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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

April 18, 1940

To General Files

Subject: Bank of America

From Mr. Dreibelbis, Assistant  
General Counsel.

On Tuesday, the 16th of April, at the invitation of Mr. Mulroney I had lunch with Mr. Mulroney, Mr. Folger and Mr. Irving Wright, Chief National Bank Examiner for the Twelfth District.

Mr. Mulroney stated that Mr. Wright had been in town for several days at the suggestion of the office for the purpose of bringing him up to date in connection with the background of the requirements of the Comptroller with respect to Bank of America which had been agreed to by the Bank. He prefaced his remarks by stating that it would be the attitude of the office to lean backwards in cooperating with the Bank in connection with the carrying out of the requirements. He said that in the future examinations of the large lines would necessarily have to be mentioned as such but I got the impression that they would only be mentioned and not classified unless circumstances not now existing should arise.

He then stated that Mr. Wright had one or two matters he would like to clear up in connection with the functions of the Committee in arriving at the carrying value of criticized bank premises and that he thought it would be helpful to talk to me concerning that. Mr. Wright stated that he understood that Mr. Russell Smith of the Bank was taking the position that the Committee could not go back of 1930 and I told him that my understanding of this particular provision was that the Committee would go back to the transaction whereby a particular building came into the Bank or any member of the Transamerica family, that is to say, if the acquisition of a premise resulted from the acquisition of an independent bank the Committee would go back to the transaction whereby the independent bank became a part of the Transamerica group; that the Committee would then determine the fair value of the building at that time in the light of any special conditions which the Bank had to meet and determine at what figure it would have been fair to place the building on the books of the Bank of America at that time. In explaining this provision I stated that it would be necessary for the Committee to look at the building in the light of all the conditions at the time and of all the conditions which the Bank had to meet and on such basis determine a figure which it would have been fair to place upon the books of the Bank of America at that time.

Mr. Wright also raised the question of capitalizing certain expenditures and I told him that I did not think any particular formula

should be devised, that there again the matter rested in the conclusive discretion of the Committee to determine whether or not the particular expenditure should have been treated as a capital expenditure or as an expense item. In connection with the discussion of this paragraph I brought up the matter of the Rollins property (property acquired about 1930 with the avowed intention of erecting a main office thereupon) because it seemed to me that there might be some misunderstanding about it. I explained to him that the unallocated reserve had been reduced from a suggested figure of \$7,500,000 to \$6,900,000 to cover actual criticized premises; that originally there had been another paragraph on other real estate and that the Rollins property had been excepted from the provisions of such paragraph but that when it was found that all other real estate losses set up in the examination had been charged off, this paragraph was taken out, and that it had been understood that the Rollins property could be continued to be carried in the figure then on the books. Mr. Mulroney stated that in talking to Mr. Wright the Rollins property had been overlooked but that he also remembered the discussion and was glad I had mentioned it.

In connection with additional security for the Capital and California Lands Lines, Mr. Wright stated that he had hoped that there would be some marketable security but I told him that this had not been contemplated and that the Bank had indicated that it would be in the form of real estate. He then stated that a second lien or some second liens had been offered and I told him that while the paragraph is silent on the type of security, except that it would be in an amount equal to the difference between carrying and appraised value, that everyone had talked about clear real estate and in my opinion it was contemplated by all that the security would be clear real estate.

The foregoing represents all the inquiries which Mr. Wright made with respect to interpreting the agreement.

As a matter of passing interest I noted that Mr. Cushing, the Bank's attorney, had telegraphed the office asking them to withhold forwarding the articles of association until a couple of changes suggested by the underwriters had reached the Comptroller's office. To date I have not heard the nature of these suggested changes but Mr. Cushing advised in his telegram that they gave certain additional rights to preferred shareholders in accordance with suggestions by the underwriters. It was also mentioned during the course of the conversation that the salary of Mr. Giannini had been increased to \$ [REDACTED] per annum and that of Russell Smith to \$ [REDACTED] per annum.