

Transamerica Corporation

MONTGOMERY STREET AT COLUMBUS AVENUE
SAN FRANCISCO, CALIFORNIA

July 9, 1943

Board of Governors,
Federal Reserve System,
Washington, D.C.

Gentlemen:

We come now to answer your telegram of May 29, 1943, transmitted to us by a letter from the Federal Reserve Bank of San Francisco of that date, respecting our acquisition of the stock of the Citizens National Trust & Savings Bank of Los Angeles, and respecting certain investments in companies in the so-called "industrial field."

You state that you "would be glad to receive any expression of view which the corporation may wish to offer on the question whether the corporation has violated the terms of its agreement " with the Board of Governors of the Federal Reserve System, dated April 28, 1937, "and particularly paragraph 5 thereof."

Although it is not stated in your telegram, we assume that the question is raised in view of the clause in paragraph 5 of the agreement of April 28, 1937, reading "that, except with the permission of the Board of Governors of the Federal Reserve System, it shall not cause or permit any change to be made in the general character of its business or investments."

It is to be noted that the clause in question has to do with changes in the "general character" of the business or investments of Transamerica. It does not contemplate that the permission of the Board of Governors of the Federal Reserve System should be obtained unless the change is of such a substantial nature as to change the "general character" of the business or the "general character" of the investments of Transamerica as they existed on April 28, 1937. We do not see how the acquisition of the stocks referred to in the telegram of May 29, 1943 could, by any stretch of the imagination, be said to have resulted in a change in the general character of the business or investments of Transamerica. As of April 28, 1937, Transamerica was a holding company owning stocks of banks and other financial institutions, insurance companies and industrial concerns engaged in a variety of businesses. That was the "general character" of its business and of its investments. There has been no change in that character from that date to this.

A detailed statement of the changes in the investments of Transamerica Corporation since April 28, 1937 is set forth in the accompanying memorandum, and we believe demonstrates the view which we have stated above.

July 9, 1943

Further, we have taken the legal advice of Messrs. Willkie, Owen, Otis, Farr & Gallagher on the subject matter of the said telegram of May 29, 1943, and we are advised that in their opinion there is nothing in the law, regulations, or agreement with the Board of Governors of the Federal Reserve System that would preclude Transamerica Corporation from entering into transactions such as those referred to in the Board's telegram, without first obtaining your consent. Also, we are advised that in their opinion the Board of Governors of the Federal Reserve System had no authority to require Transamerica Corporation to agree, as a condition of obtaining a permit to vote the stock of its subsidiaries, that it would not cause or permit any change to be made in the general character of its business or investments without the permission of the Board of Governors of the Federal Reserve System, and that that clause of the agreement is without force and effect. Consequently, we do not regard the clause as binding upon us. Inasmuch as it is clear, however, that the clause in question has not been violated in any way by Transamerica Corporation, it is at this moment, of course, academic as to whether it is valid or not and we merely set forth our position with respect thereto in order that we may not be deemed at a later date, as a result of silence, to have estopped ourselves to contend that the clause is invalid and ineffective, if it should then seem necessary and advisable for us to do so.

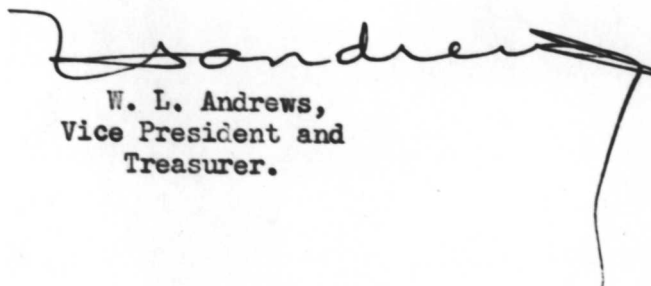
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Your telegram of May 29, 1943 adverts to our proposal to the stockholders of the Citizens National Trust & Savings Bank of Los Angeles to acquire from them 124,000 shares of their stock. This portion of your telegram does not appear to call for any comment on our part. In passing, however, we might say that the offer to exchange stock of National City Bank of New York, share for share, for that of Citizens National Trust & Savings Bank was made only after Transamerica Corporation had been solicited by a number of directors of the Citizens Bank and many of its large stockholders to become interested in that bank. Transamerica Corporation had committed itself to make this offer prior to the conference of Mr. A. P. Giannini with members of the Board in Washington on February 18, 1943, and the existence of this commitment was at that time mentioned by Mr. Giannini to the Board. With due deference, we beg to inform you that, provided the conditions of our commitment are met, we intend to proceed to carry out our commitment. In so far as the acquisition of any of this stock should be deemed to represent an expansion of the activities of Transamerica, you are of course familiar with our view that that is not a subject matter within your jurisdiction, and we are so advised by counsel.

In connection with your comment upon our acquisition of the stock of certain industrial companies mentioned, you state: "During this same period direct and inter-corporate indebtedness of Transamerica Corporation and its subsidiaries has continued unliquidated in substantial amounts." The implication from this sentence is that the affairs of Transamerica Corporation have not been conducted in a conservative manner. The facts are to the contrary, as we have more fully set forth in the accompanying memorandum.

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We trust that this letter and the accompanying memorandum may be helpful to the Board in understanding our views with reference to the subject matter of its telegram. However, if we can be helpful to any greater extent we stand in readiness to submit any additional data, factual or legal, which the Board might deem important. We advise the Board that it may communicate either with us or our counsel, Messrs. Willkie, Owen, Otis, Farr & Gallagher, in this connection and that it is authorized to present to said counsel any facts, figures or other data relating to the affairs of Transamerica Corporation and any of its subsidiary or affiliated companies.

Very truly yours,

A handwritten signature in dark ink, appearing to read "W. L. Andrews", with a long horizontal stroke extending to the right and a vertical line dropping down from the end.

W. L. Andrews,
Vice President and
Treasurer.

Enclosure

June 25, 1943

MEMORANDUM IN RE TELEGRAM OF BOARD OF GOVERNORS OF THE FEDERAL
RESERVE SYSTEM OF MAY 29, 1943, TO ACCOMPANY LETTER OF TRANS-
AMERICA CORPORATION TO THE BOARD RESPONSIVE THERETO.

A. THE ACQUISITION OF INDUSTRIAL STOCKS

The types of business conducted by Transamerica Corporation may be roughly divided into three categories: (1) banks and other financial institutions; (2) insurance companies; and (3) industrial concerns. The relative percentage of the assets invested in these three types of business as at December 31, 1937 and May 31, 1943, is as follows:

	<u>Percent of assets invested therein</u>	
	<u>Dec. 31, 1937 *</u>	<u>May 31, 1943</u>
Banks and other financial institutions	63.97%	55.50%
Insurance companies	3.51%	6.64%
Industrial concerns and miscellaneous industrial investments	24.36%	30.40%

* After distribution to Transamerica stockholders of 2,297,840.5 of the 4,000,000 shares of stock of Bank of America then outstanding. This date is selected for the purposes of comparison for the reason that the distribution of the shares of Bank of America, made in July of 1937, was in the contemplation of all parties at the time of the making of the agreement of April 28, 1937.

Insurance Company Stocks

Certainly it is clear that the investment in Premier Insurance Company in no way altered the general character of the business or investments of Transamerica Corporation. As at December 31, 1937 the percentage of the assets of Transamerica invested in insurance company stocks was approximately 3.51% thereof. As at May 31, 1943, the percentage of the

of the assets of Transamerica Corporation invested in insurance company stocks was 6.64% thereof.

On April 30, 1937, Transamerica Corporation owned 100% of the stock of the Pacific National Fire Insurance Company, carried on its books at a value of \$2,268,798.72. Transamerica Corporation also owned 100% of the stock of Occidental Life Insurance Company, carried on its books at the value of \$1,127,600.28. It also owned 24,519 shares of the Fireman's Fund Insurance Company of New York, of a value of \$1,232,206.50, and its non-consolidated subsidiaries owned an additional 8,650 shares of Fireman's Fund Insurance Company stock. Thus, one aspect of the general character of the business of Transamerica Corporation was that it was engaged in the insurance business through the control of the stock of two subsidiaries and that, in addition, it had a substantial interest in another insurance company. Today Transamerica Corporation still owns 100% of the stock of Occidental Life Insurance Company, carried on its books at a value as at December 31, 1942 of \$2,007,600.28, and 92% of the stock of the Pacific National Fire Insurance Company, carried on its books at a value as at December 31, 1942 of \$3,927,386.72; the remaining 8% is carried by Premier Insurance Company. At December 31, 1942 Transamerica owned 17,850 * shares of stock of Fireman's Fund, of a value of \$679,857.56, and its subsidiaries 5,775 * shares.

Premier Insurance Company, a new company, was capitalized by a transfer to it of assets previously owned by Transamerica Corporation or its subsidiaries. There were no new investments involved and the increase in its investments in its two principal insurance subsidiaries represents capital donations and is considerably greater than its entire investment in

* Shares reclassified in December, 1942 - $2\frac{1}{2}$ shares new for one old; par value reduced from \$25 to \$10.

Premier Insurance Company. The \$1,500,000 furnished by Transamerica Corporation as capital of the Premier Insurance Company might have been furnished as an additional capital donation to the Pacific National Fire Insurance Company.

Industrial Companies

On April 30, 1937, Transamerica Corporation owned 100% of the stock of Capital Company, then carried on its balance sheet at the value of \$17,537,931.98, and constituting 8.40% of its total assets. This is a real estate company owning and operating office buildings, apartment buildings, hotel residential properties and rental store properties; in other words, it is an industrial company of very broad interests.

On April 30, 1937, Transamerica Corporation owned 100% of the capital stock of California Lands, Inc. This company was engaged in the operation of improved and unimproved farm and range land and in the extensive development of oil wells. It was carried on the books at a value of \$13,831,705.38 and as such constituted 6.62% of the assets of Transamerica Corporation. It was an industrial company of very broad interests.

In March, 1941, Capital Company and California Lands were merged in the name of Capital Company and the stock of the merged company, as of December 31, 1942, was carried on the books of Transamerica Corporation at the value of \$31,369,637.36, constituting 24.17% of its assets. It would be difficult to imagine an industrial company engaged in broader activities than this company.

As of April 30, 1937, Transamerica Corporation had owned approximately 50.70% of the stock in General Metals Corporation, then carried on its books at the value of \$969,214.15. By subsequent purchases this holding has increased as at December 31, 1942 to 55.9%, having a book value of \$1,096,333.65. This company produces iron and steel products, entering at the present time chiefly into naval and aircraft construction. The Enterprise

Engine and Foundry Company, which was acquired in 1942 and to which reference is made in the telegram of May 29, 1943, is a kindred enterprise and its activities closely supplement those of General Metals Corporation. It certainly cannot with propriety be contended that the general character of its business is any different from the general character of the business of General Metals Corporation. The Adel Precision Products Corporation, to which reference is made in the telegram of May 29, 1943, engages in the manufacture of various items for aircraft, automotive and machine tool industries. It is an enterprise quite kindred in its character to that of the General Metals Corporation. The same can be said with respect to the Aerco Corporation. The total investment in Enterprise Engine and Foundry Company, Aerco Corporation and Adel Precision Products Corporation aggregates \$2,026,345.55, or approximately 1.56% of the total assets of Transamerica Corporation. Certainly these investments have not changed the general character of the business or investments of Transamerica Corporation.

Reference is made in the telegram of May 29, 1943, to the acquisition of the stock of the Axton-Fisher Tobacco Company, of which Transamerica Corporation controlled at December 31, 1942 about 69.43% at a cost of approximately \$2,298,791.43, or less than 1.8% of the assets of Transamerica. Irrespective of any other considerations, this small investment clearly could not be held to change the general character of the business or investments of Transamerica. Particularly is this true when we take into account that on April 30, 1937, Transamerica Corporation and its subsidiaries owned 26,638 shares of stock of General Foods Corporation, of the market value of approximately \$1,047,504.00.

To show the diversity in the character of the investments of Transamerica Corporation, it might be noted that on April 30, 1937, Transamerica and its subsidiaries had 51,469 shares of stock of the Union Oil Company of California.

In the period from April 28, 1937 down to date, numerous substantial changes have been made in the investments of Transamerica Corporation through sales or distributions, all of which were a matter of public record and undoubtedly known to the Board of Governors of the Federal Reserve System shortly after they were made. For example, as of April 30, 1937, the largest investment of Transamerica Corporation was in the stock of Bank of America National Trust and Savings Association. It controlled that company. Transamerica owned 1,993,084 of the 2,000,000 shares of the stock of that company outstanding at that date, having a value on its books of \$103,932,955.66, representing 49.77% of its total assets. This constituted 99.65% of the outstanding common stock of Bank of America. By December 31, 1942, this ownership had been reduced to 492,428 shares having a value on the books of Transamerica Corporation of \$12,341,900.93 and constituting 12.31% of the common stock of the bank. Further, as of April 30, 1937, Transamerica Corporation owned 608,556 shares of the stock of National City Bank of New York, having a value on its books of \$22,762,232.09. By December 31, 1942, this holding had been reduced to 442,890 shares of a value as then carried on the books of the company of \$16,715,378.65. The stock of General Foods has been sold. A substantial part of the stock of the Fireman's Fund Insurance Company has been sold.

None of these transactions, some of which have a far greater importance upon the business and investments of Transamerica Corporation than the acquisitions referred to in the telegram of May 29, 1943, and all of which were matters

of public knowledge, have been made the subject of any comment by the Board of Governors of the Federal Reserve System. No application was made of the Board of Governors for permission to make the sale or distribution, and it is quite evident that it was not considered by the Board of Governors of the Federal Reserve System that it had anything to say about these transactions.

Notice of the acquisition of the stocks referred to in the telegram of May 29, 1943, was given to the Board of Governors of the Federal Reserve System, pursuant to the provisions of paragraph 12 of application Form P-1, on the following dates:

<u>Name of Company</u>	<u>Date of Notice</u>
Axton-Fisher Tobacco Company	May 26, 1941
Premier Insurance Company	July 9, 1941
Enterprise Engine and Foundry Company	Sept. 17, 1942
Aerco Corporation	Oct. 26, 1942
Adel Precision Products Corporation	Dec. 24, 1942

Receipt of these notifications was acknowledged by the Federal Reserve Bank of San Francisco.

In none of these cases was it suggested or intimated that permission of the Board of Governors of the Federal Reserve System might be required until said telegram of May 29, 1943, although the Board was notified as to one of the companies two years ago, and as to all at least five months ago. This fact naturally gives rise to the supposition, at least, that the Board of Governors of the Federal Reserve System does not itself consider that the acquisitions were within the scope of paragraph 5 of the contract of April 28, 1937.

Not only is it clear that the transactions mentioned in the telegram of May 29, 1943 have not in any way changed the general character of the business of Transamerica Corporation - by the same token it is clear that they have not changed the general character of its investments.

In summary, therefore, we repeat what we stated in the accompanying letter, that in our view the acquisition by Transamerica Corporation of the stock of Premier Insurance Company, Axton-Fisher Tobacco Company, Adel Precision Products Corporation, Aerco Corporation and Enterprise Engine & Foundry Company did not, either singly or in the aggregate, constitute a change in the general character of the business or investments of Transamerica Corporation and that consequently no violation of the agreement of April 28, 1937 arose from the fact that they were acquired without first having obtained the permission of the Board of Governors of the Federal Reserve System.

Furthermore, the companies referred to in the Board's telegram have uniformly made great progress since becoming affiliated with Transamerica Corporation. The industrial companies engaged in war production have increased their output in the aggregate by approximately 35%. Transamerica Corporation's equity in the net asset value of industrials applicable to its investments exceeds by 100% its carrying value of its investments in them. The net current assets of the industrial companies applicable to Transamerica's investments in them exceeds that investment by a substantial margin.

B. "EXPANSION POLICY"

There has been no "expansion policy" in vogue in the conduct of the affairs of Transamerica Corporation. Any changes that have been made have reflected the judgment of the management of the Corporation which is responsible to the stockholders. As the Board knows from previous correspondence the Corporation, while desiring to be cooperative, has consistently declined to recognize extra legal jurisdiction on the part of the Board over its management. A responsible management cannot properly accept dictation, without responsibility, from external sources. It has long felt and still

believes that it is entitled to be informed specifically by the Board regarding any conditions or practices which are within the realm of the Board's legal supervisory jurisdiction and which are subjected to its criticism. To date we have not been able to secure from the Board any satisfaction in this regard. A direct reply to our repeated inquiries has been evaded.

We call the Board's attention, however, to the fact that rather than expanding its operations, Transamerica Corporation has been contracting them as a study of its statements of assets and liabilities will disclose. When Transamerica Corporation secured its voting permit in 1937, the book carrying value of the assets of the Corporation and its consolidated subsidiaries amounted to \$208,812,000. As of December 31, 1942 it amounted to \$129,797,000, a contraction of \$79,014,000 or 37.84% in a six year period. Currently it is substantially less and the Corporation has cash on deposit with banks of approximately \$9,000,000.

Practically all of the transactions to which the Board refers in its telegram were consummated on a basis of an exchange of bank stocks, primarily Bank of America stock, for the other securities. We have understood for a number of years that it is the desire of some members of the Board that Transamerica Corporation be not in a position to control the Bank of America. We have not been in that position for a long time. Nevertheless, our objective has been and is to reduce Transamerica's holdings of the voting securities of Bank of America to 10% or less. In this connection Transamerica Corporation consummated on the 23rd of this month, after negotiations extending over a period of several weeks, the sale of 100,000 shares of its holdings of the common stock of Bank of America, despite unwarranted interference in the smooth handling of that transaction. Its investments, though not changed in general character, have become somewhat more diversified

as a result of these exchanges of Bank of America stock and they bring us closer to the objective of owning 10% or less of the voting securities of the bank.

C. INTER-CORPORATE INDEBTEDNESS

The liquidation of direct and inter-corporate indebtedness of Transamerica Corporation has progressed greatly since this management assumed responsibility for the operation of Transamerica Corporation and its subsidiary and affiliated companies. In the period from December 31, 1933 to June 25, 1943, Transamerica Corporation and subsidiaries have reduced their obligations outstanding on December 31, 1933, the approximate time at which the policies of this management became effective, from \$113,092,000 to \$17,212,000, a reduction of \$95,880,000 or 84.7%. Within two years following 1933, Bank of America, which was then a subsidiary of Transamerica Corporation, completely liquidated an indebtedness in excess of \$147,000,000, without recourse to the issuance of preferred stock.

The amount of \$18,472,000 of Transamerica Corporation's current obligations results from the issuance of preferred stock by the Bank of America in June, 1940, pursuant to the requirements of the Comptroller of the Currency. Representatives of the Board of Governors of the Federal Reserve System participated in the promulgation of these requirements and it is assumed that the Board is not complaining of this as unliquidated indebtedness. It would seem appropriate to say here that all of its inter-corporate indebtedness is being liquidated in conformity with and in advance of the program prescribed in said requirements. Further, in connection with its preferred stock indebtedness, Transamerica Corporation's liability is limited to the value of the securities pledged with the Reconstruction

Finance Corporation thereagainst at the issue price, viz: \$50 per share. There is no liability beyond the value of the stock. In this regard, under the terms of the Articles of Association of the bank, as approved by the Comptroller of the Currency, we are informed that Bank of America could, out of available funds, retire all the remaining outstanding shares of preferred stock; but this it does not choose to do despite the fact that since the examination preceding the issuance of the preferred stock there has been a net increase to date in its net sound capital structure, computed on the Examiner's formula, of approximately \$20,000,000, exclusive of preferred stock.

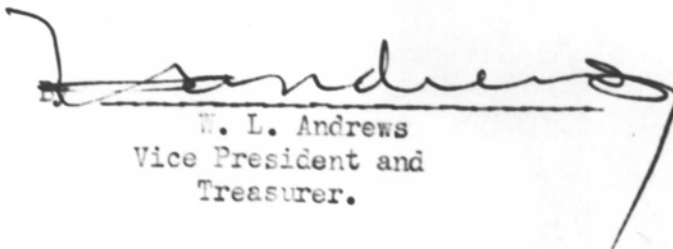
Whatever the implications of the Board's reference in its telegram to the direct and inter-corporate indebtedness of Transamerica Corporation and its subsidiaries continuing unliquidated in substantial amounts, in the light of the foregoing facts there can be no meritorious criticism. The reduction of \$95,380,000 or 84.7% in the obligations of Transamerica Corporation and its subsidiaries existing at December 31, 1933, the approximate date at which the policies of the present management became effective, even surpasses the program formulated by the supervisory agencies.

While the application for a voting permit was pending before the Board, there was correspondence between the Corporation and the Board with respect to obligations amounting to approximately \$35,000,000, arising out of contracts which had been entered into between Bank of America and the Corporation. These obligations were completely liquidated about a year ago.

We are not too modest to say that accomplishments such as are chronicled above, achieved under the leadership of Mr. A. P. Giannini, are proof of extraordinary managerial capabilities and reflect policies

that should be above criticism by supervisory authorities. We are proud to stand on that record. Altogether, we believe, there has been no comparable achievement by any person or group of persons in the whole reconstruction era following the depression of the early thirties.

TRANSAMERICA CORPORATION



W. L. Andrews
Vice President and
Treasurer.