

Memorandum to the Board

January 26, 1940.

From: C. E. Cagle

Subject: Bank of America N.T. & S.A.

The principal matters which have been criticized in this case are:

- I. Dividends and Earnings
- II. Capital Structure
- III. Classified or Criticized Assets
- IV. Banking Premises and Furniture and Fixtures, including applicable portion of investment in Merchants National Realty Corporation stock, carried in the investments account
- V. Other Real Estate, including amount of sales contracts with Capital Company and California Lands, carried in loans, applicable portion of investment in stock of Merchants National Realty Corporation, carried in investments, and a portion of buildings carried as banking premises but no longer used as such
- VI. Purchasing or Making Illegal Real Estate Loans in Violation of Section 24 Federal Reserve Act
- VII. Large Line to Transamerica Corporation and Affiliated Organizations
 - A. Illegal Excess Line to Transamerica Corporation and Affiliated Organizations
 1. Guaranteed Loans
 2. Capital Company - Direct Real Estate Loans and Advances
 3. California Lands - Real Estate Loans and Advances
 4. Western Furniture Exchange
 5. Self-Insurance Fund
 - B. Option to Purchase National City Bank Stock
 - C. Investment in and Loans Secured by Transamerica Corporation Stock and Bank's Own Stock

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- VIII. A. O. Stewart Line (and Pacific Coast Mortgage Co.)
- IX. German Credits
- X. "Service Charges" on Dormant Accounts
- XI. Bonds and Securities, Write-ups
- XII. Dividends Declared not set up in Records
- XIII. Records of Approval of Transactions by Directors and Committees Thereof
- XIV. Employees' Profit Sharing Plan
- XV. Growth and Expansion
- XVI. Management and Policies

Each of these matters is discussed in the attached memorandum, indicating:

1. The criticisms made by the examiners,
2. The position taken or requests or requirements made by the Comptroller of the Currency,
3. The position taken by the management of the bank, and in some instances the nature and extent of corrections made, and
4. Additional comments and explanations.

With respect to the criticisms of most of these matters, corrections have been made, in varying degrees, and some have been removed entirely. However, further corrections seem necessary with respect to the following matters, most of which (as indicated *) were included in the Order to Show

Cause issued by the Comptroller under date of January 11, 1940.

A. Dividends *

Until adequate capital structure is provided and asset conditions are corrected, should be eliminated or curtailed sharply. An adequate program of corrections will leave but very little for dividends for at least five years, but this matter should be covered specifically.

B. Capital Structure *

Should be increased immediately at least \$30,000,000 and further strengthened by all or a substantial portion of the earnings.

C. Classified Assets *

Determined losses should be eliminated and adequate reserves for large amounts of probable losses provided, including German Credits.

D. Banking Premises *

Losses should be charged off and adequate reserves for probable losses provided now or at least within five years through increased rate of depreciation or other charges; parcels not occupied should be transferred to Other Real Estate and the occupied parcels shown as bank premises on the books and statements of the bank.

E. Other Real Estate *

Estimated losses should be charged off and adequate reserves established for probable future losses. The total amount of real estate should be properly reflected in the books and statements (in the circumstances it might be practicable to require a five-year period for the elimination of the other real estate sales contracts).

F. Real Estate Loans *

More strenuous efforts should be made to bring all loans acquired through consolidations, etc., into conformity with law and the statute should be observed strictly with respect to new loans.

- G. Large Line to Transamerica Corporation *
This line should be reduced and kept strictly within the limits established by law; National City Bank stock acquired under "Option to Purchase" National City Bank stock should be eliminated; "Guaranteed Loans" should be eliminated; real estate sales contracts should no longer be regarded as a part of this line but transferred to Other Real Estate.
- H. Service Charges Against Dormant Accounts
There should be a definite determination as to the legal status and any amounts charged illegally should be restored to the deposit accounts and the balance should be covered by reserves.
- I. Simplification of Group Relationships
There should be a clarification of the holding company affiliate question and certain affiliate questions, including Pacific Coast Mortgage Company, Western States Corporation, and Bank-america Company; the financing and corporate structure of the group should be simplified.
- J. Violations of Law
There should be a clear understanding as to the applicability of the statutes with respect to various criticized matters and proper adjustments made.
- K. Relations with Other Supervisory Agencies
There should be a clarification of the issues with the various agencies, including the S.E.C., reasonable adjustments made, and the cases closed.

In addition to the items indicated above, the Comptroller of the Currency in the Order to Show Cause issued January 11, 1940, requested that

1. The Self-Insurance Fund with Transamerica Corporation (balance \$2,182,000) be returned in cash to the bank.
2. The A. O. Stewart line be promptly curtailed or satisfactory collateral pledged back of the line.

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There are some questions as to the Comptroller's position with respect to these two matters and unless and until further facts are developed supporting the Comptroller's criticism it is not believed that these matters need be given further consideration.