

Choosing San Francisco to Head the Twelfth Federal Reserve District

As negotiations began regarding where to locate Federal Reserve regional headquarters across the nation, San Francisco was an early contender as a major financial center in the West. Simply being established as a banking center was not enough, though, and the city had to prove that it could meet the needs of a diverse region.

Selection Criteria for Federal Reserve Headquarters

When organizers began exploring where to locate headquarters for Federal Reserve Districts, they formed a committee to establish a set of selection criteria. According to Section 2 of the Federal Reserve Act, the Reserve Bank Organization Committee—

consisting of Secretary of Treasury William G. McAdoo, Secretary of Agriculture David F. Houston, and Comptroller of the Currency John Skelton Williams—was charged with nominating at least eight and as many as twelve cities that would serve as headquarters for district banks.

They based their decision on a variety of criteria, including (1) the ability of member banks within the proposed district to meet the \$4 million required minimum capital and surplus; (2) the economic connections of the constituent states within a proposed district; (3) the ability of the Federal Reserve Bank to adequately serve the needs of business from that location; (4) a fair distribution of available capital across

all districts; (5) transport and communication linkages of the district and the designated headquarters city; and (6) composition of economic activity and economic development of the proposed district. The Federal Reserve Board could later readjust the districts and form new districts, so long as the number did not exceed twelve (Reserve Bank Organization Committee 1914a).

The committee began hearings in New York City on January 15, 1914, and thereafter held hearings in 18 cities nationwide. In addition, more than 200 cities voiced their views on the selection process through their clearinghouse associations, chambers of commerce, political representatives, and banker associations. On the Pacific Coast, hearings took place towards the end of the month on consecutive days in Seattle, Portland, San Francisco, and Los Angeles. In addition to these hearings, 7,471 national banks—all of which would be Fed members—voted for their preferred locations (Reserve Bank Organization Committee 1914a).

The selection criteria were sufficiently broad that 37 cities across the nation applied to host one of the district headquarters. In addition to San Francisco, Portland and Seattle submitted proposals for being the headquarters of a western district. Because national banks had voted to become members of the Federal Reserve System, data on national banks were used by the selection committee to make comparisons across candidate cities.



William McAdoo (on left) and David Houston (on right) served as a two-man panel for most of the Reserve Bank Organization Committee hearings due to a delay in the appointment of John Skelton Williams as Comptroller of the Currency.

Image courtesy of the Library of Congress Prints and Photographs Division.

As Table 1 shows, in comparison to Seattle and Portland, San Francisco had a more developed banking system.

Table 1
Leading Candidate Cities for Twelfth District Headquarters

City characteristics	San Francisco	Seattle	Portland
Population	416,912	237,194	207,214
Number of national banks	9	6	5
Capital and Surplus of national banks	\$45.2 million	\$5.6 million	\$6.8 million
Deposits of national banks	\$95.8 million	\$29.5 million	\$22.6 million
Loans and discounts of national banks	\$120.3 million	\$23.9 million	\$20.2 million

Source: Reserve Bank Organization Committee (1914a, Table F, p. 16).

Notes: Population is from 1910. National bank data are from March 4, 1914.

Each national bank in the western district was also given a ballot to cast. San Francisco received the most first-place votes from national banks—those banks that were certain to join the Federal Reserve System—in part because the most national banks in the proposed district were located there (see Table 2). National banks in the Pacific Northwest and Utah preferred a district bank located in their home states, but San Francisco received a significant number of votes from each of the states in the region.

Table 2
First-Choice Votes for Headquarters City by National Banks

Voting of national banks by state								
Candidate city	Washington	Oregon	Idaho	California	Nevada	Utah	Arizona*	Total
San Francisco	8	16	8	208	5	6	5	256
Portland	9	56	10					75
Seattle	40							40
Salt Lake			12		2	13		27
Spokane	16	1	9					26
Los Angeles				24			2	26
Chicago			2			1		3
New York				2				2
Omaha			2					2
Fresno				1				1
Minneapolis			1					1
Denver			1					1
Total	73	73	45	235	7	20	7	460

Source: Reserve Bank Organization Committee (1914b, p. 350).

*Only northern Arizona was included because the southern part of the state was expected to be included in the 11th District.

Northwestern Influence in the Region

The committee gave serious consideration to a proposal for a separate district that would consist of Idaho, Washington, and Oregon. Proponents of this plan suggested that both economic activity and geographical features warranted a district separate from one headquartered in the likely headquarters of a western district, San Francisco. These states argued that the Pacific Northwest traded little with the southern states of the West, that it had already developed significant and well-functioning ports in Seattle and Portland (with trade totals that rivaled San Francisco), that it had inland transportation links served by multiple transcontinental railways, and that mountain ranges limited the links with San Francisco (the presumed hub of the southern states of the Pacific region). Participants in the Seattle hearings lobbied for a separate northwestern district to be headquartered in either Seattle or Tacoma, with Portland being a second choice (Reserve Bank Organization Committee 1914b).



Bird's-eye view of Seattle, Washington waterfront circa 1903.

Image courtesy of the Library of Congress Prints and Photographs Division.

This proposed region would also have included Montana, in part so the national bank capital for the proposed district would be sufficient to meet the minimum subscription of \$4 million bank capital as required by the Act. However, Montana's representatives argued they had closer ties to St. Paul and Chicago and did not support inclusion in a Pacific or northwestern district. Without Montana's support, it would have been necessary for the state-chartered banks of the northwest to join the system in order to meet the statutory minimum bank capital; their support was not guaranteed, however, because unlike national banks they were not required to join the Federal Reserve System. Moreover, most participants eventually acceded to the view that a weakly capitalized northwestern district bank was inferior to a well-capitalized bank with branches located in the northwest (Willis 1937, pp. 88-90).



Train transporting logs twelve feet in diameter from a fir tree in Washington circa 1908.

Image courtesy of the Library of Congress, Prints and Photographs Division.

Participants in Portland discussed a similar proposal, lobbying for that city to be the headquarters. They suggested that Seattle banks held balances with them, not the other way around, and that Oregon was both the lumber center and wholesaling center of the Pacific Northwest. However, Portland banks held substantial balances with San Francisco banks, both to finance their shipments of foreign goods and to settle trade accounts. Once it became clear that national banks in the region were insufficient in size and number to meet the required capital, bankers in this region threw their support behind a district with San Francisco as the headquarters, supplemented by branch banks with substantial autonomy serving the Pacific Northwest (Willis 1937).

Ultimately, the committee recommended only one district in the West, largely because the Pacific Northwest lacked sufficient capital in its banks to provide the \$4 million required by the Fed's charter legislation. The committee postulated, however, that "within a few years the capital and surplus of its member banks will be sufficient to justify the creation of an additional Federal Reserve district, at which time application may be made to Congress for a grant of the necessary authority" (Reserve Bank Organization Committee 1914a).



Anglo & London Paris National Bank on Sansome Street. January 29, 1913.

Image courtesy of the San Francisco History Center, San Francisco Public Library.

The choice of San Francisco for the Twelfth District's headquarters proved less contentious in comparison to some other regions, in part because the city had established itself as both a commercial and banking center for the Pacific region. By the time the transcontinental railroad was completed in 1869, San Francisco had emerged as the center for export trade from the Pacific Coast region. Endowed with an excellent natural harbor and easy coastal and river access to the agricultural and natural resource riches of the West, it had developed strong economic ties to other countries, particularly to Great Britain. Most of the wheat exported from the West Coast and bound for England was financed through San Francisco, where

numerous London banks had offices. In the year of selection, San Francisco held 28% of the \$260 million aggregate banking capital that existed in the Pacific states (Willis 1937, p. 92).

Establishing the San Francisco Fed

On May 12, 1914, representatives from all of the clearinghouses in the region assembled at the San Francisco Chamber of Commerce to discuss plans for establishing the Twelfth Federal Reserve District Bank's headquarters in San Francisco. The meeting was called at the behest of the clearinghouses of San Francisco and Los Angeles. Representatives from other clearinghouse cities attended, including Portland, San Diego, Fullerton, Salt Lake City, Reno, Seattle, Spokane, Tacoma, and eight other California cities.

Those attending decided that the six directors of the Reserve District should reside within a six-hour ride of San Francisco, or roughly 170 miles (using the average speed of a Ford model T). As a result, 50 representatives from banks within this area attended a second meeting on May 20, 1914. Also present were five representatives from banks that incorporated with the San Francisco Federal Reserve on that day: Phoenix National Bank, First National Bank of San Francisco, First National Bank of Portland, The Deseret National Bank of Salt Lake City, and National Bank of Commerce of Seattle (Cross 1927, pp. 853-4).



Signers of the Certificate of Incorporation of the Federal Reserve Bank of San Francisco on May 20, 1914. Back Row (L-R): H.S. Young, Cashier, Desert National Bank, Salt Lake City, Utah; J.K. Moffit, Vice President and Cashier, First National Bank, San Francisco, California; G.F. Clark, Cashier, National Bank of Commerce, Seattle, Washington; H.J. McClung, President, Phoenix National Bank, Phoenix, Arizona; JNO. C. Cutler, President, Desert National Bank, Salt Lake City, Utah.

Front Row (L-R): Rudolph Spreckels, President, First National Bank, San Francisco, California; M.F. Backus, President, National Bank of Commerce, Seattle, Washington; J.W. Newkirk, Cashier, First National Bank, Portland, Oregon; H.D. Marshall Jr., Cashier, Phoenix National Bank, Phoenix, Arizona.

Image courtesy of the Federal Reserve Bank of San Francisco Archive.

The San Francisco Fed opened its doors on November 16, 1914. It was staffed by 21 employees, including officers, tellers, bookkeepers, stenographers, messengers, policemen, and a janitor. At the time of formation, the district comprised 514 national banks with a combined capital of \$7.8 million. On December 14, the Annual Report of the Federal Reserve (1914, p. 202) reported that the bank held \$13,622,807 in

legal reserves. It began operations in cramped quarters on 25 New Montgomery Street, moved to 315 Battery Street a year later, and then erected a six-story building for its headquarters on 400 Sansome Street, which it occupied until 1923.

The stock of the San Francisco Fed was mandated to pay a 6% annual dividend to its member banks, but in the first two years, it had insufficient business to meet this obligation. In 1916, it paid partial dividends for 1914 and 1915. In 1924, the San Francisco Fed ran a deficit and had to draw \$230,045 from its surplus funds to pay the required dividend (Cross 1927, p. 868).

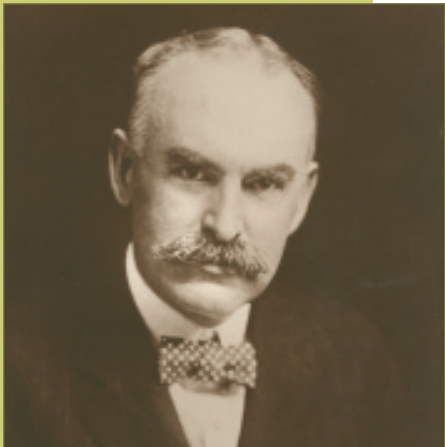
The board of directors appointed Archibald C. Kains as the first governor of the San Francisco Fed. He had earlier been employed with the Canadian bank of Commerce, working his way up from inspector to superintendent of branches and finally to manager of branches before relocating to their San Francisco branch where he served as manager. After working in San Francisco for several years, he became an examiner for the San Francisco Clearinghouse Association, a position he held at the time of his selection as governor of the Federal Reserve Bank. Kains served until 1917, when he took the position as president of the American Foreign Banking Corporation of New York, which had been organized by financial institutions to engage in foreign financing. He was succeeded by James K. Lynch on August 13, 1917. Lynch had actively lobbied in the region for the creation of a central bank and had been president of the California Bankers Association, president of the American Bankers Association, and president of the San Francisco Clearing House Association. He died a few years after his selection on April 28, 1919 (Cross 1927, pp. 856-7).

Continued agitation, especially from the banks in the Pacific Northwest, persuaded the Board of Governors of the Federal Reserve System that the Twelfth District bank served vast distances and would therefore need to establish branches. On April 3, 1917, a conference was held by Bank officials, A.C. Miller of the Federal Reserve Board, and representatives of the clearinghouses of Portland, Spokane, and Seattle. At this meeting, it was decided to open three branches in the northern part of the district to provide for more efficient check collection and discounting procedures. The Spokane branch opened on July 26, the Seattle branch on September 19, and the Portland branch on October 1, 1917. A fourth branch later opened in Salt Lake City on April 18, 1918, and a fifth branch in Los Angeles on January 2, 1920 (Cross 1927, p. 860). Each of these branches operated under a local board of directors, the majority of whom were chosen by the directors of the San Francisco Fed, with the remainder being appointed by the Board of Governors.



View of Head Office at 315 Battery Street in background with new construction site in foreground.

Image courtesy of the Federal Reserve Bank of San Francisco Archive



Archibald C. Kains served as the first governor of the San Francisco Federal Reserve Bank from November 1914 until he resigned in July 1917.

Image courtesy of the Federal Reserve Bank of San Francisco Archive.

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