Return to Mr. Clayton

11/16-17/39

COPY of Treasury Department Memorandum

Messrs. Folger, Wright, Tietjens, and Sherbondy confereed in Mr. Folger's office with Messrs. L. M. Giannini and Mr. Charles W. Collins on Thursday afternoon, November 16, and Friday morning, November 17, 1939. The following briefly summarizes the positions of the representatives of the Comptroller of the Currency and the representatives of the Bank with respect to problems other than those which may arise during the present and future examinations of the Bank:

1. Dividend Policy. The position of the Comptroller's representagives was that the earnings of the Bank should be used first to charge off losses, to establish adequate reserves and increase the capital structure, before any part of the earnings are disbursed in the form of dividends. The present dividend policy is clearly in conflict with such a program for conserving earnings. The Bank's representatives stated that the Bank's dividend policy was, in their opinion, entirely justifiable and that they were not prepared to agree at this time to any change in the policy. However, they did state that Transamerica Corporation was holding in a reserve, all dividends paid to it on Bank of America stock and that the Corporation was willing to use such reserves either to purchase new stock in the Bank of America, or to reduce any of the obligations of Transamerica or its subsidiaries to the Bank, whichever the Comptroller should prefer. They advised that at present there was approximately $850,000 in this reserve.

2. Increase of Capital. The ratio of adjusted capital structure to deposits as of March 31, 1939 was 1 to 14.63 and the ratio of net sound capital structure to deposits as of the same date was 1 to 15.86. The Comptroller's representatives indicated that it would be desirable for the Bank to raise new capital through the issuance of new stock. Should this be done, however, they were not prepared to say that a continuation of the present dividend policy would be justified. The Bank's representatives indicated a willingness to obtain new capital funds either from the Reconstruction Finance Corporation or from other sources, and advised that they could obtain such funds from sources outside the government.

3. Charge Off of Losses. Approximately $3,500,000 of the estimated losses in the last report of examination have been charged off and the estimated loss on National City Bank stock is now covered through market appreciation and the purchase by Transamerica Corporation of 11,320 shares of such stock. This leaves estimated losses not charged off of $9,292,878.69. The position of the Comptroller's representatives was that all of these losses should be immediately charged off by the Bank. The Bank's representatives refused either to admit those losses or to charge them off, although Mr. Giannini stated that, since the items classified as loss concerned primarily the banking premises, the Bank would be willing to give consideration to accelerating the depreciation rate on such properties and thus accelerate the write down of such properties.

4. Self Insurance Fund. Although the plan of paying insurance premiums to cover fidelity losses up to $100,000 into a deposit carried with Transamerica General Corporation has been discontinued, a balance of $2,272,659.55 remains in the Fund. The position of the Comptroller's representatives was that the Bank should take the necessary steps to have this balance returned to it. The Bank's representatives stated that the Bank was of the opinion that there was no legal basis upon which it could insist that the balance be returned. It was stated, however, that Transamerica General Corporation, in addition to paying all losses until June 30, 1940, had agreed to a discovery period of five years after June 30, 1940.

5. Transamerica Large Line. The Comptroller's representatives pointed out that although the reduction of approximately $12,000,000 in the Transamerica Large Line since March 31, 1939 was encouraging, the present size of the line, in excess of $64,000,000, constitutes one of the most serious problems of the Bank and strenuous efforts should be made to continue the reduction of this line. The Bank's representatives indicated that they contemplated continued reduction of this line and pointed out that the progress made thus far was in accordance with the December 1938 program.

6. A. O. Stewart Large Line. At the beginning of the last examination on March 31, 1939 this line amounted to $7,623,239.31. It has been reduced only $200,000 since that date. The position of the Comptroller's representatives was that this reduction was wholly unsatisfactory, while the Bank's representatives contended that by December the reduction made in the line would be consistent with the program of December 1938.

7. Transamerica Corporation Excessive Line. The Bank's representatives contended that the excessive line to Transamerica Corporation, which has now been reduced to approximately $17,900,000, did not constitute a violation of law because, they contended, the so-called "Guaranteed Loans" are not an obligation within the meaning of section 5200 of the Revised Statutes. However, the Bank's representatives indicated that they would continue to reduce this line of credit to the legal loaning limit by July, 1942, as contemplated in the program of December 1938. The excessive line at present is $8,500,000 in excess of the legal loaning limit.

8. National City Bank Stock. The position of the Comptroller's representatives was that this purchase of stock constituted a violation of section 5136 of the Revised Statutes, and that the stock should be taken out of the Bank for cash. Although the Bank's representatives did not admit that the purchase of this stock constituted a violation of law, they indicated that the item was being reduced consistent with the program of December, 1938.

9. Capital Company and California Lands, Inc. Contracts. The Comptroller's representatives stated that the two companies should pledge adequate security back of these contracts to cover the estimated loss in the

real estate, which would be the difference between the estimated or appraised value of such real estate and the amount at which it is carried in the contracts. The Bank's representatives contended that this should not be insisted upon because the two companies were solvent and to date had covered all losses on sales under the contracts.

10. Merchants National Realty Company. The Comptroller's representatives stated that the acquisition of the future and former banking premises by the Merchants National Realty Company in 1937 constituted a violation of section 5137 of the Revised Statutes and furthermore that this real estate should be carried on the Bank's books as "Other Real Estate" rather than in bond and securities account. The Bank's representatives did not admit that the acquisition constituted a violation of law or that the Bank should carry such real estate in its other real estate account.

11. Real Estate Loans. The Comptroller's representatives stated that, as set up by the examiner, there were numerous real estate loans which violated the requirements of section 24 of the Federal Reserve Act, and that these loans would have to be liquidated as rapidly as possible. The Bank's representatives stated that practically all of these illegal real estate loans came into the Bank as a result of take-over of other banks, and that the Bank was engaged in strenuous efforts to liquidate them.

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