

2/9/40

Chaermon Eckes

CONFIDENTIAL

REQUIREMENTS WITH RESPECT TO

BANK OF AMERICA N. T. & S. A.

1. Capital. The capital must be increased immediately by not less than \$35,000,000. If the new capital is obtained by the issuance of preferred stock, no retirement of preferred stock shall be made without the consent of the Comptroller of the Currency, if such retirement would reduce the aggregate capital stock, surplus and undivided profits below the total of the capital stock, surplus and undivided profits as of the effective date of the proposed increase in capital; provided that in the event the R.F.C. subscribes to preferred stock the bank will be permitted to retire the minimum amount of preferred stock annually in order to qualify for the lowest dividend rate.
2. Bond profits. All bond profits must be kept in a special reserve account to take care of losses and depreciation in the bond account until the total of that reserve account shall equal the total bond premium plus all bond depreciation.
3. Losses and reserves. A reserve of \$8,000,000 must be set up against the carrying values of banking premises as shown on the bank's books and in the investment in Merchants National Realty Corporation. At the end of one year this reserve shall be used to reduce the carrying values of such banking premises, unless in the meantime the bank shall have furnished to the Comptroller of the Currency

complete information satisfactory to him with respect to the actual cost of each banking premise and the depreciation which has been taken thereon, such information to cover the complete history of each banking premise from the time of construction. Upon furnishing such evidence within the one year, the reserve shall be used to reduce the carrying value of banking premises by the amount of adequate depreciation during the life of the building, not previously taken, which should have been taken in accordance with sound banking practices, and by the amount of any "write-ups." The remainder of such reserve, if any, may be returned to the undivided profits account.

Losses set up by the examiners in the last report of examination not otherwise provided for herein must be charged off immediately.

Future losses, except those reserved for, must be charged out of future earnings, and presently existing undivided profits as well as any amount that may later be released from reserves herein established, may not be used for any purpose except the setting up of reserves and charging out of losses not provided for by future earnings.

Concerning other real estate carried as such, ~~and~~ real estate sold under contract to Capital Company and California Lands Inc., a reserve of 25 per cent of the book value of such assets must be set up on the books of the bank without relieving California Lands Inc. or Capital Company of their obligations with respect to properties presently under contract with them.

No real estate acquired by the bank shall be transferred to California Lands Inc., Capital Company, or Merchants National Realty Corporation, or to any other party under similar arrangements, and no real estate shall be disposed of except for cash or under bona fide sales contracts with purchasers, under conditions justifying the expectation that such sales will be final. As soon as possible after the acquisition of any additional real estate it must be placed on the bank's books as other real estate and at a figure which would eliminate any loss in the asset. In no instance is the carrying value of other real estate to exceed the book value of the loan.

4. Illegally held bank stock. The amount of the investment in the stock of the National City Bank must continue to be reduced at a rate not less than the amount of the reduction made in that asset during the last year.
5. Large lines. The progress that has been made in the past year in liquidating indebtedness of Transamerica and its subsidiary companies must be continued. The aggregate amount of these lines should be brought within the statutory limitations for any one borrower, and such indebtedness must be adequately and properly secured in accordance with sound banking practice.

The concentration of credit in the bank depending upon the shares of other closely related banking institutions must be

discontinued. The credit facilities of the bank must not be used for the expansion of Transamerica. With respect to existing loans representing credit used for that purpose there must be a program of reduction and retirement.

It is definitely understood that the banks and the companies herein listed and referred to shall be construed as associated and affiliated companies subject to the foregoing restrictions and the aggregate of such loans must be brought within the legal limitation of the bank's lending power before July 15, 1942.

Transamerica Corporation
Coast Company
Corporation of America
First Securities Company of Portland
Transamerica Service Corporation
Transamerica General Corporation
Bankamerica Agricultural Credit Corporation
California Lands, Inc.

California Exploration Company
Capital Company
Western Furniture Exchange
Western States Corporation
Coast Service Company
Inter-America Corporation
Inter-Continental Corporation
American Brokerage, Inc.
General Metals Corporation
Occidental Life Insurance Company
Pacific National Fire Insurance Company
Bankamerica Company
First National Corporation of Portland
California Joint Stock Land Bank
Associated American Distributors, Inc.
Pacific Coast Mortgage Company

and any other subsidiaries of above companies presently in existence or to be organized in the future or any other corporations, which under the circumstances of their existence appear to be within reasonable limits affiliated or closely allied to the borrowing interests of the above corporations.

The stock of any bank, in which Transamerica is substantially interested, securing such loans must be eliminated by July 15, 1945, and no similar pledges may hereafter be accepted. Further extensions of credit by the bank for the purpose of purchasing or carrying Transamerica Stock must be discontinued, and no collateral value may be assigned to such stock hereafter pledged to secure the loans.

6. Real estate concentration. All real estate acquired or carried in violation of Section 5137 of the Revised Statutes must be disposed of as soon as possible. Real estate loans which do not conform to Section 24 of the Federal Reserve Act must be disposed of or made to conform as soon as possible.
7. Self-insurance reserve. Steps should be taken as soon as possible to determine the legality of the transaction between the Bank of America and Transamerica General Corporation relating to insurance against certain losses of the bank. In the event it be found that such transaction was invalid, the balance of the funds in the hands of Transamerica General Corporation, after deducting all losses paid by it, should be restored to the bank.