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Mr. Clayton

BANK OF AMERICA

National Trust and
Savings Association

Los Angeles
California

Mr. Paul Jones
Co. 4

Honorable Marriner Eccles, Chairman,
Board of Governors,
Federal Reserve System,
Washington, D. C.

Dear Marriner:

I have been thinking over the communications that we have received from the Federal Reserve System during recent months and I find it difficult to reconcile the position taken by you and your associates with the assurances given to us when we had occasion to discuss the possibility of converting the Bank of America from the national to the state system. Both you and John McKee properly stated that our interests could count upon receiving the same fair and impartial treatment from the Federal Reserve Board as is accorded to any other institutions. This conflicts sharply with the views expressed in the Board's letter of February 14, 1942, addressed to Transamerica Corporation, in which the Board takes the position that, regardless of its merits, an application from any institution in the Transamerica group, or in any way connected with it, would receive an adverse ruling from the Board, this decision as to procedure having been reached in collaboration with the Comptroller and the Federal Deposit Insurance Corporation. In a subsequent letter to the Corporation from the Federal Reserve Bank, dated July 13, this arbitrary position of the Board is confirmed by the rejection of the applications of the First Trust and Savings Bank of Pasadena without any apparent reason even though the Superintendent of Banks of California had granted unconditional permits for the branches after finding that public convenience and advantage would be promoted thereby.

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It must be obvious to you that such a position is not only discriminatory, but also injurious to Transamerica Corporation, and causes an adverse reflection on it, and it is also injurious to the minority stockholders in banks in which Transamerica Corporation holds an interest, as well as to the banks themselves.

We do not know of any legal justification for such action, and you failed in your letter to indicate what information, if any, you have in your files that would warrant it.

Practically all the members of the Board know me well enough, I think, to realize that when I have anything on my mind I do not hesitate to speak it out as frankly and directly as I can, and I feel it is only reasonable to expect the Board to adopt the same attitude toward me and tell me frankly what is the basis for its discriminatory treatment of the interests with which I am so closely connected. I doubt if there is any bank of comparable size in the country that is any more liquid or in a more sound and healthy condition than Bank of America, and I think that a careful review of the last examination made of Transamerica Corporation by the Federal Reserve System will indicate that this Corporation also is in a sound condition, and the same applies to all of the banks in which it has an interest. At least, we did not note any serious criticism in reviewing the examination of Transamerica Corporation. Frankly, I should like to know what is the cause, imaginary or otherwise, of this discrimination; whether it be the condition of our institutions, their managements, or any other circumstance.

In the past ten years during which I have been responsible for the direction of the affairs of the Bank of America, on the national bank examiner's basis, exclusive of the preferred stock issue, it has added more than \$57,500,000 to its net sound capital structure over and above dividends paid in that period which aggregated \$74,214,042.14, and which were fully justified.

While the growth of the bank has been rapid, other banks have grown rapidly too, some, in fact, more rapidly than our bank; and yet there is no apparent attempt to discriminate against those other banks. It should be obvious that our position, if anything, is stronger than that of most of the other rapidly growing banks, due to the fact that to a large extent our business is made up of a great number of small accounts, over 2,500,000 an over-all average of less than \$765.00 per account, and deposits of more than \$900,000,000 are in the time category where they are not subject to withdrawal without notice in an emergency. I am sure you will recognize that this condition does not exist in the other large banks which have relatively few accounts, but which are subject to having practically all their deposits withdrawn over night. Most of these other large banks have few, if any, savings or time deposits, and, therefore, are more vulnerable. The greater portion of this bank's assets is represented by cash, investments in securities of the United States Government, and loans guaranteed by the Government, such as FHA and guaranteed defense loans. In all of our more than \$2,000,000,000 of assets, we have approximately only \$250,000,000 in commercial loans, a substantial portion of which is supported by government guaranties. Our real estate loans are relatively small loans averaging less than \$5000 each, and virtually all of them are on an installment basis. The total of our investments and loans which are obligations of the United States Government and political sub-divisions, or are guaranteed by them, amounts to approximately \$1,038,000,000, and we have in addition, cash and cash items approximating \$400,000,000. Practically all of our assets could be sold at a premium which is not true of the other great banks of the country.

The banking premises which we own and occupy are all well situated in the center of the business districts of their respective communities, and in the most valuable locations. The American Appraisal Company valued our premises toward the close of 1939, and arrived at a valuation figure greatly in excess

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of the carrying value of the properties on our books. We must not lose sight of the facts that our premises are not all located in one community; that they are in the most desirable locations spread over the most rapidly growing and prosperous State in the Union, which State has experienced extraordinary population growth since the last census in 1940.

It is obvious that with such growth as is taking place in California, and that will continue to take place, additional banking facilities are necessary. I cannot understand why there should be this discrimination against us and our attempt to extend our services where the need has been definitely established when other institutions have no difficulty in opening new branches when they desire to do so.

The Bank of America, since its organization in 1904, has weathered all sorts of economic storms; I have seen it through several depressions and a bitterly contested proxy fight. Our correspondent banks and large commercial clients will testify to the fact that their experience in doing business with us has demonstrated to them that we have the best banking organization in the country, and I defy anyone to point out a more sound bank or competent management anywhere. With the greatest portion of our assets in cash, or guaranteed by, or consisting of, obligations of the United States Government and political sub-divisions, and a proven earning power I challenge any of the bank supervisory agencies to point out a comparable situation.

Our other real estate owned amounts to the relatively insignificant figure of \$4,800,000. The land contracts of Capital Company have a present balance of \$16,670,530.74, and are the unconditional obligations of the company, which has a net capital structure of more than \$33,459,000. Through such contracts, real estate of more than \$55,000,000 has been liquidated, and most of this was acquired through loans made by institutions taken over by us, in many cases at the request of banking authorities and to save the depositors from loss.

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You are familiar with the fact that the Bank of America was compelled to take preferred stock when it did not need it, as we contended at the time, and our arguments in this respect have been overwhelmingly substantiated by subsequent events. Our institution took no advantage of charging off its assets at the time of the moratorium and offsetting such charge offs with preferred stock because we knew that such action was not necessary and that it imposed an unnecessary burden on the Government and an unjustifiable charge against the earnings of the bank. On the preferred stock that we were compelled to take, we have paid approximately \$2,000,000 in dividends and have derived no benefit in return. The bank would certainly have been much better off to have added that \$2,000,000 to the more than \$40,000,000 added to the net sound capital structure, on the examiner's basis, in the past three years.

The only reason that I can ascribe to the Board's continued refusal, outside the law, to permit the normal extension of our services to places where banking service is obviously needed, is because it does not like the management. In my opinion there is certainly no justification for this attitude. This management took over the bank after the bitter proxy fight I have mentioned, and all of the losses which during the time of the moratorium would have been charged off by other banks through the medium of preferred stock were subsequently charged off by us out of earnings. We have had the extraordinary experience of surviving earthquakes, fire, panics, depressions, the moratorium, conspiracies, and a bitter proxy battle, and have stood up under constant harassment on the part of bank supervisory authorities, and other Federal Agencies, and yet here we are today with capital funds, exclusive of preferred stock, the greatest in the history of the bank, and our earning capacity unexcelled by any other bank. Only a

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sound and properly managed institution could have survived.

No bank in the country has cooperated more fully with the Government than the Bank of America, and in recognition of this fact the Treasury Department, despite the strenuous controversies of the past, has seen fit to award it the first citation to be issued to any bank in the United States for merit in promoting the war effort. We have sold more individual defense and war bonds than any other bank, at a continuing cost to this institution of more than \$30,000 a month. Enclosed is the most recent report showing daily sales of bonds. We have financed war industries before and after Regulation V became operative to an extent not exceeded by any other bank. In the FHA program, we led the field and showed the way for other banks to cooperate; and, today, we lead the Nation in the volume of all types of FHA loans made and in cooperating with this administration in its other programs; and we are 100% behind the Government's program to win the war.

I do not think that any bank in the history of this country has been more persistently persecuted than the Bank of America. Can it be due to the fact that we do not represent the vested interests, and that throughout its history it has been a bank of the people, owned by many thousands of small stockholders? Or can it be that there is a more sinister motive? I hope for the sake of the future well-being of our country that this is not the case.

I must state to you frankly, Marriner, that I think the position of the supervisory agencies is not sound and in the long run cannot be sustained under our American system of free enterprise. Let us not expend our time and energies in contending over that fundamental of freedom-loving people of equality under the law. It seems inappropriate that governmental agencies should at this time be reaching out to usurp the legislative prerogatives, when there is so much need for the exercise of administrative functions to

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preserve the very existence of the Nation. If you do not like the existing laws, let us try to change them by constitutional means. We should not in these times resort to Nazi-Fascist methods of dictatorship.

This institution is certainly no instrument of evil, as the action of the Board toward it would seem to imply. Through the years, it has exercised consistently a beneficent and constructive influence on the welfare of the state and nation and the great number of Californians that it serves.

I think that in justice you should exert your influence to have the Federal Reserve Board subscribe to the spirit of fair and impartial treatment to which you have so frequently subscribed in the past. Won't you please let me know what you can do about it? If it is a matter of some technicality that is involved, can we not resolve that by agreeing to a friendly legal proceeding for a declaratory judgment defining the powers and authority of the Board, or for clarification of the statutes if they are ambiguous?

I should like to have your cooperation in seeking freedom from prejudice and discrimination and the attainment of the liberties which we as a nation are sacrificing and fighting to preserve for ourselves, and to secure for others.

With kindest personal regards to you.

Yours very sincerely,

(Signed) A. P. Giannini