

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 11, 1949.

To Governor Eccles

Subject: Valley National Bank,

From E. R. Millard

Phoenix, Arizona.



Pursuant to our recent telephone conversation regarding the Valley National Bank of Phoenix, Arizona, the following information with respect to the bank is attached:

- (1) Data taken from the most recent report of examination of the bank, as of October 15, 1948.
- (2) Branch history.
- (3) Comparison of deposits and banking offices of the bank with all banks in Arizona.
- (4) Comparison of the bank's capital ratios with the ratios of all member banks in the Eleventh Federal Reserve District, the Twelfth Federal Reserve District, and the United States as a whole.

At first glance, it might appear that the bank's real estate loans exceed the limitations of Section 24 of the Federal Reserve Act, inasmuch as the aggregate of loans predicated upon real estate at the date of the last examination (October 15, 1948) was more than \$31 million, whereas 60 per cent of the bank's time and savings deposits was only about \$28.9 million. However, the aggregate of \$31 million included \$8.8 million of loans partially guaranteed by the Veterans Administration. Since the report of examination contained no reference to violation of Section 24, it is apparent that a large portion, if not all, of the loans guaranteed by the Veterans Administration are excluded in determining compliance with Section 24 pursuant to the following provision of the Servicemen's Readjustment Act:

"Any loan at least 20 per centum of which is guaranteed under this title may be made by any national bank... without regard to the limitations and restrictions of any other statute with respect to--

- (1) ratio of amount of loan to the value of the property;
- (2) maturity of loan;
- (3) requirement for mortgage or other security;
- (4) dignity of lien; or
- (5) percentage of assets which may be invested in real estate loans."

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With respect to recent expansion by the bank, the attached branch history shows that during 1947 and 1948 three de novo branches were established. The Valley National Bank did not absorb any other banks during that two year period.

The ratio of the bank's capital accounts to its risk assets is definitely low, standing at 7.4 per cent as at June 30, 1948. It will be noted from the examination report comments referred to on page 3 of the first attachment hereto that the bank's overloaned position is regarded as its major problem. However, the comments quoted on page 2 of that attachment indicate that the management has taken steps designed both to work off the undesirable lines now held and to prevent the further acquisition of substandard credits.

Attachments

VALLEY NATIONAL BANK
PHOENIX, ARIZONA

Data taken from report of examination as of October 15, 1948

Condensed Balance Sheet

Assets

Cash and due from banks	\$ 44,775,400
U. S. Government securities	57,450,500
Other bonds, stocks, and securities	13,231,100
Loans and discounts (incl. overdrafts)	119,201,500
Bank premises, furniture and fixtures	2,287,400
Other real estate owned	146,200
Other assets	1,946,500
	\$239,038,600

Liabilities and capital

Deposits:	
Demand and U. S. Government	\$177,089,800
Time	48,234,200
Total	\$225,324,000
Other liabilities	2,971,700
Preferred stock - RFC	700,000
Common stock	3,000,000
Surplus	4,000,000
Undivided profits and reserves	3,042,900
	\$239,038,600

Classification of assets

	II	III	IV
Loans and discounts	\$4,916,800	\$19,800	\$324,100
Other assets	7,700	-	47,100
Totals	\$4,924,500	\$19,800	\$371,200

Loans predicated upon real estate

Total amount - \$31,119,300, including \$8,814,700 partially guaranteed by the Veterans Administration. No violation of Section 24 of the Federal Reserve Act is indicated in the report.

Expansion

No criticism is shown in the report.

Comments on loaning policy

The following is quoted from the examiner's comments in the open section of the report:

"Both in the matter of number of items and dollar volume of criticised assets of the bank, there appears to be a general improvement over conditions reflected in last previous report of examination.

"Increased volume of estimated losses may be largely accounted for as being influenced by application of amended policy of the management of taking out of the hands of loan officers those lines which are recognized as liquidation problems and turning them over to a liquidating committee whose members have no personal interest in origin of the credits. Unquestionably the management has adopted an effective plan for these substandard assets the effects of which will be evident not only in liquidating the problems but in avoiding future problems.

"In addition to setting up this liquidating department, the management has undertaken an additional safeguard against acquisition of substandard credits by placing one of their most efficient loan officers as supervisor over all loan departments and loan officers. By observing the full intent of this plan the result should prove to be the means of improving the quality standard of the bank's loan portfolio, which must be recognized as the most desirable road to re-establishment of a conservative ratio of capital structure to risk assets. There has been no more than a nominal change in this ratio since last examination, which is substantially in accord with prediction of President Bimson at that time based on the bank's previous commitments. He now states these commitments will have been fulfilled early in 1949 and thereafter, effect of the adjusted loan policy will become more evident."

In the confidential section of the report, the examiner states that the overloaned condition of the bank is the major problem confronting its management, and he indicates his opinion that the policies of the management have been influenced by a false spirit of optimism with respect to the territory served by the bank and unwarranted faith in a few of the bank's borrowing customers.

MEMBER BANK CAPITAL PERCENTAGES
December 31, 1935 through 1947, and June 30, 1948

	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	% of Change 1935-1948
<u>Percentage of Capital Accounts to Total Assets</u>															
Valley National Bank	4.0	3.9	3.7	3.0	3.6	2.7	3.3	5.2	6.8	7.3	7.5	7.6	7.1	7.8	-48.7
Eleventh Fed. Res. District	5.5	5.1	5.1	4.2	4.7	5.3	6.1	8.2	9.2	9.6	10.2	10.4	10.1	11.3	-51.3
Twelfth Fed. Res. District	4.9	4.6	4.4	4.0	4.5	4.7	5.8	7.5	8.3	8.4	8.6	8.5	8.5	9.2	-46.7
United States	6.8	6.4	6.4	5.5	5.9	6.5	7.2	8.6	9.1	10.0	11.0	11.5	10.8	11.7	-41.9
<u>Percentage of Capital Accounts to Risk Assets</u>															
Valley National Bank	7.4	7.5	10.1	12.1	15.4	9.9	9.3	8.6	12.6	13.4	14.6	15.0	12.5	14.0	-47.1
Eleventh Fed. Res. District	16.7	16.6	18.3	18.8	22.6	23.6	23.5	21.0	22.5	24.2	24.8	24.8	26.2	28.3	-41.0
Twelfth Fed. Res. District	12.6	12.5	14.6	19.4	20.8	19.6	18.1	16.2	17.1	16.9	17.2	16.5	16.9	17.6	-28.4
United States	20.1	20.5	23.4	25.2	27.7	28.6	26.4	23.1	24.9	26.0	26.3	25.5	24.8	26.3	-23.6

VALLEY NATIONAL BANK
Branch History
Showing Branches in Operation at Year Ends

	<u>Total branches in operation</u>	<u>Branches established</u>			<u>Absorptions</u>	
		<u>De Novo</u>	<u>Conversion of banks</u>	<u>Conversion of branches of other banks</u>	<u>Banks</u>	<u>Branches</u>
1915	1	1				
1922	6		1	4		2
1924	7		1			
1926	9	1	1		1	
1933	9				1	
1934	13	4				
1935	14		1			
1936	17	2	1			
1937	17	-1*	1			
1938	18	1				
1944	19	1				
1945	20		1			
1946	24	3	1			
1947	25	1				
1948	<u>27</u>	<u>2</u>	<u>8</u>	<u>4</u>	<u>-</u>	<u>-</u>
Branches established		16	8	4		
Branches merged		1				
Branches in operation	<u>27</u>	<u>15</u>	<u>8</u>	<u>4</u>		
Banking offices absorbed and closed					<u>2</u>	<u>2</u>

*One branch previously established de novo merged into head office.

VALLEY NATIONAL BANK
PHOENIX, ARIZONA

December 31, 1940 through 1947, and June 30, 1948

<u>1948</u>	<u>1947</u>	<u>1946</u>	<u>1945</u>	<u>1944</u>	<u>1943</u>	<u>1942</u>	<u>1941</u>	<u>1940</u>
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Percentage of deposits to total deposits of all banks in State

(Total deposits of all banks in State at June 30, 1948 - \$413.9 million)

54.5	53.6	54.4	54.3	50.6	51.3	51.4	46.8	46.2
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Percentage of bank to all banks in State

(Total banks in State at June 30, 1948 - 11)

9.1	9.1	10.0	9.1	8.3	8.3	8.3	8.3	8.3
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Percentage of branches to all branches in State

(Total branches in State at June 30, 1948 - 42.

Valley National was operating 25 branches at June 30.)

59.5	62.5	68.6	64.5	65.5	66.7	66.7	69.2	69.2
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Percentage of banking offices to all banking offices in State

(Total banking offices in State at June 30, 1948 - 53)

49.1	51.0	55.6	50.0	48.8	48.7	48.7	50.0	50.0
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