

File

*(About end of Feb. or early Mar.
'43 - read by Ch'rs to Bd
etc., for discussion only)*

The Board's policy is not based upon any one issue but results from the cumulative effect of all its experience with the Giannini management. The result is a lack of confidence in the management, expressed as dissatisfaction with its "financial policies." Nor are the issues separable as between Bank of America, Transamerica, any other of the affiliated institutions, or Giannini himself. The fact is that he speaks for each of them whenever the occasion requires and he is the real issue.

Among other things not mentioned here, the Giannini management has:

- (1) Resisted efforts of supervisory authorities to obtain adequate capital and, after having such capital supplied by the Government, retired it faster than required and under conditions which made it prudent to conserve capital.

(See Exhibit 1)

- (2) Pursued an extravagant dividend policy throughout a period when the conservation of earnings to strengthen capital would have been the correct policy.

(See Exhibit 2)

- (3) Diverted from the banking business by acquiring substantial investments in unrelated businesses and industries.

(See Exhibit 3)

- (4) Has pursued questionable methods in acquiring competing enterprises - both as to prices and methods.

(See Exhibit 4)

Summary: Aside from the relative weight of any particular issue, it is noteworthy that --

From the beginning of its relations with Federal supervisory agencies and irrespective of the personalities who composed such bodies, it has been engaged in almost continuous controversy with them and has stubbornly resisted all supervisory efforts.

Attachment

LC: jg

The following comments and data support the items indicated:

Item 3 (Exhibit 1)

This refers to the efforts and conferences culminating in the agreement dated March 1940. The bank issued \$30,000,000 in June 1940. Transamerica Corporation borrowed from the R.F.C. \$27,407,000, putting up the stock as collateral. The retirement schedule was 60,000 shares on or before June 30th of each year. The bank retired 60,000 shares on the second of January 1941, 70,000 shares on the second of January 1942, and an aggregate of 9,000 shares in several small amounts in 1942, and on January 2, 1943, approximately 54,000 shares more. Thus by January 2, 1943, the bank had retired 193,000 shares whereas the agreement provides for the retirement of only 180,000 shares by June 30, 1943.

Transamerica Corporation likewise reduced the balance of its loan to the R.F.C. in amounts somewhat greater than required. The required balance for June 30, 1943, would be about \$19,200,000, whereas the balance owed on February 9, 1943, was about \$18,500,000.

Item 4 (Exhibit 2)

both inclusive

For the period 1932-1942, operations of Bank of America were reported as follows:

Total operating earnings		\$579,000,000*
Operating expenses		<u>452,000,000</u>
Net operating profit		127,000,000
Profits on securities	\$69,000,000	
Less losses	<u>8,000,000</u>	
	61,000,000	
Other recoveries on loans, etc.	<u>8,000,000</u>	<u>69,000,000</u>
		196,000,000
Losses on loans	61,000,000	
Other losses including real estate	<u>23,000,000</u>	<u>84,000,000</u>
Net profit		112,000,000
Dividends paid		
Common	76,800,000	
Preferred	<u>2,600,000</u>	<u>79,400,000</u>
Net undivided profits left in bank		<u>32,600,000</u>

* 1942 data taken from bank's report for advertising purposes.

The bank wrote up its bonds, principally governments, to the extent of \$8,000,000 in 1935 and \$6,000,000 in 1936. Since that time most, if not all, of the write-up has been realized through sales of the bonds. Accordingly, for the period above mentioned the undivided profits is the same as it would have been if the write-up had not been made.

Transamerica Corporation (not consolidated) resumed the payment of dividends in 1934. Its total dividends paid of \$64,406,000 was about \$6,000,000 less than its net income of \$70,593,000 during the entire period 1932-1941. This income figure was reported to include about \$4,000,000 profit on the sale of securities to other organizations in the group.

Item 9 (Exhibit 3)

The principal acquisitions by Transamerica Corporation of nonbanking units within recent years are:

	<u>Total Assets</u>		<u>TAC's Investment</u>
Pacific National Fire Insurance Co. (1928)	\$ 9,378,000	92	\$3,927,400 ^{1/}
Occidental Life Insurance Co. (1930)	79,368,700	100	2,007,600 ^{1/}
General Metals Corporation (1931) (Foundry castings, etc.)	3,249,000	59	985,500 ^{1/}
Premier Insurance Company (1941)	4,087,100	100	1,500,000 ^{1/}
Axton-Fisher Tobacco Company (1941)	13,347,000	70	2,200,000 ^{2/}
Pacific Finance Corporation (1942)	52,005,000	91	8,300,000 ^{3/}
Enterprise Engine and Foundry (1942) (Diesel engines, etc.)			100%
Aerco Corporation (1942) (Aircraft sub-assemblies)	620,400	95	370,000 ^{4/}
Adel Precision Products (1942) (Aircraft parts)	3,616,700	89	1,700,000 ^{4/}

^{1/} At 12-31-41

^{2/} Based on \$40 per share Class A and \$12 per share Class B

^{3/} Based on book value of Bank of America stock and National City Bank stock - estimated.

^{4/} Estimated - based on book value of Bank of America stock.

Item 3

(Exhibit 4)

Some instances of Transamerica Corporation or Bank of America resorting to pressure tactics to acquire control of banks have been noted--Pasadena, Santa Ana, Spokane, and Salinas. For obvious reasons the acquisition of stock control has been concealed through the purchase and carrying of the stock by persons later identified as agents of Transamerica Corporation or Bank of America. Some of these are: G. M. McClerkin, K. Robson, D. O. Hood, Hood Bros., Pacific Coast Mortgage Company, and Western States Corporation.

The method of financing such stock acquisitions has also been subject to criticism. Although the examination reports do not show definitely that the proceeds of loans were used by borrowers to buy the stocks, sizeable blocks of stocks of the larger banks have shown up as collateral to loans made by Bank of America to different persons or corporations on different examinations.