CHAPTER II

U.S. Bank Activity Abroad

American banking abroad is a relatively new phenomenon in international banking circles. Significant U.S. participation dates only since World War I when banks, with their newly extended powers, were enabled to expand into overseas operations.[1] The potential of the international markets became increasingly evident and served to attract banks into the field. Today, international operations of U.S. banks have become widely diversified and extensive. No longer do United Kingdom and French interests dominate international banking, and the dollar has replaced sterling as the most widely used form of international credit.

Active U.S. participation in the international markets came at a most propitious time. Entrance into overseas banking had been virtually closed to national banks prior to 1914. Consequently, foreign operations were left to state and private banks. Neither of these, however, was engaged to any significant extent in financing through acceptance credits, the most common form of trade financing at that time. Few overseas branches, moreover, had been established. By the end of 1913, 26 foreign branches were in operation, six of which were direct branches of four U.S. banks, and the remainder were branches of two foreign banking corporations.

With the enactment of the Federal Reserve Act, however, international banking was opened to national banks. A market for dollar acceptances was established and national banks were permitted to open overseas branches—both innovations to national banking. By 1920, there were 100 direct branches of State and National banks. Total branches, including branches of subsidiaries and affiliates, reached an early high of 181 in that year.

Certainly there were extenuating circumstances beyond the opening of foreign markets that led to a comparatively large-scale rush of U.S. banks to international operations. Both the aftermath of World War I with its accompanying trade expansion, especially with Europe, and the lessening of reliance on sterling credits in international financing were instrumental in bringing about an active participation in international activities by American banks. As late entrants into the field, U.S. banks attempted to extend and diversify their operations as broadly as possible in order to compete with their more experienced counterparts in the United Kingdom and France.

The early 1920's saw a tapering of expansion in foreign activities by U.S. banks as the abnormal international trade growth leveled off. By mid-1926, the steady withdrawals of banks from foreign branching had reduced the number of direct branches to 72 and the total number, including those of subsidiaries, declined to 107. The initial direct overseas expansion—with its particular emphasis toward

[1] Section 25 of the Federal Reserve Act permits national banks with capital and surplus of $1 million to establish branches in foreign countries and in U.S. possessions. Prior to the passage of the act in 1914, foreign branching by national banks had been prohibited.