

REQUIREMENTS OF THE COMPTROLLER  
OF THE CURRENCY

1. As soon as possible, and in any event not later than June 1, 1940, the bank shall add \$30,000,000 of additional capital funds by the issuance of common or preferred stock, or both, with the understanding that by April 1 the board of directors of the bank will approve the entire program herein outlined, (and the bank will obtain the approval of the Comptroller of the Currency to such increase.) Any preferred stock sold must be issuable at par and be retirable at par. A commitment from the RFC to purchase preferred stock in the amount of \$30,000,000 must be obtained prior to April 1, and if preferred stock is to be sold, an agreement with the Comptroller of the Currency upon the terms of the amendments to the articles of association must be reached by April 1.
2. Immediately upon obtaining the new capital, the bank shall set up an unallocated reserve of \$6,900,000 against the carrying value of individual occupied banking premises criticised in the report of examination of August 31, 1939, including those shown on the bank's books and in its investment in Merchants National Realty Corporation. Within one year after this reserve is set up it shall be used to reduce the carrying values of such banking premises or the carrying value of the bank's investment in Merchants National Realty Corporation, as the case may be, to the extent determined by the Chief National Bank Examiner of the Twelfth Federal Reserve District; and for the purpose of making that determination the bank agrees to furnish to such Chief Examiner all

information and records respecting said banking premises which may be requested by him. The remainder of such reserve, if any, may be returned to the undivided profits account.

3. The bank shall obtain additional collateral, satisfactory to the Comptroller, to secure the contracts of California Lands, Inc., and Capital Company with the bank, and the contracts of Capital Company with Merchants National Realty Corporation. Such additional collateral shall be in an amount equal in value to the difference between the unpaid purchase price upon such contracts and the value of the property thereunder, as such value appears in the schedule contained in the report of examination begun August 31, 1939. All of such contracts shall be eliminated from the assets of the bank and Merchants National Realty Corporation by December 15, 1943.
4. All bonds in the bank's investment portfolio shall be amortized out of current earnings (other than bond profits) to maturity, or to call date. Current bond profits shall be used to take care of current losses, and any bond profits not so used shall be passed to a reserve for losses of any character until such reserve is adequate in the judgment of the Comptroller of the Currency.
5. Loans to Transamerica Corporation and its allied interests not otherwise provided for herein shall be brought within the legal limit allowed to one interest, as soon as possible and not later than July 15, 1942. The stock of Transamerica or any of its allied interests securing loans of

Transamerica or any of its allied interests shall be eliminated by July 15, 1945, and no pledge of such stock shall hereafter be accepted.

97 Further extensions of credit by the bank for the purpose of purchasing or carrying Transamerica stock shall be discontinued, and no collateral value shall be assigned to any such stock hereafter pledged to secure any loan made by the bank.

6. The bank shall eliminate the amount of investment in stock under option on the basis of the program now in effect.
7. The bank shall give vigorous attention to the elimination or correction of any real estate holdings or real estate loans that may not conform to statutory requirements.
8. The bank shall initiate steps to ascertain whether it is entitled to recover any part of the sums paid by the bank to Transamerica General Corporation in connection with fidelity losses, and if it is concluded the bank is entitled to recover, it shall take steps to recover the same.

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This memorandum is submitted without prejudice to the right to require full and complete compliance with the Comptroller's criticisms and suggestions, to resort to sanctions provided by law, or to continue to list in reports of examination assets that are subject to criticism, until such criticisms have been corrected or eliminated. Neither this memorandum nor its contents shall be used by the bank or anyone else on its behalf without the consent of the Comptroller, for any purpose except for its information, unless and until the provisions hereof are accepted and complied with by the bank.