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March 6, 1940. No. 4

(FINAL SIGNED DRAFT)

REQUIREMENTS OF THE COMPTROLLER OF THE CURRENCY

1. As soon as possible, and in any event not later than June 30, 1940, Bank of America National Trust and Savings Association will add \$30,000,000 of additional capital funds by the issuance of common or preferred stock, or both, and the Bank will, prior to April 1, 1940, apply for the approval of the Comptroller of the Currency to such increase. The Bank will endeavor to obtain a commitment from the Reconstruction Finance Corporation to purchase or lend upon preferred stock in the amount of \$30,000,000 prior to April 1, 1940, and if preferred stock is to be sold, will endeavor to obtain an agreement with the Comptroller of the Currency upon the terms of the amendments to the articles of association by April 1, 1940.
2. Immediately upon obtaining the new capital the Bank shall set up an unallocated reserve of \$6,900,000.
3. The Bank shall obtain additional security satisfactory to the Comptroller of the Currency to secure the contracts of California Lands, Inc. and Capital Company with the Bank, and the contracts of Capital Company with Merchants National Realty Corporation. Such additional security shall be in an amount equal in value to the difference between the unpaid purchase price upon such contracts and the value of the property thereunder, as such value appears in the schedule contained in the report of exam-

ination begun August 31, 1939. All of such contracts shall be eliminated from the assets of the Bank and Merchants National Realty Corporation by December 15, 1943.

4. All premiums on bonds in the Bank's investment portfolio shall be amortized out of current earnings (other than bond profits) to maturity, or to call date, if any, and amortization previously reserved on bonds sold at book value or higher may be returned to the undivided profits account. Current bond profits shall be used to take care of current losses, and any bond profits not so used shall be passed to a reserve for losses of any character until in the opinion of the Comptroller of the Currency such reserve is adequate. However, this reserve for losses, plus the amortization reserve, need not exceed the total premium account.
5. The Bank shall, as soon as possible, furnish to a committee composed of the Vice President in Charge of Examinations of the Federal Reserve Bank of San Francisco, or some officer of the bank designated by him, the Supervising Examiner of the Federal Deposit Insurance Corporation for the Twelfth District, and the Chief National Bank Examiner for the Twelfth Federal Reserve District, all obtainable records and information with respect to the acquisition of each banking premise criticised in the report of examination of August 31, 1939, including those shown on the bank's books and in its investment in

Merchants National Realty Corporation, dating back to the time such premise was acquired either by the bank or any member (either bank or company) of the group presently or then comprising the Transamerica organization.

The committee shall consider the fair value of each premise at the time of such acquisition, and the special conditions which had to be met in fixing the price paid. From these considerations, the committee shall determine the amount which shall be used by the committee as the estimated cost amount of each premise to the bank. The value of each premise shall then be established at such estimated cost amount, plus the amount of any expenditures subsequent to acquisition found by the committee to have been appropriately capitalized, less the appropriate amount of depreciation at the depreciation rate allowed by the Bureau of Internal Revenue for each year of ownership. The unallocated reserve set up by the bank shall be reduced by the difference between the present carrying value of each such premise and the value of such premise as determined by the committee in the manner hereinabove stated. The decision of a majority of the members of the committee shall be binding. The remainder of such reserve, if any, may be returned to the undivided profits account. A partial release of the reserve, or a decrease in the amount of the reserve to be set up, may be made as soon as that procedure is justified, in the opinion of the committee.

6. The aggregate amount of obligations, as defined in Section 5200, United States Revised Statutes, of Transamerica Corporation and all subsidiaries in which it owns or controls a majority interest, to the bank, will be brought within the limitations and exceptions of Section 5200, United States Revised Statutes, for any one borrower by July 15, 1942, and thereafter the aggregate amount of such obligations will not be permitted to exceed such limitations and exceptions. The existing obligations of Transamerica or its subsidiaries now held by the bank will be eliminated by July 15, 1945, and no new loans will be made to Transamerica or its subsidiaries secured by the stock of subsidiaries of Transamerica. This paragraph shall not apply to obligations of Capital Company and California Lands, Inc. arising out of real estate sales contracts, which contracts are covered in numbered paragraph (3) hereof.

The bank may accept Transamerica shares as security for small loans for business purposes where the borrower demonstrates a capacity to liquidate the loan otherwise than through the sale of such shares. No loans for speculative purposes will be made on the security of such shares.

7. The bank shall eliminate the amount of investment in stock under option on the basis of the program now in effect.

8. The bank shall give vigorous attention to the elimination or correction of any real estate holdings or real estate loans that may not conform to statutory requirements.
9. The bank shall initiate steps to ascertain whether it is entitled to recover any part of the sums paid by it to Transamerica General Corporation in connection with fidelity losses, and if it is concluded the bank is entitled to recover, it shall take steps to recover the same.
10. The Board of Directors of the bank will approve the foregoing by April 1, 1940.

This memorandum is submitted without prejudice to the right to require full and complete compliance with the Comptroller's criticisms and suggestions, to resort to sanctions provided by law, or to continue to list in reports of examination assets that are subject to criticism, until such criticisms have been corrected or eliminated. Neither this memorandum nor its contents shall be used by the bank or anyone else on its behalf without the consent of the Comptroller of the Currency for any purpose except for its information, unless and until the provisions hereof are accepted and complied with by the bank.

<u>For the Federal Reserve System</u>	(signed) M. S. Eccles Jno. K. McKee
<u>For the Federal Deposit Insurance Corporation</u>	(signed) Leo T. Crowley
<u>For the Comptroller of the Currency</u>	(signed) Preston Delano E. H. Foley, Jr. D. W. Bell