A HISTORICAL GEOGRAPHY OF THE BANK OF AMERICA'S BRANCH BANK SYSTEM, 1904-1970

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CHAPTER I

INTRODUCTION

During the first quarter of this century, many changes were occurring in the American economic and social structure. America was entering into the era of "big business" with commercial activities expanding into large statewide and nationwide systems of distribution, no longer isolated to local markets. The rapid expansion of the American economy also brought changes to the banking industry. Additional capital was needed to finance the new growth, as well as to aid developing industry.

Bankers, to keep up with the changing economy, began to analyze the structure of their institutions searching for ways to expand. Legislators in certain states had also recognized a need for new laws in the banking field, to stimulate growth. One solution which had worked for many years in Canada was the branch bank system of banking. Branch banking in its simplest common denominator, is an association of banking offices operating in more than one city or town, locally managed but all under the direction on one board of directors and operating upon the capital of the whole bank.[1]

One of the most important changes in banking law occurred in California in 1909. California banking law was rewritten to permit statewide branch banking. Prior to the Bank Act of 1909, a few banks were practicing branch banking on a limited basis, generally within a few miles of the main office. The law now allowed banks to establish a branch anywhere in the state upon approval of the California superintendent of banking. It had been recognized that there were many communities in California without adequate local banking facilities and needed capital resources.

California's legislators had opened the door for the state's bankers to develop state branch bank systems. The new law itself was additional aid for development, because its authorization process was positive. In administering the law the state banking department found itself defending the right of any state bank to expand within the terms of the law. Furthermore, an amendment to the 1909 Banking Act known as the Merger Act facilitated the expansion of branch systems by permitting the merger of two or more banks through mere exchange of stock without the necessity of using or adding new capital.[2] Few bankers recognized the importance of these provisions for many years and the profound effect they would have on the future of California banking.

In addition to the changing banking laws, California's economic, agriculture and social structure fostered the development of branch banking. California is particularly suited for branch banking because of her industries and lack of synchronization in the seasonal demands for loans. Crops grown in California mature at different times and as a result, the demand for loans to plant or harvest varies from place to place. The banker, by studying the state's crop patterns, could shift funds from one area to another, making maximum use of existing capital. This process is much more effective using a branch bank system, than through the alternative of bank correspondents between various unit banks, in the state.[3]

Some California bankers were also studying the social structure of their industry. It was felt that branch banking could help change the attitude toward banks during this period. "The banks", said Woodrow Wilson when president of Princeton University, "were the most jealously regarded and least liked instrument of business in the country."[4] As banks grew, they became more remote from the people and people began to "regard them as not belonging to them but as belonging to some power hostile to them."[5]

With leaders such as Wilson fighting for new attitudes toward the public by bankers, change slowly began. Some bankers began to recognize that banks needed more intimate contact with the public. As the banks grew and their customer base spread, close contact with the public was more difficult to maintain. What seemed to be needed was a system of branch banks that were simply and inexpensively managed, which would put the resources of rich banks of the major cities throughout the state, while maintaining the uniqueness of each area's bank in its locale.

The first bank to actively respond to the changing conditions in the California banking community was the Bank of Italy, which eventually became the Bank of America National Trust and Savings Association.[6] Since its founding in 1904 in San Francisco by Amadeo Peter Giannini (or A.P.), Bank of America has grown to be the largest bank in the world not affiliated with a government. Of all the many banking institutions which had their origin in the United States, none perhaps has stood out so untraditionally in its methods, and so rapid in its growth as the Bank of America.

This growth can be attributed to Giannini and his unswerving determination in building a branch system. He had been inspired throughout not merely by a desire for the growth of his own institution, but by a sincere belief that he could thereby be of value to the farmers, workers and businessmen of the entire state of California. The growth of the Bank of America was not simply in its resources but also in the geographic distribution of its branches in California and eventually the world.

Justification of the Study

It is generally recognized that the presence of a reasonably well functioning financial system in an area is an important condition for economic growth and that the overall patterns of banking are not always sharp.[7] Banking institutions have not often been the subject of geographic investigation. Roberson suggests, in his geographic study of the Oregon bank system that, "there is a wealth of opportunity for further descriptions and analyses of the banking industry by geographers."[8]

Girling states in his study of the early banking system in the United States that:

> . . . many basic functions and institutions have diffused across the land. An important institution for a developing country is banking, for the location as well as mere provision of credit is based upon private entrepreneurial drive.[9]

The growth and expansion of the Bank of America's branch bank system may be viewed as one aspect of this development process. The Bank of America was a pioneer in this field in the United States, and offers the researcher the opportunity to examine the overall patterns of adoption, by its branches into one statewide banking system.

Purpose

The primary purpose of this thesis will be to study the historical geographic development and growth of the Bank of America branch bank system from 1904 to 1970. Descriptive analysis and a series of maps illustrating the changes in the branch bank system will be used to evaluate and analyze this growth and development. The study will focus primarily from the founding of the bank in 1904, through final consolidation of the major independent banking units acquired by the Bank of America into one statewide system in 1937. It is hoped that this thesis will provide insight into the changing spatial distribution of the Bank of America during the study period. Additionally it could stimulate further geographical research into the banking industry. It is felt that in the final analysis it will add to the amount of literature presently available in the geography of banking and provide a better understanding of the banking industry.

Methodology

The location of each branch which was either merged or established de novo,[10] was obtained from data contained in various editions of the Rand-McNally Banker's Directory, 1900-1970, or in records provided by the Bank of America's archives. This allowed for construction of maps and tables of the Bank of America for certain periods of time.

By tracing the Bank of Italy from its founding in 1904, then by adding the major independent banks (which were later merged into the statewide branch system) a geographical picture of the bank's development will be constructed. These major independent banks include: Liberty Bank; Bank of America, Los Angeles; Commercial National Bank and Trust of Los Angeles; Southern Trust and Commerce Bank of San Diego; United Bank and Trust Company of San Francisco; Humbolt Bank; Hellman

Commercial Trust and Savings Bank; French-American Corporation, Independent System; Merchants National Trust and Savings Bank of Los Angeles; Bank of America (State).

This paper will investigate the growth and development of the Bank of Italy, the acquisition of the other independent bank systems in chronological periods of time, until absorption and consolidation into the one Bank of America system in 1937. Subsequently the study will proceed to examine, map and discuss the one statewide branch bank system of the Bank of America through 1970. The chronological periods chosen coincide with major developments in the bank history, as well as that of California. Periods chosen are: 1904-1920; 1920-1927; 1927-1938; 1938-1970. It is felt that these historical periods will allow for proper examination and discussion of the events affecting the Bank of America.

The paper is organized to allow for a discussion of A. P. Giannini, the bank's founder and his later successors during the study period. This allows for a discussion of the Bank of America's policies and plan of operation. It is important to understand the ideas of A. P. Giannini and his operational methods to gain an understanding of why the Bank of America has had such a successful history.

The Problem

With this background in mind, the study will proceed to investigate some important questions affecting the growth and distribution of the Bank of America in California. These include:

1) How did the policies of the Bank of America affect the growth of its statewide branch bank system?

2) What was the effect of the population composition and growth of California on the growth of the Bank of America?

3) How did various state or federal banking laws or officials affect the growth of the Bank of America?

4) Did the Bank of America branch bank system expand in any discernable regional patterns in California?

It is recognized that the Bank of America is an international banking organization and discussion of its worldwide operations is beyond the scope of this thesis. The study area will include just the state of California between the years 1904-1970. It is also recognized that at one time or another the Bank of America has held or controlled various banks in different states in the United States. These banks will not be considered in this study.

This thesis is basically a descriptive analysis of the spatial development of the Bank of America. Although conclusions from the questions raised will be made, the major emphasis is to describe the bank's development, and the relationship between the bank and the state during the study period.

Review of Literature

The literature dealing with banking is abundant in terms of articles written and the wide variety of topics. This is reflected in the published literature where banking studies have taken many different approaches. Topics vary from management and organization to branch or unit banking, just to name a few.[11]

Even with the widespread interest in the banking industry, one field which has shown little interest in banking is geography. Geographers have studied a number of commercial activities such as retail or wholesale outlet distribution,[12] farm production,[13] the mining industry,[14] but rarely banking, which is important to each. Geographical studies of just one bank or one bank branch system were not found, although there were studies dealing with a state or region's banking system. Each of these studies discussed the geographic aspects of banking and each approached their topic in a different manner.

In his thesis of banking in early America, Girling[15] studied the banking as an innovation and how it diffused across the eastern United States. He approaches the early banking system through the spatial manifestation of this particular innovation, and directs his attention to the patterns and mechanism of diffusion. His analysis reveals the close correspondence between economic conditions and the rate of bank establishment. It was found even in early banking in America, bankers economically rationalized their site location. Bankers competed for customers, bearing the repercussions of their spatial arrangement of facilities.

Roberson in his paper on the geographical history of banking in Oregon, approaches his topic through large blocks of time, arranged chronologically by chapters.[16] In his study he tries to make distinctions and show variations in the distribution of banks in Oregon. The patterns which occur become the primary focus of his thesis. His geographical analysis shows a general overall picture of Oregon's banking system.

While these two studies examine geographical patterns of banking in the United States, Engberg and Hance[17] analyze the expansion and dispersion of commercial bank branches in tropical Africa. They discuss the role which British and French institutions influenced the growth of local banks. The study shows correlations between the economics of the countries discussed and bank growth. Noting that the period is one which many tropical African countries were gaining independence, they conclude that the major influence in bank growth in the area is the political climate. It is easy to see that the studies found indeed vary a great deal in their approaches and conclusions made.

Outside geography, there were a few studies found discussing banking in a geographic perspective but no attempt was made to spatially organize the studies.

Pugh, in his study of banking activity in South Carolina[18] summarizes basic changes in assets and liabilities of commercial banking in the state between 1960 and 1974. He examines the many changes in South Carolina's economy and banking industry, but does not discuss geographical area or patterns within the state. There are possibilities for this type of discussion, but the study simply points out changes in the banking facilities of the state.

Bank expansion, which occurred in Virginia between 1962 through 1966 when the Buck-Holland Bill changed the banking law to permit statewide branching, is the subject of a study by Foster.[19] Foster concentrates on the ramifications of the new law and how bankers began to expand their business through mergers or holding companies. It seems that it would have aided bankers and the reader, if Foster could have studied areas in Virginia where bankers could expand because of the new law. Although it provides valuable insight into the problems of banking structure, the study does not consider the geographical problems which the bankers in Virginia faced.

These two articles indicate that there is a need to discuss the geographical aspects of banking in studies of this kind. Although both economic in nature, some geographical analysis could further contribute to their discussions, providing a more clear picture of present and future needs of the area under study.

Because this is a study of one bank's branch system, literature which exists on the history of the Bank of America and its top executives should be mentioned. There was found to be much discussion of the bank in popular periodicals from 1925 through the end of the study period. This is probably due to the fact that Bank of America and its predecessor Bank of Italy, were so sucessful in developing the statewide branch system in California. Many of the articles written discuss current problems the bank had encountered in its development. Each new milestone established by the bank seemed to stir renewed interest whereby an article would appear.[20] The periodicals provide a view of the policies and attitudes not available from other sources. These articles also provide background reference to the bank in the late 1950's and through the 1960's. Two histories of the bank were found, both dating with the death of Bank of America's founder, A. P. Giannini.[21]

A. P. Giannini was such an influential person in the banking industry, that numerous periodical articles also appear on him.[22] These provide an excellent source for investigation into the way he thought and how he developed his bank policies. Often Giannini was on the defensive, and the press would get him to discuss reasons behind some of his policy decisions. He was assuredly an unpopular person with independent unit bankers of the time, who felt that he was trying to gain control of every bank in California. In addition to these periodicals, there is an extensive biography of his accomplishments.[23]

Summary and Procedure

There is a need for geographical studies on the banking industry.

Very little has been done in the way of a geographical approach to this area of commerce, and nothing was found in the literature studying just one bank's branch system. Although much has been written on the Bank of America, a geographical analysis of its growth and development would not just add to the literature existing on the Bank of America, but add to the literature of the banking industry, as well as geographical literature in general.

The additional chapters are organized in the following manner. Chapter II will provide a look at the founding of the bank, its policies and locations of its initial branches until 1920. Chapter III continues this discussion of the bank's growth, and continued geographic spread up to March, 1927. This includes discussion and locational data of banks merged into the system. Chapter IV looks at the final consolidation of the various banks into one statewide system in 1937 and additional growth through 1938. Chapter V looks at the period of growth from 1938-1970 and will summarize the study as well as make suggestions for further research.

FOOTNOTES

[1]Julian Dana, A. P. Giannini, Giant in the West (New York, 1947), p. 67.

[2]Ray B. Westerfield, Historical Survey of Branch Banking in the United States (New York, 1939), pp. 17-18.

[3]Stanley Lieberson and Kent P. Schirian, "Banking Functions as an Index of Inter-City Relations," Journal of Regional Science, 4 (January, 1962), pp. 71-72.

[4]Marquis James, Biography of a Bank (New York, 1954), p. 41.

[5]Ibid.

[6]Hereafter referred to simply as the Bank of America unless noted.

[7]Peter Gould, Spatial Diffusion (Washington D.C., 1969), p. 58.

[8]J. J. Roberson, "Historical Geography of Banking in Oregon From 1859 to 1968, With Emphasis on Unit Banking From 1900 to 1933" (unpublished Master"s thesis, University of Oregon, 1971), p. 3.

[9]Peter Girling, "The Diffusion of Banks in the United States, 1781 to 1861" (unpublished Master's thesis, Pennsylvania State University, 1968), p. 5.

[10]De Novo is a term distinguishing between acquisition of existing banks and the chartering of outright new branches. Newly chartered banking offices are known as de novo.

[11]See for example: Donald D. Hester, Bank Management and Portfolio Behavior (New Haven, 1975). Chris Argyric, Organization of a Bank (New Haven, 1954). Howard H. Preston, "Branch Banking with Special Reference to California Conditions," Journal of Political Economy, 30 (June, 1922), pp. 496-517. Hyman P. Minsky (ed.), California Banking in a Growing Economy: 1946-1975 (Berkeley, 1965).

[12]See: James E. Vance, The Merchant's World: The Geography of Wholesaling (Englewood Cliffs, 1970); Peter Scott, Geography and Retailing (Chicago, 1970).

[13]See for example: James R. Anderson, A Geography of Agriculture (Dubuque, 1970).

[14]See for example: George F. Deasy and Phyllis R. Griess, "Effects

of a Declining Mine Economy on the Pennsylvania Anthracite Region," *Annals*, Association of American Geographers, 55 (June, 1965), pp. 239-259.

[15] Girling, p. 5.

[16] Roberson, p. 3.

[17] Holger L. Engberg and William A. Hance, "Growth and Dispersion of Branch Banking in Tropical Africa, 1950-1964," *Economic Geography*, 42 (January, 1966), pp. 78-92.

[18] Olin S. Pugh, *Banking Activity in South Carolina*, 1960-1974 (Columbia, 1975).

[19] Paul L. Foster, *Bank Expansion in Virginia, 1962-1966* (Charlottesville, 1971).

[20] See for example: Hugh A. S. Kennedy, "The Phenomenon of the Bank of Italy," *The New Outlook*, 145 (March, 1927), pp. 406-407; "San Francisco Feud," *Time*, 28 (December 21, 1936), p. 58; Mathew Josephson, "Big Bull of the West," *Saturday Evening Post*, 220 (September 13, 1947), pp. 15-22; "The Bank That Can't Stop Growing," *Forbes*, 84 (December 1, 1959), pp. 19-22; Mitchell Gordon, "Midas Touch," *Barrons*, 47 (July 3, 1967), pp. 5-6.

[21] See James. Also Reed Hayes, *A Real Romance with San Francisco, The Story of the Bank of Italy and A. P. Giannini* (Chicago, 1952).

[22] See for example: Sasson G. Ward, "Giannini Fights Morgan," *The Nation*, 140 (June 26, 1935), pp. 737-738; "Banker: Earthquake and Panic Catapulted Giannini to Success," *Newsweek*, 9 (January 23, 1937), pp. 35-36. "A. P. vs. the Citizens," *Time*, 41 (June 14, 1943), pp. 78-80. "Giannini of Bank of America," *The Commonwealth*, 50 (July 1, 1949), pp. 283-284.

[23] Dana, p. 67.

CHAPTER II

FOUNDING AND INITIAL GROWTH TO 1920

Founding

In tracing the growth of the Bank of America and its geographical diffusion throughout California, it is important to understand the events leading up to 1904 when the bank was started as the Bank of Italy. To do this, a brief look into the life of its founder, A. P. Giannini is necessary. This provides a picture of the circumstances surrounding the establishment of the bank.

A. P. Giannini was born on May 6, 1870 in San Jose, California to parents who had recently immigrated to the United States from Italy. When Giannini was seven, his father was killed and his mother remarried another Italian named Lorenzo Scatena, who was a strong influence in his stepson's life. Scatena moved his family to San Francisco, where he found a job in a wholesale produce company. A few years later he opened his own produce company, and it was there that A. P. Giannini got his first taste of the business world.

When Giannini was twelve years old and attending public school, he also helped handle the daily receipt of produce and fruit at his stepfather's business. This meant that he had to get up at midnight each day in order that he reach the San Francisco docks before the arrival of the produce boats from California's agricultural valleys.[1]

After working all night, Giannini attended school for the day, ate an early dinner and studied before going to bed. This schedule continued until he finished a business school course, whereupon his time was devoted fully to his stepfather's business.

Giannini helped the company grow and prosper in a variety of ways, so much so that his stepfather made him a partner at age nineteen. Giannini soon built the company into the largest wholesale produce company on the west coast. He did this with ingenuity and hard work, which soon became his trademark. He would, for example, set out for days, visiting hundreds of farmers in various areas of California to obtain their business. Giannini would explain to each, the facilities his company had to offer and emphasize that any business turned its way would receive the most painstaking personal attention.[2]

During these busy and successful years as a produce wholesaler, Giannini formed a wide acquaintance with men of all classes and races; also he became familiar with agricultural, horticultural and general business conditions of the various valleys. This provided him with the understanding of the needs of California's farmers and how changes in the agricultural market would affect them. The information gave Giannini valuable insight for his future banking years, and he used it to establish fair banking practices for the farmer through the Bank of Italy.

Giannini was so successful with his wholesale business, that having "won the fight", he lost interest in running the firm and decided to retire at the age of thirty one. In retirement, he discovered several real estate opportunities which he pursued. Soon one deal led to another and Giannini became involved in the real estate business. For two years he was active in real estate in the predominately Italian North

Beach section of San Francisco. It is from here that a series of events led to his entering the banking industry.

His father-in-law, Joseph Cuneo, who was a director and stockholder in the Columbus Savings and Loan Society, a small bank in San Francisco, died suddenly. Giannini was named executor of the estate and, as executor, the directorship of the bank was passed on to him.[3] He accepted the directorship and hoped to make some long needed changes in the bank's operation. Giannini soon found the banks over conservative tendencies would not be easily changed. He brought forth what he regarded as important and necessary changes before the bank directors, but they wanted no changes. Giannini presented one program, for example, that would have assisted the small businessmen of the North Beach area, which was not possible under the bank's existing procedures.[4]

Giannini continued to try and persuade the other directors of the need for adopting his suggested policy changes, but it was to no avail. Finding himself frustrated at every turn, a new challenge had appeared for Giannini -- to start a bank of his own. He would operate the bank on principles which the Columbus Savings and Loan Society had refused to adopt. Giannini resigned his directorship, gathered about him a group of enthusiastic young businessmen and established the Bank of Italy in 1904.[5]

Beginning a bank, even in 1904, was no easy task for anyone to undertake, especially a person with limited banking experience. Giannini wanted his bank to abide by an established set of policies following his ideas as to how a bank should be run. He stated:

> This bank will be run solely for the benefit of its stockholders and depositors. No officer, including myself, will be tied up with outside interests. It will be a clean bank

run for the little fellow.[6]

From these basic ideals he set about the business of forming the bank. His lack of banking experience proved to be an asset rather than a hindrance. His banking ideals as well as his procedures were proven to be innovative rather than irresponsible and reckless.

The Bank of Italy's board of directors consisted of five directors who had left with Giannini from the Columbus Bank, four friends from his wholesale and real estate days and Giannini. Giannini found a location suited to the board of directors, at the triangular intersection of Montgomery Avenue and Columbus Avenue in the North Beach Section of San Francisco, for the bank's first office.[7]

The bank was started with an initial capital of $150,000, which was raised by selling stock at a cost of $100 a share. Giannini, from the beginning, wanted his bank to be owned by the largest number of stockholders, and hoped no one would buy more that one hundred shares. "No man will be permitted to win power enough to dominate its (the Bank of Italy) policies unwisely", he decreed.[8] On October 17, 1904, the Bank of Italy opened its doors for business.

Early Years of Operation

The Bank of Italy prospered from its inception. Giannini had many ideas and procedures which took other bankers aback, because they were simply things which were not done by a "proper banker" of his day. He felt that if an account was worth having, one should pursue it, much in the same manner he obtained accounts from farmers in his produce days. He began to solicit accounts from people who had never been in a bank before. Many of his customers could not read or write English, so he had his employees fill out all necessary forms. No account was too small and the bulk of his depositors were small accounts.

An important Bank of Italy policy initiated by Giannini, was to make available funds for small loans, which prior to this were looked at by bankers as bothersome. Before this policy was started, many people were forced to go to loan sharks for small loans and pay as high as twenty five percent interest for the loan. Now these people could go to the Bank of Italy and receive a loan at six percent or seven percent interest. The Bank of Italy's low loan rates, and its many small loans were leading factors for its success. "You are putting the borrower out of business if you charge ten to twelve percent on loans" Giannini argued.[9]

Two major events occurred during these early years which might have closed an institution of less vitality. The first was the earthquake and fire which destroyed most of San Francisco in 1906 and the second was what is known as the "panic of 1907".

The earthquake and fire in San Francisco brought the Bank of Italy its first real notability. With the city on fire, and it spreading closer to the Bank of Italy's office, Giannini had all of the bank's possessions loaded onto two wagons borrowed from his stepfather's company (this included $80,000 in gold) and hauled them out to his home in San Mateo, seventeen miles south of San Francisco. After the fire had subsided, Giannini reopened the Bank of Italy on the Washington Street wharf, on the San Francisco docks, with a wooden plank as a teller window and a bag of gold which had been removed earlier from the bank. The fire had burned down ninety five percent of the business district of San Francisco, including the Bank of Italy's office.

The Bank of Italy was able to reopen many weeks before the other city banks, because the other banks had to wait for their vaults to cool down after the fire. Giannini had the Bank of Italy's gold to put right in front of the customers as well as using the bank's stationery forms which were also saved from the fire. It was business as usual, first from the Washington Street wharf, and then also from his brother's home on Van Ness Avenue, which was saved from the fire. With only $80,000 in gold to cover more than $846,000 in deposits, a run on the bank could have easily closed it. But rather than experiencing a run, bank deposits went up. Residents of San Francisco needed somewhere to keep their money and gold safely, which before the fire, many had hidden some place in their homes. With no mattress to hide it under, what better place than in a bank, and the Bank of Italy was open. Secondly, the Bank of Italy had made a big impression and was able to come out of the disaster with more customers than ever before.

In 1907 after all the turmoil of reconstruction of San Francisco, Giannini went east for a vacation and to take a look at the bank operations in New York City. New York, at the time, was (as it is now) the center of the banking industry in the United States. Giannini discussed the banking situation with a number of bankers while he was there. These bankers seemed to be disturbed as to what the future was going to bring. They were worried because even though they had plenty of good assets, the banks were short of real cash. Coming back to San Francisco Giannini had the insight to take precautions in the Bank of Italy's operations based on what he had learned on his tour. The year 1907 was to become the most distressing "money panic" known in America until 1929.[10]

Giannini ordered a curtailment of loans and had the Bank of Italy begin to pay out as much as possible in currency or silver, in order to hold onto as much gold as possible. Gold was thought to be a sign of solidness to the people of the day, and especially in California. The Bank of Italy's precautions paid off, because as 1907 wore on, deposits in all banks were quickly declining. When the panic hit San Francisco in full force, the Bank of Italy had the distinction of being the only bank in California which paid exclusively in gold coin. This further established the Bank of Italy's prestige and reputation, allowing it to continue to grow.

Nineteen hundred and seven was also the year that marked the Bank of Italy's rebuilding a new home office. It had moved from its two temporary sites on the wharf and at Van Ness Avenue, and set up another temporary home in the office of one of the directors which the fire missed, on Montgomery Street. The new head office was built on a site located at Clay and Montgomery Streets, two blocks closer than the original office to the financial heart of San Francisco.[11] The building was nine stories high, had a fire proof vault and it was very impressive for the time. It symbolized the fact that the Bank of Italy was here to stay.

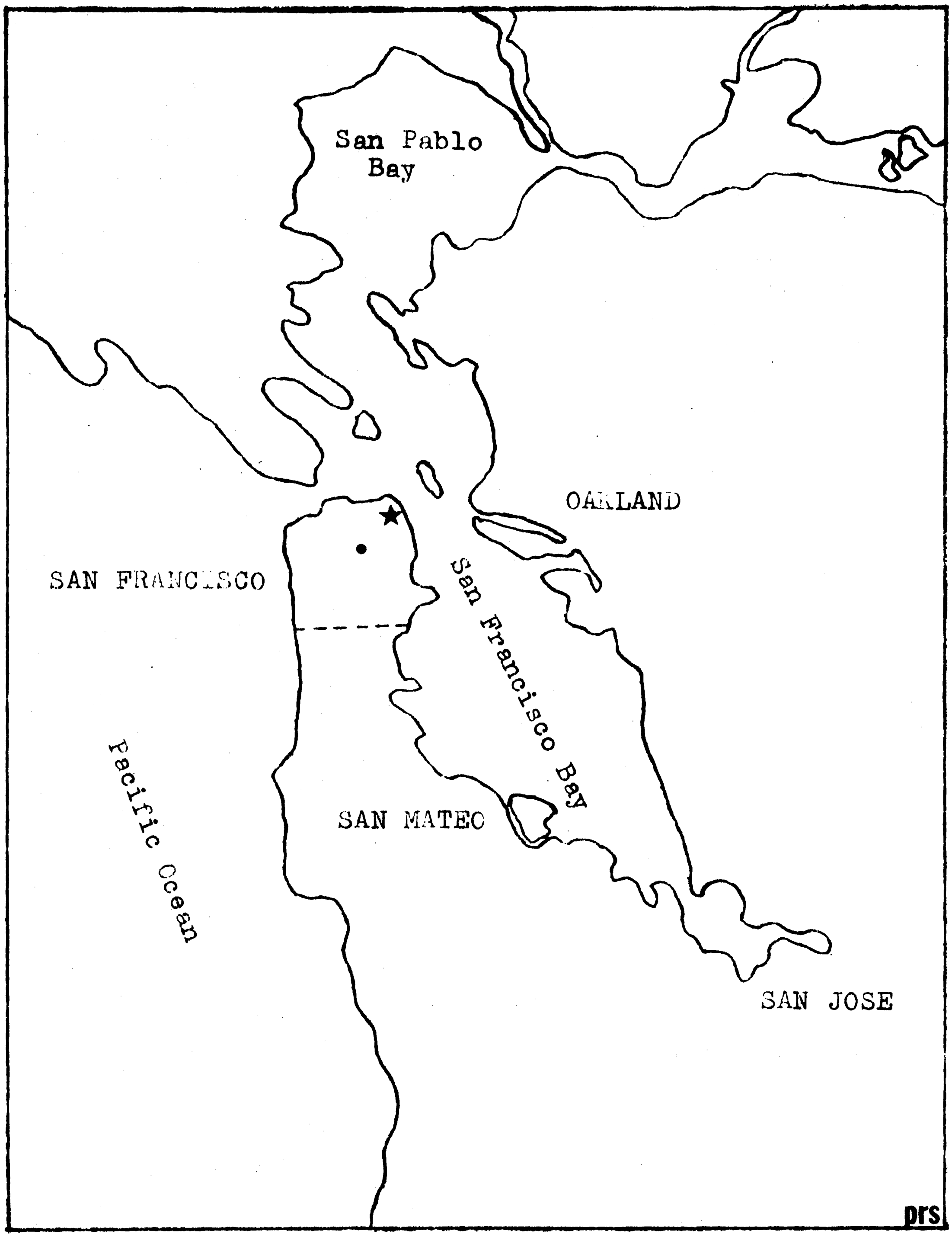
First Branches

With A. P. Giannini's background established, the Bank of Italy's early branch system can be examined. Whereas the Bank of Italy was founded in 1904, it did not open its first branch until 1907 and its first branch outside of San Francisco until 1909.

The Bank of Italy opened its first branch in the Mission district of San Francisco in 1907. The Mission district was only a few miles southwest of the main office (Figure 1). It would be for over two years the only branch of the bank. It was, in essence, little more than additional teller windows for the main office. Before 1909, California law said nothing about branch banking, so bankers generally operated only one office. As soon as the Bank Act of 1909 firmly established that branch banking was allowed in California, Giannini began his program of a state wide branch bank system. As it stood in 1909, the Bank of Italy had just two offices -- its new home at Clay and Montgomery Streets and the Mission branch.

The first branch established outside of San Francisco was at San Jose in October of 1909, several months after the Bank Act of 1909 went into effect. The policy for establishing this branch, set the precedent in establishing branches in other cities for the Bank of Italy for the next eight years. Rather than simply going to San Jose and locating a branch where it was thought that business would be good, the Bank of Italy bought an established bank, keeping all of its employees, if possible, and then merging its resources into the branch system. The branch then operated under the same policies and procedures which were established when Giannini founded the first bank.

There is more to the process than simply buying an established bank as just mentioned. The process was sometimes a complicated and roundabout procedure which had to be followed to comply with the Bank Act of California, which had gone into effect in early 1909. This law in many ways shaped the growth of branch banking in California. There were certain procedures which bankers now had to follow in order to establish a branch office, even if it was only a few blocks from the head office.



★ Location of the first Bank of Italy office, 1904.

• Location of the first branch (Mission), 1907.

Figure 1. Location of the First Bank of Italy Branch, 1907

The Bank Act allowed for branch banking, but had several provisions which affected the establishment of new branches by any California bank under its jurisdiction. The law forced the Bank of Italy (which was then a state bank) to develop a policy for opening the San Jose branch, as well as future branches, to comply with the law. The Bank of Italy was the pioneer in statewide branch banking and, as such, was without precedent.

The first of these provisions was that the Bank Act forbade the purchase of one bank's stock by another bank. To get around this law, the Bank of Italy set up a process whereby individuals working for the bank would buy the stock of the bank that was to be added to the branch system. The Bank of Italy in the meantime would purchase the bulk of the assets of the selling bank. Then, the banks would consolidate and in the course, the sellers' stock would be exchanged for Bank of Italy stock. The amount of exchange would vary, of course, to the bank being purchased and the time of the merger.[12] It is in this manner that the Bank of Italy purchased the Commercial and Savings Bank of San Jose, making it the first city outside San Francisco to be adopted into the Bank of Italy's branch bank system.

In 1917 Giannini designed for the Bank of Italy another company which became known as the Stockholders Auxiliary Corporation, owned wholely by the bank. It served the bank in the same capacity that the individuals had, in buying the stock of the selling bank for the Bank of Italy and became what is now known as a "holding company".

The second provision of the California Bank Act which particularly effected the Bank of Italy in developing its branch system, was section nine, which stated:

> . . . that branch offices may be established with the written approval of the superintendent of banks. He is directed to give such approval only when he has asserted to his satisfaction that the public convenience and advantage will be promoted by the opening of such branch office.[13]

This section of the law gives the superintendent of banks a great deal of power, because the decision of allowing a new branch to open is left entirely to him. It was, therefore, to a bank's advantage to have a person who shared similar beliefs on banking in that office. It will be shown later how a superintendent who opposed the bank because he was against branch banking, significantly restrained the growth of the Bank of Italy's statewide branch bank system.

The Bank Act of 1909 also provides that a bank that is going to open a branch have a certain amount of capital for each branch. A larger amount of capital was required, therefore, for any branch of the Bank of Italy established outside of San Francisco. Another section of the law, provided the basis for what is known as the "de novo rule", which will be discussed in the next chapter, when it is used to slow the Bank of Italy's branch growth by a superintendent who desired to slow down branch banking. All of these particular sections of the law were taken lightly when written, and only noticed when the Bank of Italy began its ambitious program of expansion.

Giannini felt that a branch bank system could work for California as well as it had worked in Canada, which he was to use as his model. Some important differences from the Canadian system were made at this time by Giannini in developing the Bank of Italy's branch system.

The Bank of Italy, rather than open all of its branches de novo, as was the general practice in Canada, preferred to enter an adopting community by purchasing an established bank (making for some complicated procedures as previously discussed). In this manner a going business was maintained without the problems of starting new and having to generate business. By taking over an established branch, the Bank of Italy avoided being labeled as "outsiders". This was done by maintaining the local staff, who were familiar with customers and knew of local problems, if any. This was a continual problem in the Canadian system where staffers who were brought in from Montreal or Toronto, were looked upon as outsiders. Once the Bank of Italy had established a system of branches, the de novo branch became much more important, because the de novo branches were generally opened in an area where a Bank of Italy branch was already close by. The bank thereby avoided the "outsider" label. It also became necessary to open branches de novo when fewer banks were available for purchase.

After establishing the branch in San Jose, the geographical growth of the Bank of Italy was gradual. The bank always checked and rechecked a plan before implementing it, keeping mistakes to a minimum. When the Bank of Italy had firmly established itself in San Francisco and San Jose, another branch was opened in San Mateo, by purchase of a bank there in 1912. Giannini then looked south to Los Angeles for the bank's next expansion. Los Angeles was a city on the move, growing at a very fast rate. Not blessed with the natural harbor that San Francisco had, the city commissioners went about constructing one, and Los Angeles soon became the major center for goods entering and leaving Southern California.

Giannini recognized that, if the Bank of Italy was going to establish a branch bank system in California, they must have a base of operations in Los Angeles as well as San Francisco. To do this, the

Bank of Italy purchased the Park Bank of Los Angeles and its one branch in 1913. Additionally, the City and County Bank was purchased in 1913 giving the Bank of Italy their Los Angeles branches.

Prior to establishing the Los Angeles branches, the Bank of Italy had no problem in its geographical expansion. But once it jumped 400 miles south into Los Angeles, it received immediate resentment from a variety of Los Angeles bankers. The Los Angeles bankers felt that San Francisco bankers should stay in the San Francisco economic and geographic region and they would stay in the Los Angeles region. A line for limiting further branch expansion, the Los Angeles bankers felt, should be drawn at the Tehachapi Mountain range, running basically east-west in central California, just south of Bakersfield (Figure 2). This, they felt, would give the bankers in each region, area enough to expand. The Bank of Italy was obviously opposed to any such thing, and began a long fight against it.

The Bank of Italy also encountered a problem in Los Angeles, that it had not experienced in San Francisco. This was the problem of bigotry against foreign immigrants. The Bank of Italy was not looked upon as an American institution in Los Angeles but as a bank run by foreigners, for foreigners. There is no doubt that the Bank of Italy helped ethnic minorities, but it was an American institution, for all Americans. This label made it more difficult for the bank to grow and prosper in Los Angeles as it had in the San Francisco area.

Problems, as with any new idea or system, had to be worked out and the Bank of Italy's branch system was no exception. In Los Angeles, the bank closed its operations of a former Park branch giving the system two branches in Los Angeles for a short period in 1914. With hard work,

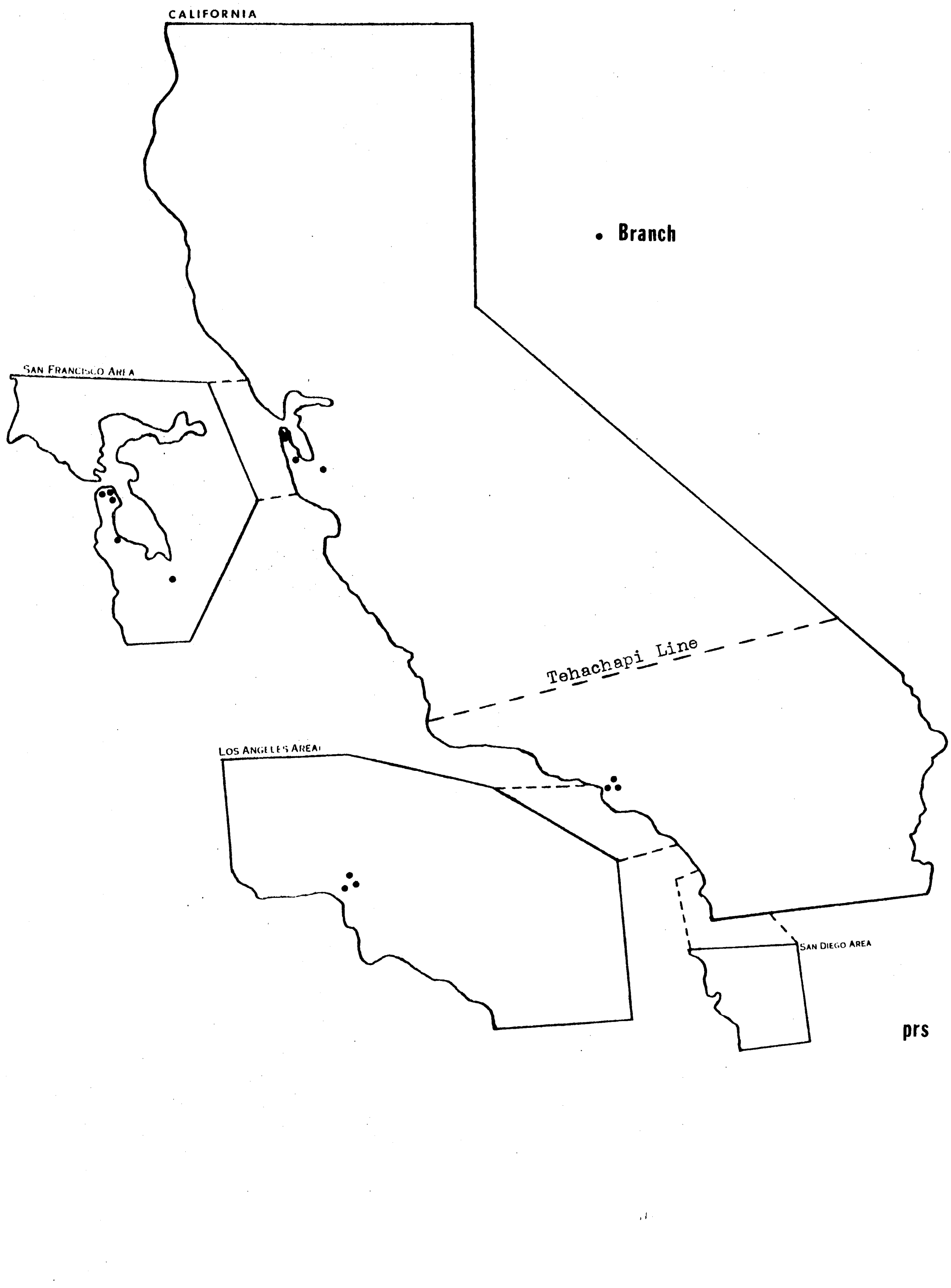


Figure 2. Bank of Italy, 1915

competitive operations and Giannini's policies, the Bank of Italy was soon able to overcome these obstacles and firmly establish itself in Los Angeles.

While maintaining the two Los Angeles branches, the Bank of Italy opened a branch de novo (the only one for this period) in 1915, giving it three branches in Los Angeles again. In 1917 the bank bought the International Savings Bank and merged its operations with the de novo branch. Further expansion in Los Angeles was years in coming, and stems from a change in the state superintendent of banks in 1919. The new superintendent held views similar to the Los Angeles bankers and favored regional development of branch systems.

The problem in Los Angeles did not slow the Bank of Italy's growth in the San Francisco region. An additional branch in San Francisco was added, giving the Bank of Italy a total of eight branches and resources of $22,321,860 at the end of 1915.[14] This gave the bank a growth of over $22,000,000 in just eleven years. Geographical expansion would continue at a moderate pace for the next five years, but the growth of its resources would be tremendous. The Bank of Italy was to next open branches in the great farming valleys of northern California.

The Bank of Italy between 1915 and 1920 opened twelve branches in these farming valleys, where the crops varied from valley to valley. Such crops included grapes, raisins, beans, and citrus fruit and were in great demand as World War I was being fought. The valleys in which the Bank of Italy established branches were as varied as their crops. These included the San Joaquin, the Santa Clara, the Napa and the Sanoma valleys.[15]

It was in these locations that Giannini's policies for the bank's operation really began to pay off. When he was working in his wholesale produce business, he had become familiar with the problems encountered by farmers. For many years farmers had to struggle with very high interest rates. Although the California farmers were at that time experiencing great prosperity, the high interest rates were still a great burden.

When the Bank of Italy opened the first branch in the San Joaquin Valley at Merced in 1916, the first action that was taken was to cut interest rates to seven percent from the norm in the area of twelve percent. The bank was able to do this because of the branch system. It enabled the Bank of Italy to take money from all its branches and loan it to whatever area needed it. The unit banks which were operated in some of the valley towns had to depend on the resources of the local area. Consequently, its business would rise and fall with the local economy.

The Bank of Italy, on the other hand, was drawing on resources from all over the state. If a crop failed in one part of the state, the Bank of Italy could carry the loans of that area over, supported by resources from other areas of the state. Many unit banks in these small valley towns failed when times were bad because they could not carry the loans. The Bank of Italy's branches also prospered because of its continued policy of running the bank for the "small" person.

The Bank of Italy expanded up and down the valleys as well as in the San Francisco Bay area. It opened five branches in 1916, seven in 1917 and five in 1918. Four of the new branches were opened in Oakland when the Bank of Italy purchased the Security Bank of Oakland in 1918. Only one branch, in Ventura, was opened south of the Tehachapi line

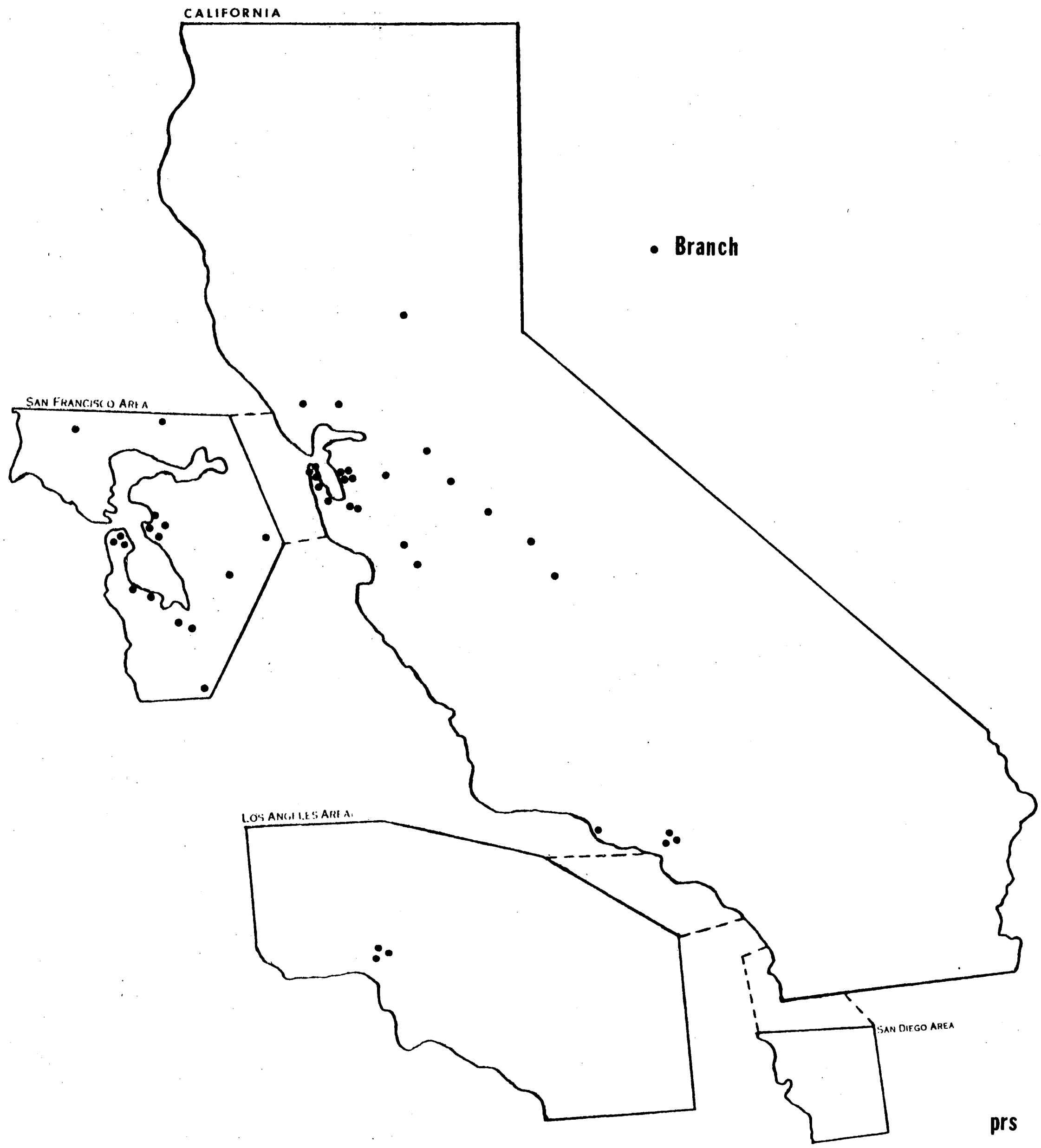


Figure 3. Bank of Italy, 1920

during the period (Figure 3). No further geographical expansion occurred until mid-1921, although the Bank of Italy's resources continued to grow phenomenally.

At the end of 1920, the Bank of Italy had grown into a system of twenty five branches and held resources of $157,464,685, over 1,000 times what it had in 1904.[16] The Bank stood alone as the only bank in California with anything close to being a state wide branch bank system.

From humble beginnings in San Francisco, sixteen years earlier, the Bank of Italy had diffused down the agricultural valleys of northern California and out into the San Francisco Bay area. It jumped down into Los Angeles to begin what would soon be another center of growth. There were still some problems to be worked out (especially in Los Angeles), but these were mainly political. The success experienced by the Bank of Italy in its early years will continue throughout the bank's history.

FOOTNOTES

[1]W. W. Douglas, "Builders of Business, A. P. Giannini," _System_, 37 (May, 1920), p. 967.

[2]B. C. Forbes, "Giannini - The Story of an Unusual Career," _Forbes_, 7 (November, 1923), p. 143.

[3]Dana, p. 46.

[4]Ibid., p. 47.

[5]Douglas, p. 968.

[6]Dana, p. 48.

[7]James, p. 15.

[8]Dana, p. 50.

[9]Committee on Banking and Currency, House of Representatives, 71st. Congress, 2nd Session, _Hearings_, Volume II, Part II, pp. 1546-1547.

[10]James, p. 36.

[11]Ibid., p. 30.

[12]Ibid., p. 50.

[13]Benjamin C. Wright, _Banking in California, 1849-1910_ (San Francisco, 1910), p. 174.

[14]_Hearings_, p. 1354.

[15]James, p. 81.

[16]_Hearings_, p. 1354.

CHAPTER III

EXPANSION AND GROWTH FROM 1920 TO 1927

During the 1920's the United States was experiencing a great deal of new growth and prosperity. California shared in this prosperity and its growth was both demographically and economically unparalled by any other state. Calfornia's rich agricultural valleys attracted people from all over the country to come and establish themselves with a new life. Additionally, California had two newly developing industries which helped its economy grow: oil and the movies. Because of these three factors, California, which was ranked twenty-second among states in population when the Bank of Italy was founded, had moved to sixth by the mid-1920's. Although all California shared in the growth, Southern California and Los Angeles were the center for much of it.

The conditions of enormous population growth as well as continuing economic prosperity, made an ideal situation for expansion of the Bank of Italy's branch bank system. In 1919 the Bank became the first to join the Federal Reserve System which began in 1913. The Bank of Italy continued to expand its branch bank system as well as its deposits and resources. It grew from the twenty-five branches and resources of $150,000,000 in 1920 to a system of 275 branches and resources of $600,000,000 on March 1, 1927, the day the Bank of Italy became a national bank.[1] Once again, much of the bank's phenomenal success during this period can be attributed to Giannini and his policies of running the bank.

Restrained Growth under Superintendent Stern's Administration

As mentioned in the previous chapter, the Bank of Italy did not experience any branch growth from 1919 to mid-1921. The years 1919 to June 1921 mark the years when Charles F. Stern was California's State Superintendent of banks. Stern was opposed to branch banking when he entered office. He felt that branch banking was monopolistic and was driving the independent unit banker out of business. Stern also believed that if there was to be branch banking, that the bank operating the branches should be "in territory with a close economic relationship with the home office".[2]

This meant that if a bank was going to have branch banking, it would be regional branch banking, geographically limited to the region north or south of the Tehachapi Line. Although the Bank of Italy had branches south of the Tehachapi Line, it would be slowed in any further expansion. Stern was opposed to any statewide branch banking, even though it was perfectly legal in California as established by the Bank Act of 1909. It was not until the middle part of 1921 that the Bank of Italy received a permit to add another branch to its banking system anywhere in California.

During this period, the Bank of Italy continued to acquire banks through the Stockholders Auxiliary Corporation, operating them as independent banks (but using the Bank of Italy's operating procedures). In this manner the Bank of Italy bought eight banks, but had to wait to add them to their branch system until they could convince Stern that the "public convenience and advantage" would be promoted by the opening of an additional Bank of Italy branch.

Even though it was known that Stern was anti-branch banking when he entered office, the Bank of Italy, as well as other California branch bankers, pursued Stern trying to change his thinking. About one year after he had taken office, Stern finally conceded that branch banking was not what he had thought it to be, and he began issuing permits to allow new branch banks to open. To various banks in the Los Angeles area he issued a large number of permits, all of which were in the Los Angeles region south of the Tehachapi Line. None were issued to the Bank of Italy, the leader of branch banking in the state.

Giannini recognized what was going on and decided to strengthen his present branch system, and wait out the situation before taking any legal action. The break came in April, 1921 when a unit bank in Visalia was on the verge of closing. Giannini was the only banker at the time in a position to save it from closing. Stern wanted the Bank of Italy to purchase the bank through the Stockholders Auxiliary Corporation, but Giannini refused, stating the Bank of Italy would only move in if the unit bank was converted into a branch. Stern had no choice and issued the permit for the branch in April, 1921.

Los Angeles area bankers had finally recognized the benefits of branch banking and began acquiring many more new branches. They had no desire to leave the Los Angeles region and wanted no "outsiders" from San Francisco competing for the region's business. Becuase they held the basic view shared by Stern on branch banking, Stern issued them branch permits without much hesitation, but effectively hemmed in the Bank of Italy in any further geographical growth in the Los Angeles region.

Stern resigned in June of 1921 to become vice-president of the Los Angeles Trust and Savings Bank -- a bank which he had issued a number of branch permits to and a rival of the Bank of Italy in Los Angeles. This could explain his resistance toward the Bank of Italy's continued branch expansion during his tenure as superintendent. He did though, as a final gesture, grant the Bank of Italy eight branch permits (the eight banks being operated as independents by the Stockholders Auxiliary Corporation, none of which were south of the Tehachapi Line) before resigning. This gave the Bank of Italy a branch bank system of thirty four branches as of July 1921. Of these thirty-four, only four were south of the Tehachapi Line. It was at this same time that the Bank of Italy moved its head office from Clay and Montgomery Streets to No. 1 Powell Street, San Francisco.

The Dodge Years

With the resignation of Stern, Jonathan S. Dodge became the new superintendent of banks in California. It should be recognized after the Stern years as superintendent, how much power the Bank Act of 1909 gave the man in that office over the growth of a branch bank system. With the advent of Dodge into the office of superintendent, the Bank of Italy was confronted with yet another obstacle in its building of a statewide branch bank system.

When Dodge became superintendent, Giannini felt that he might restrict the Bank of Italy's branch growth, much as Stern did as superintendent. But Dodge was fairly liberal in granting approval to permits submitted by the Bank of Italy for new branches. Before 1921 was out, Dodge had approved seventeen new branches and granted Giannini permission to organize a new bank known as the Liberty Bank. Only two of these branches were south of the Tehachapi Line; one in San Diego and one in Shafter.

Although the permits were issued quickly by the state superintendent of banks, these new branches were slowly added to the system. The Bank of Italy was a member of the Federal Reserve (since 1919), and as such, subject to the rulings imposed by its board. The Federal Reserve Board had been taking a second look at branch banking, expecially in California. Prior to the fall of 1921, the Federal Reserve Board was quick to approve all applications it received for a new branch. After 1921, however, they wanted to slow down branch banking, and thus were slow in approving new applications to all member California banks, especially the Bank of Italy.

The additional branches established by the Bank of Italy in 1921 started a new geographical pattern for expansion. In the earlier years, the Bank of Italy established itself up and down California's agricultural valleys and in Los Angeles. The Bank of Italy was now (1921) establishing branches in any town or city where an independent unit bank or small branch system (which was financially sound), became available for purchase (although they still had trouble, as with Stern, getting permits for branches south of the Tehachapi Line). In a city where a bank simply could not be purchased, the Bank of Italy would, on occasion, apply to open a branch de novo. Giannini, as mentioned in the previous chapter, had tried to avoid opening a branch de novo in the early years of the bank, found it necessary to apply for more and more de novo permits, as banks available for purchase became much fewer in number.

The Federal Reserve felt that the Bank of Italy was expanding too rapidly for its own good, and as a consequence, had slowed down the approval of branch permits. Superintendent Dodge, after researching the Bank of Italy fully, also decided that the Bank of Italy was expanding too fast and in too many areas, and wanted also to slow them down. Another problem was that Dodge was being pressured by California's independent unit bankers to slow down the branch bankers. They felt that branch banking (the way Superintendent Stern felt in 1919) was monopolistic and should be halted. Dodge concluded from his study that branch banking could continue, so long as not to continue to drive independent unit bankers out of business. He felt that this was being done, not by the purchasing of said unit banks, but by the opening of de novo branches. He, therefore, devised the "de novo rule" as a compromise to slow down the Bank of Italy's agressive branch banking policies and to appease the independent unit bankers.

What the rule said was:

> No branch of any bank shall be created in any locality other than city of locality in which is located the principle place of business of such bank except by purchase of, or consolidation or merger with an existing bank in such city or locality in which it is desired to create or establish such branch bank unless the superintendent of banks in his discretion shall find that the public convenience and advantage require it.[3]

This meant that the Bank of Italy could only establish a de novo branch in San Francisco, otherwise it would have to buy a bank already in existence. Dodge would make exceptions (as he did in Sacramento for the Bank of Italy in 1921) after the rule went into effect, but these would be few. This rule did not effect the Bank of Italy greatly at first, because it was already the Bank of Italy's practice to buy an established bank for its branch. But the new rule did mean a rejection of two de novo permits at the time of the ruling (in San Pedro and Santa Maria), and as we shall see, many in the future.

The de novo rule as a consequence did two other things which effected the Bank of Italy's branch growth. First it set a precedent for the Federal Reserve Board in granting branch permits to its member banks. The Federal Reserve Board in 1922 began to follow the de novo rule to slow down branch banking, much in the way Dodge used it. Secondly, it became an advantage to the Los Angeles branch bankers. There were at the time seven banks in Los Angeles engaged in branch banking, all of which could continue to expand de novo whereas the Bank of Italy could not. This was a time when there was a boom expansion in Los Angeles, and the Los Angeles bankers could take advantage of it. The Bank of Italy could not, and was confined to de novo expansion in San Francisco where the population had changed very little during the same time period. The only way for the Bank of Italy to expand further, was to have its Stockholders Auxiliary or another holding company buy an established bank, which as we shall see, Giannini did with great skill.

While the Bank of Italy slowly continued to develop its branch bank system by buying banks, Giannini had organized in 1921, the Liberty Bank, whose head office was located in the old Bank of Italy headquarters at Clay and Montgomery. The bank was to be controlled by a holding company based out of New York City, known as Bancitaly Corporation. It differed from the Bank of Italy only in that the name was spelled with a "c" instead of a "k". The major stockholders were the same as the Bank of Italy, but Bancitaly would have the Liberty Bank do two things differently.[4]

First, Liberty Bank's officers and directors (those out front) all had non-Italian names such as Hale, Miller and Webster, making it seem totally apart from the Bank of Italy, but in reality controlled and run by Giannini and his Bank of Italy policies.[5] Secondly, it would not be a member of the Federal Reserve and, therefore, only responsible to the state superintendent of banks.

The Liberty Bank became much more important to Giannini than the Bank of Italy branch bank system in the next few years. Wherever the Bank of Italy was denied a branch north of the Tehachapi Line, because of a Federal Reserve Board ruling or a ruling against expansion by the superintendent of banks, Giannini simply had the Liberty Bank submit an application. In this manner, he avoided the Federal Reserve Board, and the state superintendent usually granted the application the second time around. Giannini went to all the trouble because he desired the Bank of Italy to remain in the Federal Reserve System. Even with the anti-branch stand it was taking, Giannini felt it was to the Bank of Italy's advantage to keep the Federal Reserve system strong. Having the Bank of Italy suddenly drop out of the Federal Reserve, might have disastrous effects on the system, especially in California.

In 1922 the Bank of Italy managed to add twenty new branches to its system (eight of those in the Los Angeles region) giving it a total of seventy-one branches, doubling the number of branches it had when Dodge entered office. This was still less than Giannini had planned on if the Bank of Italy had not been slowed in its natural expansion. Dodge resigned as superintendent in January 1923, leaving behind him an office even more powerful than when he had entered.

Branch Growth between 1923 and January 1927

In the period between 1923 and March, 1927, branch banking grew at a phenomenal rate. It was during this period that Giannini succeeded in putting together the first large statewide branch bank system, even though many people tried to limit him and the Bank of Italy.

With the resignation of Dodge as superintendent of banks, J. Franklin Johnson became the new superintendent. Johnson, like Dodge, was an advocate of limiting branch banking to north or south regions. But, unlike his predecessor, Johnson was not deluged with a number of branch applications as he first entered office. The few which the Bank of Italy applied for at this time were approved by Johnson, but when they came before the Federal Reserve Board for approval, the applications were rejected.

Anti-branch bankers had won control of the Federal Reserve Board in late 1922 and they were out to put an end to the Bank of Italy's branch banking. The Board adopted a set of rules which were clearly aimed at the Bank of Italy in an attempt to restrict its continued branch growth. New branches were eventually allowed into the Bank of Italy's branch system, but at an artificially slow rate. By June of 1924 the Bank of Italy had 88 branches in 57 different cities. One year later there were 95 branches in 65 cities.[6] These figures would have been much higher if the Bank of Italy had been allowed to continue to grow at the rate Giannini had planned.

In addition to the slowing down and rejections in Washington by the Federal Reserve Board, the Bank of Italy could not get Johnson to approve any more branch applications south of the Tehachapi Line other than the nineteen they had as of June, 1925. Recognizing that the Bank of Italy was going to be locked out at every point from any further branch expansion in the South, Giannini had been preparing since 1923 a series of moves which culminated in the union of five major branch banks into one statewide branch system.

Giannini's first move was early in 1923 when he moved the corporate headquarters of Bancitaly (the holding company) from New York City to Los Angeles making it a Los Angeles region business. This is the same company which controlled the Liberty Bank. He then had Bancitaly buy the Commercial National Bank of Los Angeles, in March, 1923. Giannini used Bancitaly in this purchase because the Federal Reserve Board had recently ruled that the Bank of Italy's holding company, Stockholders Auxiliary, could not buy any banks in California without its approval, which it would not give.

When Bancitaly bought Commercial National, it had only three branches and $11,000,000 in deposits. Giannini quickly began having Commercial National operate as if it were the Bank of Italy and, in 1924, changed the bank's name to the Commercial National Trust and Savings Association. It soon began an aggressive branching policy that, by 1926, Commercial National Trust and Savings Association had twenty branches (Figure 4) and over $21,000,000 in deposits. Because Commercial N.T.S.A. operated only within Los Angeles, the Federal Reserve Board (of which it was a member) had no choice under its own rulings but to grant branch applications as approved and forwarded by Superintendent Johnson. The latter approved the applications because they did not violate any banking regulations and did not involve crossing north of the Tehachapi Line. Giannini now planned to buy an established state bank without Federal Reserve membership to do what Commercial N.T.S.A. could not do...expand outside Los Angeles.

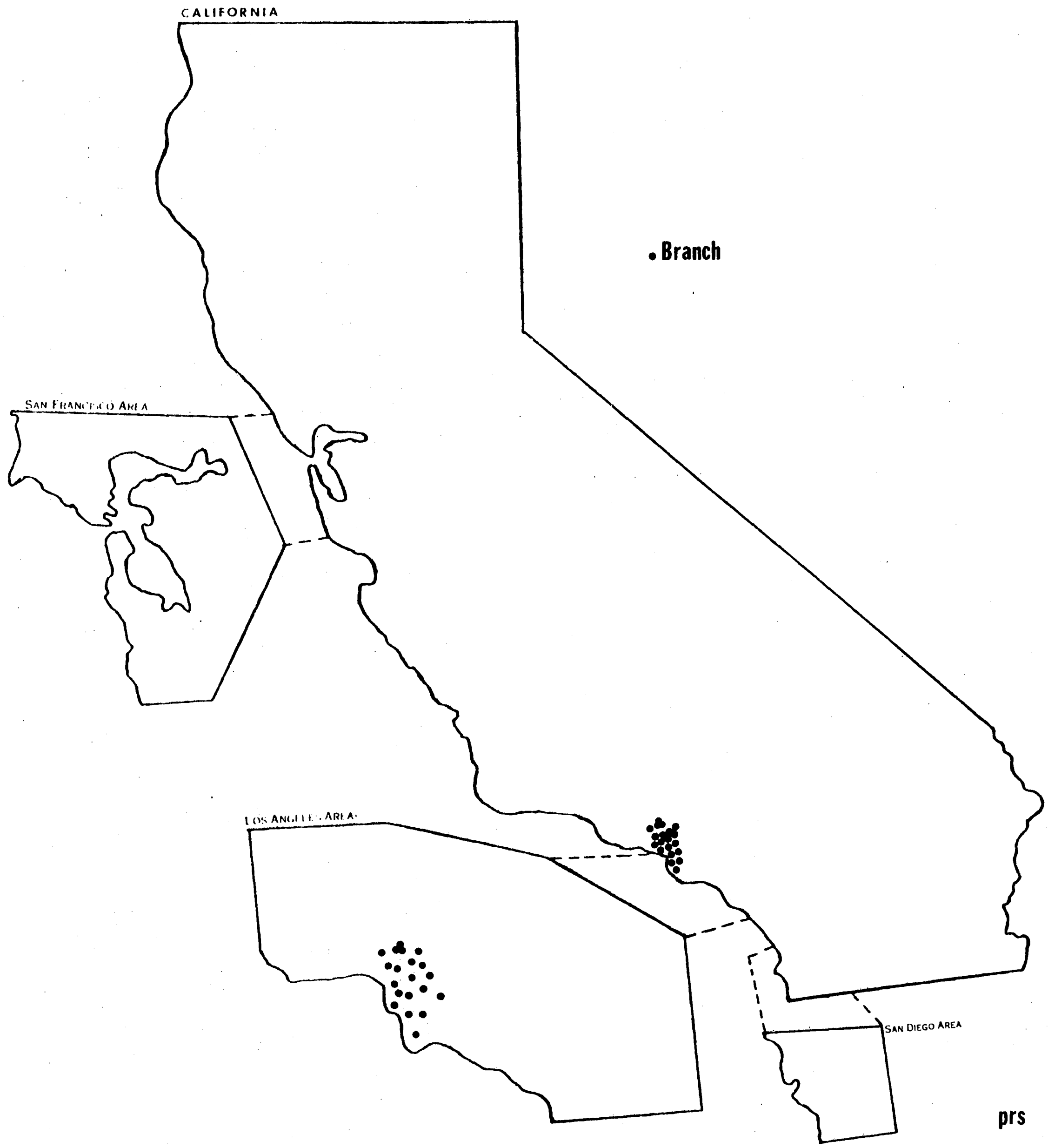


Figure 4. Commercial NTSA, of Los Angeles, 1926

Giannini formed another holding company called Americommercial (to which he divested control of Commercial N.T.S.A.) and it became a subsidiary of Bancitaly. In other words, a holding company, controlling a holding company, which controlled the bank. Giannini felt that this complicated power structure would put him and the Bank of Italy far enough out of the picture as to avoid any prejudices held against him and the Bank of Italy. It also made it seem that all three branch systems (Bank of Italy, Liberty Bank and Commercial N.T.S.A.) were being operated entirely seperate from each other, but in reality, controlled by Giannini. It was indeed a roundabout way to achieve his goal of a statewide branch bank system, but the only way to do it at the time.

Once Americommercial was established, Giannini had it negotiate to buy the Bank of America, Los Angeles, a sound state branch bank system without Federal Reserve membership. The Bank of America, Los Angeles, was organized by Orra Monnette in 1923 in Los Angeles. It based all of its banking policies on those developed by Giannini and the Bank of Italy. The Bank of America, Los Angeles, grew rapidly in its first year, having eight branches in and around Los Angeles. Because it was a state bank and not a member of the Federal Reserve, the Bank of America could expand its branch system outside of Los Angeles. Superintendent Johnson issued it permits for its new branches because it was a financially sound bank and none of the applications for branches were north of the Tehachapi Line.

In mid-1924, Americommercial was successful in purchasing control of the Bank of America, Los Angeles, adding its eight branches and 16,000 depositors to its system. With the purchase, Orra Monnette was made president of Americommercial. From this position, Monnette was hired to direct the two banks' progress, keeping them separate in their operations, but using the same established policies he acquired from the Bank of Italy. Keeping the banks separate, Giannini, through Americommercial, controlled two rapidly growing branch systems south of the Tehachapi Line, one under Federal and State jurisdiction and the other under just state jurisdiction. The Bank of America, Los Angeles, was to grow from its eight branches when purchased by Americommercial, to a system of twenty-five branches in and around Los Angeles by 1926, reaching from Santa Barbara in the north to Anaheim in the south (Figure 5). By the end of 1926, the two banks had fifty-five branches and over \$60,000,000 in deposits between them.[7]

In California's other major city, San Diego, Giannini had not attempted to enter this market area to the degree he had in Los Angeles. The Bank of Italy and Giannini's other two banks in the south had only one branch there (a Bank of Italy branch) at the end of 1926. Although San Diego had not experienced the rapid boom that Los Angeles had during this period, it was still a valuable market to establish branches in. This was being done by George W. Davidson with the Southern Trust and Commerce Bank of San Diego. He entered Southern Trust into branch banking in 1920 and by the end of 1921 there were five branches all outside of San Diego. By 1926 the system added four more new branches, giving the Southern Trust nine branches in and around San Diego (Figure 6).

In early January, 1927, Giannini had Bancitaly negotiate and buy the Southern Trust and its branch system, giving him control of three major branch bank systems south of the Tehachapi Line. These three banks had branches ranging from Santa Barbara in the north and now all the way to south-central California in Calixico (on the Mexican border)

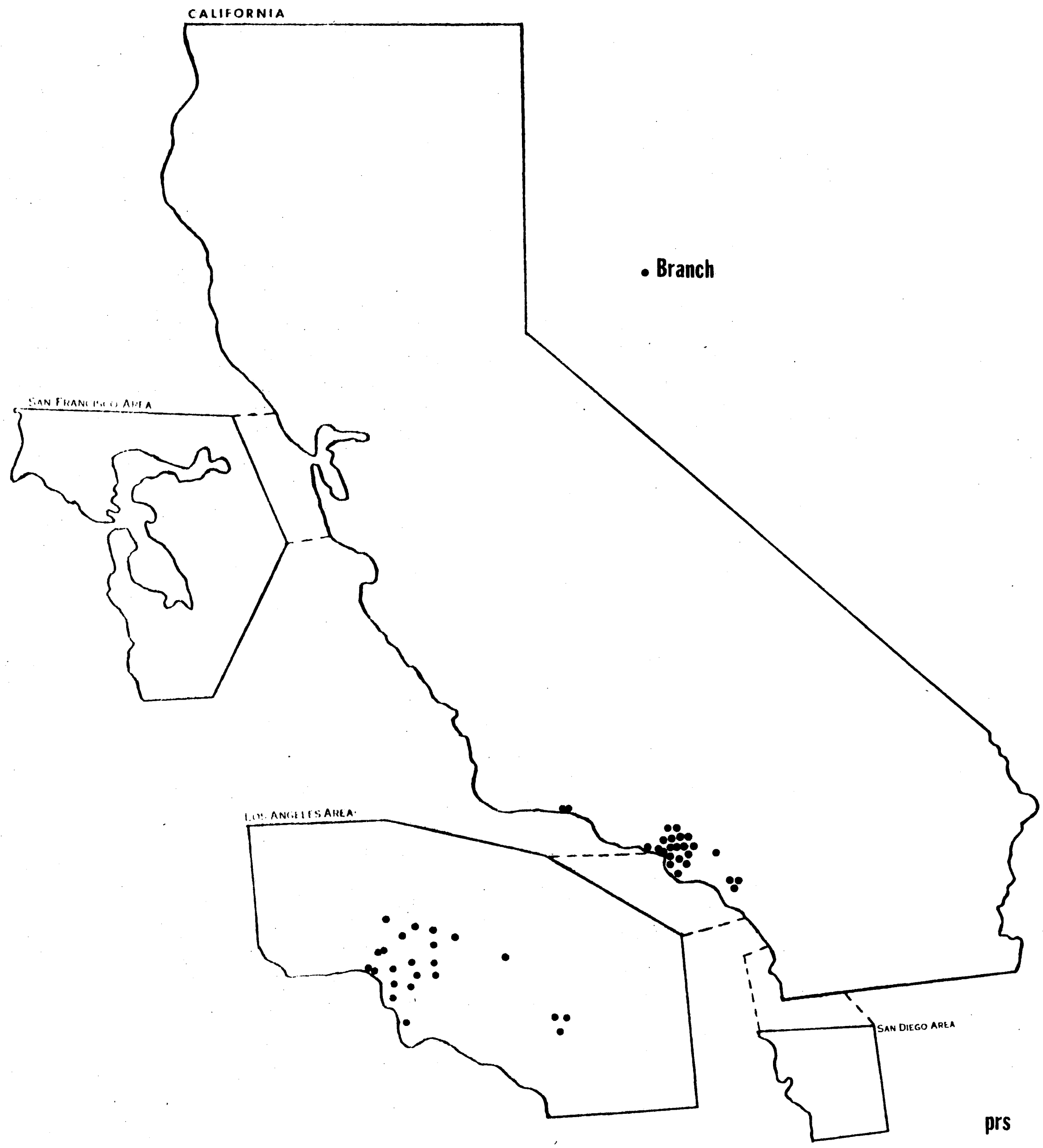


Figure 5. Bank of America, Los Angeles, 1926

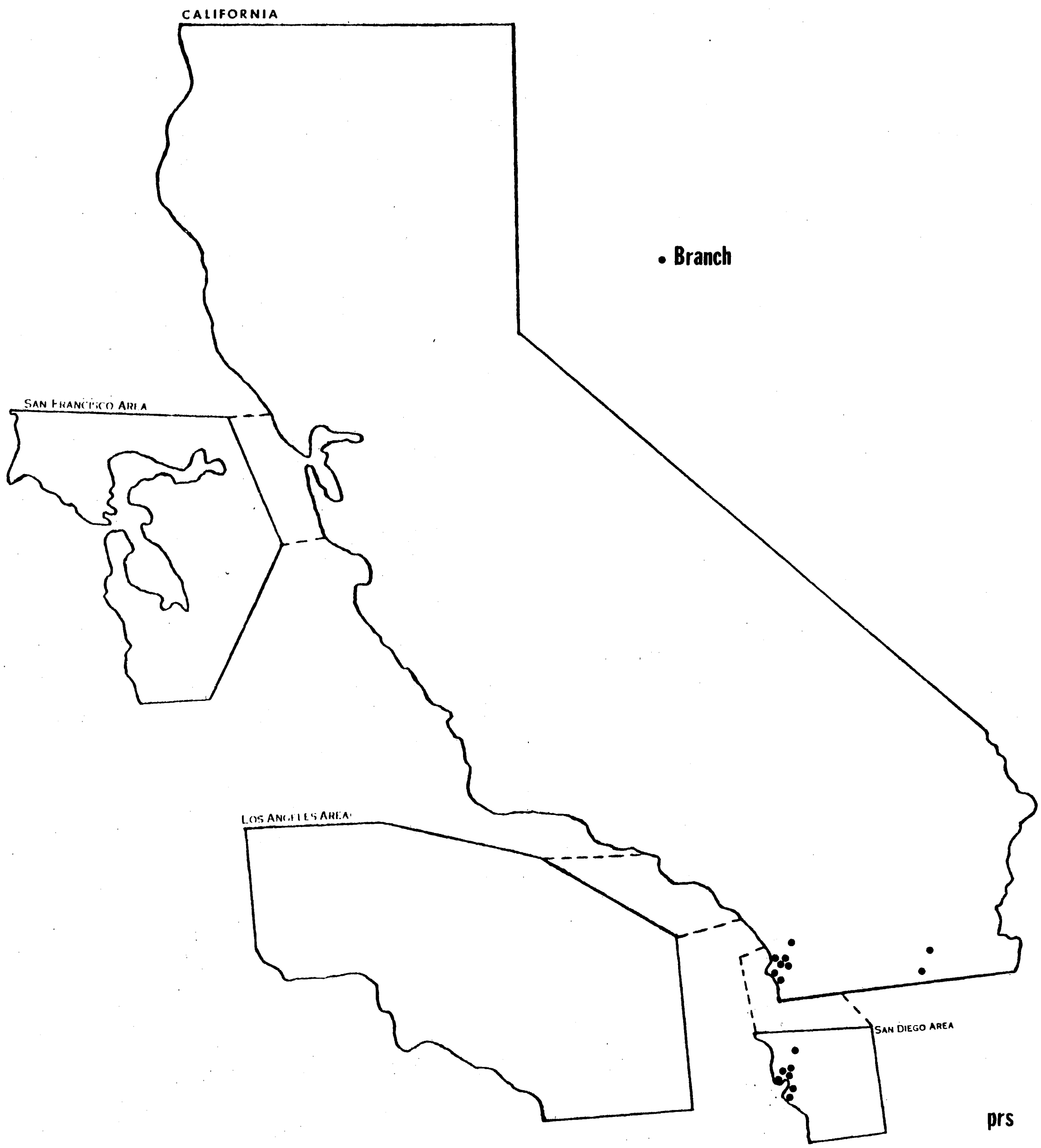


Figure 6. Southern Trust and Commerce Bank of San Diego, 1926

in the south. Of the Commercial N.T.S.A., Bank of America, Los Angeles and the Southern Trust, not one had a branch north of the Tehachapi Line.

As all this development was occurring in Southern California, the Bank of Italy had been successfully slowed to a stop with its branch expansion by the Federal Reserve Board. Only one branch was added between June, 1925 and January, 1927. This gave the Bank of Italy ninety-six branches and resources of over $450,000,000 at the end of 1926.[8] Only nineteen of these branches, as previously mentioned, were south of the Tehachapi Line (Figure 7).

The fact that the Bank of Italy did not have much branch expansion in the years 1924-1927 is a bit deceptive, because as mentioned earlier, what branch expansion Giannini could not achieve with the Bank of Italy, he did with Commercial N.T.S.A. or Bank of America, Los Angeles, in the south or continued the branch expansion in the north with the Liberty Bank.

The Liberty Bank had grown from its modest beginnings in 1921 to a system of fifteen branches and $17,000,000 in deposits in 1925.[9] In the next year it doubled its branch bank system by adding seventeen new branches, giving the Liberty Bank a total of thirty-two branches, all north of the Tehachapi Line (Figure 8). Many of the cities where the Liberty Bank expanded were cities Giannini had hopes of opening a branch of the Bank of Italy...but could not because of the rules imposed on it by the Federal Reserve Board. As we will see, it really did not matter to Giannini which bank opened up a new branch, because he was planning to merge them into one system sometime in the future.

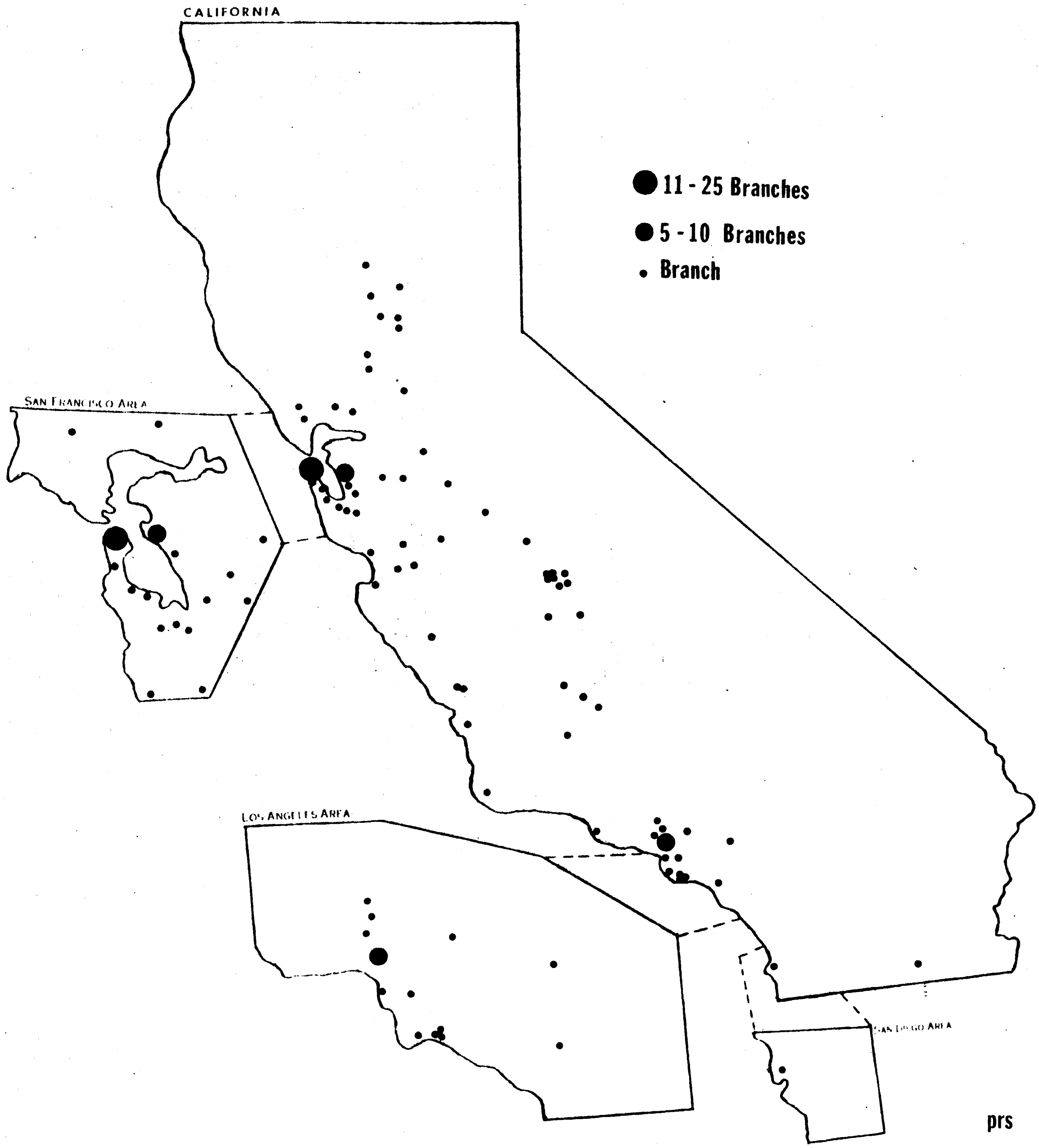


Figure 7. Bank of Italy, 1926

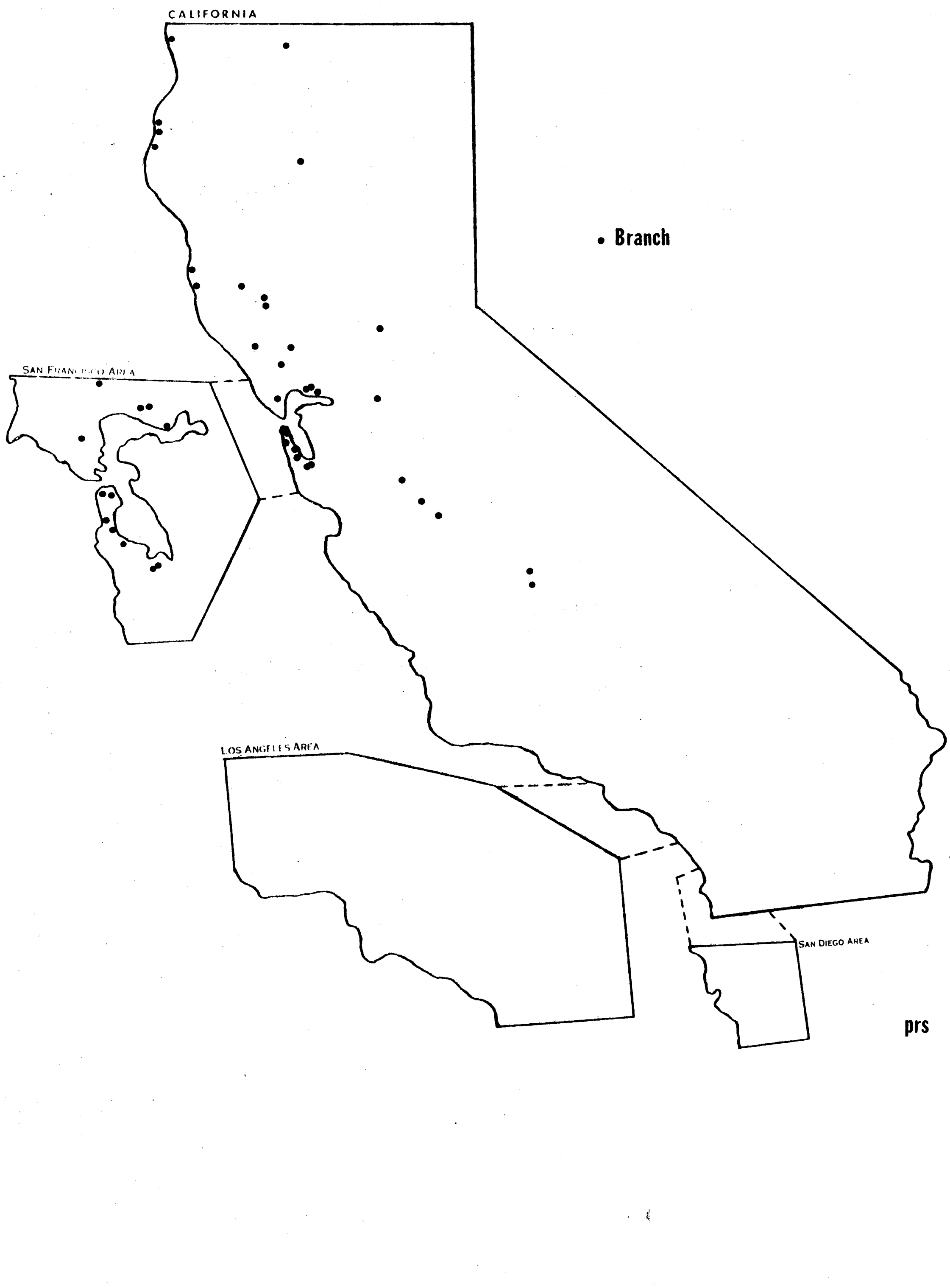


Figure 8. Liberty Bank, 1926

Consolidation (January, 1927-March, 1927)

The merger of the five branch bank systems controlled by Giannini into one statewide system under the Bank of Italy banner, took place in two major steps. The first step was the merging of the three southern banks (Commercial N.T.S.A., Bank of America, Los Angeles and Southern Trust and Commerce Bank, San Diego) with the northern system of the Liberty Bank. This first step was possible because of two events which occurred in late 1926 and early 1927.

The first was a change in the state superintendent of banks. Johnson who served under Governor Friend Richardson and was totally against any statewide branch bank system, lost his job when Richardson lost reelection as governor in the fall of 1926. The winning governor, Clement C. Young, appointed Will C. Wood as the new superintendent of banks in January, 1927 (when Johnson's term was officially ended). Wood was just the opposite of Johnson and firmly believed that statewide branch banking was a good thing for California.[10]

Secondly, the Federal Reserve Board had eased its rulings somewhat because of a few new board members and a bill which was pending in Congress. The name of this law was the McFadden Act, and it would take much of the burden off of the Federal Reserve Board by making law many of the rulings the Board had made in the past, limiting the growth of branch banking. What the law said basically was that any national bank or state bank with Federal Reserve membership could establish new branches (purchased or de novo) only in the city where its parent bank was located. A bank could maintain any branches outside its home city which it was operating when the bill became law.[11]

State banks, not members of the Federal Reserve, could therefore still establish branch banks outside of their home city de novo or by purchasing another bank and then merge it into its system. The McFadden Act applied only to national banks or Federal Reserve member state banks. The law allowing state banks to continue branch banking was not important to Giannini at the moment because he wanted his system to be a member of the Federal Reserve and a national bank. But, as we shall see later, this was a very important loophole which Giannini used to full advantage. Voting, debate and revisions were being fought over in Congress on the McFadden Act for most of the fall of 1926. During the first two months of 1927, passage seemed very close, therefore, if Giannini wanted to create his statewide system of branch banks as a national bank and member of the Federal Reserve, time was of the essence.

With the two events just discussed giving Giannini an opening, matters moved with dramatic swiftness in January and February, 1927. For the first time in ten years, Giannini had the cooperation of the state superintendent of banks in Wood. He also had a more relaxed and favorable Federal Reserve Board to work with. Wood, after two weeks in office, approved the merger of the three southern banks with the Liberty Bank. The Federal Reserve Board, because of Commercial N.T.S.A.'s membership, also had to give its consent. It did so becuase of the new membership on the board and because the new system would join the Federal Reserve. The four banks became known as the Liberty Bank of America as the merger was approved on January 28, 1927. "The policies which have made the Liberty Bank in the north and the Bank of America in the south successful will be continued with the consolidated institution,"[51] Monnette was to say as the new branch bank system began operation.

The Liberty Bank of America was a system of 136 branch banks statewide (Figure 9), and with resources of more than $200,000,000.[13] As mentioned earlier, noting the loophole in the McFadden Act (which was to pass very soon), Giannini had the foresight not to merge every branch which the banks controlled into the new Liberty Bank of America. Giannini retained the Bank of America, Los Angeles, state charter, and maintained three of its branches as simply the Bank of America, and kept it out of the Federal Reserve system. This is an important move which virtually no one besides Giannini recognized and will be discussed in detail in the next chapter.

Giannini controlled two major branch bank systems in California: The Bank of Italy with most of its ninety six branches in the north and the Liberty Bank of America which had its 136 branches statewide. Giannini's second step was to merge these two systems under one name.

The details of the formation of the Liberty Bank of America had barely been made public when the merger of the Bank of Italy and the newly created Liberty Bank of America was announced. Both these banks had virtually the same stockholders, controlling the majority of stock and both being directed by Giannini and his banking policies. Under the consent of both the state superintendent of banks and the Federal Reserve Board (for virtually the same reasons they granted creation of the Liberty Bank of America) the Bank of Italy absorbed the Liberty Bank of America on February 18, 1927.

The sanction of such a merger was justified by Wood at the time in the following statement:

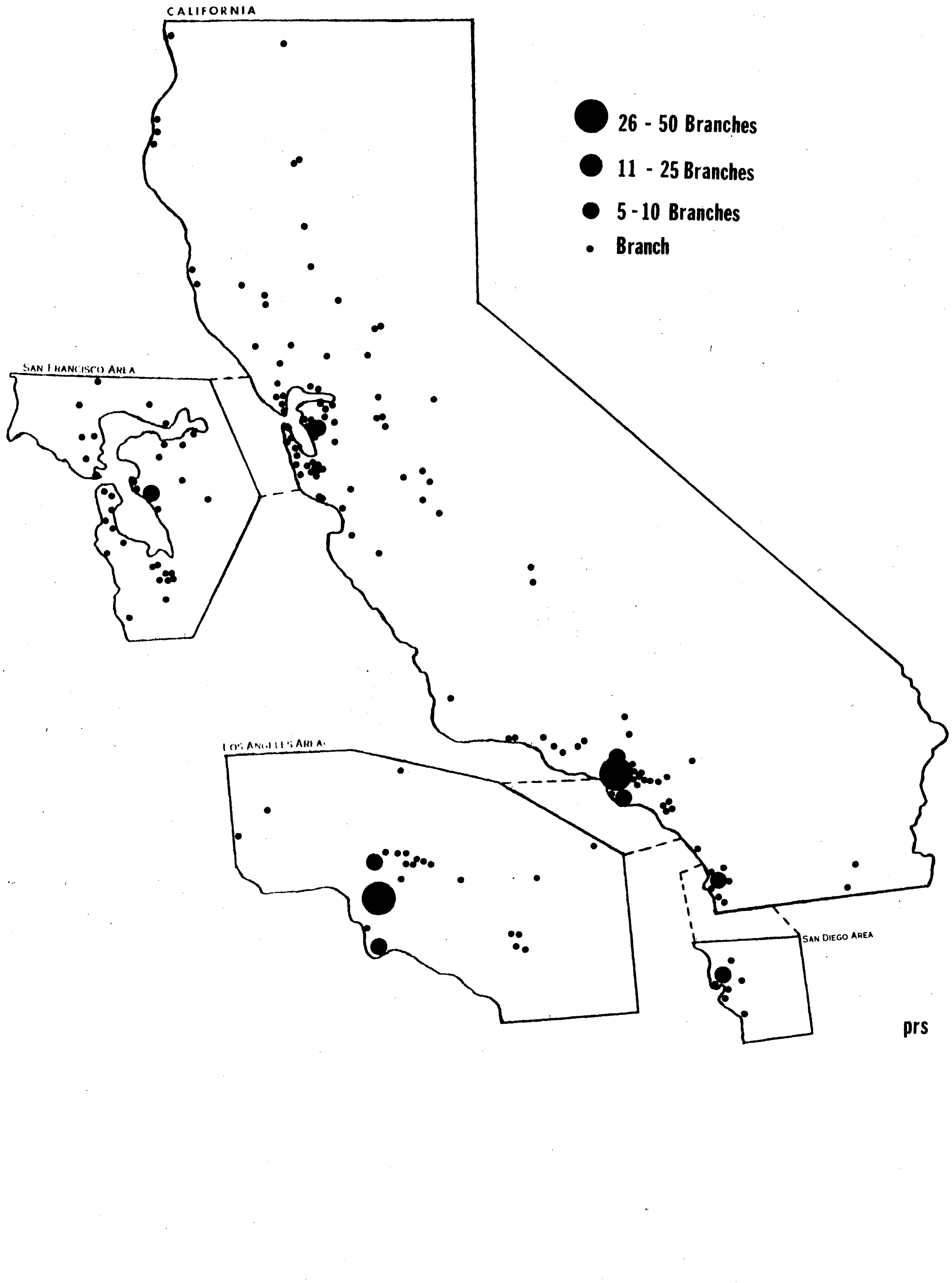


Figure 9. Liberty Bank of America, 1927

> In deciding to approve the agreement of purchase and sale, I took into consideration the fact that both the Bank of Italy and the Liberty Bank of America are owned by the same people and are all but technically under the same general management. Bankers generally agree that it is neither good banking policy nor good public policy to keep the banks separate in operation when the ownership is practically identical.[14]

With that, the Bank of Italy became the largest bank in the United States outside of New York with resources of nearly $650,000,000. The Bank of Italy had a system of 276 branches (forty-four branches had been added by absorbing independents controlled by each through their holding companies, or added de novo, before the merger) extending from the Oregon line to the Mexican border (Figure 10).

Undoubtedly, the reason for the rapid mergers lay in the desire by Giannini to have the Bank of Italy remain in the Federal Reserve and complete the statewide branch bank system under one banner before the McFadden Act became law. The Act was passed on February 25, 1927, just one week after the merger of the Bank of Italy and the Liberty Bank of America was completed. The Bank of Italy had made application to become a national bank in early February. On March 1, 1927, the application was approved thereby creating the Bank of Italy National Trust and Savings Association. Many thought that the Bank of Italy N.T.S.A. would only add branches in San Francisco, but with Giannini's understanding of the loophole in the McFadden Act, this was not to be.

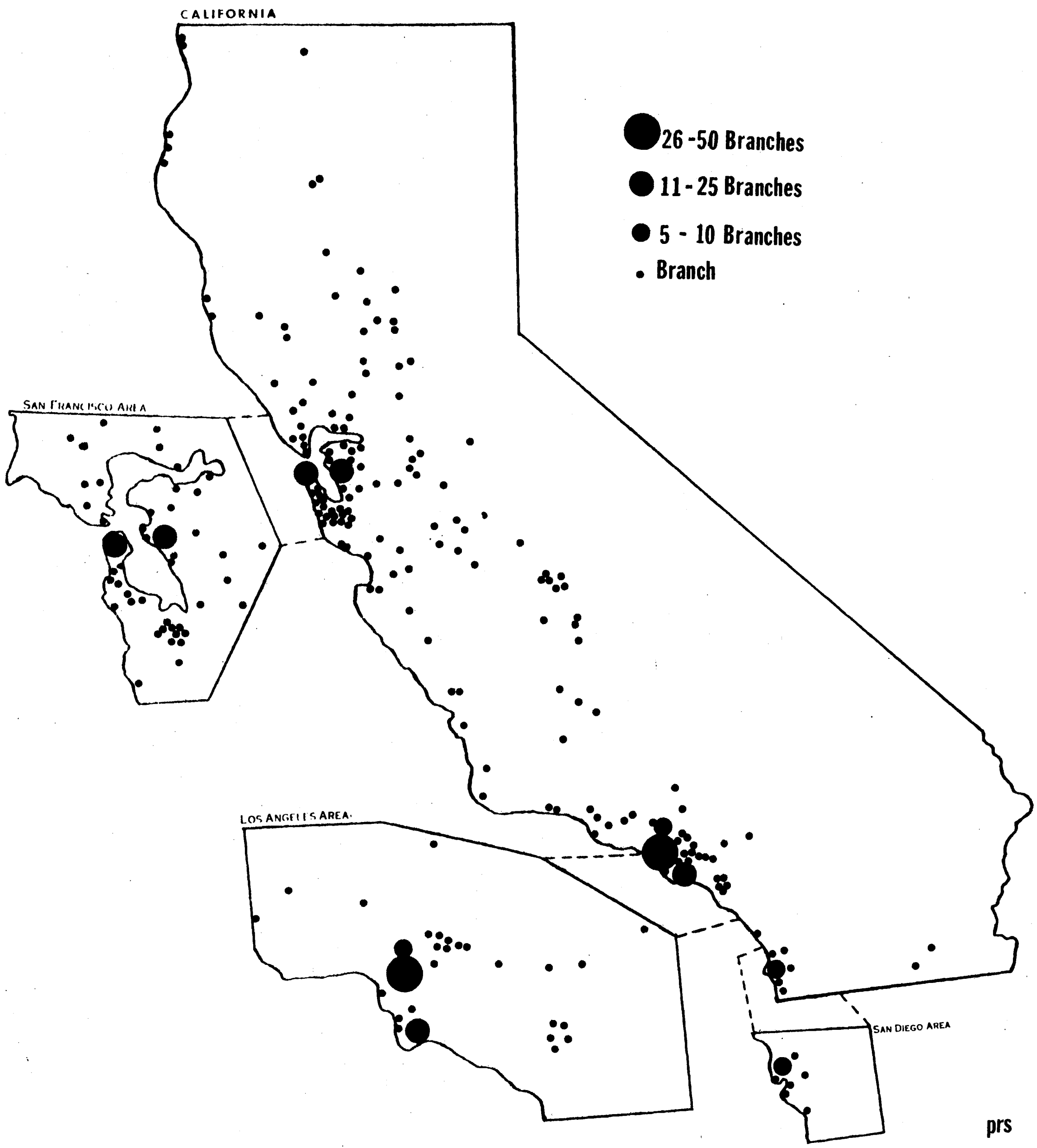


Figure 10. Bank of Italy, NTSA, 1927

FOOTNOTES

[1] James, p. 198.

[2] James, p. 98.

[3] Shirley D. Southworth, Branch Banking in the United States (New York, 1928), p. 74.

[4] Josephson, p. 114.

[5] Ibid.

[6] Southworth, p. 62.

[7] The Commercial and Financial Chronicle, 124 (February 5, 1927), p. 748.

[8] Hearings, p. 1354.

[9] James, p. 177.

[10] Russell M. Posner, "The Bank of Italy and the 1926 Campaign" California Historical Society Quarterly, 37 (September, 1958), p. 355.

[11] Southworth, p. 178

[12] The Commercial and Financial Chronicle, p. 748.

[13] Ibid.

[14] Southworth, p. 162.

CHAPTER IV

BOOM - DEPRESSION - RECOVERY -- 1927-1938

During the period between March, 1927, and October, 1929, California continued to experience enormous growth and "Coolidge" prosperity. Many people were making fortunes in the stock market buying on margin (paying only ten percent of the stock's price, borrowing the difference and using the stock as collateral). In October, 1929, the stock market crashed all around them. The stock market crash pulled the country into the worst depression in history. It took almost a decade for recovery.

In California, problems had been troubling the agricultural section of the economy throughout the last half of the 1920's. Even with the diverse crop production, the agricultural industry was to suffer tremendously. Overproduction and unreliable markets were the major cause of the dilemma. The depression brought on new problems for the farmers, especially in the Central Valley, where conditions remained critical as the rest of the state began to recover in the mid-1930's.[1]

The Central Valley's problems were compounded by an influx of people, because California was still looked upon as the land of opportunity for many people, especially those from the mid-west. Farmers left their farms in the "dust bowl" heading for California and better times. What they found was not much better and is brought to life by John Steinbeck's novel, The Grapes of Wrath. As national economic conditions began to improve, markets began to reappear, bringing back prosperity to California's agricultural industry.

The other parts of California suffered along with the rest of the country until Roosevelt entered office and got the country back on the road to recovery with "the New Deal". One bright spot which should be mentioned, is the movie industry. America, even in the depression, had to be entertained and Southern California was the center for the entertainment industry. Hollywood was still turning out films, and this provided many jobs and was a great asset to the economy in the Southern California area.

The Bank of Italy reached a high point and a low point during this period. Giannini put together another branch bank system similar to the Liberty Bank of America, merging them into one system. Then, because of mismanagement by subordinates, he almost lost it all. Through the boom and bust years of 1927 to 1938 the Bank of Italy (presently to become the Bank of America) emerged stronger than ever under the renewed leadership of A. P. Giannini.

After the merger which completed Giannini's plan for the Bank of Italy N.T.S.A., prior to the passage of the McFadden Act in February 1927, many financial experts felt that the Bank of Italy would be limited to San Francisco in future branch growth. For example, Southworth, in a study of branch banking in the United States in 1928, stated, "It would now appear that the Bank of Italy has now reached its final form under present legislation."[2] What Southworth and many other banking authorities did not see, and Giannini did, was a loophole in the McFadden Act which could be used to continue branch bank expansion.

The McFadden Act (as mentioned in Chapter III) stated that a national bank could merge with any other bank so long as the head office of the two merging banks was located in the same city. The merging banks could retain any branches they were operating prior to the passage of the McFadden Act and could only open de novo branches in their home city. This law, it was felt, would severely limit branch bank expansion statewide. But Giannini saw a loophole which he could use to continue branch expansion, much in the same pattern as his formation of the Liberty Bank of America as described in Chapter III.

The key is being able to merge with another bank, so long as the head offices are located in the same city. Giannini simply started forming the new branch system by buying a bank with an established branch system and building on to it, leaving the Bank of Italy out of the picture until he was ready to merge the two systems.

Another important point is what the McFadden Act does not say. Giannini recognized that the McFadden Act could only be applied to national banks or state banks which were members of the Federal Reserve. It said nothing about state banks without Federal Reserve membership or anything on holding companies operating state banks. Giannini used these three devices to put together the Bank of America, California in just one and one half years.

Giannini began in April 1927 with the acquisition of the United Bank and Trust Company of California. This bank, with its head office in San Francisco, had a branch system of eight branches in 1923, located from Sacramento, in the north, to Fresno in the south (Figure 11).[3] By 1927 it had not added any additional branches, but United Bank had built its resources to $49,000,000. Giannini had purchased the United Bank with a holding company known as the French-American Corporation.

The French-American name was acquired when the French-American

Figure 11. United Bank and Trust, 1923

Bank was purchased in 1924 by Bancitaly Corporation. Giannini purposely left the French-American Bank out of the merger of the Liberty Bank and the three southern banks he controlled when the Liberty Bank of America was formed in 1927. The French-American was a state bank without Federal Reserve membership, therefore responsible only to California's state superintendent of banks. Giannini wanted a state bank operating north of the Tehachapi Line to match with the Bank of America which operated south of the line. Giannini left nothing to chance...if there was to be a sudden change in the state superintendent of banks, he wanted to be prepared to continue branch expansion on a zonal basis.

French-American Corporation controlled both the United Bank and the French-American Bank. With the purchase of the United Bank, he merged the two operations together under the United Bank's name. This added five new branches to the United Bank branch system, giving it thirteen branches, five of which were located in San Francisco (Figure 12), and resources well over $73,000,000.

The above described merger was critical in Giannini's plan of a new statewide branch bank system. The United Bank was a member of the Federal Reserve and, therefore, came under the rules of the McFadden Act. If Washington did not approve of the merger, the loophole would be closed or a legal battle would ensue. It also removed the French-American Bank from state operations, leaving Giannini no state bank north of the Tehachapi Line. Giannini did not want to bring to light his latest plans, which would have happened had the merger been disapproved by the Federal Reserve. He would have to withdraw the United Bank from the Federal Reserve to continue its branch expansion (and have a state bank north of Tehachapi). At the moment he was not ready to do this. When

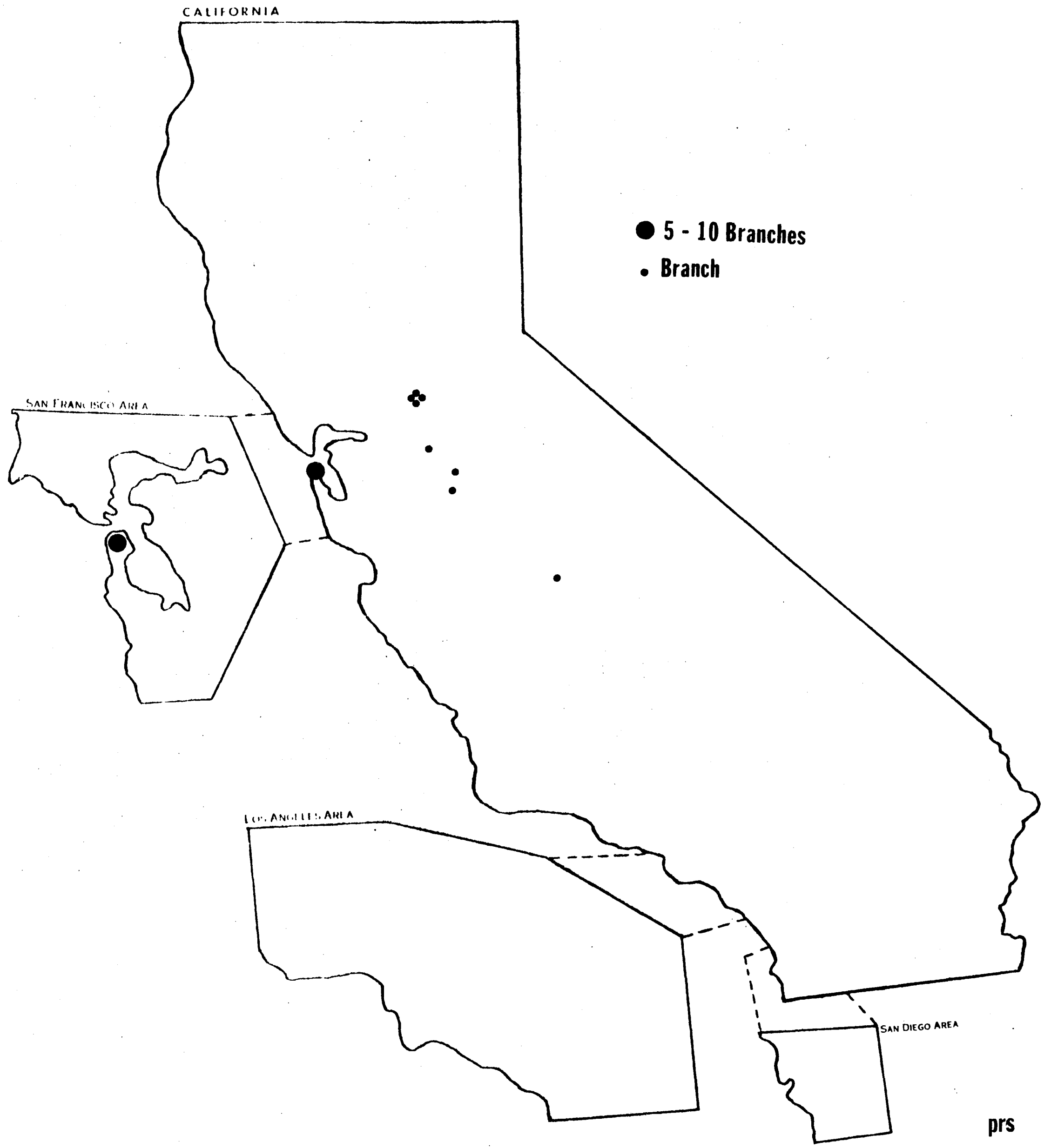


Figure 12. United Bank and Trust, 1927

no objections came, a precedent had been established and Giannini knew he could merge the United Bank with the Bank of Italy whenever he was ready. However, he had a lot more branch expansion he wanted to achieve before doing so. He also wanted to avoid attention - preventing anyone from blocking his plans -- until he was satisfied with the new system.

Giannini was content with United Bank's progress in the number of branches it had, concentrating on building up its resources. He next turned to the French-American Corporation to continue purchasing banks, leaving the United Bank out of the picture, just for the moment. In this way he kept the newly purchased banks out of the Federal Reserve, yet the United Bank in...again avoiding attention.

In September 1927, Giannini decided that he would start another branch bank system of just state banks, none of which were Federal Reserve banks, from some of the banks the French-American had recently purchased (it must be remembered that these were boom times and money was readily available for such purchases). Giannini submitted applications to the state superintendent of banks to merge three of the independents (and the few branches each was running) and form a new bank. Each bank had the name Security in its title, therefore, he called the bank Security Bank & Trust with its head offices in Bakersfield.[4]

After approval of its charter by Superintendent Wood, the Security, Bakersfield, began to rapidly expand its branch bank system throughout California by adding banks which had been purchased by the French-American Corporation. By January 1928, the branch system had rapidly expanded to thirty-eight branches throughout California (Figure 13).

Figure 13. Security Bank and Trust of Bakersfield, 1928

Security, Bakersfield branches were located mainly in the rural sections of California. It was here Giannini was able to establish new branches because local unit bankers were having problems relating to the local agricultural misfortunes of the late 1920's. It was as before, unit banks' prosperity would rise and fall with the local economy. Superintendent Wood was pleased to see a Giannini branch move into the stricken areas, bringing back some confidence to the local economy. It was another example supporting the basic Giannini ideas about branch banking and the good it could bring into California's agricultural areas.

As with the Bank of Italy after 1920, Security, Bakersfield did not expand in any discernible geographical pattern other than concentrating its branch expansion in the rural areas rather than the urban areas of Northern California. Branch expansion in the south was again being limited to a Giannini bank. This time it was not by a state superintendent of banks enforcing the zonal theory of branch banking, but a legal battle with a Los Angeles bank over the use of the word "security" in its name. The Los Angeles bank won a court injunction limiting further branch growth of Security, Bakersfield in the Los Angeles area because of its name.

The Security, Bakersfield continued its branch expansion in the north by merging banks it purchased or merging in French-American Corporation independents that were eligible into its system. It was expanding almost exactly as the Liberty Bank had two years earlier. This time around it was easier for Giannini because he had the support of Superintendent Wood in Security, Bakersfield's branch expansion program.

For the next six months - on into 1928 -- Security, Bakersfield and the French-American Corporation continued to purchase unit banks wherever one (which Giannini or his associates wanted to acquire) became available. In January 1928, Giannini decided it was time to combine the branches and resources of the United Bank with the Security, Bakersfield. To do so required Giannini to withdraw the United Bank from the Federal Reserve. He did this as to avoid problems with the Washington authorities because of the McFadden Act. It also laid bare his latest plans in continued branch expansion. It additionally created two branch systems, just as before, one under federal and state authority and one under just state authority. Giannini was able to withdraw the United Bank from the Federal Reserve System without any serious repercussions from the Federal Reserve, as might have happened earlier if he had withdrawn the Bank of Italy.

With the merger, Giannini moved Security, Bakersfield head office into United Bank's head office in San Francisco and renamed the bank Security Bank and Trust of San Francisco. He did this so that he could still merge the Security, San Francisco into the Bank of Italy whenever he was ready and still comply completely with the McFadden Act. At that time Giannini was not ready to stop branch expansion with Security, San Francisco. The new bank was a system of forty-nine branches in California (Figure 14) and resources over $100,000,000.[5] Only three branches were located in the Los Angeles region.

Two months later Giannini negotiated and purchased the Humbolt Bank of San Francisco. The Humbolt Bank did not have a large branch bank system (only three branches - all located in San Francisco), but it did have over $30,000,000 in resources.[6] Giannini was not concerned with additional branches, but to build the prestige of Security, San

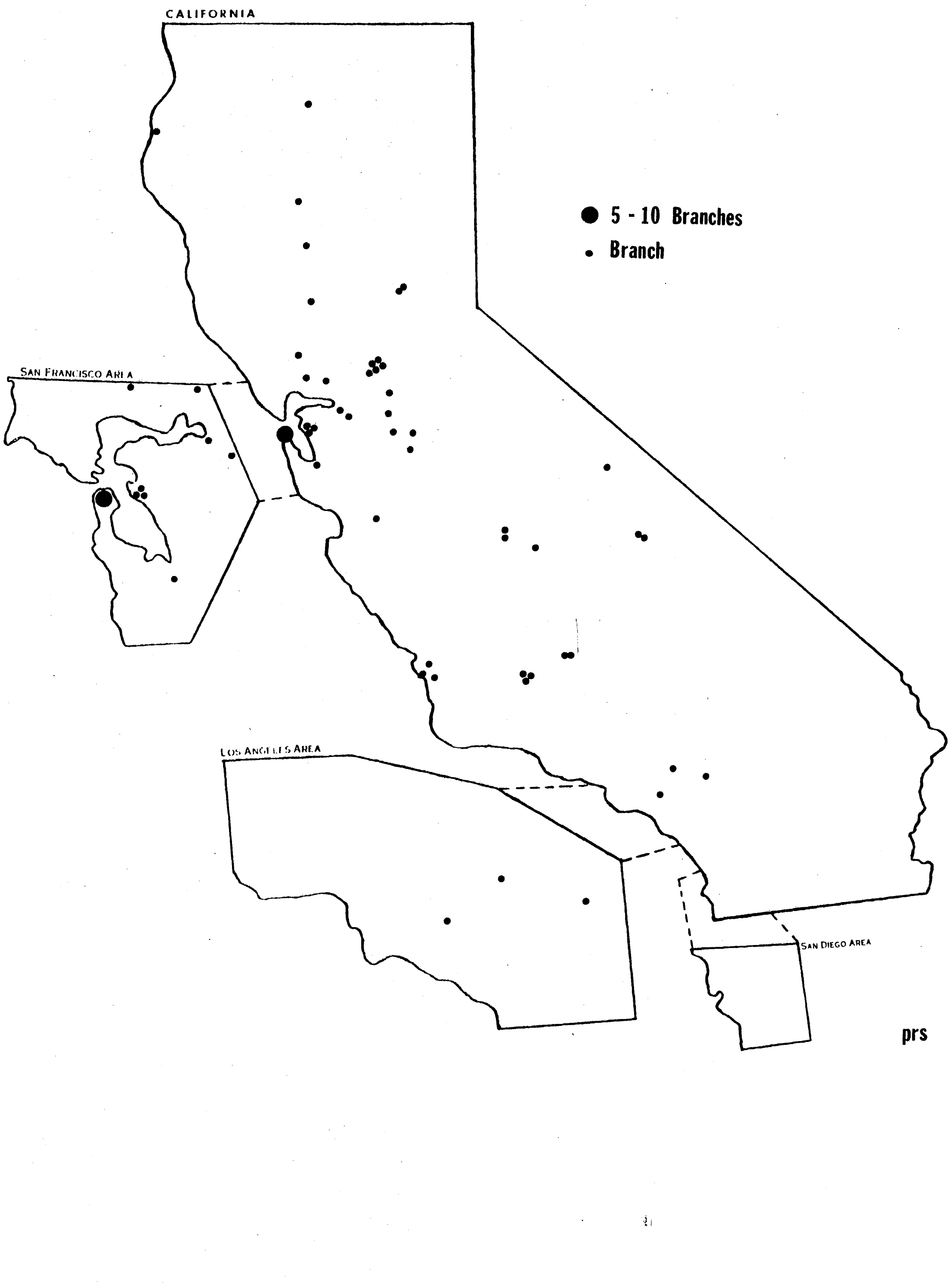


Figure 14. Security Bank and Trust of San Francisco, 1928

Francisco by building its resources. This also gave him the opportunity to change the name of the bank slightly to United Security Bank and Trust, hoping to end the court injunction, but this proved to be to no avail. The merger gave United Security resources over $140,000,000 and fifty-three branches.[7] The court's injunction which limited the bank's expansion in the Los Angeles region dictated to Giannini that any further expansion geographically into the south would have to be similar to the approach he took by acquiring the Commercial N.T.S.A., et al, as discussed in Chapter III.

Before examining the southern expansion, a brief look at the French-American Corporation's continued activities is necessary. As previously mentioned, French-American Corporation continued buying banks throughout California. It was able to purchase banks anywhere in the state because the court injunction imposed on United Security did not apply to French-American. Because many of these banks that were purchased were not eligible to merge with United Security or the Bank of Italy for one reason or another, French-American had built up over a year and a half, a large independent system throughout California. Each bank operated as an independent unit bank, with its own name and officers, but directly responsible to French-American and Giannini. All used the Bank of Italy's policies and, when additional funds might be needed, arrangements had to be made to secure such funds. The French-American system was in essence a "chain" bank system.

By mid-1928 the system controlled fifty-five independent banks operating all over California (Figure 15). Giannini disliked chain banking because the system was not one bank with many branches, but fifty-five independent banks. Giannini sought to eliminate this situation by

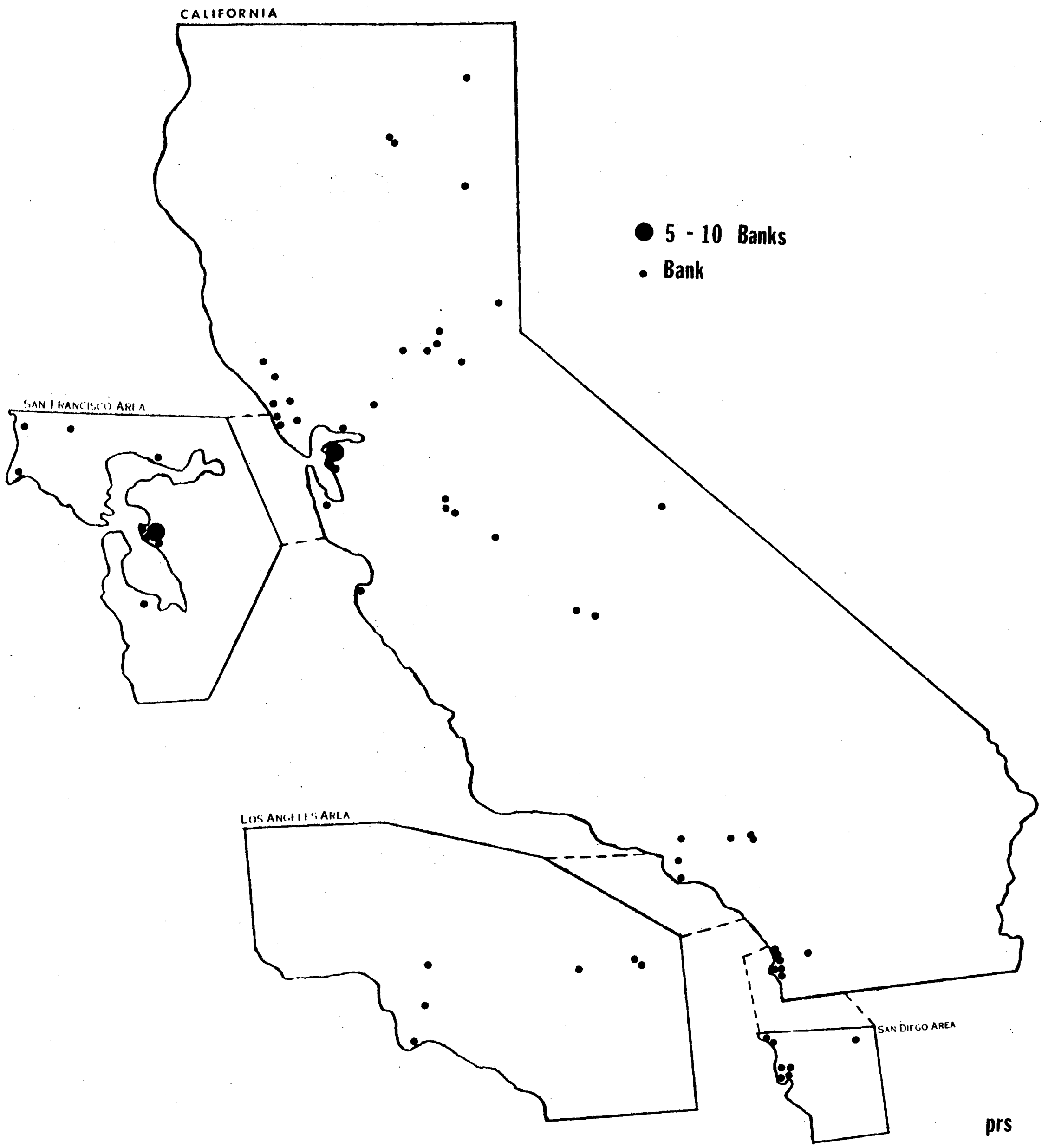


Figure 15. French-American Corporation (Independent System), 1928

bringing all the French-American independents into one of his two branch systems.

Consolidation into the Bank of America, California

Because of the court action which limited United Security to Northern California, the process to complete the bank's statewide branch bank system took on the look of the development of the Liberty Bank of America. Giannini's first move was to change the name of the United Security to end the court injunction imposed on it. He did this by merging the United Security with the Bank of America and its three branches in the Los Angeles area in November, 1928. This is the same bank that Giannini had so wisely left out of the Liberty Bank of America consolidation in February, 1927 and retained its charter as a state bank.

With the merger he was able to merge the French-American Corporation's independents into the new bank which he had not been able to do earlier because of assorted legal problems. The Bank of America then moved its head office to San Francisco. The name United Security was dropped and the bank became the Bank of America, California. While this merger was in its final states, Giannini made arrangements to buy the Merchants National Trust and Savings Association of Los Angeles.

Merchants N.T.S.A. had recently grown at a tremendous rate in and around Los Angeles. This growth was largely a result of a merger with Hellman Commercial Trust and Savings Bank of Los Angeles two years earlier. The Hellman Bank, if we can regress for a moment, was one of the leaders in branch banking in the Los Angeles region since 1920 (see Chapter III). It was one of the seven major banks that had been competing with Giannini's banks for branch permits in booming Los Angeles during the 1920's.

The Hellman Bank was originally several unit banks controlled by Herman Hellman in and around Los Angeles. Hellman was not particularly fond of branch banking as such, but his two sons were, and when he gave control of these banks to his sons, they converted them into one small system under the banner of the Hellman Bank. The system had, in 1920, six branches -- one as far away as Blythe on the Arizona border (Figure 16).[8]

As Los Angeles blossomed during the 1920's, so did the Hellman Bank. The Los Angeles land boom created a demand for additional banking facilities. It had brought about "a condition of traffic congestion in the central city that was brought about by the establishment of the so-called 'service station' branches", of which the Hellman Bank was a leader.[9] By the end of 1923 the Hellman Bank had twenty-three branches in and around Los Angeles, extending as far east as San Bernadino, as the Blythe branch had been closed. (Figure 17).

In 1926 the Hellman Bank had built up a system of thirty-one branches around Los Angeles. It merged with the Merchants National Bank of Los Angeles, bringing in the strong resources it owned. The merger brought in only three branches, but gave the system an impressive $100,000,000 in resources. The bank's name was changed to the Merchants National Trust and Savings Association and two more branches were added before the merger with the Bank of America, California (Figure 18).

The Merchants N. T. S. A. was the kind of institution A. P. Giannini was looking for in the Los Angeles region. It had a number of branches already established and had an attractive commercial business. Upon completion of the purchase, Giannini withdrew Mer-

Figure 16. Hellman Commercial Trust and Savings Bank, 1920

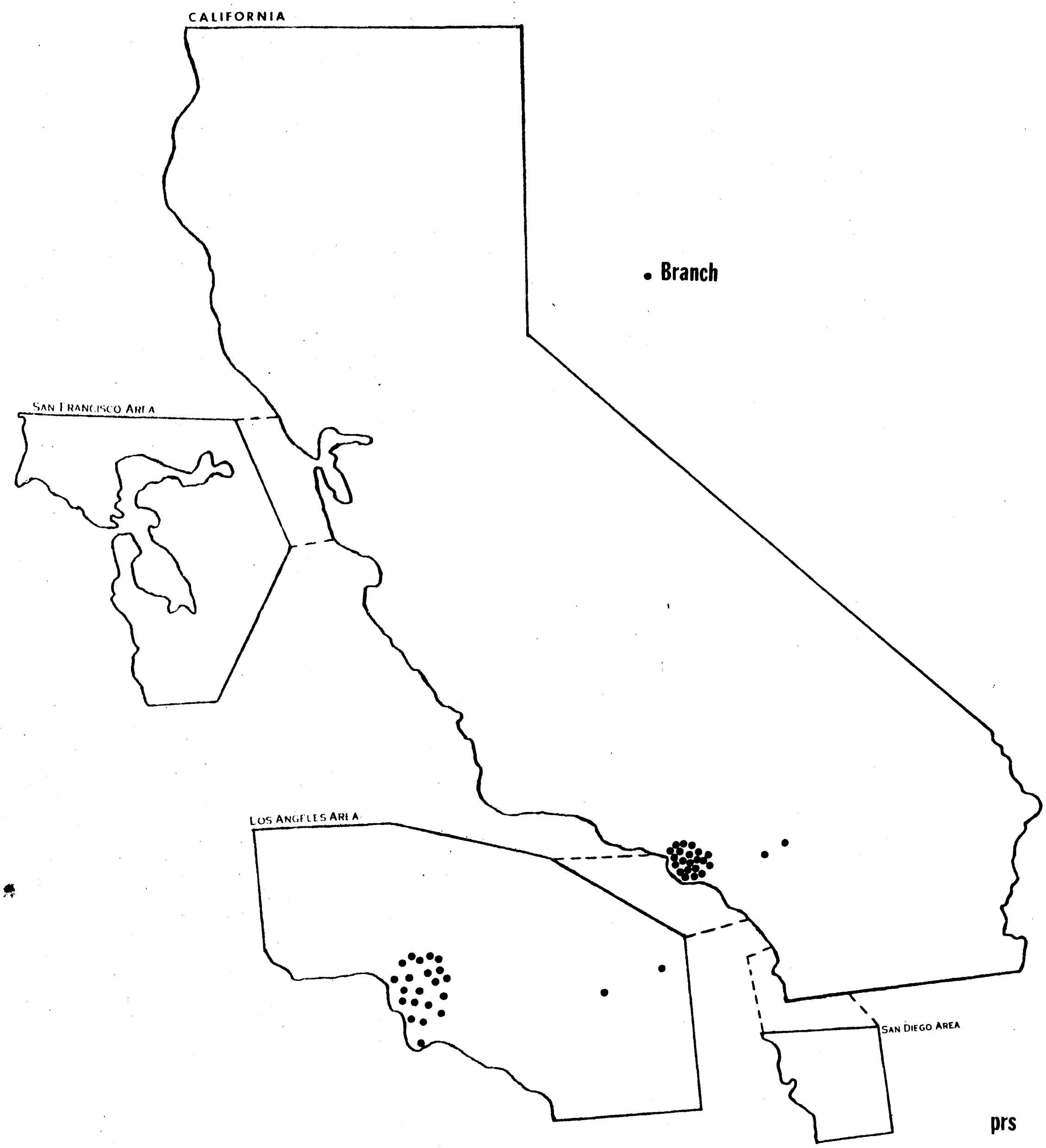


Figure 17. Hellman Commercial Trust and Savings Bank, 1923

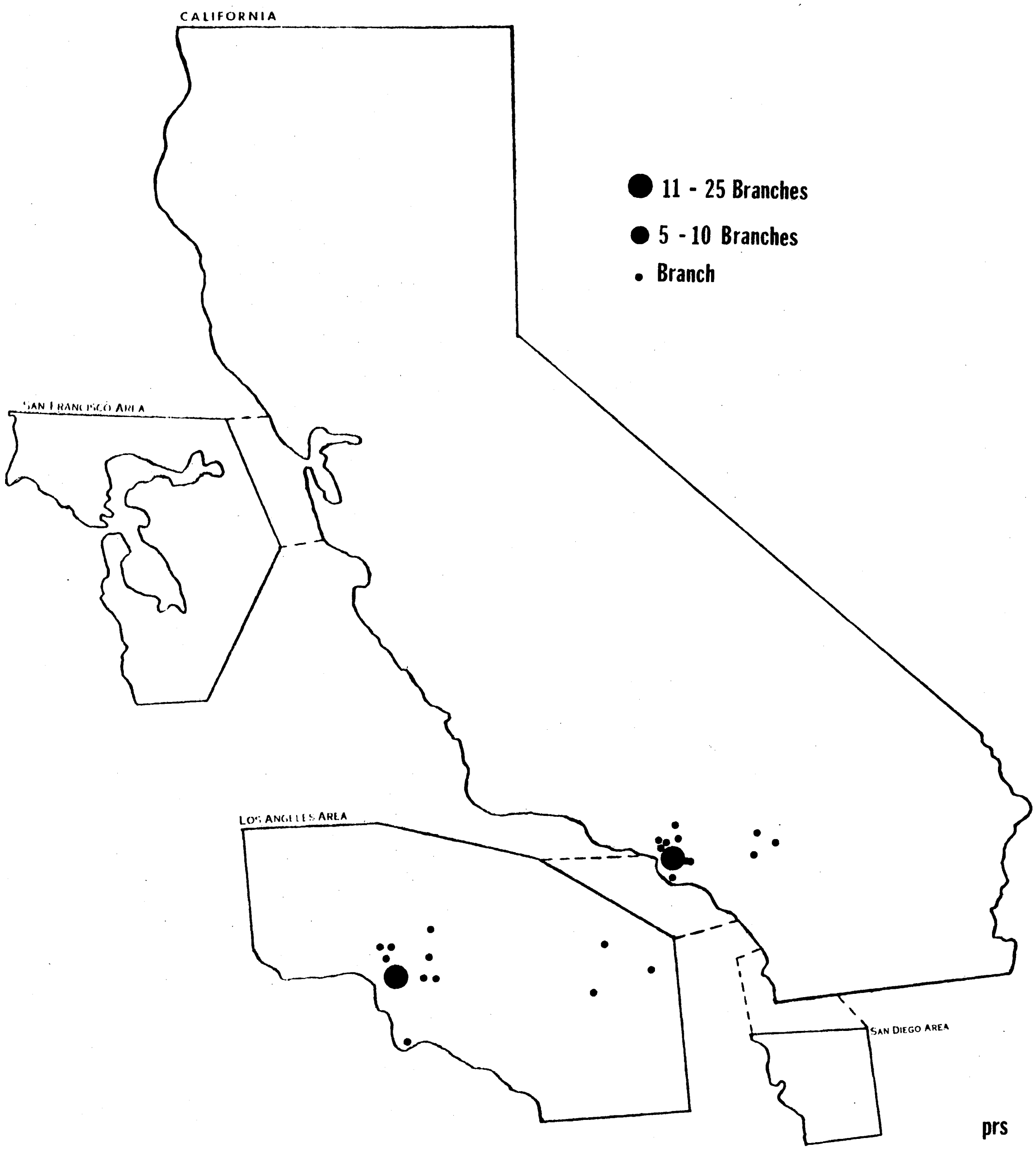


Figure 18. Merchants NTSA, Los Angeles, 1926

chants N.T.S.A. from its national bank status and merged its branches into the Bank of America, California's system in December, 1928. With the merger, six branches were closed or consolidated and the headquarters of the Bank of America, California, was moved to Los Angeles. This merger gave the new system 138 branches statewide (Figure 19) and over $350,000,000 in resources.[10] With this, the French-American Corporation was dissolved and all stock it controlled converted to Bancitaly stock. Giannini now controlled his two major branch systems through one holding company, Bancitaly Corporation.

Although no geographical patterns emerged in the purchasing of one single unit bank around California in the development of the two branch systems to this point, a pattern does emerge for the major branch systems which were acquired. This is the zonal pattern which is developed by the various banks acquired by the Bank of Italy or the Bank of America, California.

In the case of the formation of the Liberty Bank of America in Chapter III, the Liberty Bank developed north of the Tehachapi Line, while the Commercial N.T.S.A., Bank of America, Los Angeles, and the Southern Trust and Savings Bank developed south of the line. This was a result of restraints imposed by the various state superintendents of banks or rulings by the Federal Reserve Board, who were opposed to statewide branch banking. In the formation of the Bank of America, California, the same pattern emerged in its development, until final consolidation. The United Security Bank and its predecessors were limited to growth in the north, like the Liberty Bank. The Hellman Bank, later to be the Merchants N.T.S.A., were developing in the south like Commercial N.T.S.A., et al. This restriction was due also to the super-

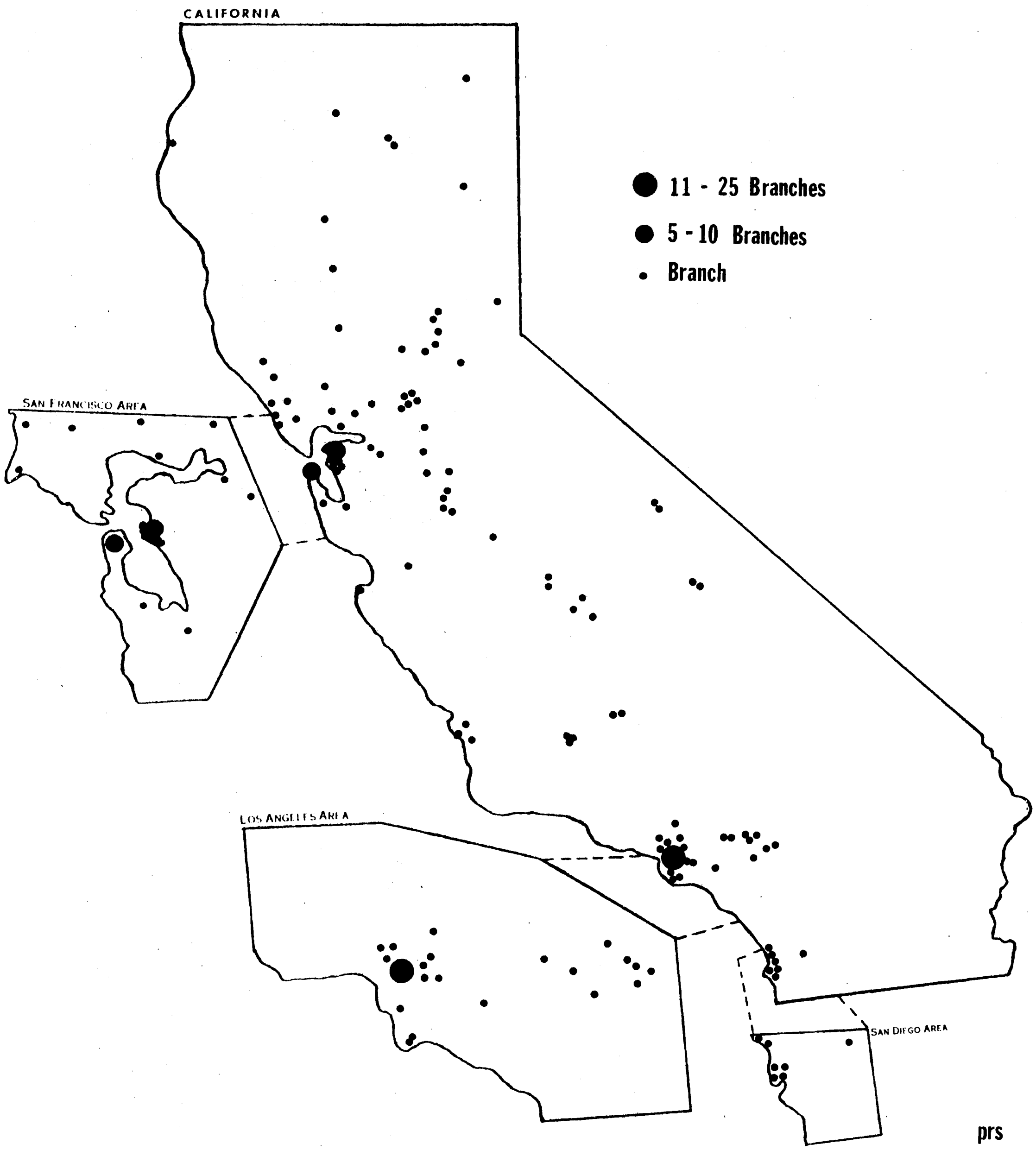


Figure 19. Bank of America, California, 1928

intendents of banks and because of the court injunction placed on United Security. The French-American system cannot be included because it was not one bank, but fifty-five individual banks. Even the Bank of Italy which started its statewide branch bank system in earnest in 1913 when it opened its Los Angeles branches, was limited until 1927 with the vast majority of its development north of the Tehachapi Line.

With the creation of the Bank of America, California, statewide branch bank system in December, 1928, for the last time a Giannini bank was restricted to operate in just one region of California. Giannini's two branch bank systems continued to expand for the next two years. the Bank of Italy mainly in San Francisco (because of the McFadden Act), and the Bank of America, California statewide. Giannini's next move was to merge the two systems into one Bank of America.

Consolidation into the Bank of America National Trust and Savings Association

In the next two years each bank's branch system added a number of branches to the various areas of California. The Bank of America, California added twenty-five more branches statewide, bringing its total to 163 (Figure 20). The Bank of Italy had added twenty branches to its system, all of which were located in San Francisco, bringing that city's total branches close to the number located in Los Angeles, and the total number of branches statewide to over 300 (Figure 21).

As the merger of these two branch bank systems approached, a series of events occurred, which altered the history of the Giannini banks and their continued branch expansion.

The first event was the formation of Transamerica Corporation.

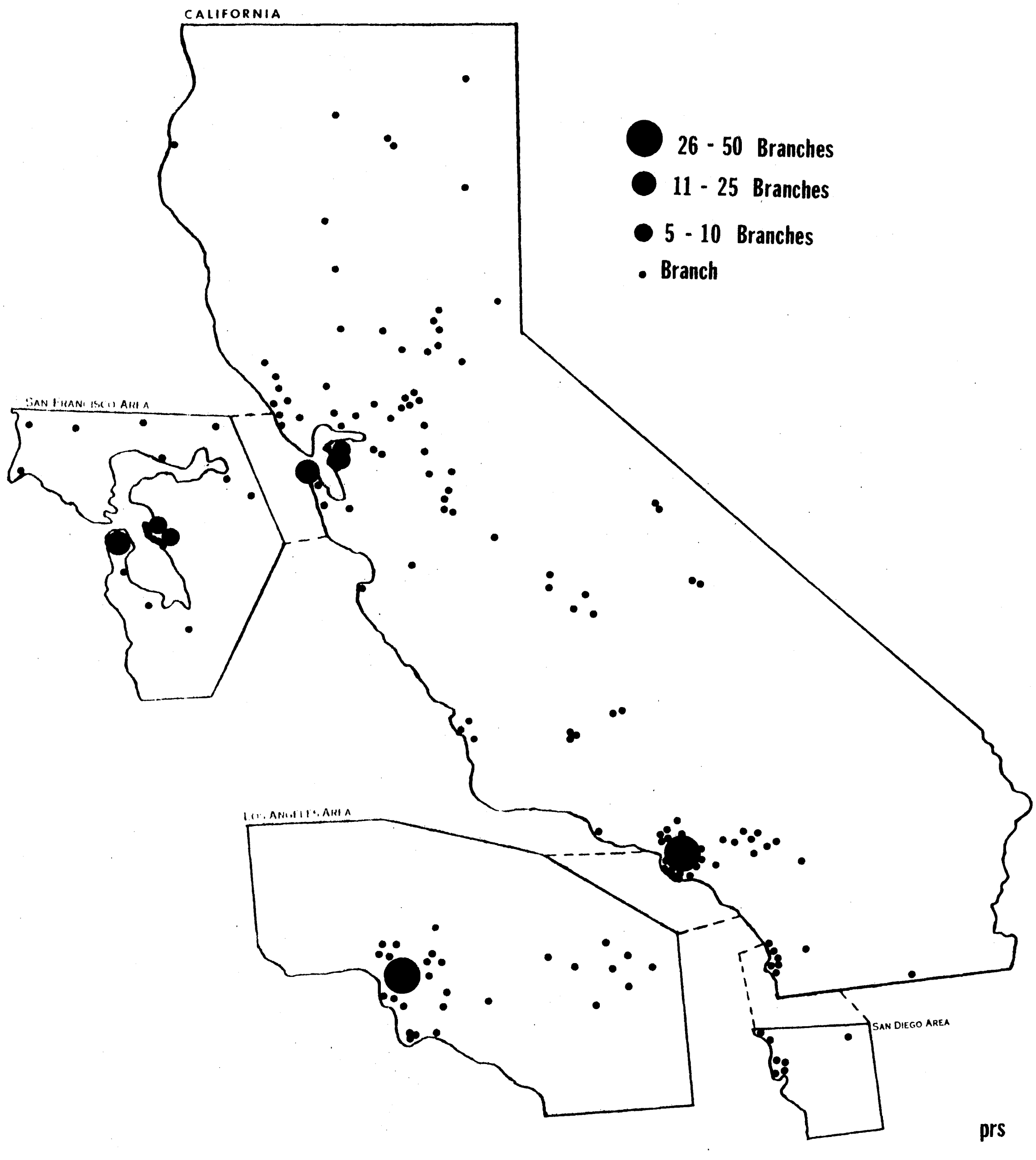


Figure 20. Bank of America, California, 1930

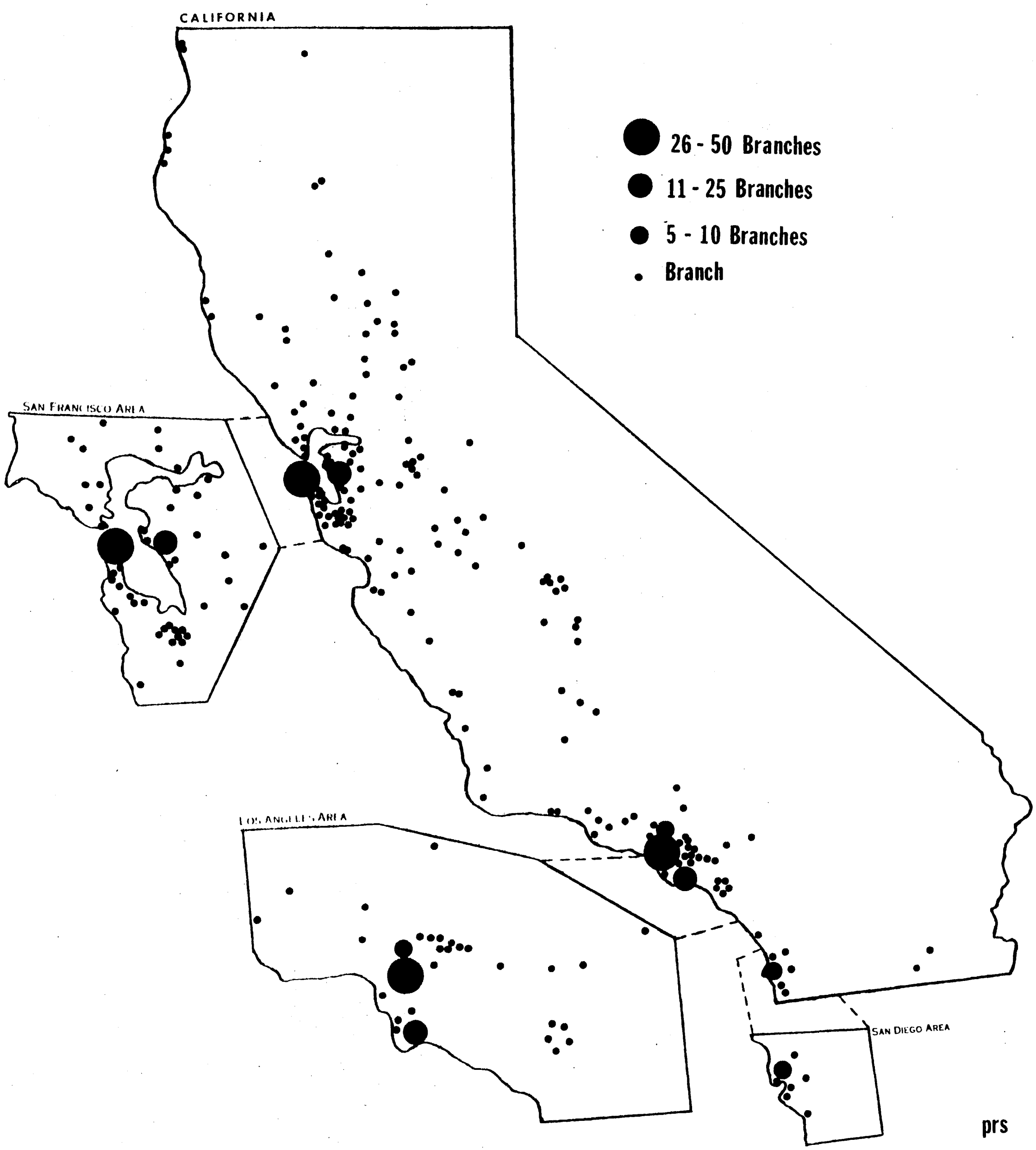


Figure 21. Bank of Italy NTSA, 1930

Giannini for years had dreamed of a nationwide branch system of banks, much like that of Canadian banks, after which he modeled his California system. In attempting to establish such a nationwide system, Giannini formed Transamerica to replace all the previous holding companies, and giving it control of all his banks. Transamerica now controlled the Bank of Italy, Bank of America, California, as well as the Bank of America, New York, and major banks in Washington, Oregon and Nevada. Additionally, it controlled various insurance, real estate and stock companies. With Transamerica (as the name indicates), Giannini hoped to push his style of banking all across the country.

Secondly, in October, 1929, the stock market crash brought on the great depression. The two Giannini branch bank systems in California (as well as the other Transamerica Banks) held on strong while a great many banks around the country failed. It was a period of enormous economic hardship even for the Giannini banks, which helped to almost break up his branch bank systems.

Lastly, A. P. Giannini decided he would retire from active participation in the banks and Transamerica. Elisha Walker, a banker from New York and associated with the Bank of America there, was brought in as chairman of Transamerica. Giannini hoped that Walker, along with his son L. M. (Mario) Giannini, would carry on all of his banking policies and continue to expand his program of statewide and now nationwide branch banking. A. P. Giannini went off to Europe for retirement leaving Walker completely in charge.

Walker got off to a good start as he entered his new office. To achieve nationwide branch banking, he felt (as A. P. Giannini did earlier) that the first move was to bring the two California branch bank systems under the same banner. With Transamerica owning two banks named Bank of America (in New York and California), it was felt that the new bank should merge under the name Bank of America rather than the Bank of Italy.

The first step towards this merger was to move the Bank of America, California head office back once again to San Francisco, as to comply with the McFadden Act. Once this had been done application was made to merge the Bank of Italy and the Bank of America, California into one system. Because of the McFadden Act only 106 branches of the Bank of America, California were eligible for the merger. Twenty-six of the 106 branches would be eliminated through consolidation with existing Bank of Italy branches. Fifty-seven branches were not eligible for the merger. This posed only a slight problem for Walker. The Bank of America, California charter was maintained and the fifty-seven branches that were ineligible, along with seven other Transamerica owned unit banks were merged to form the Bank of America (State),[11] (Figure 22) on November 3, 1930.

On the same day the Bank of Italy N.T.S.A. absorbed the Bank of America, California, and its name was changed to the Bank of America National Trust and Savings Association (Figure 23). Although the Bank of America was legally two banks, one national and one state, the same name appeared outside of the branches and

> . . . never were two legally separate banks more closely bound together. With the same officers and directors and virtually the same name, about the only distinction was that the national bank operated under federal authority and the state bank under state authority.[12]

The merger of the Bank of Italy and the Bank of America, California was essentially the first and last thing Walker did with which Giannini

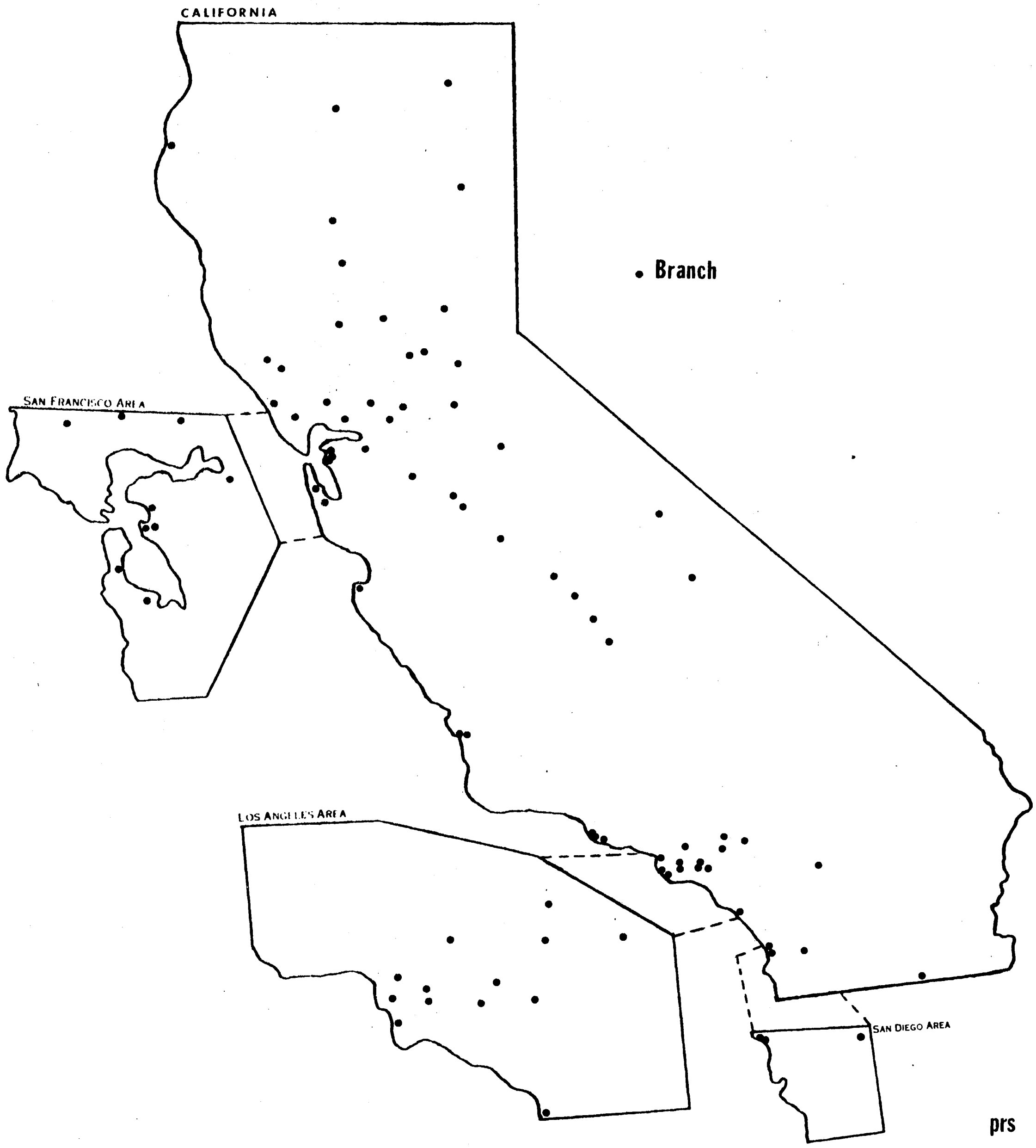


Figure 22. Bank of America (State), 1930

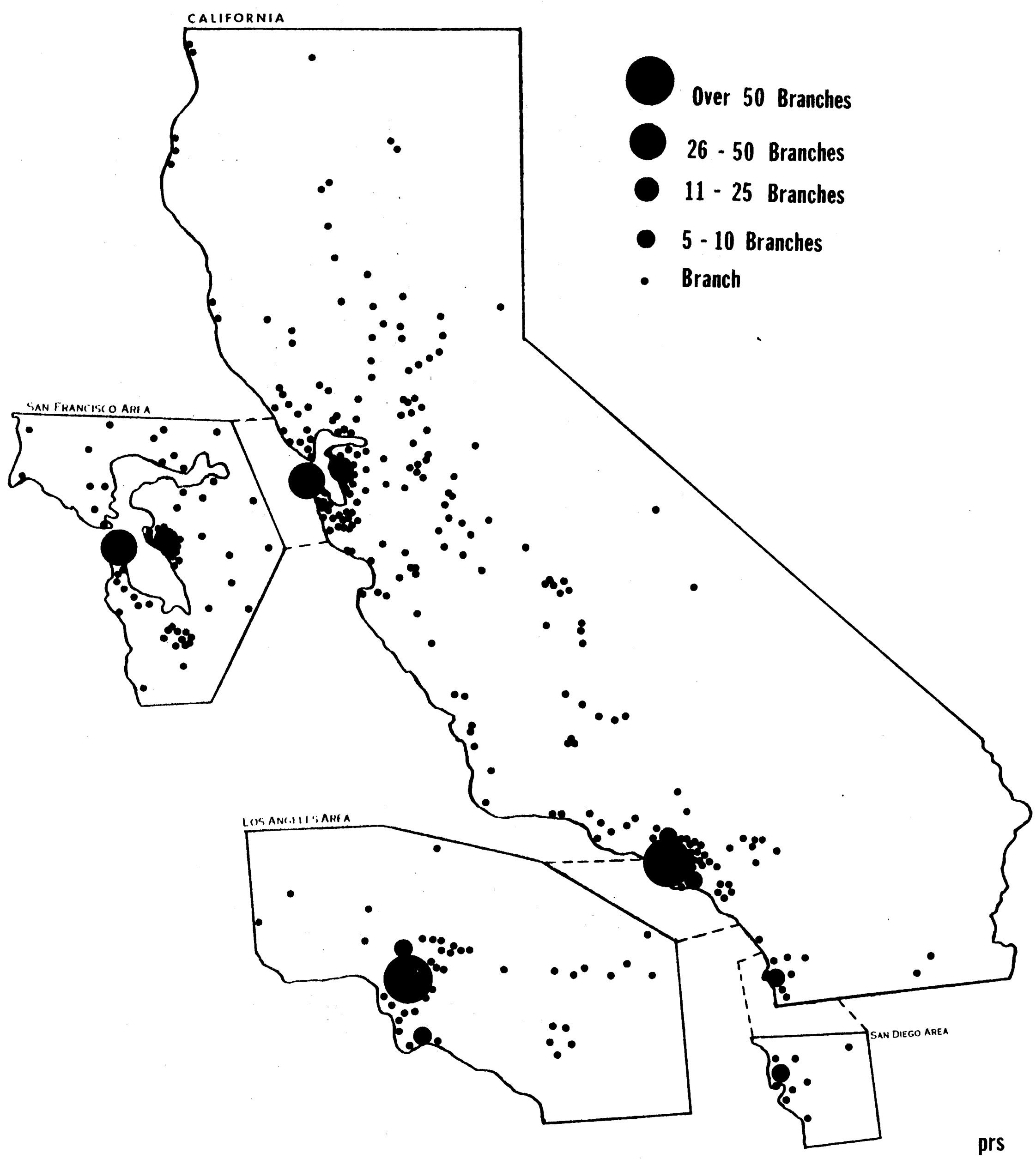


Figure 23. Bank of America NTSA, 1930

agreed. Mario Giannini tired of trying to get Walker to run things the "Bank of Italy way", soon resigned from Transamerica, leaving for the first time neither father or son without any say in the day-to-day operation of the Bank of Italy, now the Bank of America.

It soon appeared that Walker was not loyal to Giannini's goal of nationwide branch banking, but loyal to powerful New York banking interests who wished to gain control of Transamerica. Transamerica stock which had held relatively firm in its price on the market began to drop as Walker planned to sell off the banks it controlled, one by one to the New York people. The Transamerica stock also had dropped because of the depression and Walker's bad management of its banking interests. As the price became right, Walker began to carry out his plan to sell the banks of Transamerica.

The first step was to sell the Bank of America in New York, which was done in mid-1931. The New York banking interests made enormous gains through the purchase. Walker's policies continued to allow deposits to drop and debts to build for the other Transamerica banks. A. P. Giannini who had been in poor health while in Europe, had been trying to return and regain control to put an end to the destruction of his banking empire. A. P. finally recovered and returned to the United States in September, 1931 to try to put a stop to the Walker plan.

Along with his son Mario, A. P. began to rally Transamerica stockholders to save the banks from being broken up. Many of the Transamerica stockholders had been with Giannini since he founded the Bank of Italy in 1904. There were literally thousands of small stockholders in Transamerica which the Gianninis appealed to. The proxy fight for stockholders' votes lasted for six months -- until the next stockholders meeting in March, 1932. At that meeting, the Gianninis won a landslide victory which brought them back into control of Transamerica and the banks it owned.

Essentially it was the "little man" who brought the Gianninis back into power. A. P. had the foresight when he founded the Bank of Italy in 1904 to spread ownership to as many people as possible. These little people rallied enough support to save the break-up of the Bank of America, which so many shared a common interest. It was as A. P. Giannini said in 1904 that "no man will be permitted to win power enough to dominate its (now the Bank of America) policies unwisely."[13] From virtual break-up of the system in 1932 and in the midst of the great depression, A. P. Giannini and his son Mario began to rebuild the Bank of America's deposits and reputation.

In the next two years, under Giannini management, the Bank of America began to recover. This recovery was aided by the election of Roosevelt and his "New Deal" policies. The first order of business was to repay government loans and other debts incurred during the two years of the Walker regime. Once deposits began to go up, the debts were paid off and Giannini slowly began to resume his branch expansion program, through the Bank of America (State). During the next two years, the Bank of America (State) added a net of seven new branches (Figure 24) and moved its head office back to San Francisco (when the merger established the Bank of America (State) in 1931, its head office was listed as Los Angeles) once again.

In 1933 a new law was passed by Congress to help banks avoid the disasters of the past four years of the depression that closed many of the nation's banks. Known as the Bank Act of 1933, it included a pro-

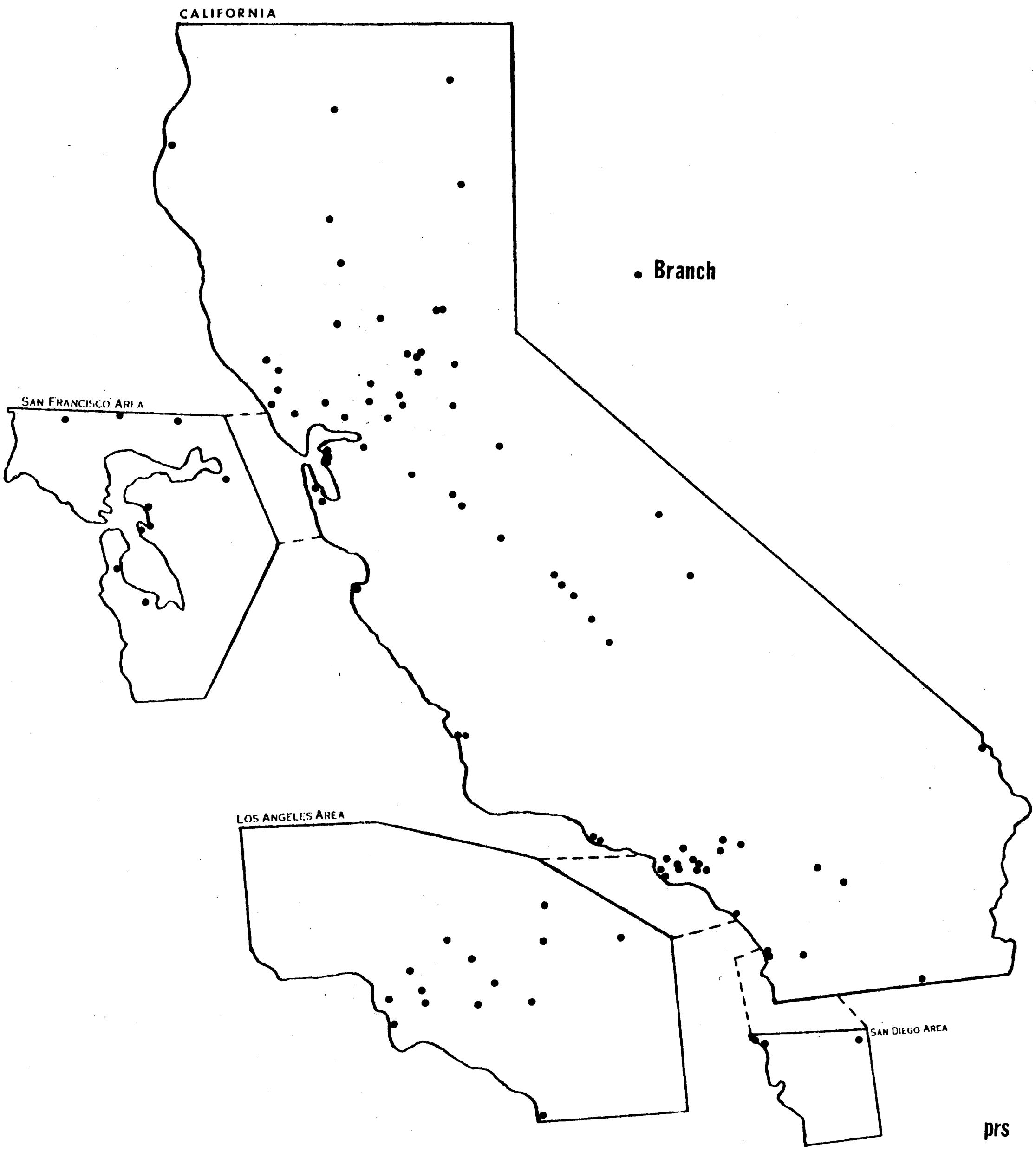


Figure 24. Bank of America (State), 1934

vision that provided national banks with the right to operate branches on a statewide basis, if state banks had that same right. This new law would enable the Bank of America N.T.S.A. to merge all of the Bank of America (State) branches at any time in the future.

Giannini in December, 1934 merged sixty-one of the Bank of America (State) branches it was now operating into the Bank of America N.T.S.A. Giannini always wary of unforeseen events, retained the state charter and eight of the Bank of America (State) branches (Figure 25), untill October, 1937, when they were finally brought into the Bank of America N.T.S.A. system.

The Bank of America N.T.S.A. had been growing on its own account since the Bank Act of 1933. By 1935, it had a total of 421 branches throughout California (Figure 26). In addition to the branches which were merged from the Bank of America (State), the Bank of America N.T.S.A. purchased thirty-seven new branches and opened thirty branches de novo by 1937. A. P. stepped down in 1936 to let Mario run the day-to-day operations as the Bank of America and the nation recovered from the great depression. As shown in Figure 27, it was indeed a complicated series of mergers and purchases which culminated into one Bank of America N.T.S.A. in 1937. The Bank of America N.T.S.A. continued to expand both in its branches and its resources for the next forty years.

Figure 25. Bank of America (State), 1937

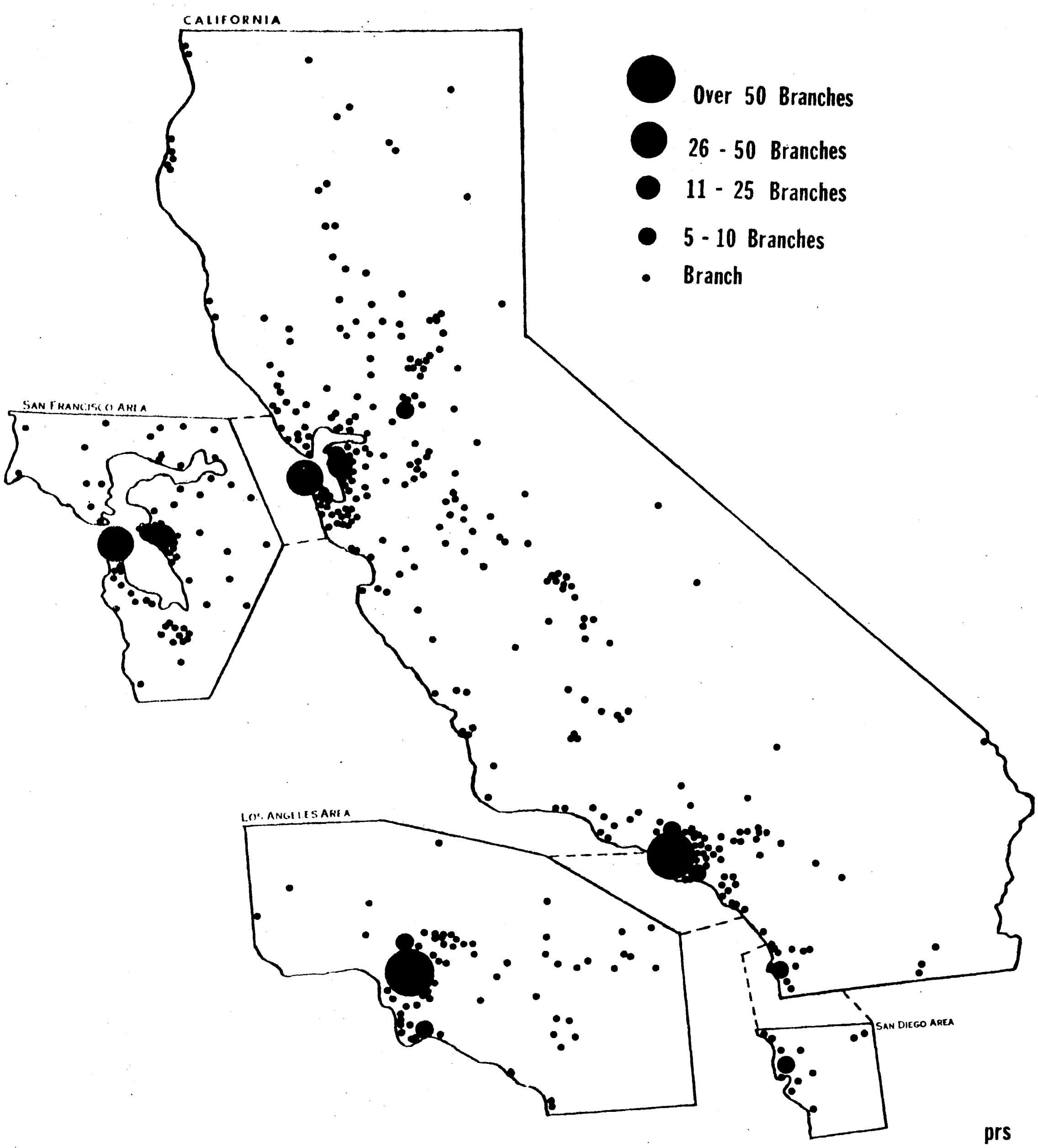


Figure 26. Bank of America NTSA, 1935

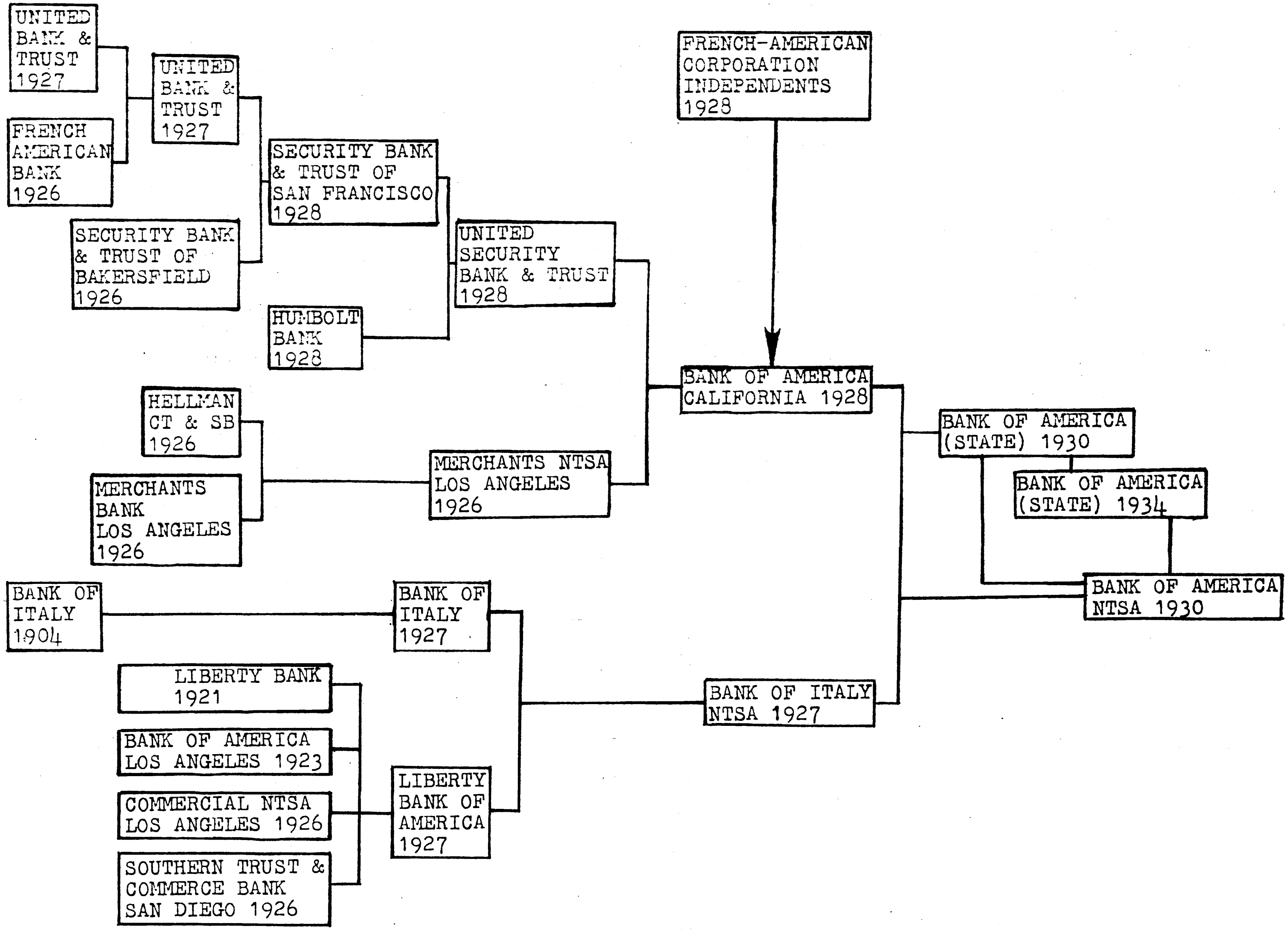


Figure 27. Bank of America Mergers, 1904-1970

FOOTNOTES

[1]Andrew F. Rolle, California, A History (New York, 1969), p. 531.

[2]Southworth, p. 162.

[3]Note that this was 1923 and the regional theory of branch banking is very evident here in the map of the United Bank's branches. All United's branches are in the San Francisco region, north of the Tehachapi Line.

[4]James, p. 224.

[5]Hearings, p. 1350.

[6]Ibid.

[7]Ibid.

[8]Southworth, p. 54.

[9]Ibid., p. 66.

[10]Hearings, p. 1432.

[11](State). This word after the title Bank of America was first used by the directors of Transamerica to distinguish between the state bank and the national bank in California and the New York bank of the same name. It is used extensively in reports and legal documents by Transamerica and by authors such as James and Dana. The author has chosen to denote the state bank in a similar manner, which keeps it consistent for those familiar with the bank's history.

[12]James, p. 310.

[13]Dana, p. 50.

CHAPTER V

CONTINUED BRANCH EXPANSION 1938-1970

The Bank of America in the next three decades continued to expand its system of branch banks throughout California. By 1970, the bank had added 480 new branches; double the number it had as of 1937. This phenomenal growth can be attributed to a variety of explanations. One of the major reasons for the growth was the Bank of America's branch system being able to respond to the enormous population growth California experienced during that time.

The population explosion began with America's entry into World War II and dwarfed any earlier migration waves into California. The population in California grew from 6,900,000 in 1940 to 8,100,000 by 1945. At the end of World War II most of the new residents stayed in California. As the forties became the fifties California's population continued to swell by about a half a million every year. During the ten year period, California experienced a growth of 48.5 percent or an additional 5,000,000 people. Seventy percent of the new population was located in Southern California. By 1970 California's population had reached nearly twenty million making it the most populous state in the Union. Particular counties in California also experienced tremendous growth. Orange County, just south of Los Angeles grew at a rate of over 225 percent in the twenty years prior to 1970.

In addition to the phenomenal population growth, California also experienced enormous economic growth during the period between 1938 and 1970. During World War II, "war money" (U.S. Defense Department) entered California more than into any other state in the union. Much of the economic boom between 1938 and 1970 was due to an enormous incursion of new capital through large federal expenditures, which new industry built on. "The War enabled California to compress almost a generation's industrial growth into a few years."[1] To cap this off, United States and world demands on California's cash crops reached an all time high. After the war and on into the fifties and sixties the continued arrival of thousands of people created great demands for housing, schools, a transportation network, and automobiles. Federal expenditures continued to flow into California's industry because of its well developed aerospace industry as well as the advent of the Korean and Viet Nam wars.

Certain California areas were rapidly being converted from one of rural character to that of an urban state. With the urbanization of these California areas, came many problems such as smog, water pollution and the paving over of thousands of acres of farmland each year. During this period of rapid change, the Bank of America with its statewide branch bank system was well prepared. No other bank came near the number of branches the Bank of America had throughout California. With the influx of more people and more money, the branch system allowed the Bank of America's resources to grow at a tremendous rate, becoming the world's largest bank in 1945.

Growth between 1938-1945

The Gianninis (A. P. and Mario) continued to guide the Bank of America on the road to recovery in the late 1930's. They began to have the Bank of America open new branches and develop new banking programs. For an example, Timeplan, a new type of personal loan, continued to increase business. Branch expansion occurred everywhere in the state as the Bank of America continued to expand wherever opportunity lent itself. By 1940 the Bank of America had 495 branches in California (Figure 28) and resources of over $1.6 billion.

During the last two years of the 1930's and on to the 1940's the Bank of America faced some stiff opposition for its continued expansion. Much of it occurred in the persons of Henry Morgenthau, Secretary of the Treasury, and Marriner Eccles, head of the Federal Reserve Board. Both men disliked A. P. Giannini and sought to bring down Giannini and Transamerica. They brought Transamerica to court in 1938 (through the Securities Exchange Commission), on a number of charges attempting to break up Transamerica's various bank holdings, especially the Bank of America.

The Gianninis had been divesting the stock Transamerica owned in the Bank of America since 1932 when they regained control. By the time the suit was brought against Transamerica, it owned only about twenty percent of Bank of America's stock. The action seemed aimed specifically at A. P. Giannini and his son, not Transamerica. Another reason for the action may be in the fact that many of the men who Giannini fired when he regained control of Transamerica in 1932, were now working for Morganthau or Eccles. After the start of the Securities Exchange Commission's action, the Bank of America was granted only a minimum number of permits for new branches. The case continued on into 1940 and was never fully resolved although an official compromise was reached in March, 1940.[2] It illustrates yet another attempt to curb the Bank of

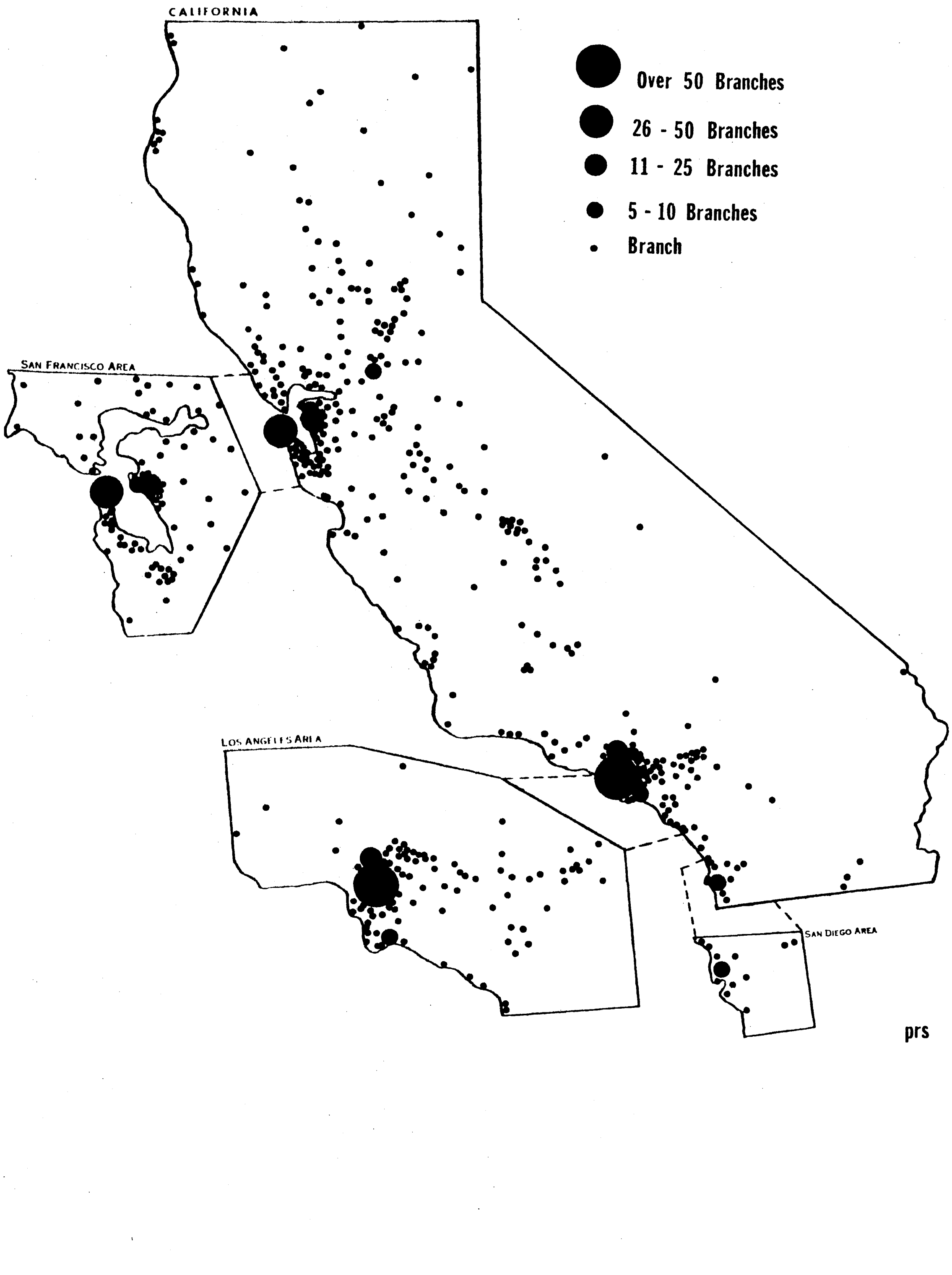


Figure 28. Bank of America NTSA, 1940

America's growth and alter its natural expansion. With the advent of World War II some of the animosity receded as the nation concentrated its efforts on the war.

All through World War II, the Bank of America continued to build up its resources, but because of the problems in Washington with Morganthau, new branch permits were almost non-existent. As a result of consolidation of a few branches and the closing of others, the Bank of America actually lost two branches giving it a total of 493 as of 1945. Although the number of branches declined, this decline did not hold true for the bank resources. The war, as previously mentioned, brought to California a great number of people and a growing economy. These workers having nothing to spend their earnings on (because of war rationing) deposited their money in the banks. The Bank of America with its large branch bank system was convenient to many and it therefore received a large share of deposits. The new deposits of the workers in the Bank of America were added to by the new accounts of the military personnel based in California. The Bank of America also set up "temporary branches" on military bases which enabled military personnel to transact weekly bank business. The bank was able to set up these "temporary branches", using a technicality in the Bank Act of 1935 calling them "seasonal agencies" and operated them only one or two days a week. After the war, some of these temporary military branch banks were maintained as permanent branches such as the one at Hamilton Air Force Base in Marin County.

By July 1943 the Bank of America's total resources had reached over $3.1 billion. This figure was over a billion dollars more than when the war started.[3] As the war continued, money and people also continued to pour into California. By the time the war was grinding to a stop in the summer of 1945, the Bank of America passed the Chase Manhattan Bank of New York, by accumulating over $5 billion in assets and thereby becoming the world's largest bank. The Bank of America's resources had grown by a little more than a billion dollars a year during the war, while the major New York banks had been losing resources. With all this growth, the Bank of America's present 493 branches were being swamped. Some branches were enlarged to several times their original floor space, but to no avail as customers at these branches still spilled out onto the streets.

Branch Growth 1945-1960

At the end of World War II a renewed branch expansion program was beginning to be developed for the Bank of America. With Roosevelt's death, Morganthau resigned, bringing into office a new Secretary of the Treasury. Morganthau, during his tenure as Secretary of the Treasury, had influenced the rejection of many Bank of America branch permits and effectively limited its branch expansion. He had been so successful in limiting the bank's branch growth that in 1946 some financial writers (as had in 1927) once again predicted that:

> . . . the expansion days of the Bank of America are probably over. Although the bank has opened eleven new branches in the last eighteen months, its coverage is pretty complete. The basic pattern has been established. Some Californians can talk about how it might become a $10 billion bank sometime in the future without adding any considerable number of branches.[4]

The Bank of America as it had in 1927, did not listen to its critics and continued to operate just as it had for forty years, expanding the branch system at every opportunity, lately trying to keep up with

California's great population boom. Two events put a damper on this growth prior to 1950.

The first event was that another law suit was brought against Transamerica (which had by this time reduced its Bank of America holdings to seven percent), this time by the Federal Reserve Board invoking the Clayton Anti-trust Law for the first time. This investigation was headed by Eccles and once again accused Transamerica on a number of charges, including monopolistic banking practices. The court battle lasted until 1953 when the Supreme Court reversed the Federal Reserve Board's ruling against the Bank of America in April, 1952. The major effect was that in 1950, Bank of America attempted to merge twenty-three unit banks controlled by Transamerica, which the Federal Reserve Board effectively prevented. The unit banks were actually merged into the system for several months, but the Bank of America was forced to reconvert these branches into their original form. Table One lists the cities where these banks were located.

The second event was in June, 1949 when A. P. Giannini died. The Bank of America's daily operations and continued growth then fell squarely on Mario Giannini's shoulders. The Bank of America was to carry on becoming increasingly bigger, but the loss of A. P. Giannini was indeed a sad day. A close associate was to comment, "The economics, sociological and political consequences of the great depression of the thirties would have been far more traumatic without California's branch bank system built by A. P. Giannini.".[5] His bank indeed continued to grow, even with the resistance that it was getting from Washington. By 1950 the Bank of America was able to add thirty-one branches giving it 526 branches statewide (Figure 29) and resources of over 6.8 billion

TABLE I

RECONVERTED TRANSAMERICA UNIT BANKS*

Beaumont	Pinola
Bellflower	Redeo
Corcoran	San Andreas
Crockett	San Jacinto
Crows Landing	Santa Ana
Garden Grove	Santa Barbara
Los Altos	Tehachapi
Moon Park	Temple City
Newman	Turlock
Pasadena (2)	Watts (Los Angeles)
Patterson	Weed

*Cities where Transamerica unit banks were located and merged into the Bank of America branch bank system on June 26, 1950 then reconverted back to its unit bank status on August 7, 1950 due to a Federal Reserve Board ruling. If there was more than one unit bank in a particular city which was involved in the ruling, the number next to the city indicates how many banks were involved.

Source: Bank of America, Branch Historical Record, 1971.

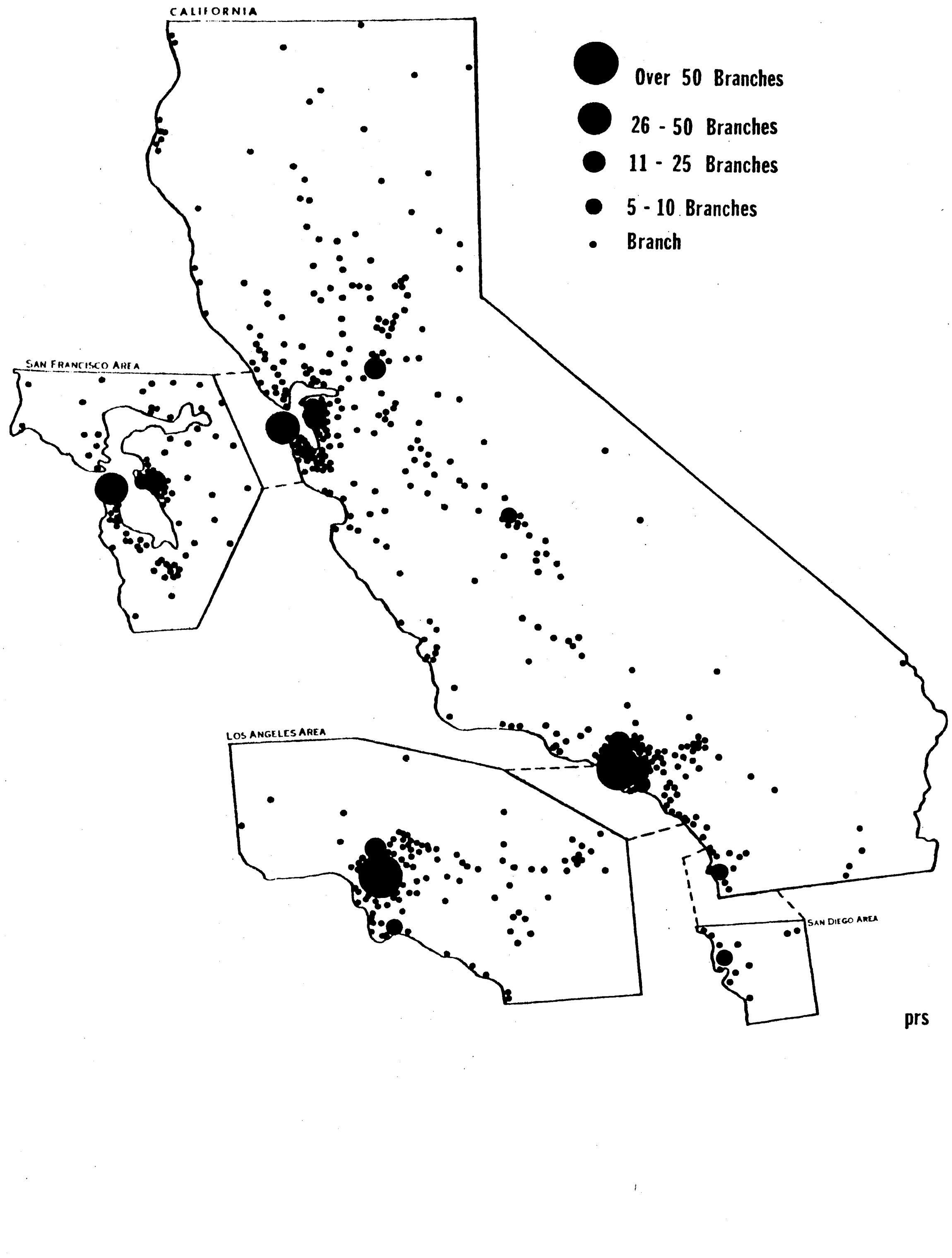


Figure 29. Bank of America NTSA, 1950

dollars.

In studying Figure 29 it becomes evident that most of the new growth the Bank of America has experienced is in the urban areas around the San Francisco Bay area and in the Los Angeles area. The Sacramento and Fresno urban areas also show marked increases. As the population of all these areas continued to grow a new geographical pattern for expansion for the Bank of America started to emerge. Bank of America planners began to develop a new program for branch expansion (based on a set of variables, to be discussed), because of California's enormous population growth, and the availability of unit banks for purchase became less and less. Once a location is determined to be able to adopt a new branch, an application for a de novo branch was made.

A new set of policies and procedures was developed for selecting sites for the new branches. The Bank of America was the leader in branch banking from the beginning and once again it set a precedent for other banks to follow. Among the most important factors considered are "historical, current and projected population totals".[6] Other important economic and demographic data includes: median age of residents , household income, housing value, local employee income, existing and proposed industrial and commercial development, residential activity and trends and traffic patterns.[7]

The Bank of America planners did not set down a minimum threshold population for a new branch site, but chose its location considering all the previously mentioned data. Once the data had been assembled for a new site, which the Bank of America planners felt would be a prime location to be adopted into the system, the site was purchased and application made for the new branch. With this new basis for planning and adding branches it can be seen how the de novo branch took on great importance to the continued development of the Bank of America's branch bank system. The system like any new idea tried by the Bank of America began slowly, but soon was applied as more and more new sites were sought for branch expansion. By 1953 (the Eisenhower era) there was little or no resistance from Washington, so the Bank of America soon began to add branches as fast as California was growing.

The surviving member of the father-son team, L. M. (Mario) Giannini , who had built the Bank of America into the world's largest bank, died in September, 1952, outliving his father by only three years. Mario knowing that he was not strong, wisely set up a ten-man committee to run the bank as he entered the hospital in March, 1952. From these ten officers, Carl F. Wente was elected president upon the death of Mario Giannini. It was the first time other than the Elisha Walker era, that a Giannini had not been directing the growth of the bank.

In Carl Wente the Bank of America had a new president who believed wholly in the Giannini philosophy of "banking services for all the people".[8] Wente had joined the Bank of America in 1918 and worked his way up to manager, then at the head office in San Francisco to vice-president. He then served as president of the First National Bank of Nevada (a Transamerica bank) for three years, before returning to the Bank of America as senior vice-president in 1943. Wente served as president of the Bank of America for two years before retiring at the mandatory age of sixty-five.

During his tenure as president, Wente lead the Bank of America and Transamerica to a successful conclusion of the court battle with the Federal Reserve Board. The Bank of America continued to build its branch system under Wente developing further the Bank's program of branch site planning. The Bank of America had built its number of branches to 574 statewide and resources of $8.5 billion shortly after Wente stepped down in early 1954. In April, 1954, Wente was succeeded by S. Clark Beise as president of the Bank of America. Wente's tenure was important because he was successful in leading the Bank of America through the transition period from the powerful influence of the two Gianninis to new leadership in Beise. The Bank of America continued its growth through the transition and Beise was handed a bank stronger than ever in the Giannini tradition.

Clark Beise's accession to the presidency of the Bank of America symbolized a change in the Bank of America from the turbulent years of the Giannini era to settled management.[9] With Beise, the Bank of America was able to finally calm suspicion among New York bankers and the Washington bureaucrats. As he did this, Beise continued the Giannini tradition that stated "what is good for California is good for the Bank".[10]

Under Beise the Bank of America continued to grow, gaining in its number of branches and resources. He began to run the bank in the pattern of a typical large industrial corporation. The new pattern provides decentralization to encourage branch managers to scratch for business and at headquarters, group management to integrate current tactics and map future strategy.[11] Under Beise's direction the Bank of America developed several innovative programs to enable continued expansion of its branches and resources throughout the rest of the 1950's and on into the 1960's.

The first was to rapidly expand the Bank of America's overseas operations, developing these branches into an important part of the Bank of America's future business. As American influence began to spread in importance around the world in the 1950's, Beise had the Bank of America move to expand its operations overseas, as to serve its growing number of customers worldwide. The expansion of its worldwide operation became very important to the future of the Bank of America's operations, but further discussion of the expansion is beyond the scope of this study.

Secondly, Beise had the Bank of America become the first bank to move into the electronics age with the development of "ERMA", the first fully automated electronic accounting system in banking. "ERMA" was the predecessor to our modern computers as Beise saw electronics as essential to continue the Bank of America's expansion program. "ERMA" opened up new vistas in terms of the bank's operating costs, by allowing faster and more efficient processing of the massive amounts of paperwork accumulated by the Bank of America's day to day operations. "ERMA" thereby allowed for continued branch expansion which by 1957 was booming much like California's population.

The third innovation by Beise as president of the Bank of America was the creation of Bankamericard, an all-purpose credit card service started in 1958 and in the future added enormous gains to the Bank of America's earnings. Like all the Bank of America's innovations over the years, Bankamericard started out slowly, but soon caught on, expanding rapidly. In 1958 there was a mailing of 500,000 credit cards to Bank of America customers. By January, 1960, Bankamericard had over 2 million card holders throughout California. This new source of income helped the Bank of America's resources reach almost $12 billion in 1960.

The Bank of America's branch bank system had also shared in this growth. In 1960 the bank had 707 branches in California (Figure 30), an increase of over 125 from 1955 and over 200 new branches since the end of World War II. Much of this new branch expansion was located in the major urban areas of the San Francisco Bay area and the Los Angeles metropolitan region. As 1960 began a new decade, the Bank of America and California both continue to grow at a tremendous rate.

Expansion 1960-1970

The Bank of America stepped up its branch expansion pace by adding forty-three branches statewide in 1960, and continued to add to its vast resources. It is able to do so because by 1960 it had the distinction of serving the nation's fastest growing state, which in 1970 became the most populous state in the country. Beise was expanding on the "ERMA" system, with a new generation of computers and all of the banks programs were running smoothly. Bankamericard was expanding phenomenally, and the bank continued to make all types of loans as well as financing real estate mortgages. Under Beise, the Bank of America continued to serve California's "little people" in their banking needs, and in Beise's words, "continues to get our share and a little more".[12]

In November 1963, Beise reached the age of sixty-five, mandatory retirement age at the Bank of America, and was succeeded by Rudolph M. Peterson as president. Peterson who originally joined the Bank of America in 1936, had helped Mario Giannini pioneer the bank's "Time-plan" program of installment loans. Peterson, as did his predecessors, moved up through the ranks of the Bank of America to senior vice-president. In 1955 he left the Bank of America to become president of the

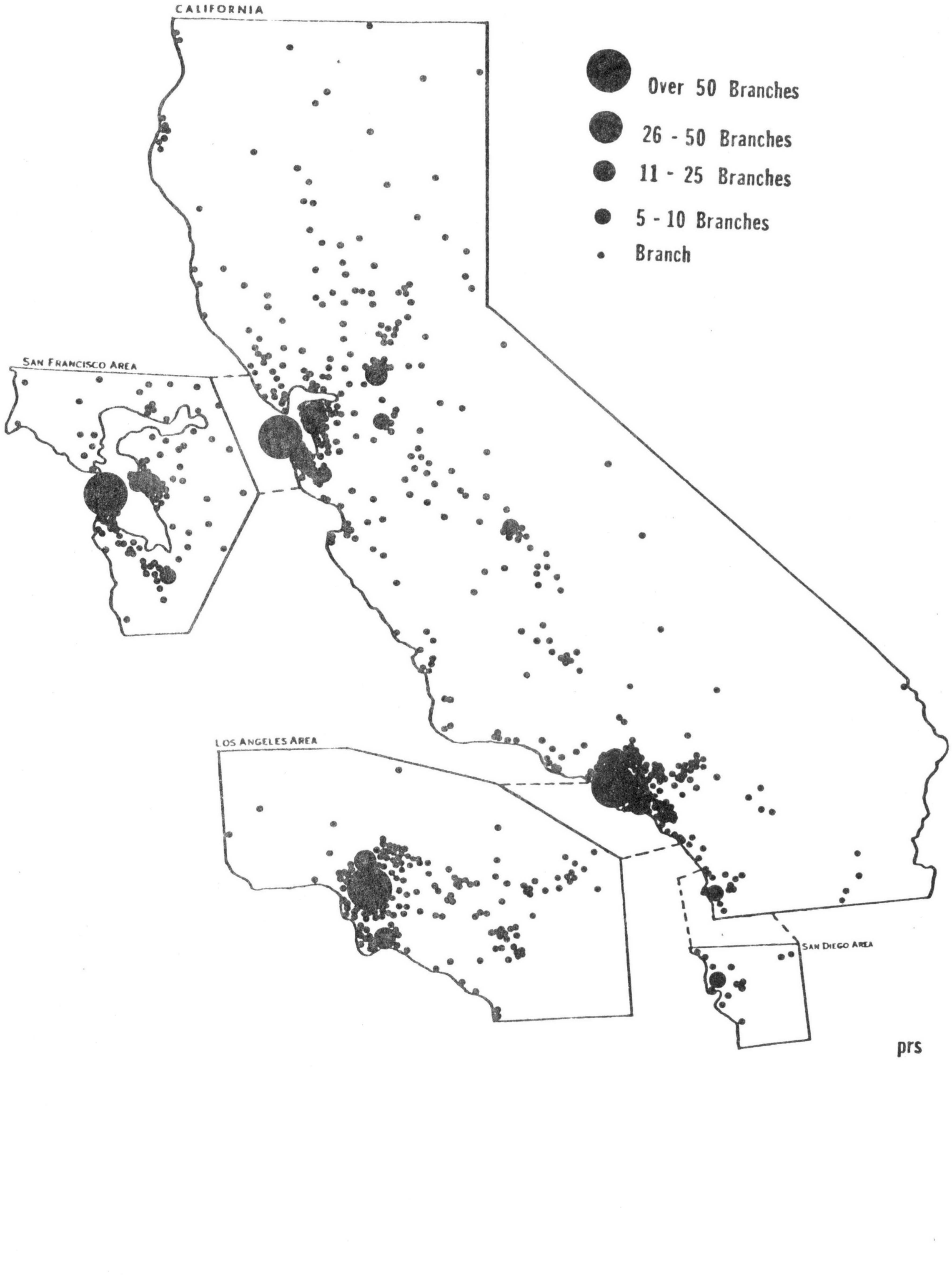


Figure 30. Bank of America NTSA, 1960

Bank of Hawaii. After five years of successful operation in Hawaii he came back to the Bank of America to serve as vice-chairman, in charge of the bank's general management. Peterson was groomed to be Beise's successor, and ascended to the presidency in 1963. Rudolph Peterson, like all the Bank of America's high officials was a firm believer in the policies originally set down by A. P. Giannini. He believed in the personal touch that Bank of America had always tried to give its customers. By the time Peterson retired as president in January, 1970 the Bank of America had 955 branches (Figure 31) statewide and resources over $25 billion, five times larger than the resources it held at the end of World War II.[13]

The branch growth the Bank of America experienced during the 1960's under Peterson's leadership was again concentrated in the major urban areas of California. The Los Angeles metropolitan region, the San Francisco Bay area and Sacramento each gained a large number of new branches. These were the same urban areas which were experiencing enormous population growth and economic good times.

Orange County, part of the Los Angeles metropolitan area, for example, was prior to 1950 an area of orange groves and truck farming, to which the urban sprawl of Los Angeles had just begun to encroach. It had a number of Bank of America branches scattered throughout the county, serving the needs of the farmers and the small cities which were located there, giving the bank a good base from which to expand. As the 1950's became the 1960's Orange County's population boomed, absorbing much of the Los Angeles urban growth which had overflowed out into its rural environs. By 1970, there were several established cities well over 50,000 in population where twenty years earlier there had only been open

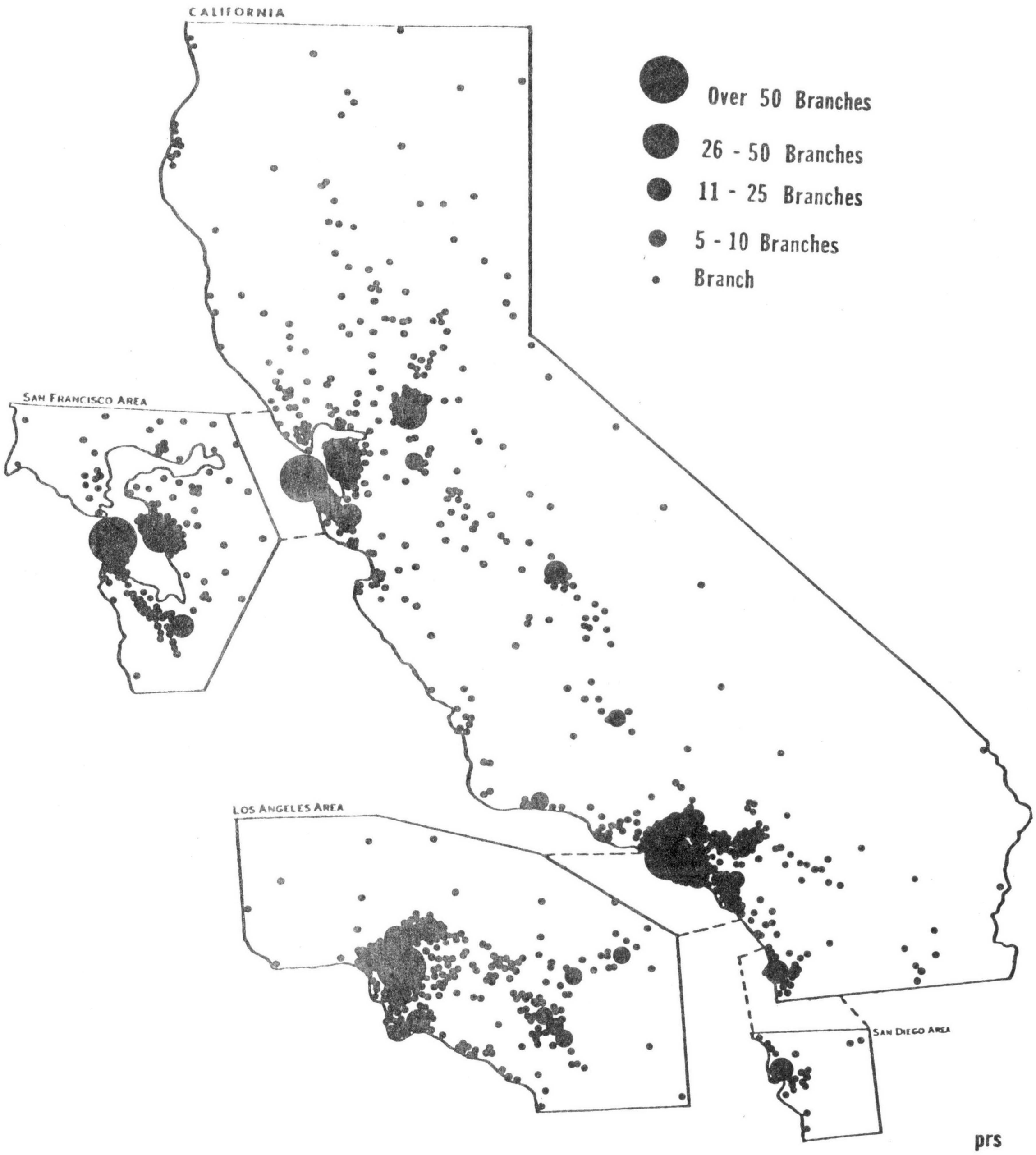


Figure 31. Bank of America NTSA, 1970

fields. Cities like Santa Ana, Anahiem, and Orange where there were only a few branches of the Bank of America prior to 1960, had between five and ten branches each.

The areas around Los Angeles and San Francisco Bay also experienced tremendous growth in population and continued to maintain a large number of branches. Los Angeles had in 1970 ninety-three branches in the city, and San Francisco had sixty-two. Sacramento which had just eleven branches in 1950 now had twenty-seven more than the entire Bank of Italy branch bank system in 1920. Table Two summarizes the comparitive growth from 1940 of each of these city's populations and branches as well as all those California cities having five or more branches by 1970.

As the decade of the 1960's came to an end the Bank of America was as strong as ever and still growing. At this writing the Bank of America has continued to develop and opportunities for new branches are expected to continue throughout California, although "the rapid branch banking expansion of the 1950's and 1960's is not anticipated" by branch planners in the future.[14] The cost of branch expansion for the Bank of America is becoming exorbitant and the rate of population growth in California has begun to slow. Bank of America planners also see the transformation of the United States and California into the so-called "cashless, checkless society". Therefore a much slower rate of branch expansion is expected by the Bank of America planners in the next decade.[15] Future branch expansion by the Bank of America will depend greatly on the actual population and economic growth of California and the Bank's effort to maintain its present high standard of service.

TABLE II

DATA FOR CALIFORNIA CITIES HAVING 5 OR MORE BANK OF AMERICA BRANCHES BY 1970

City	1940 Population/Branches	1950 Population/Branches	1960 Population/Branches	1970 Population/Branches
San Francisco	646,536/46	775,357/47	740,316/51	715,674/62
Los Angeles	1,504,277/85	1,970,358/85	2,479,015/91	2,816,111/93
Oakland	302,163/18	384,575/18	367,548/21	316,613/26
San Diego	203,341/ 7	334,387/ 8	573,224/10	696,566/20
Long Beach	164,271/ 6	250,767/ 6	334,168/11	358,673/15
Berkeley	85,547/ 5	113,805/ 5	111,268/ 6	116,689/ 6
Sacramento	105,958/ 6	137,572/11	191,667/15	254,364/27
Fresno	60,658/ 4	91,669/ 5	133,929/ 9	165,972/12
San Jose	68,457/ 3	95,280/ 4	204,196/ 9	446,504/20
San Bernadino	43,646/ 3	63,058/ 4	91,922/ 4	104,394/ 6
Riverside	34,696/ 1	46,746/ 2	84,332/ 4	139,769/ 7
Anahiem	11,031/ 1	14,556/ 1	104,184/ 4	166,118/ 7
Santa Ana	31,921/ 1	45,533/ 1	100,350/ 4	156,520/ 6
Orange	7,907/ 1	10,027/ 1	26,444/ 1	77,292/ 5
Pasadena	81,864/ 3	104,577/ 3	116,407/ 4	113,254/ 5
Glendale	82,582/ 2	95,702/ 3	119,442/ 3	132,774/ 5
Santa Barbara	34,958/ 2	44,854/ 2	58,768/ 3	70,211/ 5
Bakersfield	29,255/ 2	34,784/ 2	56,848/ 4	69,515/ 7
State Total	6,907,387/495	10,586,223/526	15,717,204/707	19,953,134/955

Conclusion and Summary

The objective of this thesis was to describe and map the spatial change in the Bank of America's branch bank system between 1904 and 1970. This study shows how the growth of the Bank of America's branch bank system has occurred in a series of stages since the bank's first branch in 1907. Figure 32 illustrates the stages in which this growth occurred first as the Bank of Italy then as the Bank of America. The first stage from 1907 to 1921 the Bank of Italy pioneered branch banking statewide in California opening branches up and down the agricultural valleys of Northern California and in Los Angeles. The policies adopted by the bank allowed for continued growth in the bank's resources, providing it with the necessary capital to purchase new branches. Additionally it began a program to allow for branch expansion in full accordance with the California Bank Act of 1909 for which it had no precedent.

The Bank of Italy during this period ran up against its first opposition to its statewide branch expansion in 1919 with the State Superintendent of Banks, Charles Stern. Stern established an artificial barrier for continued branch growth for the Bank of America at the Tehachapi Mountain range and effectively slowed the bank's growth south of the range. It was almost three years before the Bank of America received a new branch and was to expand in accordance with the zonal theory of branch banking, one zone being the San Francisco zone, north of the Tehachapi Line and the other the Los Angeles zone, south of the Tehachapi Line.

The second stage of growth can be called the zonal period of branch bank expansion, which lasts from 1921 to 1928. It is during this period that A. P. Giannini took advantage of California's second large popula-

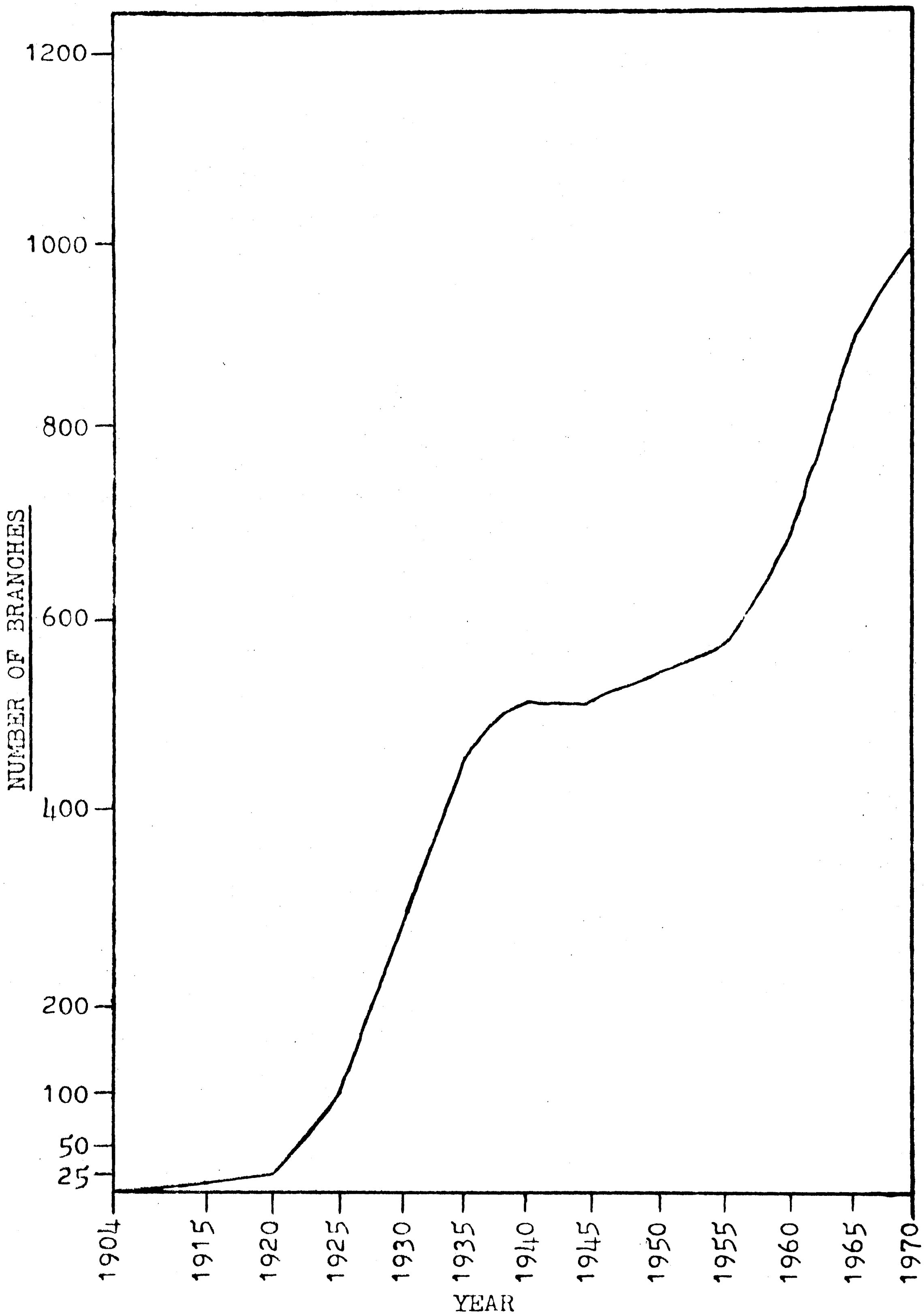


Figure 32. Bank of America Branch Growth, 1904-1970

tion boom (the first being the Gold Rush of 1849) by continuing expansion of his branch bank system through various holding companies. The holding companies allowed Giannini to obtain banks in both California zones and develop their branch systems much as he would have the Bank of Italy had not it been restricted by successive state superintendents of banks and new restrictions imposed by federal authorities.

The branch bank expansion during the zonal period occurred in two distinct stages. The first was culminated with the formation of the Bank of Italy National Trust and Savings Association in 1927 and the second was the formation of the Bank of America, California system in 1928. The mergers which occurred in 1927, as explained in Chapter III, ended state authorities from restricting the bank's branch expansion to zones, but did not end the federal restrictions. Thus the Bank of Italy N.T.S.A. was limited to San Francisco in its continued branch expansion. Giannini took advantage of cooperation by the state superintendent of banks and continued branch expansion through his state banks as described in Chapter IV.

The zonal theory once again appeared in 1928 because of a court injunction imposed on a Giannini bank over the word "security". The zonal problem came to an end with a new merger and a change in the state bank's name to remove the word "security". The zonal period marked phenomenal growth of the Bank of Italy and Bank of America, California branch systems through bank purchases and mergers made possible by the bank holding companies. The capital to provide the funds for all these purchases was provided by sound management and progressive banking methods developed by Giannini as well as continued prosperity in California. As the branch system continued to grow, so did the bank's vast resources.

In the third period of growth, The Bank of America (following the merger of the Bank of Italy N.T.S.A. and the Bank of America, California) slowed in its natural expansion. This was due to two reasons as explained in Chapter IV: the mismanagement of the Walker regime and the great depression. The slowed branch growth ends with the Gianninis winning back control of the bank in Transamerica's proxy fight of 1932.

This period is also highlighted by final mergers of the two branch systems controlled by one holding company, Transamerica, and the "road to recovery". Also the period marks final federal restrictions on branch banking in California with the passage of the Banking Act of 1933. This law provided the Bank of America with the opportunity to renew its branch expansion and opened the door to the phenomenal post World War II growth.

The last period of branch growth was from 1938 through 1970. This period was marked by restrictions imposed by federal authorities hostile to the Bank of America from 1938-1945 and boom expansion after the war, as described earlier in this chapter. Although branch growth stopped through the war years, The Bank of America resources grew at a phenomenal pace making it the largest bank in the world. California started a third population boom which began with World War II and as of 1970 had just begun to level out. This population growth and continued economic prosperity provided the Bank of America with a base to develop its continued branch expansion, and mushrooming resources. This continued growth is summarized in Table Three. The Bank of America after 1950, to keep up with California's enormous population growth, especially in the urban areas, established the

TABLE III

GROWTH OF THE BANK OF AMERICA AND CALIFORNIA, 1904-1970

Year	Number of Branches	Total Resources	California Population
1904	0	$ 285,000	1,485,000
1910	3	6,539,000	2,378,000
1915	8	22,321,000	
1920	25	157,464,000	3,426,861
1925	95	422,838,000	
1930	352	1,171,425,000	5,677,000
1935	421	1,256,132,000	
1940	495	1,817,535,000	6,909,000
1945	493	5,037,500,000	
1950	526	6,863,358,000	10,586,000
1955	574	9,163,000,000	
1960	707	11,942,000,000	15,717,000
1965	890	16,529,000,000	
1970	955	25,500,000,000	19,953,000

majority of its branches de novo.

The Bank of America branch bank system indeed expanded in a series of discernible patterns. The first was its rural expansion prior to 1920, followed by the zonal expansion and finally boom expansion in the urban areas. The Bank of America's branch bank system is now so extensive in California, that there is not a town or city where a Bank of America branch is more than a twenty minute drive. Had not state and federal restrictions been periodically imposed, the patterns discussed would probably have been different. California's enormous population growth and strong economy (both its agriculturally and industrially diverse base) provided the bank the opportunity for expansion.

Undoubtedly the policies established by A. P. Giannini and carried on by his successors played the major role in the great expansion of the Bank of America's branch bank system. It had become what A. P. Giannini had also insisted it be, a bank built for and on the masses, a bank for the "little people".

Future Research

As previously mentioned the objective of this thesis was to describe the changing spatial distribution of the Bank of America from 1904 through 1970. It has been largely qualitative in its approach and in order to describe this process, has involved a variety of disciplines including geographical, social, economic, political and historical factors. Because of the complex nature of putting all of these factors together in explaining the interrelation of each, on the Bank of America's development, additional statistical analysis could have been included. Further statistical analysis might provide additional insight into the Bank of America's past and future growth.

The study has provided only an analysis of the Bank of America's California branch development. This allows for excellent possibilities for further research of not only the Bank of America, but other banking institutions. For example, a study of the Bank of America overseas development could be done as well as a study of Transamerica's branch system and its multistate operations. Additionally, the study of another California or U. S. bank's development or a Canadian branch bank system and the geographical development of each could provide additional understanding in the spatial development of banking.

FOOTNOTES

[1]"World's Largest Bank," Fortune (August, 1947), p. 72.

[2]"Giannini's Truce," Business Week (March 23, 1940), p. 48.

[3]"A. P.'s Team," Time (July 26, 1943), pp. 84-86.

[4]"World's Largest Bank," p. 73.

[5]Dwight L. Clarke, "The Gianninis - Men of the Renaissance," California Historical Society Quarterly, 44 (September, 1970), p. 252.

[6]Policies and Procedures for Selecting Sites for Branches. prepared by the Planning Department, Bank of America N.T.S.A., p. 1.

[7]Ibid.

[8]"Banker: Earthquake and Panic Catapulted Giannini to Success," p. 85.

[9]"Bank of America's Beise," Fortune (January, 1955), p. 103.

[10]James, p. 356.

[11]"Bank of America's Beise."

[12]"A Bank That's Built on the Masses," Business Week (February 21, 1959), p. 76.

[13]John Davenport, "The Bank of America is Not Burning," Fortune (January, 1971), p. 91.

[14]David C. Martz, "The Location Research Program at Bank of America," The Geographical Review, 66 (October, 1976), p. 476.

[15]Ibid.

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