

January 31, 1938.

MEMORANDUM TO:

The Honorable Henry Morgenthau
Secretary of the Treasury

Re: The Bank Holding Company Question, with Special
Reference to Transamerica Corporation

As a result of our conference, I wish to set before you the essence of my position with respect to this problem in an effort to assist in its solution.

It is my opinion that the group banking system should never have been permitted to come into existence. However, now that it has appeared and become an established institution in some parts of the country, treatment of it must be predicated upon serious consideration of the incidental effects which may flow from any particular action. These organizations have been permitted by law to come into existence and have possibly 500,000 stockholders. Care should be taken, if possible, to avoid causing any undue hardship to these stockholders, most of whom are small investors, and to avoid impairing the economic usefulness of the banks now contained in the groups. It must not be forgotten that most of the groups and their constituent banks have cooperated most commendably in putting their institutions in good order and in maintaining banking standards since 1933. My concern is primarily with those exceptional groups and banks which have not given evidence of a willingness to clean house and to restrict expansion. When an attitude of irresponsibility is manifested on the part of the management of dominant banking institutions operating over wide areas, a serious situation exists.

My recommendations are, briefly, as follows:

- (1) No further bank holding companies should be permitted to come into existence.

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- (2) Existing bank holding companies should be absolutely prohibited from further expansion, either through acquisition of additional banks, either directly or indirectly, or through establishment of additional branches by banks now in the groups.
- (3) Banks should be required, within three years, to collect loans which they have made to their affiliates.
- (4) If the respective groups do clean house and seem, after three years, to be operating in a socially desirable fashion, it seems to me a debatable question whether the general welfare would be best promoted by rigidly requiring dissolution by a certain date. If they have cleaned house and are not being permitted to expand, possibly the "death sentence" should not be carried out; or dissolution in certain cases or under varying conditions could be prescribed by the supervisory authorities; or possibly mild pressure for dissolution should be exerted through some device such as withholding of dividends.

While it is quite necessary that public attention be confined to group banking in general, it is necessary, as was discussed at our conference, that we recognize that our big immediate problem is not group banking but the Transamerica Corporation and the Bank of America. At the present time the Bank of America has 490 branches. This represents a large concentration of credit in one group, or in fact, in the hands of one man. The Bank of America would not be touched by holding company legislation. Already Transamerica Corporation has distributed 60 percent of the stock of this bank and there appears to be no reason why it cannot readily distribute the remainder without any effect for the better upon the condition and policies of that bank.

Our information relative to the condition of the Bank of America is based on the last examination report made available to us, that is, the report received in Washington May 10, 1937 on the national bank examination begun October 14, 1936. That report and particularly the comments in the confidential section set forth several unsound aspects of the bank's condition which merit our careful consideration. Furthermore, it appears that there can be no real understanding of the condition of the bank without a thorough examination of Transamerica Corporation, Capital Company (holds city real estate), California Lands (holds rural real estate), Occidental Life

Insurance Company and Pacific National Fire Insurance Company. Further expansion in the banking field by this group into neighboring states or even in the State of California through additional branches or additional affiliates will greatly add to the already difficult problem of satisfactory examinations and proper supervision. Such a situation could easily get out of hand.

Therefore, my opinion is that our most important problems are to restrict the further expansion of such groups either through branches or affiliates and to exercise close supervision over them with a view to correcting any existing unsatisfactory conditions.

While the opinions which I have here set down may deviate somewhat in emphasis from the views expressed by the President, I want you to know that I recognize him as the final one to determine policy. Whatever the final decision in this connection, so long as I remain in the Government, the President will find me loyal to whatever decision he may make.

Leo T. Crowley
Chairman