

May 8, 1940.

MEMORANDUM FOR COMMITTEE (Copies delivered to Mr. Wright, Mr. Funston, 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.  
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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.

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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

*Mr. Clayton*

**LOANS SECURED BY STOCK OF TRANSAMERICA CORPORATION**

3,508,269.30

(See page 8, insert 6, March 31, 1939)

These loans are numerous and widely scattered throughout the various branches and many of the individual loans, so secured, are classified in the branch reports of examination. The amount as shown represents, in the aggregate, the extension of credit dependent upon the stock of Transamerica Corporation. In the majority of cases they are loans made in prior years and many are workout problems dependent entirely on the security and are carried in an attempt by the management to effect a recovery on partially charged off assets through market appreciation in the value of Transamerica Corporation stock. The following is a comparative schedule of the total amount of loans secured by this stock:

**COMPARATIVE SCHEDULE OF LOANS SECURED BY STOCK OF TRANSAMERICA CORPORATION**

Date of Examination	"A"	Shares Pledged	"B"	Shares Pledged	Shares Pledged "C"
Dec. 31-29	\$40,064,358.69	1,697,165	\$17,057,610.19 *	453,650	No record kept.
Jun. 10-30	26,683,141.24	1,500,318	12,496,757.48 *	361,680	do
Feb. 28-31	20,941,703.76	1,609,120	30,413,252.16 *	822,536	do
Aug. 31-31	15,104,423.35	1,609,553	10,271,027.96	863,937	141,161
Mar. 31-32	11,010,253.77	1,418,385	9,524,571.37	816,025	115,041
Nov. 9-32	9,594,093.07	1,389,460	7,916,201.29	658,342	218,552
r. 10-33	8,831,763.24	1,386,502	8,155,215.68	808,806	252,549
sep. 18-33	7,418,552.89	1,197,656	6,936,943.43	780,793	192,610
Jun. 22-34	5,110,770.65	997,685	4,634,967.39 **	701,936	234,849
Feb. 11-35	3,984,154.79	804,396	4,489,748.47 **	684,794	257,161
Oct. 7-35	3,840,856.30	778,195	3,950,531.21 **	542,068	181,830
Apr. 27-36	5,828,887.81#	972,383#	3,575,540.49 **	429,300	264,437
Oct. 14-36	6,026,140.94#	938,663#	2,798,243.26 **	330,449	232,559
Apr. 20-37	5,684,086.31	869,984	3,203,483.49 **	350,105	195,925
Aug. 31-37	1,370,361.05	156,852	4,786,941.33 ***	530,976	***
Apr. 28-38	564,803.17	101,013½	4,252,420.82 ***	522,373	***
Nov. 21-38	674,261.49	110,600	4,037,044.77 ***	501,525	***
Mar. 31-39	772,975.92	132,130	2,735,293.38 ***	441,493	***

"A" Loans secured by Transamerica Corporation stock only.

"B" Loans secured by Transamerica Corporation stock and other collateral. Dollar amount represents balance of loans dependent upon Transamerica Corporation stock.

"C" Shares of Transamerica Corporation stock held as collateral, upon which no portion of the loan is dependent.

(\*) Indicates total loans which are secured by Transamerica Corporation stock and other collateral, and not the balance of loan dependency upon Transamerica Corporation stock as indicated above under "B".

Transamerica Corporation and Subsidiaries Large Line - cont'd.

- (\*\*) Basis for figuring the dependency of the loan upon Transamerica Corporation stock held as collateral changed to the proportion: That the value of the Transamerica Corporation stock has to the total value of all the collateral securing the loans, instead of, as formerly used, figuring the entire uncovered balance of the loan as dependent upon TAC collateral.
- (\*\*\*) Now includes proportionate amount dependent upon TAC stock regardless of the collateral position with respect to other securities held as collateral.
- (#) It is significant that, contrary to announced policy in regard to loans made upon Transamerica Corporation stock, both the number of shares and the dollar amount increased during 1936, when the stock market experienced accelerated activity and a decided market value enhancement for Transamerica Corporation stock.