

C O P Y

FEDERAL RESERVE BANK OF SAN FRANCISCO

April 29, 1940

Mr. A. J. Mulroney,
Deputy Comptroller of the Currency,
Washington, D. C.

Dear Mr. Mulroney:

At a meeting this afternoon of the Committee to Appraise the Banking Premises of the Bank of America N. T. & S. A., Mr. Wright expressed some uncertainty as to the method of determining the fair value at the time of acquisition of a building which was purchased without buying the stock or the business of the institution which was housed therein. An example will be found in the case of the premises housing the California-Montgomery Branch of the Bank of America N. T. & S. A.

The building originally was constructed by the American National Bank. Ultimately, it passed to the ownership of the American Trust Company of San Francisco, the main office of which was across the street. In the course of consolidating the business of the extinguished American Bank with the American Trust Company, the location at California and Montgomery Streets was left vacant. I recall very well the negotiations between President John Drumm of the American Trust Company and Mr. A. P. Giannini, Chairman of the Advisory Committee of the Bank of Italy, N. T. & S. A. It was a lively contest between two very astute traders.

According to the discussions we had in Mr. Folger's office with Messrs. Layman and Steinmeyer, Wednesday evening, February 28, it was agreed that the price actually paid for a building as a separate unit and not in connection with the purchase of a bank should be regarded as the fair value of the property. Therefore, in determining the present value, the Committee must start with the purchase price and fix the present book value by adding any expenditures subsequent to acquisition found by the Committee to have been appropriately capitalized, and deducting the appropriate amount of depreciation at the rate allowed by the Bureau of Internal Revenue for each year of ownership.

You may recall that the morning after the evening session with Messrs. Layman and Steinmeyer, I dictated an outline of our understanding, the substance of which was expressed in Paragraph 5 of the Agreement. I found among my files a rough draft of the outline, which I enclose. I shall very much appreciate your reviewing it, and, after conference with Mr. Folger and Mr. Dreibelbis, letting me know whether Paragraph 4 of the enclosure agrees with your understanding, and whether the purchase price of the American Bank Building is the proper basis for determining the fair value at the time of acquisition.

Please reply by airmail.

Yours very truly,

(Signed) Ira Clerk
First Vice President.

Enclosure

Cc: Messrs. Wright, Funsten, West, Dreibelbis, and Folger.

Bank of America N. T. & S. A.

Banking Premises

<u>Means Acquired</u>	<u>Method of Determining Original Cost of Banking Premises</u>
1. Construction	Actual cost of land and cost of improvements
2. Purchase of stock without examination and appraisalment of assets.	Amount carried on books of seller, except (a) Where extraordinary depreciation has been taken by seller; (b) Where revaluation has been justified by extraordinary unearned increment; in which event original cost to seller, less reasonable depreciation shall be considered to be cost; provided that whenever negotiations have been entered into with a united group of minority stockholders in which appraisalment of assets has entered into the price fixed for minority shares Rule No. 3 will apply.
3. Purchase of ultimate control of stock after negotiations and examination of assets.	Amount settled upon as the value of the banking premise in effecting sale.
4. Purchase of a building as a separate unit whether or not other assets are involved.	Amount of purchase price.

All properties to show depreciation from the time of construction by Bank of America or by any of the T/A banks or companies, or from the time acquired.