

February 13, 1929.

MEMORANDUM: From Transamerica Corporation to the Federal Reserve Agent in New York.

SUBJECT: Ownership of national bank shares by corporations.

REFERENCE: The ownership of shares by of the Bank of America, National Association by the Transamerica Corporation.

1. The Bancitaly Corporation, a corporation organized under the laws of New York, at the time of the events herein related, was doing business in the United States and elsewhere. Its financial condition was sound and during the first quarter of 1928 its stockholders numbered approximately 90,000. From time to time it made public a list of its security holdings.

2. Among the assets held by the Bancitaly Corporation, in addition to a widely diversified list of prime securities of industrials, railroads, public utilities and governments, domestic and foreign, there were a large number of shares of the capital stock of various banks in the United States and in foreign countries. Among these were the following shares of banks in the City of New York: 3,945 shares of the National City Bank, 540 shares of the First National Bank, 525 shares of the Guaranty Trust Company, 5,635 shares of the Chase National Bank, 505 shares of the Corn Exchange Bank; 20,074 shares of the Bowery and East River National Bank, holdings in which began in 1919; 7,540 shares of the Commercial Exchange Bank of New York; and 53,664 shares of the Bank of America, all of which latter were acquired from corporate ownership.

3. Early in the month of March, 1928, discussion among the directors of the Bowery and East River National Bank, Commercial Exchange Bank and the Bank of America led to a tentative plan for the ultimate consolidation of the three banks into one national banking association under the provisions of the Act of Congress of

November 7, 1918 and as a condition precedent to the formal proceedings of such consolidation it was planned to convert the Commercial Exchange Bank and the Bank of America into national banks under the provisions of Section 5155 of the Revised Statutes of the United States as amended.

4. Pursuant to this general plan, the Bank of America on March 8, 1928 filed with the Comptroller of the Currency a duly executed application declaring its intention to convert into a national banking association. The meeting of the shareholders of the Bank of America to act finally upon the resolution to convert was set for Monday, March 26, 1928 at ten o'clock A.M., and since this date was a definite stage in the whole program of consolidation, it could not be changed without causing confusion and the serious impairment of confidence in the institutions through the delay.

5. The Bank of America was organized in the year 1912 and had built up a valuable trust business. It was naturally the intention, in accordance with the usual practice in the conversion of state banks and trust companies into national banks, that this trust business would be carried on without prejudice or interruption by the converted national bank upon the issuance by the Federal Reserve Board, simultaneously with conversion, the usual permit for the exercise of trust powers as provided <sup>in</sup> the Federal Reserve Act. The Bank of America had immediately prior to March 26, 1928, been examined by the national bank examiners and by the Clearing House examiner and its condition was found to be sound. All of the requirements of the national banking laws and of the regulations of the Comptroller of the Currency had been met and no further questions had been raised by the Comptroller of the

Currency, by the Federal Reserve Board, or by the Federal Reserve Bank in New York. In conformity with the routine practice, the Bank of America, as a state bank, on behalf of the Bank of America National Association, had filed with the Federal Reserve Agent at the Federal Reserve Bank in New York a formal application to the Federal Reserve Board for permission to exercise trust powers.

6. On Friday, March 23, 1928, notice was served by the Federal Reserve Agent in the Federal Reserve Bank in New York that he would not transmit the application of the Bank of America for trust powers with his approval to the Federal Reserve Board at Washington except upon the condition that the Bancitaly Corporation agree in writing to divest itself of every share of stock of the Bank of America National Association held by it. No reason was assigned as a basis for this demand. This unexpected introduction of a question of banking policy, wholly unrelated to the question of trust powers, into a routine governmental proceeding, so short a time before the meeting of the shareholders of the Bank of America (on Monday, March 26, 1928, at ten A.M.) for final action upon the conversion, created an extremely embarrassing situation both to the Bank of America and to the Bancitaly Corporation. The question involved had not theretofore been presented by the authorities and there was not left time enough prior to the meeting on March 26, to permit the Bank of America and the Bancitaly Corporation to make representation before the Federal Reserve Board in Washington. Under the stress of these extraordinary circumstances the Bancitaly Corporation was forced to agree to the condition demanded in order to secure the favorable recommendation of the Federal Reserve Bank in New York and the approval of the Federal

Reserve Board, as of March 26, 1928, the effective date of the conversion. Had the Federal Reserve Agent presented this question of policy at an earlier date, so as to allow sufficient time for a deliberate consideration thereof, the Bancitaly Corporation and the Bank of America would have resisted before the Federal Reserve Board at Washington an adverse recommendation by the Federal Reserve Agent in New York upon the application of the Bank of America for trust powers. It is our information and belief that the Federal Reserve Board has never denied trust powers to a converted national bank where its condition and management was sound, as the Bank of America was shown by the government examination to be.

7. Attention is directed to the singular fact that this demand was made not upon the Bank of America, which was a member bank of the Federal Reserve System, and which filed this application for trust powers, but upon the Bancitaly Corporation which was a stockholder in that bank and as such stockholder stood in no relationship with the Federal Reserve Bank and had no responsibility, duty or obligation to that bank.

8. Nevertheless, the terms of the letter written by the Bancitaly Corporation and filed with the Federal Reserve Agent at his request, were complied with.

9. There have been organized in the United States during the last few years a considerable number of holding companies for the express purpose of the acquisition of the majority of the shares of the capital stock of banks and many security companies and investment trusts have also invested in such bank stocks. In every section of the country today there are groups of banks thus owned by holding companies, some of which are operating in

in the Second Federal Reserve District in the State of New York. The Federal Reserve Board in its last annual report to Congress commented upon the extensive growth of this type of bank organization and control but made no adverse comments or recommendations to Congress. The Federal Reserve Bank in New York has apparently taken no steps to force or to lead these holding companies to divest themselves of such bank stocks in the Second Federal Reserve District.

10. On October 11, 1928, there was incorporated under the laws of Delaware the Transamerica Corporation, which <sup>was</sup> designed to be a holding company for the capital stock of the Bank of Italy National Trust and Savings Association, the Bancitaly Corporation and its affiliated companies and banks including the Bank of America National Association. One of the purposes of this procedure was to withdraw these bank stocks from the open market and thereby prevent speculative trading in them. The Transamerica Corporation had already acquired the majority of the stock of the Bank of Italy National Trust and Savings Association and of the Bancitaly Corporation but its program is not yet complete. It proposes to proceed to acquire the stock of the Bank of America National Association.

11. The Transamerica Corporation considers itself as free to act as any other corporation which has the right and power to hold the stock of banking institutions and it considers itself bound in no respect legally or morally, in letter or in spirit, by the terms of the letter written by the Bancitaly Corporation on March 23, 1928, to which reference has hereinabove been made.



12. It is the view of the Transamerica Corporation that the ownership of bank stocks by it is economically sound, is in line with modern progress in business organization and is not contrary to the banking policy of the United States as expressed in law or practice.

13. It is also the understanding of the Transamerica Corporation that the question whether corporations shall become shareholders of national banks is one with which the Federal Reserve System cannot properly concern itself because it presents a question of banking policy to which the provisions of the Federal Reserve Act do not extend; that the Federal Reserve Board would not assume jurisdiction over it; and that therefore a Federal Reserve Agent, a Federal Reserve Bank or any official thereof, has no authority or power to take any official position with reference thereto. The simple recitation of this circumstance would seem sufficient to dispose of any question of the moral or legal right of the Transamerica Corporation to own stock in the Bank of America National Association, so far as the Federal Reserve System is concerned. In conclusion, the Transamerica Corporation does not see how the letter written by the Bancitaly Corporation on March 23, 1928, under the circumstances hereinabove related, can have any bearing whatever in the premises.

Very respectfully yours,

TRANSAMERICA CORPORATION

By

(signed) A. P. Giannini  
President.