

Mr. Clayton

2-8-40

Confidential

REQUIREMENTS WITH RESPECT TO  
BANK OF AMERICA N.T. & S.A.

- Implicit  
in prior  
draft.*
1. Capital. The capital of the Bank must be increased immediately by not less than \$35,000,000, with the understanding that, without the written consent of the Comptroller of the Currency, there shall be no reduction in the aggregate of its capital stock, surplus and undivided profits below a figure specified in the articles of association.
  - new*  
2. Disposition of bond profits. All bond profits must be placed in a reserve account to take care of current losses, depreciation, amortization of premiums in the bond account, the excess, if any, to be retained until the premium account on all bonds is eliminated or the Comptroller of the Currency is satisfied that no larger reserve is necessary and the deficiency, if any, to be charged against current earnings.
  - Partly covered  
in previous  
draft.*  
*new*  
3. Banking premises. A reserve of \$6,926,845.36 must be set up against the carrying values of banking premises as shown on the Bank's books and in the investment in Merchants National Realty Corporation. At the end of six months this reserve shall be used to reduce the carrying value of such banking premises unless in the meantime the Bank shall have furnished to the Comptroller of the Currency evidence satisfactory to him with respect to the actual cost of each banking premise and the depreciation which has been taken thereon. Cost with respect to premises held by the

Bank prior to its nationalization shall be the amount at which such premise was carried when the Bank received its national charter. Upon furnishing such evidence within the six months the reserve shall be used to reduce the carrying value of banking premises by the amount of any depreciation, not previously taken, which should have been taken in accordance with established banking practices and by the amount of any "write-ups" (i.e. any increases in book value not due to actual increase in cost through acquisition of properties or through improvements of a permanent nature) and the remainder, if any, may be returned to the undivided profit account.

4. Real estate concentration. Without relieving California Lands, Inc. or Capital Company of their obligations with respect to properties presently under contract with them, a reserve against losses on account of other real estate must be set up in the amount of 25 per cent of the existing carrying values of all "other real estate" of the Bank, whether carried on its books as such or as banking premises or transferred to and now held by California Lands, Inc., Capital Company, and Merchants National Realty Corporation. No other real estate hereafter acquired by the Bank shall be transferred to the California Lands, Inc., Capital Company or Merchants National Realty Corporation or to any other party under similar arrangements, and no real estate shall be disposed of except for cash or under bona fide sales contracts with purchasers under conditions justifying the expectation that such sales will be final. As soon as

possible after the acquisition of any additional real estate it shall be placed on the Bank's books as "other real estate" and shall be appraised by competent appraisers, and thereafter shall not be carried in an amount exceeding such appraised value or the book value, whichever is the lower.

Non-conforming real estate loans and real estate acquired or carried in violation of section 5137 of the Revised Statutes must receive necessary attention.

5. Large lines. Orderly reduction in the indebtedness of Transamerica and its subsidiary corporations must be continued; the aggregate amount of these lines must be brought within the statutory limitation; and the indebtedness must be adequately and properly secured in accordance with sound banking practices and applicable legal requirements. The concentration of credit in the Bank depending upon the shares of other closely related banking institutions must be discontinued; and, with respect to existing loans depending in whole or in part upon such shares, there must be an orderly reduction and retirement. The aggregate of loans to associated and affiliated companies, as determined by the Comptroller of the Currency, must be brought within the legal limitation of the Bank's lending power by July 15, 1942. The stock of any bank in which Transamerica is substantially interested securing such loans shall be eliminated by July 15, 1945; and no similar pledges shall be accepted. The Bank must not make further extensions of credit for the purpose of purchasing or carrying Transamerica stock and in the future no collateral value shall be assigned to such stock when pledged to secure other loans.

*In prior  
draft, but  
contributed  
by Res.  
and alone.*

Orderly liquidation of the A. O. Stewart line must be continued in accordance with the agreement referred to in the report of examination of August 31, 1939 as having been made by the Bank and A. O. Stewart and which contemplated the liquidation of \$1,000,000 of such indebtedness before the end of 1940, in addition to any liquidation from the sale of United States Treasury bonds and other Government obligations.

6. Illegally held bank stock. To the extent that Transamerica Corporation fails to repurchase the National City stock from the Bank, in accordance with the existing option agreement between Transamerica and the Bank, the Bank must make adequate provision for the removal of such stock without prejudice to any rights that it may have against Transamerica Corporation under the option contract.
7. Losses. Losses set up by the examiners in the last report of examination not otherwise provided for herein must be charged off immediately.