

Did You Know....

By Clem Dougherty

...that while A.P.Giannini (“A.P.”) did not found branch banking, he certainly was the first to promote the practice here in California? Yes, it’s true. In 1904, when A.P. started the Bank of Italy, banks here in California did not ordinarily have branches. One reason was that the banks held onto a long- standing tradition of the small independent bank acting alone and serving the banking needs of the community. The tradition dominated the banks in the larger cities as well as the small towns of the state. The second reason was that the owners of the state’s banks did not understand the economic benefits of branch banking. A.P. took a different approach. His whole banking philosophy was that banks existed to serve the banking needs of the common man. Banks were to be “the people’s banks.” A. P. could meet the banking needs of the common man everywhere by establishing a system whereby he could shift large amounts of money from a bank’s headquarters to various branches in communities where large amounts of capital were needed.



With the Bank of Italy headquartered in San Francisco, A.P. began establishing branches first in San Francisco, then San Jose, then San Francisco again, then San Mateo, and then Los Angeles. In each branch he first sought out and obtained the business of a core group of Italian immigrants and then

reached out to other immigrants whom he felt were the largest growing population groups in the state. The key to A.P.'s success was his adoption of a liberal lending policy where he offered loans at several interest points below what the regular banks were offering to their customers. Particularly this was true in the farming communities of the Sacramento and San Joaquin valleys where farmers most in need of credit flocked to borrow money from the Bank of Italy's branches. In this regard A.P. was taking a risk which he believed would turn out to be successful. A. P. became so successful in establishing branches that by 1927, the Bank of Italy had 276 branches stretching the length of California from Oregon to Mexico. The headquarters of the Bank of Italy continued to be in San Francisco where A.P. moved the headquarters building from North Beach to 1 Powell St. at the edge of the Financial District. Thus, with the Bank of Italy, Wells Fargo Bank, the Bank of California, investment companies and insurance companies all headquartered in San Francisco, San Francisco became the center of a financial empire dominating the rest of the state.

For most of the extension of branch banking A.P. did not use the simple mechanism of opening a new office as a branch. Most of the branches originated as pre-existing, independent banks which were in financial trouble and whose owners were glad to sell to the Bank of Italy in complicated stock transfers. A. P. kept the personnel of the former banks as employees of the Bank of Italy's branches in order to give the community a sense of continuity and to fend off criticism of the Bank as being too Italian. In some branches A.P. would create advisory boards of directors made up of local community persons to assist the branch in branch operations. A. P. intended these advisory boards as a further link of the Bank to the community the branch was serving.

But the expansion of the Bank of Italy's branches did not sit well with other banks in the various communities. Other local banks uttered howls of outrage at the Bank of Italy for offering loans at interest rates lower than what they could offer. These owners

pressured government officials at both the state and federal level to deny A.P. permits to establish branches. Thus, sometimes A.P. won the battle to get the permits; other times he lost. But he never stopped.

A.P.'s ambition for branch banking did not stop at California's borders. He wanted to establish a nation-wide system of bank branches. In this regard he turned his attention to New York's Wall Street where he discovered a bank in trouble as the result of a power struggle over control of the bank between the owner of the largest share of the Bank's stock and the other owners. The name of this troubled bank was the Bank of America. On February 25, 1927, A.P. for \$17 million acquired the controlling interest in the Bank of America, and with the subsequent mergers of smaller eastern banks with the Bank of America, A.P. succeeded within 2 months in making the Bank of America the 3rd largest bank on Wall Street. None of this came easy. Opposition came from J.P. Morgan, the son of J. Pierpoint Morgan, and president of J.P. Morgan and Company, Wall Street's most powerful banking investment firm, which approved A.P.'s acquisition of the Bank of America only upon certain conditions giving Morgan a certain amount of control. For the rest of his life A.P. never trusted Wall Street.

(Sources: Bonadio, Felice A., A.P. Giannini, Banker of America, pp.43-50;109-110; 117-129).