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TREASURY DEPARTMENT  
Comptroller of the Currency  
Washington

August 5, 1939

Mr. E. B. MacNaughton, President  
First National Bank of  
Portland, Oregon

Dear Mr. MacNaughton:

It is regretted that reply to your letter of July 18, regarding your application for branches, has been delayed. This is largely due to a recent conference here in this office of the District Chief Examiners which lasted several days.

You state that from time to time this office has issued permits for branches to other banks, which, according to their published figures, do not meet the required 1 to 10 ratio.

I am sure you will agree that there has been no discrimination against your bank and I may call your attention to the fact that your institution is operating 41 branches or 18 more than any other national bank is operating in your State.

It is seldom that disapproval of an application to establish a branch or branches can be attributable to any single factor and it is necessary to take into consideration a number of factors in arriving at conclusions as to the approval or disapproval of such applications. Among them are the three you mention - the adequacy of capital, the ownership control and the character of the management.

With respect to the applications for permission to establish and operate four additional branches, you are advised that the ratio of capital to deposits is not alone the deciding factor in your case, but in the opinion of this office the manner in which your stock is held offers no assurance whatever that the present management will continue undisturbed or that additional capital would be furnished should such request be made by this office.

After most careful consideration of the several factors bearing upon your applications for additional branches it has been decided that approval is not warranted at this time.

Very truly yours,

C. B. Upham  
Deputy Comptroller

July 18, 1939

Mr. Preston Delano,  
Comptroller of the Currency,  
Washington, D. C.

Dear Mr. Delano:

Enclosed herewith you will find formal application by this bank for a permit to establish a branch of this bank to be located in the premises now occupied by the Bank of Sellwood, Portland, Oregon.

We now have on file with your office three other applications for branch permits covering banks at Forest Grove, Silverton and Seaside, Oregon.

All of the capital stock of these four banks, except the directors' qualifying shares, is owned by Transamerica Corporation, which corporation either directly and through controlled subsidiaries, also owns the controlling interest in this bank.

We desire, for reasons which must be apparent, to convert these four banks into branches of this bank. These banks are as follows:

The First National Bank of Forest Grove, Oregon  
Deposits \$635,569.96 (6/30/39)  
Application for branch permit dated November 7, 1937.

Coolidge and McClaine Bank, Silverton, Oregon  
Deposits \$765,884.21 (6/30/39)  
Application for branch permit dated December 15, 1937.

Glatasp County Bank, Seaside, Oregon  
Deposits \$580,082.80 (6/30/39)  
Application for branch permit dated February 2, 1938.

Bank of Sellwood, Portland, Oregon  
Deposits \$515,908.57 (6/30/39)

Total deposits of these four banks at June 30, 1939, was  
\$2,497,745.54.

Of late, you have not granted our recent requests for branch permits. The only reason for your office declining to issue such permits, as far as our records disclose, is contained in a letter to us dated April 23, 1938, signed by Marshall R. Diggs, Acting Comptroller. The reason set forth in that letter was the ratio of our capital funds to deposits, being then 1 to 15. However, Mr. Diggs states in his letter that the above is one reason for declining to issue permits to us.

We have noticed, from time to time, that your office is issuing permits for branches to other banks which, according to their published figures, do not meet the required 1 to 10 ratio. This leads us to surmise that there may be other reasons for your office declining to issue branch permits to this bank. We have tried to determine what reasons might be operative to prevent branch permits being available to us, and we herewith set forth three which seem possible deterrents:

- (A) Ratio of capital to deposits being short of the desired 1 to 10.
- (B) Our bank being part of the Transamerica-Bank of America setup.
- (C) Some element of our own setup that is unsatisfactory, inadequate or irregular and displeasing to your office.

With your permission and good will, we wish to explore these three possibilities for hindrance.

With reference to reason (A):

We have no quarrel with the merits of the 1 to 10 ratio and we also admit that our ratio falls short of the permissive limit. On June 30, 1939 we had deposits of \$104,624,501.24 and our capital funds were - Capital Stock (Common) \$3,000,000; Surplus \$3,000,000; Undivided Profits \$1,455,612.84; Reserves (other than those earmarked for Interest, Taxes and Other Expenses) \$1,386,906.78, or a total of \$8,842,519.62 of Capital Funds. After deducting one-half of the bond depreciation, (as per bank examiner's formula) and a very liberal allowance of \$150,000 for doubtful loans, and without giving any credit for value of assets not on the books, such as other real estate, etc., we have adjusted Capital Funds of \$8,512,708.00. On this basis our ratio is 1 to 12.28. Contrast this present ratio with that pertaining to April 23, 1938 of 1 to 15, (as indicated in Marshall Diggs' letter of that date), and it will be noted that a steady improvement in our capital position is being effected.

In order to assure you of our desire to cooperate in bringing about the desired 1 to 10, and still permit us to now branch these four small banks, we will, if you consent to our request, agree to -

- (a) Relinquish the branch at Malin, Oregon and switch the permit to one of the four points now requested.
- (b) Relinquish secured public money deposits of the U. S. Treasury in the amount of \$3,382,539.00 as of June 30, 1939, which amount is in excess of the total deposits of the four banks which we wish to branch, which deposit total at June 30, 1939 was \$2,497,745.54. This then would give us a ratio as of June 30, 1939, of 1 to 12.18 with the four banks as branches - a ratio even better than prevailed on June 30, 1939, (1 to 12.28), when we were without those four banks as part of our system.

Inasmuch as we would be doing nothing to aggravate our existing ratio, we feel such an offer to be reasonable and entitled to favorable consideration. In addition to the foregoing, the established policy of our Board of Directors not to increase the dividends on our stock beyond the present \$4.00 per share per year, insures the continuance of the trend towards the desired 1 to 10 ratio. It is not unlikely that our Capital Funds will be increased \$1,000,000 within the next year from earnings. That is the clip at which we have been traveling in recent years, and we see nothing to cause any change in that rate.

With regard to reason (B):

If the control of our Bank, being where it is, sets up a bar sinister against further branching by us, we would appreciate your so informing us on this point. We wish to state that neither Transamerica Corporation nor the Bank of America try at any time to interfere in the operation of this bank. The management of those corporations seem to have confidence in the staff of this bank and allow us to run the bank as independently as though our Board of Directors actually owned control. We do not and have not made any loans to Transamerica Corporation, its affiliates, or any of their officials, and to their credit it should be said that such loans have never been requested of us. We wish to make clear to you this point, for if we are being denied branch permits on grounds of our control by a bank holding company, then that premise is unfair and in equity should have no consideration.

With reference to reason (C):

The answer to this will naturally have to come from your office. We here feel that our Board of Directors is promulgating sound policies and that sound and efficient management is being maintained. However, we would much appreciate any comments along these lines where your office feels it has cause for complaint.

We hope that our suggested solution as to the four bank permits will have your favorable consideration.

Yours truly,

E. B. MacHaughton  
President

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