

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date May 12, 1938

To Mr. Eccles

Subject: Letter from Mr. Giannini to

From Mr. Clayton

Acting Comptroller Diggs, May 6, 1938

The attached letter from A.P. to the Acting Comptroller is a "honey". A.P. shows from the report itself that the comments and criticisms of the examiner are misleading either because of ignorance or bad faith. He is particularly effective in answering a criticism that the large holdings of government bonds by the bank "indicates a potentially dangerous position." A.P.'s answer to this is as follows:

"With our investment of \$376,899,000 carried at a premium of only $2\frac{1}{2}$ points, we do not admit 'a highly inflated situation.' Moreover, premiums are amortized to the first call date and to imply a dangerous situation with respect to our investment in U. S. Government bonds is to impugn the credit of the Federal Government. Furthermore, it is inconsistent for a Federal examiner to refer to a large holding in securities of the Government as indicating a potentially dangerous condition when the safety of depositors' funds in postal savings, the insurance of banks by the Federal Deposit Insurance Corporation, and the old age benefits of the Social Security Act, are all contingent upon the safety of funds in Government bonds."

The following quotations contained in his letter indicate that A.P. is not pulling his punches.

"While I attribute certain gross errors appearing in examination reports to the lack of understanding on the part of the examiner, it has become increasingly apparent to me that the management of this bank is being subjected to undue criticism, and malicious and slanderous harassment."

* * * *

"I am still hopeful that fair-minded and unbiased authorities in Washington will shortly see to it that proper consideration is given to the affairs of this bank and proper treatment afforded the institution. It has been my desire to secure some relief from heavy responsibilities and worries to which I feel my many years of service in the economic field entitle me. However, this is not possible as it is not my disposition to relax my efforts in the face of unwarranted harassment, and I cannot and will not relax my efforts in behalf of the institution while an unfriendly attitude exists in Washington."

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The examiner made a criticism as follows:

"The entire history of performance in regard to liquidation of other real estate acquired would indicate that even greater effort should be directed toward the reduction and elimination of this large concentration."

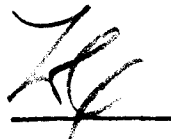
Mr. Giannini's reply to this was:

"The above statement implies that liquidation of other real estate has not been sufficiently rapid or pursued aggressively by the management of the institution, although elsewhere in the report figures are quoted to show that between March 31, 1932 and the date of the examination, the total of real estate sales by Capital Company and California Lands applied on liquidation of their contracts has been \$34,210,000. The sales since the date of the examination to May 4, 1938 have increased that total to \$37,133,000 representing average sales per year of \$6,000,000.

"The Comptroller's office should be able to judge the efficacy of selling methods which disposed of \$37,000,000 of foreclosed properties, in view of its experience in the liquidation of real estate held by insolvent banks. This is particularly to be noted since in the Comptroller's report for 1935, it is stated that approximately 19,000 various parcels of real estate are being held for liquidation and a page and half is devoted to recounting events of a sale from which there was realized \$178,672. In the report of the Comptroller for 1937, a tabulation indicates that real estate sales from 1935 to October 31, 1937 disposed of 5571 items for a total of \$2,736,000. By comparison our sales of \$6,000,000 per year should be indicative of aggressive action."

The following is an interesting comment respecting real estate loans:

"We are told that a ruling has been made by your office that real estate loans classified as unlawful because of non-conformity will continue to be so classified as long as they remain in the bank, regardless of reduction in amount, improvement in security value, or any other changes which should make the loans conforming. This ruling appears to us to be further evidence of the lack of cooperation on the part of your office."

A handwritten signature in black ink, consisting of stylized, overlapping loops and a horizontal line at the bottom.