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May 2, 1940

Mr. Ira Clerk,  
First Vice President,  
Federal Reserve Bank of San Francisco,  
San Francisco, California.

Dear Mr. Clerk:

I received the copy of your letter of April 29th to Mr. Mulroney. You will recall that along at the end of the negotiations and after it had been decided to delegate the responsibility of valuing the criticized banking premises to a committee, the bank proposed that it have the right to appeal to the Comptroller from the decision of the committee, but after some discussion, the proposal was withdrawn. In these circumstances, I believe that the Comptroller's office will be very reluctant to give any instructions to Mr. Wright for fear that subsequently they might be charged with not acting in good faith in carrying out the agreement, and that they will maintain a hands-off attitude, leaving the matter of interpretation as well as application of the agreement entirely to the committee. I realize of course the distinction between interpreting the meaning of the agreement and instructing the committee with respect to what their finding should be in the case of a particular building. At the same time, however, it is hard to separate the two in the present case and I personally therefore am inclined to be somewhat sympathetic with their position which I understand is being forwarded to you.

On the other hand, my recollection of the background of the agreement and of the discussion of the particular case is in entire accord with the statements in your letter. I interpret the agreement as you do and have no reason to believe that the Comptroller's office would take a different position.

The foregoing about sums up the situation as I see it and I hope will be of some slight assistance to you.

Yours very truly,

J. P. Dreibelbis,  
Assistant General Counsel.

C O P Y

FEDERAL RESERVE BANK OF SAN FRANCISCO

April 29, 1940

Mr. A. J. Mulroney,  
Deputy Comptroller of the Currency,  
Washington, D. C.

Dear Mr. Mulroney:

At a meeting this afternoon of the Committee to Appraise the Banking Premises of the Bank of America N. T. & S. A., Mr. Wright expressed some uncertainty as to the method of determining the fair value at the time of acquisition of a building which was purchased without buying the stock or the business of the institution which was housed therein. An example will be found in the case of the premises housing the California-Montgomery Branch of the Bank of America N. T. & S. A.

The building originally was constructed by the American National Bank. Ultimately, it passed to the ownership of the American Trust Company of San Francisco, the main office of which was across the street. In the course of consolidating the business of the extinguished American Bank with the American Trust Company, the location at California and Montgomery Streets was left vacant. I recall very well the negotiations between President John Drumm of the American Trust Company and Mr. A. P. Giannini, Chairman of the Advisory Committee of the Bank of Italy, N. T. & S. A. It was a lively contest between two very astute traders.

According to the discussions we had in Mr. Folger's office with Messrs. Layman and Steinmeyer, Wednesday evening, February 28, it was agreed that the price actually paid for a building as a separate unit and not in connection with the purchase of a bank should be regarded as the fair value of the property. Therefore, in determining the present value, the Committee must start with the purchase price and fix the present book value by adding any expenditures subsequent to acquisition found by the Committee to have been appropriately capitalized, and deducting the appropriate amount of depreciation at the rate allowed by the Bureau of Internal Revenue for each year of ownership.

You may recall that the morning after the evening session with Messrs. Layman and Steinmeyer, I dictated an outline of our understanding, the substance of which was expressed in Paragraph 5 of the Agreement. I found among my files a rough draft of the outline, which I enclose. I shall very much appreciate your reviewing it, and, after conference with Mr. Folger and Mr. Dreibelbis, letting me know whether Paragraph 4 of the enclosure agrees with your understanding, and whether the purchase price of the American Bank Building is the proper basis for determining the fair value at the time of acquisition.

Please reply by airmail.

Yours very truly,

(Signed) Ira Clerk  
First Vice President.  
Cecil Messrs. Wright, Funsten, West, Dreibelbis, and Folger.