thereto, were prescribed for special reasons for a number of State banks and trust companies admitted to the System.

In Section VI of the same Regulation, the Board stated the administrative policy which it would pursue in acting upon applications for permission to establish branches under these conditions of membership as follows:

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"SECTION VI. PRINCIPLES GOVERNING ESTABLISHMENT OF BRANCHES

"In passing upon applications by State banks and trust companies for permission to establish branches, agencies or additional offices, under condition No. 4 of Section IV, or under any similar condition which may have been prescribed by the Federal Reserve Board and agreed to by any bank or trust company heretofore admitted to the Federal Reserve System, the Federal Reserve Board will observe the following principles--

"(1) The Federal Reserve Board will as a general principle restrict the establishment of branches, agencies or additional offices by such banks or trust companies to the city of location of the parent bank and the territorial area within the State contiguous thereto, as said territory has been defined in the board's resolution of November 7, 1923, excepting in instances where the State banking authorities have certified and the board finds that public necessity and advantage render a departure from the principle necessary or desirable.

"(2) The Federal Reserve Board as a general principle will not consider an application by such bank or trust company for a permit to establish a branch, agency or additional office, unless the authorities of the State in which such bank is located regularly make simultaneous examinations of the head office and all branches, agencies or additional offices of such bank, nor unless the examinations made by the State authorities are, in the judgment of the Federal Reserve Board, of such character in every respect as to furnish the Federal Reserve Board with sufficient information as to the condition of such bank and the character of its management to enable the Federal Reserve Board fully to protect the interests of the public.

"(3) The Federal Reserve Board as a general principle will require each bank or trust company which establishes or maintains branches, agencies or additional offices to maintain for itself and such branches, agencies or additional offices an adequate ratio of capital to total liabilities and an adequate percentage of its total investments in the form of paper or securities eligible for discount or purchase by Federal reserve banks.

"(4) The Federal Reserve Board will not consider any application to establish a branch, agency or additional office until the State banking authorities have approved the establishment of such branch, agency or additional office, and the directors or executive committee and the Federal reserve agent of the Federal reserve bank of the district in which such bank or trust company is located have made a report upon the financial condition of the

applying bank or trust company, the general character of its management, what effect the establishment of such branch, agency or additional office would have upon other banks or branches in the locality in which it is to be established, and whether, in their opinion, it would be in the interest of the public in such locality, together with their recommendation as to whether or not the application should be granted.

"(5) When permission is granted for the establishment of such branch, agency or additional office same shall be established and opened for business within six months after such permission is granted. If such branch, agency or additional office is not established within such time the permit shall become void, unless the time is extended by the board for good cause.

"(6) The Federal Reserve Board reserves the right to cancel any permit which it may grant hereafter to establish any branch, agency or additional office whenever it shall appear, after hearing, that such branch, agency or additional office is being operated in a manner contrary to the interest of the public in the locality in which it is established."

15. After the McFadden Act. • As a result of the amendments to the Federal Reserve Act contained in the McFadden Act, the Board issued a new set of regulations applicable to member banks which became effective on January 3, 1928. Before these new regulations became effective and after the passage of the McFadden Act, a number of State banks and trust companies were admitted to membership in the System. These banks and trust companies were admitted subject to certain conditions of membership, which usually included the conditions in the 1924 Regulations regarding the establishment of branches, and such conditions were subject to any changes which the Board found to be necessary on account of the amendments to the Federal Reserve Act contained in the McFadden Act. After the Board's 1928 Regulations became effective, (January 3, 1928), these banks were advised of the new conditions of membership to which they were subject. As the McFadden Act prescribed the conditions under which branches might be established by

State member banks, the Board did not include a condition in these new regulations in that connection. In Section V of Regulation H, however, it stated its interpretation of the provisions of the McFadden Act regarding branches of State member banks as follows:

"1. Any State member bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with the State law is permitted to retain and operate the same while remaining a member of the Federal reserve system, regardless of the location of such branch or branches.

"2. Any nonmember State bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with State law may, if otherwise eligible, become a member of the Federal reserve system and retain and operate such branches, regardless of their location.

"3. In order to remain a member of the Federal reserve system, every State member bank must relinquish any branch or branches established after February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated.

"4. Any State member bank which establishes any branch or branches after February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated must either (a) relinquish such branch or branches or (b) forfeit all rights and privileges of membership and surrender its stock in the Federal reserve bank.

"5. No State bank which has established any branches subsequent to February 25, 1927, beyond the corporate limits of the city, town, or village in which the parent bank is situated may become a member of the Federal reserve system except upon relinquishment of every such branch.

"6. State member banks may establish branches within the corporate limits of the city, town, or village in which the parent bank is situated without obtaining permission of the Federal Reserve Board."

CHAIN BANKING

1. Conditions of Membership. -- Prior to the enactment of the McFadden

Act, the Board prescribed conditions of membership under which State banks could be admitted to the Federal reserve system in order to effect some degree of control over chain banking. One of the conditions with which State banks entering the Federal reserve system were required to comply, reads as follows:

"(5) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 percent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest."

This condition of membership was incorporated in the Board's Regulations of 1924 and was prescribed for every State bank admitted to membership between April 7, 1924 and January 3, 1928. As a result of an amendment to Section 9 contained in the McFadden Act (February 25, 1927) there is some doubt whether the Board now has authority to prescribe this broad condition and, therefore it has been unable to exercise the same degree of control over chain banking. It has, however, prescribed the following condition of membership for every State bank or trust company admitted to membership since January 3, 1928.

"(3) Except after applying for and receiving the permission of the Federal Reserve Board, such bank or trust company shall not acquire an interest in any other bank or trust company, through the purchase of stock in such other bank or trust company."

2. Recommendations for Legislation. - As early as January 8, 1926, the Board addressed a letter to Congressman McFadden (X-4500) recommending that there be incorporated in the pending McFadden bill certain provisions

designed to secure adequate information regarding national and State member banks which are closely related in management, operation or interests to other banking institutions and, in particular, to afford some check upon the abuses frequently occurring from chain banking. These suggestions were not adopted by Congress.

3. Correspondence with Hon. Louis T. McFadden re Administrative Control.-

Under date of May 2, 1927, Congressman McFadden addressed a letter to the Comptroller of the Currency, suggesting that he adopt administrative measures calculated to control or prevent the growth of chain banking among national banks and sent a copy of his letter to the Federal Reserve Board with the suggestion that the Board should adopt similar administrative measures with reference to State member banks of the Federal reserve system. The Board, under date of May 18, 1927 (X-4854), replied that it was powerless under the law to take any such action. The Board called attention to the fact that it had suggested legislation along this line, but that Congress had not adopted its suggestions, and also called attention to the fact that Congress in the McFadden Act had amended the law so as apparently to take away the Board's power to control this practice through conditions of membership. The Board's letter concluded with the statement that the remedy lies with Congress.

4. Annual Reports for 1927 and 1928. - In addition to the correspondence with Congressman McFadden above referred to, the Board has in its annual reports for the years 1927 and 1928 brought to the attention of Congress the fact that the **expanding** operations of financial companies specializing in the purchase of bank stock have presented special problems to Federal and State officials charged with the responsibilities of bank supervision. It was pointed out that such companies have been organized in increasing

numbers and that since they are not directly engaged in the business of banking as defined in Federal and State statutes, they have not been subject to supervision or regular examination by banking authorities. (See pages 31-32 of 1927 Annual Report). The difference between branch and chain banking was explained and it was pointed out that the more considerable developments in chain banking have been generally in States which prohibit the establishment of branch offices by banks. The chain banking situation in the United States was also summarized for the information of Congress. (See pages 50-51 of 1928 Annual Report.)

5. Conferences of Federal Reserve Agents and Governors of Federal Reserve Banks in 1927 and 1928. - The 1927 fall conferences of Federal reserve bank Governors and Federal reserve agents considered the development of investment companies for the purchase of bank stock, and the Federal reserve agents were of the opinion that a dangerous situation is developing which should be brought to the attention of the Federal Reserve Board and the banking authorities with the view that some legislation should be obtained placing such companies under the jurisdiction of the banking departments. The Federal reserve bank Governors felt that the possible dangers incident to a widespread development of such companies make it a matter for the consideration of the Federal reserve system. The Governors discussed this question further at their April, 1928, Conference and while nothing definite was recommended, it was stated that the question is a matter that deserves thoughtful consideration.

6. Committee to Study Chain Banking. - The question of branch, chain and group banking development in the United States with particular reference to the effects of bank stock ownership by investment trusts and holding

corporations, was considered by the Federal Advisory Council in 1929, and, on November 19, 1929, it recommended that, "The Federal Reserve Board appoint a committee to study the merits of the branch banking system as practiced in this and other countries, (conditions in Canada being apparently more comparable with our own), the group or chain banking system as developed in this country and elsewhere, and the unit banking system of this and other countries; and further, the effect of ownership of bank stocks by investment trusts and holding corporations, in order that the Federal Reserve Board may be in possession of accurate and authoritative information on this important subject."

The December, 1929, Conference of Federal reserve bank Governors and Federal reserve agents voted to concur in and endorse the recommendation of the Federal Advisory Council that a committee be appointed to study the subject of branch, chain and group banking.

Accordingly, on February 27, 1930, the Board appointed a committee for this purpose, naming as members thereof, Messrs. Goldenweiser and Smead of the Board's staff, and Messrs. Rounds, Fleming and Clerk, Deputy Governors of the Federal reserve banks of New York, Cleveland and San Francisco, respectively. On the same date a letter (X-6520) was addressed to the Governors and Federal reserve agents advising them of the appointment of the above named committee.

FOREIGN BRANCHES

1. National banks. - National banks under Section 25 of the original Federal Reserve Act (Act of December 23, 1913) were given the right to establish branches in foreign countries or dependencies of the United States and under the provisions of the Act of September 7, 1916, amending Section

25, such banks were given the power to establish branches in insular possessions of the United States. At the present time national banks may establish foreign branches pursuant to the provisions of Section 25 of the Federal Reserve Act.

2. State Member Banks. - Prior to the passage of the so-called McFadden Act, State banks which were members of the Federal Reserve System could establish branches in foreign countries; but since that Act they may not do so. This Act amended Section 9 of the Federal Reserve Act and provides that no State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated. A branch of a State bank established in a foreign country is one established beyond the limits of the city, town or village in which the parent bank is located and thus comes within the class of branches which are prohibited by the McFadden Act. This Act expressly excepts the establishment of foreign branches by national banks from its provisions; but no such exception is made in favor of branches of State member banks.

3. Annual Reports for 1927 and 1928. - In its Annual Report for the year 1927, p. 46, the Board recommended that Section 9 of the Federal Reserve Act be amended so as to permit State member banks to establish foreign branches. The Board explained the situation as set forth above and pointed out that "it is obvious that Congress intended to deal with domestic branches", when it amended Section 9, and stated "there is no justification for a discrimination against State member banks in this respect; and the Board is of the opinion that the law should be amended as soon as

possible so as to remove the possibility of it being construed so as to result in such discrimination." The Board renewed this recommendation in its Annual Report for the year 1928, p. 41.

4. Active Steps to Obtain Legislation.- Under date of April 25, 1929, Vice Governor Platt addressed letters to the Chairmen of the Senate and House Banking and Currency Committees, reviewing the State member bank foreign branch situation. Drafts of amendments conforming to the Board's views were enclosed with these letters and it was stated that "the Board will appreciate favorable action on this proposed amendment at an early date."

On May 10, 1929, Senator Norbeck introduced a bill (S. 1070) to amend Section 9 of the Federal Reserve Act to permit State member banks to establish and operate branches in foreign countries.

Under date of June 10, 1929, the Board addressed a letter to Senator Norbeck, in which it was stated that upon further consideration of the matter of amending the law so as to permit State member banks to establish foreign branches, the Board had reached the conclusion that the establishment of such branches should be permitted only on terms and conditions similar to those prescribed for national banks by the provisions of Section 25 of the Federal Reserve Act. A revised draft of the amendment was submitted with this letter and it was suggested that it be introduced in lieu of S. 1070. This revised draft would require State banks desiring to establish foreign branches to have a capital and surplus of \$1,000,000 or more, to obtain the permission of the Federal Reserve Board, and to comply with such conditions and regulations as might be prescribed by the Federal Reserve Board. A similar letter was sent to Mr. McFadden on the same day and in both of these letters the Board requested that favorable action be taken on

the amendment.

Under date of September 10, 1929, letters were again addressed to the Chairmen of the Senate and House Banking and Currency Committees, calling their attention to the previous recommendations of the Board and renewing the recommendation that bills conforming to the Board's suggestions be introduced and passed by Congress.

On December 11, 1929, Senator Norbeck introduced a bill (S-2605) in the Senate in the form in which it was recommended by the Board and this bill was reported out without amendment on December 18 by the Senate Banking and Currency Committee.

On February 6, 1930, the Board voted again to recommend the enactment of this amendment in its Annual Report for the year 1929. It was also voted to send a letter to Mr. McFadden asking him to introduce the amendment in the House. This letter has been prepared but has not yet been mailed.

ARTICLES IN THE BULLETIN.

In the Federal Reserve Bulletin for December, 1924 (pages 925-940) there is an excellent article on the modern development of branch banking in the United States, which contains a review of the Board's recommendations, regulations, and administrative policies on that subject and much valuable statistical material. This is supplemented by articles appearing in the following numbers of the Federal Reserve Bulletin at the places indicated.

June, 1926, pages 401-408
 May, 1927, pages 315-318
 December, 1929, pages 762-770

The last of these articles contains valuable statistics regarding chain banking.

Respectfully,

Walter Wyatt,
 General Counsel.