

2400 SIXTEENTH STREET
WASHINGTON, D. C.

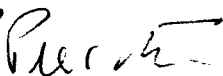
My dear Marriner:-

Negotiations with the Bank of America have reached the stage indicated in the attached memorandum. I am anxious both for you to be informed and to have your advice and counsel in the matter.

The attached is not agreed to and I am not sure that I myself am entirely in accord with it.

Will you please treat it as highly confidential and give me personally the benefit of your criticism.

As ever,


Preston Delano.

December 13th

1928

MEMORANDUM

Re: Bank of America

Reference is made to the various communications in recent weeks between the Comptroller's Office and the Bank of America N.T.& S.A. dealing with departmental criticism of the bank's management, including dividend policies and certain specified items, and with particular reference to the department's letters to the bank of September 23 and November 23.

After several conferences between L. M. Giannini, President, W. E. Blauer, Vice Chairman, and Russell Smith, Cashier, of the bank, Chief National Bank Examiner Folger, Assistant Chief National Bank Examiner Clarence Smith, and Examiner Sedlacek, some of which conferences were attended by Comptroller Preston Delano, Deputy Comptroller Upham, Under-Secretary of the Treasury Hanes, Leo Crowley, Chairman of the Federal Deposit Insurance Corporation, Chairman Jones and Sam Husbands of the RFC, the following would seem to constitute an acceptable program for adjustment of differences between the Comptroller of the Currency and the bank.

1. Due to the widespread operations of the bank, its great number of branches, and close affiliation with Transamerica Corporation and its allied interests, the bank should effect and reasonably maintain a sound capital structure having a ratio to its entire deposits of, say, one to ten. The amount of any additional capital required for this ratio to be determined after the result of the examination now in progress, including a review of the items classed as slow. The increased capital should be in the bank as early as practicable after the amount shall have been determined, but in no event later than June 30, 1939.
2. Real estate in the amount of \$1,578,005.49 now carried under the heading of "banking houses" should be adjusted satisfactory to the Comptroller.
3. The real estate item of \$4,700,000 acquired through purchase from the Merchants National Realty Corporation should be completely liquidated by July 15, 1942, such liquidation to be diligently pursued. It is noted that this item has been reduced from \$5,875,000 since the last examination.
4. The \$4,700,000 balance due upon the item of "guaranteed loans" should be liquidated at the rate of not less than \$1,300,000 per year and completely eliminated by July 15, 1942. This item has been reduced from \$5,524,000 since the last examination.

5. The bank should obtain a definite agreement from Transamerica to purchase the 45,200 shares of National City Bank stock at its cost to the Bank of America N.T.&S.A., \$2,200,000, in annual installments of not less than 11,300 shares, with provision for complete elimination by July 15, 1942. This item has been reduced from \$2,716,800 since the last examination, Transamerica having purchased 11,300 shares at the option price of \$48.00 per share. The bank should also obtain a general pledge agreement from Transamerica adding as security the collateral now pledged to secure the "guaranteed loans."

6. Stocks and bonds to the amount of \$879,358.04 especially criticized should be disposed of as soon as possible, and not later than June 30, 1939.

7. The remaining balance of approximately \$1,500,000 of unrealized bond write-up should be eliminated by June 30, 1939.

8. Depreciation of banking houses, furniture and fixtures should be continued so that the entire item, exclusive of the cost of the land, will be eliminated in not more than 18 years.

9. The 16 loans made on 1277 shares of the bank's own stock should be immediately collected or corrected to the satisfaction of the Comptroller.

10. The A. O. Stewart line listed at approximately \$11,000,000, of which \$4,500,000 is classified as slow, should be made satisfactory to the Comptroller.

11. The bank should agree that it will not acquire from unit banks, which have been converted into branches, assets which national banks are not authorized to own.

12. Any dividends declared should at the time of the declaration be deducted from the undivided profit account and carried as a reserve for dividends.

13. The statute which prohibits a national bank from lending upon its own stock should be strictly enforced, and the same principle should be applied to loans on Transamerica stock. In justice to the bank and its clientele, the bank should be allowed to extend accommodations to stockholders of Transamerica in small amounts for their business purposes, accepting Transamerica stock as supporting security, when they can demonstrate their ability to repay the loan without relying upon the sale of the stock to pay it.

14. Any loans to Transamerica Corporation and its allied interests should have the prior approval of the Board of Directors of the bank and the approval recorded in the minutes of the board meeting.

15. Loans to Transamerica, its subsidiaries, and allied interests should be brought within the legal limit allowed to one interest as soon as possible, and not later than July 15, 1942. ✓

16. The bank should not be permitted to write up on its books the value of any asset which it retains, and no profit should be taken by the bank on any assets sold to a related company, unless such sale is a bona fide sale and without recourse on the bank. If any such sale is made other than for cash, the note or notes taken in payment or part payment therefor should be properly secured.

17. The bank should eliminate "other real estate" and the real estate contracts of Capital Company and California Lands, Inc., such elimination to be diligently pursued, and completed by December 15, 1943. ✓

18. The bank should agree that any criticized items not covered herein will have prompt and effective attention, and that it will cooperate with the Comptroller of the Currency in an effort to bring all matters pertaining to the bank in line with his requirements. ✓

19. Because of its size and dominant position in the territory it occupies, the bank should keep its capital structure extraordinarily strong through a conservation of earnings by a conservative dividend policy. After the bank's capital structure has been adjusted as provided in item (1) herein, in determining the amount of dividends to be paid consideration should be given to increasing the net sound capital by additions of a reasonable amount of net profits, and no dividends declared that will be inconsistent with reasonably maintaining a one to ten ratio of capital to deposits.

Upon the bank's agreement to the program outlined herein, approved by its Board of Directors, it should be free to declare its regular semi-annual dividend March 1939 if its Directors elect to do so.