

• Mr. Bauman

In the light of
your memo, is there any
flaw in the Chairman's comments
in the 2^d P of his letter.

LC.

O. K.
JLB

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 7, 1941.

To Mr. Clayton

Subject: Restrictions upon retirement of
private stock by Bank of America National
Trust & Savings Association

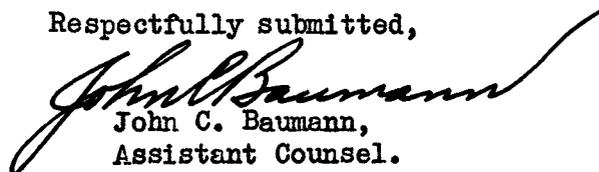
From Mr. Baumann

I understand that you desire to know what restrictions there are upon the retirement of preferred stock by Bank of America National Trust & Savings Association under the bank's agreement with the supervisory authorities and its articles of association.

The formal agreement with the supervisory authorities did not cover this matter, except to provide for agreement between the bank and the Comptroller of the Currency upon the terms of the amendments to the bank's articles of association in connection with the issuance of the preferred stock. It was informally agreed in a conference with representatives of the bank that the Comptroller would not demand, prior to approval of such amendments, any additional conditions or limitations relating to capital ratio or treatment of earnings. It is noteworthy that an early draft of the demands to be made upon the bank contained a provision, eliminated during the negotiations, that preferred stock should not be retired without the Comptroller's consent if the retirement would reduce the aggregate capital, surplus, and undivided profits below that as of the date of the increase in capital (subject to a minor exception concerning qualification for the lowest RFC rate).

Based upon information concerning proposed amendments to the bank's articles of association in connection with the issuance of the preferred stock (we do not have official information as to those finally adopted but I believe no material changes were made), it appears that provision was made for transfers of minimum amounts to a Retirement Fund with no restrictions upon transfers of such amounts or larger amounts of lawfully available funds, except that (1) no transfer shall be made which will reduce the aggregate amount of capital, surplus, and reserve for increase of common capital below the aggregate amount of capital and surplus existing immediately after the issuance of the preferred stock, and (2) not more than \$1,000,000 of the bank's undivided profits accounts existing upon the issuance of the preferred stock may be transferred during each of the years ending June 30, 1941 and June 30, 1942. The preferred stock is not callable prior to June 30, 1945, but the bank is required to use any balances in the Retirement Fund to purchase and retire any preferred stock offered to it at a price not exceeding its retireable value and, with a large amount of the stock owned by Transamerica Corporation, such amounts as the bank desires to retire presumably will be available.

Respectfully submitted,


John C. Baumann,
Assistant Counsel.