

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Thursday, March 7, 1940, at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thurston, Special Assistant to the
Chairman
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel

Mr. Ira Clerk, First Vice President of the
Federal Reserve Bank of San Francisco

Chairman Eccles stated that at a conference at the Treasury yesterday afternoon attended by him and Mr. McKee representing the Board of Governors, Mr. Delano, Comptroller of the Currency, Mr. Bell, Under Secretary of the Treasury, Mr. Foley, General Counsel for the Treasury Department, and Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, the following statement of requirements of the Comptroller of the Currency as to the Bank of America National Trust and Savings Association was signed by the representatives of the three Federal agencies:

- "1. As soon as possible, and in any event not later than June 30, 1940, Bank of America National Trust and Savings Association will add \$30,000,000 of additional capital funds by the issuance of common or preferred stock, or both, and the Bank will,

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"prior to April 1, 1940, apply for the approval of the Comptroller of the Currency to such increase. The Bank will endeavor to obtain a commitment from the Reconstruction Finance Corporation to purchase or lend upon preferred stock in the amount of \$30,000,000 prior to April 1, 1940, and if preferred stock is to be sold, will endeavor to obtain an agreement with the Comptroller of the Currency upon the terms of the amendments to the articles of association by April 1, 1940.

- "2. Immediately upon obtaining the new capital the Bank shall set up an unallocated reserve of \$6,900,000.
- "3. The Bank shall obtain additional security satisfactory to the Comptroller of the Currency to secure the contracts of California Lands, Inc. and Capital Company with the Bank, and the contracts of Capital Company with Merchants National Realty Corporation. Such additional security shall be in an amount equal in value to the difference between the unpaid purchase price upon such contracts and the value of the property thereunder, as such value appears in the schedule contained in the report of examination begun August 31, 1939. All of such contracts shall be eliminated from the assets of the Bank and Merchants National Realty Corporation by December 15, 1943.
- "4. All premiums on bonds in the Bank's investment portfolio shall be amortized out of current earnings (other than bond profits) to maturity, or to call date, if any, and amortization previously reserved on bonds sold at book value or higher may be returned to the undivided profits account. Current bond profits shall be used to take care of current losses, and any bond profits not so used shall be passed to a reserve for losses of any character until in the opinion of the Comptroller of the Currency such reserve is adequate. However, this reserve for losses, plus the amortization reserve, need not exceed the total premium account.
- "5. The Bank shall, as soon as possible, furnish to a committee composed of the Vice President in Charge of Examinations of the Federal Reserve Bank of San Francisco, or some officer of the bank designated by him, the Supervising Examiner of the Federal Deposit Insurance Corporation for the Twelfth District, and the Chief National Bank Examiner for the

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"Twelfth Federal Reserve District, all obtainable records and information with respect to the acquisition of each banking premise criticised in the report of examination of August 31, 1939, including those shown on the bank's books and in its investment in Merchants National Realty Corporation, dating back to the time such premise was acquired either by the bank or any member (either bank or company) of the group presently or then comprising the Trans-america organization.

The committee shall consider the fair value of each premise at the time of such acquisition, and the special conditions which had to be met in fixing the price paid. From these considerations, the committee shall determine the amount which shall be used by the committee as the estimated cost amount of each premise to the bank. The value of each premise shall then be established at such estimated cost amount, plus the amount of any expenditures subsequent to acquisition found by the committee to have been appropriately capitalized, less the appropriate amount of depreciation at the depreciation rate allowed by the Bureau of Internal Revenue for each year of ownership. The unallocated reserve set up by the bank shall be reduced by the difference between the present carrying value of each such premise and the value of such premise as determined by the committee in the manner hereinabove stated. The decision of a majority of the members of the committee shall be binding. The remainder of such reserve, if any, may be returned to the undivided profits account. A partial release of the reserve, or a decrease in the amount of the reserve to be set up, may be made as soon as that procedure is justified, in the opinion of the committee.

- "6. The aggregate amount of obligations, as defined in Section 5200, United States Revised Statutes, of Transamerica Corporation and all subsidiaries in which it owns or controls a majority interest, to the bank, will be brought within the limitations and exceptions of Section 5200, United States Revised Statutes, for any one borrower by July 15, 1942, and thereafter the aggregate amount of such

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"obligations will not be permitted to exceed such limitations and exceptions. The existing obligations of Transamerica or its subsidiaries now held by the bank will be eliminated by July 15, 1945, and no new loans will be made to Transamerica or its subsidiaries secured by the stock of subsidiaries of Transamerica. This paragraph shall not apply to obligations of Capital Company and California Lands, Inc. arising out of real estate sales contracts, which contracts are covered in numbered paragraph (3) hereof.

The bank may accept Transamerica shares as security for small loans for business purposes where the borrower demonstrates a capacity to liquidate the loan otherwise than through the sale of such shares. No loans for speculative purposes will be made on the security of such shares.

- "7. The bank shall eliminate the amount of investment in stock under option on the basis of the program now in effect.
- "8. The bank shall give vigorous attention to the elimination or correction of any real estate holdings or real estate loans that may not conform to statutory requirements.
- "9. The bank shall initiate steps to ascertain whether it is entitled to recover any part of the sums paid by it to Transamerica General Corporation in connection with fidelity losses, and if it is concluded the bank is entitled to recover, it shall take steps to recover the same.
- "10. The Board of Directors of the bank will approve the foregoing by April 1, 1940.

"This memorandum is submitted without prejudice to the right to require full and complete compliance with the Comptroller's criticisms and suggestions, to resort to sanctions provided by law, or to continue to list in reports of examination assets that are subject to criticism, until such criticisms have been corrected or eliminated. Neither this memorandum nor its contents shall be used by the bank or anyone else on its behalf without the consent of the Comptroller of the Currency for any purpose except for its information, unless and until the provisions hereof are

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"accepted and complied with by the bank.

For the Federal Reserve System

M. S. Eccles
Jno. K. McKee

For the Federal Deposit Insurance
Corporation

Leo Crowley

For the Comptroller of the Currency

Preston Delano
E. H. Foley, Jr.
D. W. Bell"

Chairman Eccles said that it was understood that the Secretary of the Treasury, with the approval of the President, will request the Reconstruction Finance Corporation to subscribe to the preferred stock to be issued by the national bank under the Comptroller's requirements, a signed copy of which will accompany the request, and that the Secretary of the Treasury will also discuss the matter with Mr. Jones, Federal Loan Administrator, calling his attention to the statement made by him several weeks ago to Messrs. Bell and Delano that the Corporation would consider the request when accompanied by an approved program for the bank. Chairman Eccles added that it was further understood that the Secretary of the Treasury would hand a copy of the program to Mr. Frank, Chairman of the Securities and Exchange Commission, advising him that the program has been approved by the three Federal agencies and by the President, that it was understood that the representatives of the bank would call on the Commission with respect to its proceedings against Trans-america Corporation and that although the program was informally agreed to by the representatives of the national bank it was with the understanding that this was subject on the part of the Bank's representatives

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to the settlement of certain controversies with the Securities and Exchange Commission.

Messrs. Eccles and McKee said that it was the consensus at yesterday's conference that no public announcement of the program should be made by the Federal agencies and that if any statement is to be given to the public it should be made by the national bank, with the understanding that, if a statement were made by the bank, it should be of such a nature as not to call for a further statement from Washington, and that the Secretary of the Treasury had stated subsequently that he would advise Messrs. Jones and Frank accordingly.

At the conclusion of the discussion of the program as set forth above Mr. Davis moved that approval be given to the action taken by Messrs. Eccles and McKee as reported by them, including their agreement on behalf of the Board to the requirements of the Comptroller of the Currency as set out above in the minutes of this meeting.

Carried unanimously.

At this point Messrs. Thurston, Wyatt, Dreibelbis and Clerk left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on March 5, 1940, were approved unanimously.

Telegram to Mr. R. C. Rich, President, R. C. Rich Sheep Company, Burley, Idaho, reading as follows:

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"Board of Governors of Federal Reserve System has appointed you director of Salt Lake City Branch of Federal Reserve Bank of San Francisco for unexpired portion of two-year term ending December 31, 1940, and will be pleased to have your acceptance by collect telegram."

Approved unanimously.

Letter dated March 6, 1940, to Mr. Hale, Secretary of the Federal Reserve Bank of San Francisco, reading as follows:

"Referring to your letter of February 28, 1940, the Board of Governors approves the appointment of Mr. Edmund Hayes, President, Clackamas Fir Lumber Company, Portland, Oregon, as a member of the Industrial Advisory Committee for the Twelfth Federal Reserve District, to serve for a term of one year beginning March 1, 1940."

Approved unanimously.

Letter to Mr. W. R. McQuaid, President, The Barnett National Bank of Jacksonville, Jacksonville, Florida, reading as follows:

"This refers to your letter of February 24, 1940, requesting us to inform you by March 9 whether the Board has been able to obtain permission from the Secretary of the Treasury to inspect information in the Bureau of Internal Revenue in connection with the required certification of the income tax credit claimed by Barnett National Securities Corporation, Jacksonville, Florida, for the year 1936. You requested advice as to the status of the matter in order that you might, if necessary, file before March 15, 1940, a waiver to secure an extension of the time limit in connection with the Corporation's 1936 return."

"We have not yet received permission from the Secretary of the Treasury for representatives of the Board to inspect the information in the Bureau of Internal Revenue. We shall be glad to give preferred attention to the matter as soon as such permission is received, but, as previously indicated, we have encountered delays which it was not possible for us to avoid."

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"As stated in our letter of January 27, 1940, the Board cannot give assurance, before it has had an opportunity to consider all pertinent facts and information, that it will be able to certify that the Barnett National Securities Corporation is entitled to the credit claimed. We have done all that we could to expedite the obtaining of the necessary information from the Bureau of Internal Revenue and to avoid the necessity of obtaining an extension of the period of limitations. However, in view of the fact that we have not yet been given access to the information in the Bureau, it does not appear at this time that all necessary action in connection with the required certificate can be completed by March 15.

"We sincerely regret the inconvenience which this matter has caused you."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. H. Lewis
Chairman.