

May 8, 1940.

MEMORANDUM FOR COMMITTEE (Copies delivered to Mr. Wright, Mr. Funsten, and Mr. West)

SUBJECT: Requirements of the Comptroller of the Currency -
Bank of America National Trust & Savings Assn. -
In Relation to Carrying Value of Bank Premises.

In the discussions in regard to the policies followed by the bank in dealing with its banking premises, the following charges had been made by the examiners:

Charge A

That certain banking premises were entered on the books of the Bank of America N. T. & S. A., or of one of its associated predecessors, at a value greater than that paid when acquired in the first instance by a member of the Transamerica family of organizations.

In the course of arguing the merits of this claim, it became obvious that many elements had to be considered in determining the actual price paid for banking premises. It was agreed, however, that a write-up was justified whenever it could be shown that:

1. The purchase price of the shares of the selling bank were increased by the difference between the amount at which the premises were carried on the books of the seller, and the amount agreed upon by specific negotiations as being the fair value of the premises.
2. The premises were carried on the books of the seller at a nominal amount, obviously far below the fair value.
3. The premises were carried on the books of the seller below their fair value because of extraordinary unearned increment.

Charge B

That in entering certain banking premises on the books of the Bank of America N. T. & S. A., or of one of its associated predecessors, a greater value than justified was placed on the land, so as to avoid the annual depreciation charge required on improvements.

It was agreed that the Committee should determine a fair value for the land and require the prescribed depreciation on the improvements.

Charge C

That in acquiring certain sites for FUTURE premises (since improved and occupied), the full purchase price, including the cost of demolishing the old structure, was included and carried as the value of the land.

It was agreed that the price paid for the land and premises, including the cost of demolishing, was to be considered the price paid for the land.

Note: This does not apply to cases in which the bank demolished banking premises being occupied by it to reconstruct a new building. In such

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an instance, the Committee should determine what would be considered a fair value for the land on which to superimpose the cost of constructing the new building.

Charge D

That in certain instances, expenditures had been capitalized which properly should have been charged to current expenses.

It was agreed that the Committee determine which expenditures may properly be capitalized.

Charge E

That certain banking premises had been sold to members of the Trans-america family of organizations for an amount greater than their carrying value, and that subsequently the bank reacquired the same property at the increased sale price.

The Committee was to regard such a transaction as a write-up to be charged against the unallocated reserve of \$6,900,000.

In the discussions between the bank's representatives and those acting as a committee, comprising the Comptroller, the Under Secretary, the Chairman of the Federal Deposit Insurance Corporation, and two members of the Board of Governors, the foregoing expresses briefly the guiding principles for the Committee of three. It will be observed that nothing in the Comptroller's requirements directs the Committee to appraise the present value of premises criticized in the August 31, 1939, report of examination. On the contrary, the burden of the instructions is to determine the fair value of the premises at the time of acquisition, after taking into consideration any special conditions which had to be met in fixing the price paid. Any unwarranted write-up is to be eliminated and the carrying value of the property adjusted by the appropriate depreciation.

(Signed) Clark