

8/29/42

D R A F T

Dear A. P.:

On August 18th, just as I was leaving for my vacation, I received your undated letter in which you indicated your strong disapproval of the Board's action in declining to grant the application of First Trust and Savings Bank of Pasadena for permission to establish branches at Temple City and Alhambra, California, and requested information as to the reason for such action.

The action of the Board, and of the other two Federal supervisory agencies, is not intended in any manner as a reaching out to usurp the legislative prerogatives, as you suggest, but was the exercise of an administrative function which the Board and the other agencies, after careful thought, deemed to be necessary in the public interest, in view of certain management policies and practices of Transamerica Corporation and Bank of America N.T. & S.A.

In the administration of its responsibilities, the Board has always attempted to be fair and impartial with respect to all banks and other institutions with which it deals. To this end both Governor McKee and I have on more than one occasion clearly explained to you the unfortunate consequences which could befall the public as a result of too rapid expansion of banks or bank groups. On more than one occasion we have indicated the unnecessary increase in deposit insurance exposure through the absorption of existing banks or the establishment of de novo branches by Bank of America without a corresponding increase in the capital structure of the bank. The same principle applies to the further expansion of Transamerica Corporation in the banking field. Neither I individually nor the Board as a whole can share your feelings that Bank of America has not needed additional capital. It was clear to us at the time referred to in your letter that the management of Transamerica Corporation was not willing to take the necessary steps to effect obviously necessary corrections. It was equally clear that Transamerica Corporation was not in financial condition to render the necessary assistance to Bank of America. After prolonged efforts to induce the management to effect corrections, the Federal supervisory agencies finally were able to get the Bank of America and Transamerica Corporation representatives to agree to a program of improvement over a period of years. Spreading this program over a period of years was accepted by the supervisory authorities because it was obvious that the eliminations and other corrections would not or could not be made in their entirety at the time.

The record clearly indicates that many of the unsatisfactory assets and other situations in the Bank of America case resulted from the policies and practices of the management during its rapid expansion program. Since the beginning of our negotiations with respect to the corrections in the Bank of America case it has been our view that the supervisory agencies would be remiss in the discharge of their responsibilities if they permitted the continued expansion of the Transamerica group without the Corporation being in position to render whatever aid might be necessary to any of its institutions in times of depression as was experienced by Bank of America for a number of years subsequent to 1931.

Prior to April 1941, as you know, the Comptroller of the Currency had placed restrictions upon further expansion of branch banking activities of national banks in the Transamerica group. In the latter part of April 1941, we were advised of the arrangements whereby Temple City National Bank, Temple City, California, was to be changed into a State bank with membership in the Federal Reserve System and thereupon the stock of the State bank would be acquired by Transamerica Corporation. Feeling that this was a plan whereby Transamerica Corporation could avoid the restrictions of the Comptroller of the Currency upon further expansion of branch banking activities of national banks in the Transamerica Corporation group, the Board declined to approve membership of the proposed State bank at Temple City.

It was understood at the time this membership application was considered that Transamerica Corporation owned but very little if any of the stock of the Temple City National Bank but had made a commitment to purchase substantially all of the stock of the proposed State bank conditioned upon its first obtaining membership in the Federal Reserve System. It appears from our files that by the time it was decided that the organization of the State bank and its membership in the System would not be completed, Transamerica Corporation had acquired practically all of the stock of the national bank.

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In this connection, you may recall that Mario (?) was in Washington and had a conference with Governor McKee and me on June 13, 1941. At this conference and in other discussions with representatives of Transamerica Corporation and Bank of America N.T. & S.A., the Board's opposition in the circumstances to further expansion by Transamerica Corporation or Bank of America interests was clearly and definitely made known and we understood that the plans to take over the Temple City National Bank would be abandoned. On June 14, 1941, the Los Angeles Branch of the Federal Reserve Bank of San Francisco was advised by wire from Chicago by the attorney for Temple

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City National Bank (who was apparently en route to Los Angeles) that the stockholders desired to abandon the plan of conversion to a State bank and wished to continue the institution as a national banking association. We also understood that other expansion activities of Transamerica Corporation would be terminated.

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Early in the fall of 1941 a movement was begun to organize the Peoples Bank of Lakewood Village, California, and obtain membership for that bank in the Federal Reserve System. The organizers were reported to have intended originally that the bank be organized with a capital structure of \$375,000 and a number of branches, but this plan for branches was abandoned at least temporarily and the capital was reduced to \$125,000. It is understood that the location of this bank or at least some of the proposed branches was at or close to proposed locations for branches of Bank of America, applications for which had previously been declined by the Comptroller of the Currency.

Upon investigation of the application for membership, it was found that Transamerica Corporation or Bank of America was interested directly or indirectly in several respects in the organization of the Peoples Bank of Lakewood Village. Accordingly, the application for membership of this bank was deferred until such time as arrangements could be made to eliminate such interest. The bank was finally admitted to membership, without branches, on May 15, 1942, with assurances that it was an independently owned institution.

It appears from our files that in the latter half of June 1941 Transamerica Corporation attempted to obtain control of First Trust and Savings Bank of Pasadena. In November 1941 the Corporation again negotiated for control of this trust company. We were advised that by the end of November 1941 Transamerica Corporation had acquired 10,941 shares of the common stock of First Trust and Savings Bank of Pasadena which, together with shares previously owned by the Corporation, made a total of 14,838 or 54.96 per cent of the 27,000 shares of the outstanding common stock of the Pasadena bank. On February 5, 1942, Transamerica Corporation purchased additional common shares. On this same day the bank's preferred stock was retired, leaving Transamerica owning more than 64 per cent of the outstanding shares of the trust company.

Under date of January 15, 1942, First Trust and Savings Bank of Pasadena wrote to the Federal Reserve Bank of San Francisco outlining its plans for the elimination of its remaining preferred stock and the increase of its common stock to be accomplished on February 5, 1942, and for the establishment of additional branches.

in Temple City (by acquiring the assets of the Temple City National Bank) and in Alhambra. After having received a copy of this letter forwarded from the Federal Reserve Bank, the Board under date of February 14, 1942, wrote the Federal Reserve Bank as follows:

"The Board has given careful consideration to the information submitted and to other pertinent information in its files and has reached the conclusion that it should not approve the establishment of the proposed branches on the basis of the information now before it. Please advise First Trust and Savings Bank of Pasadena of the Board's views before it takes any further steps to consummate its plans."

In view of the evidently continued expansion activities of Transamerica Corporation despite the Board's views in the matter of which representatives of the Corporation had previously been fully advised, the Board under the same date advised Transamerica Corporation of its action and also added the following:

"The Board gave careful consideration to the information submitted and to other pertinent information in its files and reached the conclusion that it should not approve the establishment of the proposed branches on the basis of the information now before it. The Federal Reserve Bank of San Francisco was requested to advise the member bank accordingly.

"Should your Corporation have any plans for the further expansion of its interests in banks, either directly or indirectly, through the mechanism of extending loans to others for the purpose of acquiring bank stock, or in any other manner, you are requested to advise the Board through the Federal Reserve Bank of San Francisco before any such plans are consummated.

"The Board's position in this matter is in accord with the policy, upon which there is unanimous agreement by the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, that the Federal bank supervisory agencies should, under existing circumstances, decline permission for the acquisition directly or indirectly of any additional banking offices or any substantial interest therein by Transamerica Corporation, Bank of America N.T. & S.A., or any other unit of the Transamerica group.

"Please see that all persons in the Transamerica group who may be concerned with this policy are advised accordingly."

First Trust and Savings Bank of Pasadena apparently continued its plans and on February 28, 1942, entered into a contract to assume deposits and take over assets of the Temple City National Bank with the view to operating a branch at that location.

In their letter of June 11, 1942, attorneys for First Trust and Savings Bank of Pasadena transmitted the formal application of the bank for branches to be located in Temple City and Alhambra. The Reserve Bank forwarded this application, together with advice that the Superintendent of Banks of California had authorized the bank to open branches at the above locations. The Board also received a copy of a letter to the Reserve Bank in which the Superintendent of Banks urged the granting of the application for the two branches named and urged a departure from the position taken by the three Federal supervisory authorities against further expansion by Transamerica Corporation or any of its affiliated corporations. On July 2, 1942, Mr. William J. Murphy, Chief Deputy of the Superintendent of Banks of California, visited the Board's offices and conferred on this situation with Mr. Leo T. Crowley, Chairman of the FDIC, and certain members of the Board and its staff.

After again giving full consideration to the facts and circumstances presented, the Board declined the application on July 10, 1942, and requested the Federal Reserve Bank of San Francisco to notify First Trust and Savings Bank, Transamerica Corporation, and the Superintendent of Banks.

In connection with your suggestion that the Board's action is injurious to minority stockholders in banks in which Transamerica Corporation holds an interest, it should be noted that we have had no information or indication that the stockholders of First Trust and Savings Bank of Pasadena desired to establish branches in Temple City or Alhambra prior to the time the bank came under the control of Transamerica Corporation, nor have we had any facts indicating that the other stockholders now desire that the bank be permitted to establish branches at these locations. It has been our understanding that before Transamerica Corporation acquired control of First Trust and Savings Bank of Pasadena, the establishment of branches at or near these places was desired by Bank of America but that the Comptroller of the Currency did not approve them. Although we have made inquiries, we have received no information that the need for additional banking facilities in these communities is

such as to cause any other bank outside of Transamerica control to seek to establish offices in these locations.

In this case as in other cases it has been the policy of the Board to give full consideration to all the facts and circumstances and to attempt to reach decisions which it considers to be in the best interests of the public. I am certain that you will agree with me that the primary duty of a public supervisory body is to act in the best interest of the general public rather than to favor any particular person or community at the expense of the general public. As previously indicated, the conclusions reached by the Board in the above case have been fully concurred in by the FDIC and by the Comptroller of the Currency. You will understand, of course, that in all the circumstances it has not been possible for the Board to consider the applications of First Trust and Savings Bank as if it were an independent bank but the Board must consider such applications in the light of the responsibilities placed upon it by the bank holding company act, in addition to those placed upon it by the provisions of the Federal Reserve Act relating to membership in the Federal Reserve System.

For your information there is enclosed a copy of a letter dated August 17, 1942, which we have received from the First Trust and Savings Bank of Pasadena, together with a copy of the Board's reply.

I have been glad to review fully the Board's position in this matter pursuant to the request contained in your letter, and when you are in Washington other members of the Board and I will be glad to discuss it with you further if you so desire.

Very truly yours,

Marriner S. Eccles,
Chairman.

Enclosures

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RMW/mg
8/29/42