

COMMENTS UPON BANK'S RESPONSE TO
COMPTROLLER'S PROPOSED REQUIREMENTS.

1. Offer of capital increase, either common or preferred, in the total amount of \$30,000,000 capital funds. Amount seems inadequate in consideration of entire program offered.

(a) Would suggest preferred stock for any increase in capital, whether sold to shareholders, the public, or the Government, because (1) it should be cheaper capital and would provide more cushion from earnings for other corrections, and (2) the sale of preferred stock would create less problems with respect to representations than would the sale of common stock, and (3) preferred stock carries with it certain rights or privileges of retirement and conversion ~~predicated on future circumstances, which should be~~ ^{all} ~~an advantage to~~ ^{to the} the management and the common stockholders.

2. Interpose no objection to unallocated reserve of \$5,000,000 ^{for correction of} ~~as protection against~~ write-ups and inadequate depreciation as determined ^{by} ~~from~~ a complete study, survey, and analysis of ~~the~~ ~~item disputed in the report of examination of August 31, 1939,~~ ~~known as~~ banking premises, including future and former premises, with the understanding that in case the facts as subsequently developed indicate that \$5,000,000 is inadequate, the deficiency ^{will} ~~would~~ have to be met out of current earnings.

3. Regular amortizations to be charged against current earnings.
Until otherwise advised by the Comptroller's Office, one-half of net bond profits to be set aside in reserves as an acceleration against the elimination of the premium account.
4. See No. 2.
5. No comment.
6. ~~Immediate steps shall be taken by the bank to obtain from California Lands and Capital Company the pledge of additional collateral consisting of free assets of those companies equal in value to at least 25% of the unpaid balance of their respective contracts with the bank.~~
the proposed
7. ~~Agree~~, provided costs are defined and understood by committee.
by comment " " " "
Prefer book value of loan ~~in preference~~ to cost.
8. No comment.
9. No comment, provided the language includes affiliates and associated companies.
10. No comment.
11. No comment.
12. No comment.

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The bank's response, to which the foregoing comments have been directed, does not cover the following points, which should be included:

1. The bank should take immediate steps through Merchants National Realty Company to obtain the pledge of collateral ~~adequate~~ *equal* in value to ~~protect the Realty Company against a possible loss of 25% in the amount~~ *it and* of the contracts between the Realty Company and ~~Capital Company.~~ *Capital Company.*

To cover any deficiencies in such

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~~in~~ of such ~~pledge of~~ additional collateral, the bank shall set up a reserve from its undivided profits ~~to cover a possible loss~~ in an equivalent amount ~~in its investment in Merchants National Realty Company.~~

2. Other real estate carried as such on the books of the bank. There should be set up an additional reserve from undivided profits equivalent to 25% of the carrying value of such other real estate.
3. Large lines. We still recommend the treatment of large lines in substantially ~~the same fashion~~ as suggested in the Comptroller's original requirements, with proper safeguarding language.