

January 27, 1949.

Governor Szymczak

Messrs. Millard and Sloan

Application of Bank of America
NT&SA, San Francisco, California, for
permission to establish branches at
Bangkok, Siam, and Hamburg, Bremen and
Frankfurt, Germany.

The attached memorandum of Examiner Wilkes, dated January 26, 1949, presenting again for the consideration of the Board the application of the Bank of America for permission to establish a branch at Bangkok, Siam, recommends approval provided such action would not hinder the supervisory efforts of the Comptroller of the Currency if he contemplates demanding a substantial increase in capital or changes in dividend or loan policies.

The memorandum also recommends favorable action, subject to the foregoing proviso, on the pending applications of Bank of America for permission to establish branches at Hamburg, Bremen and Frankfurt, Germany, as presented to the Board in a memorandum prepared by Examiner Wilkes dated July 23, 1948 and Mr. R. F. Leonard's memorandum dated August 11, 1948.

We do not concur in the recommendations. We recommend that the applications for branches in Siam and Germany be disapproved because:

- (1) The Bank of America is relatively in a badly over-extended condition, and
- (2) the ability of the bank to operate successfully in the foreign banking field had not been demonstrated sufficiently to justify further expansion at this time.

Over-extended condition

The relatively low ratio of capital to risk assets as shown on appendix numbered IV attached to Examiner Wilkes' memorandum is the more important of the above stated reasons. Despite the injection of \$30,000,000 and \$41,000,000 in capital funds in the years 1940 and 1944, respectively, the risk asset ratio of the Bank of America has declined from 16% to 9.2% from December 31, 1935 to June 30, 1948; a net deterioration of 42.5%. During the period the deterioration indicated by all banks in the Twelfth Federal Reserve District was 28.4%; the Twelfth District banks other than Bank of America 15.9% and all member banks in the U. S. 23.6%.

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It is felt the foregoing is all the more significant because of the relative size of the Bank of America and its position in American banking. Also, appendix numbered II, attached to Examiner Wilkes' memorandum shows that Bank of America's risk asset position does not compare favorably with other U. S. banks now engaged to a considerable extent in the operation of foreign branches.

Our reference is to the extended condition of the bank and not capital funds as related to the question of establishing the foreign branches now under consideration. It is felt that expansion of this kind should not be undertaken by the bank unless and until its overall financial condition is improved either through an adjustment of credit policy or a material increase in capital funds. Reference to capital, as such, or use of the term "undercapitalized" has been avoided purposefully because:

- (1) The actual capital needed for the operation of the branches in question would be relatively very small. Experience indicates that such an operation involves little risk if the conservative policies customarily applied by American banks now established in the foreign field are followed.
- (2) The amount of additional capital that would be required to place the risk asset ratio of Bank of America on a favorably comparable basis would far exceed the probable total assets of the proposed branches.

Ability to operate successfully in the field

Prior to 1947 the Bank of America operated only one foreign branch which was established in London in 1931. The operations of this branch have been relatively small and the total assets of the branch were \$18,635,000 on October 30, 1948.

Branches were established in Manila, H.P. and Tokyo, Japan in 1947, and, in 1948, branches were opened in Yokohama and Kobe, Japan. When the bank was examined June 30, 1948, foreign branch assets amounted to \$49,474,000.

The branches established in 1947 and 1948 have not been examined by the Comptroller of the Currency.

The bank's domestic credit policies are not such as to inspire confidence that foreign operations will be conservative. Therefore, it is felt that approval of further expansion in the foreign banking field is not justified at this time.

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