June 26, 1942.

Mr. L. M. Giannini, President,
Bank of America, N. T. & S. A.,
San Francisco, California.

Dear Mario:

I have not replied earlier to yours of March 19, 1942, as it reached me during a particularly busy period and you did not ask for a reply. You enclosed a copy of your letter of March 18, 1942, to the Comptroller of the Currency, in which you replied to his letter of February 17, 1942, addressed to your board of directors.

I had not been advised of the letter from the Comptroller to your board, nor have I since seen anything of it. For that reason, I am not going to venture an opinion as to whether your reply meets his points or not. However, admitting that you have not retired your preferred stock to the full extent permitted by your articles, I should say that in my personal opinion it would be a wise policy not to anticipate any such retirement so long as your bank maintains its dividend rate, continues to grow so rapidly and has its large investments in banking premises, other real estate and real estate contracts. In other words, during the present period of deposit expansion and the uncertainty of the times, it would be well for banks generally to pursue a conservative policy with reference to retirement of preferred stock so long as a substantial part of their earnings are paid out in dividends.

It was nice to hear from you and I am glad to return your good wishes.

Sincerely,

(Signed) M. S. Eccles

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Proposed letter to -

Mr. L. M. Giannini, President,
Bank of America, N. T. & S. A.,
San Francisco, California.

Not used.

Dear Mario:

This acknowledges receipt of your letter of March 19, 1942, enclosing a copy of your letter to the Comptroller of the Currency dated March 18, 1942, relating to the progress made and the retirement of preferred stock by Bank of America. The progress made by the bank from time to time has been noted by us with considerable interest and I know that it must have been gratifying to you to observe your bank's growth and improvement during the last several years. ?

In your letter to me, you say that on the basis of the Comptroller's adjusted capital figures the capital structure of your bank has increased about $40,000,000 in the period from March 31, 1939, to December 31, 1941, and in the same period, including the preferred stock, it increased by $67,000,000. These increases are based upon book figures for 1941 and upon adjusted capital figures for 1939--which were about $21,000,000 less than book figures at the time of the March 31, 1939, examination. On the basis of book figures for both dates, the total book capital accounts increased only $19,000,000, excluding the increase resulting from the issuance of preferred stock. In analyzing the factors responsible for the figures of increases quoted by you, it is noted that a large amount of the classified assets used in arriving at the Comptroller's 1939 adjusted figures were not eliminated by charge-offs but no longer appear in the capital structure adjustments because of improvements in the value of such assets or the classifications thereof. In other words, it does not appear that all of the $40,000,000 increase to which you refer resulted from the retention of earnings of the bank.

While the bank's capital increased as indicated above, its liabilities to depositors also increased about $340,000,000 in the same period. Although the ratio of total capital to deposits has improved slightly in the last few years, if preferred capitalization were excluded the ratio would have decreased. During this same period the bank's liquidity has remained about the same, but the bank still has a very large investment, although there has been some decrease in total

in these assets

investment in banking ~~premises, other~~ real estate, and real estate contracts. These and other non-liquid assets, including Class II loans and the "large line to Transamerica Corporation, its subsidiaries and closely related companies", which fall clearly in that category, still bulk large in relation to capital.

It has probably never been seriously contended that the minimum statutory requirements for capital were a proper measure of the adequacy of a bank's capital structure. The relation of capital funds to deposits and to non-liquid assets have long been and are the most practicable measures of adequacy of capital. General conditions, particularly the uncertainties inherent in time of war, and the immediate period thereafter, also have a very material bearing on the subject. Now, more than ever, banks should strive, by every means available, to place or maintain themselves in a strong position.

In the Bank of America's case, it appears that further improvement through the reduction of non-liquid assets will be slow at best and is even in danger of being reversed, considering the nature and volume of the bank's loans, and present conditions and their especial potentialities in the territory served by the bank. In any event, improvement of that kind would not aid the ratio of capital to deposits, and there is now a strong possibility that continued growth of deposits will aggravate that problem.

The bank's articles of association envisage eventual retirement of its preferred stock out of earnings over a maximum period of twenty years. However, considerations other than the amount of earnings available for the purpose should govern any more rapid retirement. Of course, it is obvious that each retirement withdraws from the bank an equivalent amount which would otherwise be available to increase the capital accounts. Increases are at present necessary, and there is every indication that further substantial increases will be necessary. They can come only from additions through earnings or the flotation of additional stock. No one can foresee with any degree of certainty what the bank's earnings or its losses will be during the next few years. It has already been demonstrated that, under existing circumstances, the public cannot be relied on to subscribe to further issues of the bank's stock, and with the strain of war it is by no means certain that the government would wish to make ~~will have~~ funds available for that purpose. It would seem far more advisable, in these circumstances, to keep what government capital you can, rather than run the risk of its not being available on future request.

It seems to me, and I am in full accord with what appears to be the Comptroller's principal position, that prudence and wisdom call both for maximum effort in reducing non-liquid assets and the retention of every possible dollar of earnings in the bank's capital accounts. Retirements of preferred stock, since they lessen additions to capital, should be made in the minimum possible amounts, particularly if there is no urgent reason for early retirement.